TESTIMONY OF NEIL DEMAUSE

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Good morning. My name is Neil deMause, and I am co-author of the book *Field of Schemes: How the Great Stadium Swindle Turns Public Money Into Private Profit* (Common Courage Press, 1998; new edition by University of Nebraska Press, 2008), as well as a business of baseball writer for Baseball Prospectus, which publishes both a website and a series of books evaluating the baseball industry. I also run the stadium news website fieldofschemes.com.
I would like to thank Chairman Kucinich and the other members of this committee for holding these important hearings, and for inviting me and the rest of these panels to testify.

I have been researching and writing about sports stadium and arena deals for nearly 12 years now. In that time, local, state, and federal governments have spent more than $10 billion in taxpayer money subsidizing more than 50 new major-league stadiums and countless minor-league facilities. And this trend is only accelerating: Government spending on sports facilities now soaks up more than $2 billion a year, with a single project such as the new Nationals stadium here in D.C. costing taxpayers a once-unthinkable $600 million or more.

Advocates of sports stadium subsidies say that there are valid reasons why they're a good use of public money, even as schools, transportation, and other public necessities go underfunded. Let's run through the proponents' arguments, one at a time:

ECONOMIC BENEFITS

Stadium boosters claim that publicly subsidized facilities are worth spending taxpayer money on because they provide a shot in the arm to local economies. In my time researching this

issue, I have yet to find any independent economists—that is, ones not on the payroll of pro sports teams—who believe there is any significant positive impact to local economies from sports stadiums and arenas. One study, by Lake Forest College economist Robert Baade, looked at 30 cities that had built new stadiums and arenas over a 30-year period, and found that in 27 cases, there was no measurable effect on the per-capita income; in the other three cities, the stadium appeared to have hurt the local economy.[1] And in terms of job creation, where good job-development programs can cost about $10,000 for each new job created, sports facilities typically come in at as much as $250,000 in public cost for each new job—a worse ratio than some of the most infamous corporate giveaways in history.

As for revitalizing urban neighborhoods, this is likewise a myth: While stadiums are often built to take advantage of already-rebounding districts like Denver's LoDo or Baltimore's Inner Harbor, there is no evidence that they can create significant new development by themselves—as chairman Kucinich is no doubt aware, walk a block or two away from Jacobs Field in Cleveland and you will find the same shuttered stores that were there before the sports complex. This is especially true for baseball and football stadiums, which can't be used year-round like arenas can—no self-respecting businessperson is going to open a restaurant around the corner from a building that is dark most of the year.

If sports fans spend more money at new stadiums, how is it possible that there is no impact on the local economy? There are several reasons, but two of the most important are *substitution* and *leakage*. The *substitution effect* measures how much spending is simply cannibalized from elsewhere in town, as fans spend their disposable income on stadium hot dogs instead of at the local pizzeria. While it's hard to measure substitution directly, we fortunately have a perfect experiment: work stoppages from strikes and lockouts. During the 1994 baseball strike, economist John Zipp found "retail trade appeared to be almost completely unaffected by the strike,"[2] while the Canadian Broadcasting Corporation reported

“a grand slam” for businesses such as comedy clubs and video rentals while the Blue Jays were on hiatus. The obvious conclusion: Without sports, people spend the same money, just on different things.

Leakage, meanwhile, is a measure of the degree to which stadium spending is taken out of the local economy before it can be recirculated. Sports facilities are terrible for leakage, because so much of the revenue goes to team owners and players who live (and spend) out of state: Whereas your local pizzeria owner will likely spend much of his income at local stores, George Steinbrenner and Derek Jeter are unlikely to take their windfall and buy cans of tunafish at Bronx bodegas.

There are undoubtedly some stadium deals that have more economic benefit than others, but the comparison is between slim and none. As University of Chicago economist Allen Sanderson summed up the situation: “If you want to inject money into the local economy, it would be better to drop it from a helicopter than [to] invest in a new ballpark.”[3]

MOVE THREATS

Sports team owners almost always threaten that they will move their team out of town if their stadium demands are not met. But while teams do sometimes move, far more often owners are just crying wolf to shake a few more dollars loose from local governments. Most recently, we saw how during talks over a new Pittsburgh Penguins arena, the team’s owners would jet off to Kansas City or Las Vegas every time negotiations seemed to be bogging down; in the end, the team got millions of dollars worth of concessions from the state as a result of their veiled threats. And both the Chicago White Sox’ threatened move to St. Petersburg, Florida in the 1980s and the Minnesota Twins’ threatened move to North Carolina in the 1990s turned out to have been ideas hatched in the Illinois and Minnesota governors’ offices, to scare locals into coughing up funds for new stadiums at home. As White Sox owner Jerry

Reinsdorf later explained, he had no intention of abandoning the nation's third-largest media market for one of the smallest, but "a savvy negotiator creates leverage."

This problem is only made worse by cities that build sports facilities "on spec," with no team to play in them. The White Sox were one of seven baseball teams that hinted at moving to St. Petersburg after that city built its domed stadium in the 1980s; all stayed put, usually after using the threat of a move to extract stadium subsidies from their current homes, and it took a threatened antitrust suit by the state of Florida to get Major League Baseball to grant the city of Tampa Bay the Devil Rays as an expansion team. More recently, after Oklahoma City built an arena without any idea of who would play in it, the city ended up giving the New Orleans Hornets an incredible sweetheart lease—with free rent and guaranteed profits—just to play in their new building temporarily for two years during repair operations following Hurricane Katrina.

Remarkably, though, even without a viable move threat, we still see cities bidding against themselves for the right to throw money at their local sports franchise. One argument the New York Yankees made for the city to approve a new stadium was that they would be forced to leave town otherwise—even though the entire value of the franchise is wrapped up in the fact that it plays in the nation's number-one media market. Here in Washington, D.C., meanwhile, the city's offer of $440 million to the Montreal Expos to move here and become the Nationals—an offer ultimately raised to $611 million once the inevitable cost overruns were tallied—was even more incredible considering that no other city had made a viable offer to build a stadium for the team.

OBSOLESCENCE

Team owners continue to say that their current homes are "obsolete" and in need of replacement. When pressed, they will admit that it's not that their current homes are in

danger of falling down, but rather because they are "economically obsolete"—in other words, the team could make more money with a new one, so long as they didn't have to pay to build it. We now see buildings as young as 10 or 15 years old declared "obsolete" because they have too few ad boards or the club seats aren't cushy enough. In proposing a new stadium for the New York Yankees the same year that the team was setting attendance records, Mayor Michael Bloomberg explained that the problem with the House That Ruth Built was that it "fail[ed] to reflect the glamour of the club."

New stadiums are certainly glamorous: They feature state-of-the-art scoreboards, massive food courts, and other amenities that are as dazzling as they are lucrative to the teams that run them. As places to watch sporting events, though, they're often worse than the old "obsolete" buildings that they replaced. Contrary to claims of "intimacy," cheap seats are both fewer and farther from the action, thanks to all those corporate seats pushing upper decks skywards—the New York Mets' new stadium may have elements modeled after Ebbets Field, but it will be twice as tall and take up double the acreage of that genuine old-time ballpark. And fans can expect to pay more for the privilege of watching from the rafters: Baseball teams moving into new parks raised ticket prices by an average of 41% in their first year in their new homes, with some teams as much as doubling prices.

These are the standards of the stadium playbook, but new tactics are being added all the time as citizens and their elected representatives grow increasingly leery of handing over tax money to sports franchises. "State-of-the-art" lease clauses require cities to spend more and more to make sure that their stadiums keep up with those down the block; the Cincinnati Bengals' lease specified such necessary items as "smart seats," "stadium self-cleaning machines," and a "holographic replay system." Building "ballpark villages" of housing and retail development alongside stadiums muddies the economic waters, allowing boosters to counter charges

that stadiums are bad investments by saying, "it's not just a stadium." Sports teams are also increasingly looking to avail themselves of "tax increment financing," or TIFs, where instead of paying property taxes like other landholders, they get them kicked back to pay their own construction costs.

Perhaps the most widespread trend is for complicated financing plans involving free rent, tax breaks, "infrastructure" expenses, and other hidden subsidies. Two summers ago, New York City Mayor Michael Bloomberg declared that a new Yankees stadium could be built with "the state helping the way, but George footing the bill—it doesn't get any better than that." Added Yankee executive Steve Swindel, George Steinbrenner's son-in-law: "There will be no public subsidies."

In fact, research by myself and by other journalists and city budget watchdogs, most notably Good Jobs New York, found that after all the hidden subsidies, the city would be subsidizing the new Yankees stadium to the tune of about $280 million, with an additional $100 million from the state and $44 million from the federal government; nearly another $400 million would go to subsidize a similar stadium for the Mets. (See Table I.) In each case, the public subsidy was actually *more* than the teams would end up spending on these "privately financed" stadiums. The teams, meanwhile, will reap all the revenues from the new facilities: The Mets, for example, will be able to recoup most of their expense via a $400 million naming-rights deal with CitiGroup—none of which will go to city taxpayers, even though the city will own the building.

This split—the public pays the costs, the teams get all the revenues—is a relatively new phenomenon. When the city of Minneapolis spent $84 million to build the Metrodome in 1982, the Twins and Vikings agreed to pay rent and share ticket, concessions, and ad revenues with the city, enabling taxpayers to recoup their investment. In the new Twins stadium being planned, by contrast, taxpayers will put up almost $400 million—and receive

no rent or stadium revenues. Harvard researcher Judith Grant Long, who has laboriously investigated every lease agreement covering the four major sports, has found that once hidden tax breaks and lease kickbacks are accounted for, the average stadium costs 40% more than is publicly reported—and that figure is on the rise.

As someone who writes critically about public spending on sports facilities, I'm often asked, "Do you hate *all* stadium deals? Aren't there any that you think worked out well for the public?"

There are certainly a few that come to mind—the new Giants' ballpark, which currently bears the name of whatever the Bay Area's telephone company is called this week, is one, where the team put up most of the funds for construction, though public tax breaks and land subsidies did cover about 14% of the costs. That is a rare exception, however, one made possible by the fact that the booming tech economy of the 1990s allowed the Giants to defray their private costs by raising large sums of money from the sale of high-priced seat licenses, something not available to most other teams.

This is, in fact, the sports industry's dirty little secret: *New stadiums don't make money.* While teams are quick to paint new buildings as cash cows, in the vast majority of cases, the new revenues from a stadium or arena simply aren't enough to pay for all of the land and construction costs without subsidies. Teams don't want new stadiums because they make money; they want new stadiums because of the public subsidies that come with them.

WHAT CONGRESS CAN DO

The battle over sports subsidies has now touched most every city and town in the nation, as even sports like soccer and minor-league baseball and hockey teams seek their share of the boodle. It's a trend, of course, that is not limited to the sports industry. The $2 billion a year that taxpayers spend on stadiums is just a small slice of the hundreds of billions that

go to subsidize other industries, in what Minneapolis Federal Reserve vice-president Arthur Rolnick has called the new “War Between the States.” But sports facilities are, on a dollar for dollar basis, among the worst investments that cities and states can make, as well as being high-profile, as debates over a new computer-chip plant seldom make it onto the front page. And since local governments have proven unwilling to unilaterally call an end to the hostilities, Congress is in the best position to end the worst of these giveaways.

Some of the most immediate ways that Congress can act:

First off, close the loophole that allows teams to use federally subsidized tax-exempt bonds for private sports stadiums. In 1986, Congress tried to bar the use of tax-exempt bonds for “private activities,” but teams have been finding ways around this restriction ever since. Most recently, the New York Mets and Yankees blew a hole in the limitations by disguising their private stadium expenses as public “payments in lieu of taxes” in order to use tax-exempt bonds. Kansas City Royals fans would no doubt not be pleased to learn that their tax dollars are going to help make the New York Yankees and Mets even richer.

Second, drastically restrict the business-entertainment deduction for luxury box and club seat purchases, which would reduce team owners’ incentive to shake down cities for new buildings. Much of the reason why existing stadiums are considered “obsolete” is because they lack enough high-priced corporate seating; take away the tax subsidies for businesses to buy tickets to sporting events, and you’ll reduce the demand for new stadiums—and, as a side benefit, leave more tickets available for the average fan who can’t take a tax deduction on spending a day at the ballpark.

Finally, Congress has the power, if it so chooses, to put on the brakes for not just sports teams, but all industries, holding cities hostage for tax subsidies. The simplest solution presented so far was the Distorting Subsidies Limitation Act proposed by your former colleague David Minge, which would have taxes all direct and indirect subsidies to

corporations, including land and infrastructure, as income. A team owner asking for a $500 million stadium subsidy might think twice if he was going to face a $150 million IRS bill as a result.

The rush to build new sports stadiums has had many casualties: We have lost historic ballparks such as Tiger Stadium and, soon, Yankee Stadium; we have seen public parks destroyed and thriving neighborhoods disrupted; we have hastened the transformation of sports fandom from an experience that brought together people of all walks of life into one that is affordable only to the well-heeled; and we have cost local, state, and federal governments billions of dollars. In both polls and referendums, voters across the political spectrum are consistently opposed to spending sorely needed tax dollars just to make rich sports team owners even richer. All that's needed is for our elected officials to step up to the plate and say "the bucks stop here."

Thank you.

[1] Robert A. Baade, "Stadiums, Professional Sports, and Economic Development: Assessing the Reality." A Heartland Policy Study, April 4, 1994.
[2] John F. Zipp, "The Economic Impact of the Baseball Strike of 1994," Urban Affairs Review, vol. 32 (November 1996).
[3] Michael O'Keeffe and T.J. Quinn, "The house that you built: Owners, pols play games with billions of taxpayer dollars," New York Daily News, October 12, 2002.

Table I. Cost Breakdown of New York City's New Baseball Stadiums

YANKEES STADIUM COSTS (all figures in millions, present value in 2006 dollars at 6% discount rate)

	CITY	STATE	FEDERAL	TEAM	MLB	PRIVATE DEVELOPER
Bond payments				$675.76		
Land/infrastructure	$173.60					
Additional capital funds	$11.16					
Maintenance funds	$6.40	$4.70		-$11.10		
Rent rebates	$13.49			-$13.49		
Garages		$70.00				$250.00
Net garage ground rent	-$43.00					
Forgone future property taxes	$83.80			-$83.80		
Forgone construction sales tax	$10.50	$11.40				
Forgone mortgage recording tax	$11.00	$11.00				
Memorabilia sales	-$10.00					
Tax-exempt bond subsidies	$2.20	$4.10	$44.00			
Revenue-sharing savings				-$136.00	$136.00	
Forgone rent credits	$21.00			-$21.00		
TOTAL	$280.15	$101.20	$44.00	$410.37	$136.00	$250.00

TOTAL PROJECT COST	$1,221.72
PUBLIC TOTAL	$425.35
TEAM TOTAL	$410.37

METS STADIUM COSTS (all figures in millions, present value in 2006 dollars at 6% discount rate)

	CITY	STATE	FEDERAL	TEAM	MLB
Bond payments				$577.15	
Land/infrastructure	$98.40	$72.70			
Maintenance funds	$6.40	$4.70		-$11.10	
Rent rebates	$13.49			-$13.49	
Future maintenance savings	-$31.00				
Forgone parking revenues	$57.40			-$57.40	
Forgone future property taxes	$72.00			-$72.00	
Forgone construction sales tax	$8.70	$9.50			
Tax-exempt bond subsidies	$1.60	$2.90	$32.00		
Revenue-sharing savings				-$92.00	$92.00
Forgone rent credits	$25.00			-$25.00	
TOTAL	$251.99	$89.80	$32.00	$306.16	$92.00

TOTAL PROJECT COST	$771.95
PUBLIC TOTAL	$373.79
TEAM TOTAL	$306.16
PUBLIC TOTAL FOR BOTH STADIUMS	$799.14
TEAM TOTAL FOR BOTH STADIUMS	$716.53