

Professional Sports Subsidies

Irene Pijuan

University at Buffalo Law Student

1) What is a subsidy?

Monetary assistance granted by a government to a person or group in support of an enterprise regarded as being in the public interest.ⁱ

2) What forms can a professional sports subsidy take?

The subsidies to franchise owners take two forms—tax breaks and the availability of arenas at a very low cost.ⁱⁱ Public subsidies take the form of new stadiums and arenas provided by local authorities and financed by taxpayers or by issuing state bonds.ⁱⁱⁱ The subsidy starts with the federal government, which allows state and local governments to issue tax-exempt bonds to help finance sports facilities. Tax exemption lowers the interest on debt and so reduces the amount that cities and teams must pay for the stadium.^{iv} Some host cities subsidize the streets near stadium, water and sewer services, match-day safety and crowd control services. Moreover, the stadium and its operations are often tax exempt from property taxes. Stadium leases grant generous revenues and low rent to the team owners as a subsidy.

3) Why do cities subsidize professional sports?

Proponents claim that sports facilities improve the local economy in four ways:

1. Building the facility creates construction jobs
2. People who attend games or work for the team generate new spending in the community, expanding local employment
3. A team attracts tourists and companies to the host city, further increasing local spending and jobs.
4. All this new spending has a “multiplier affect” as increased local income causes still more new spending and job creation.^v

Proponents also point toward intangible economic impacts such as improved quality of life and city morale. Some argue that sports teams promote increased happiness which itself has economic benefits.

A successful NFL team can lift the per capita personal income of people living in that city by about \$100 a year, according to the study, written by two professors who analyze

sports fans' behavior. They say fans become more confident and empowered by their team's success, leading to higher productivity and a stronger tendency to spend. And that can help the local economy.^{vi} Cities must provide subsidies to remain competitive and attract franchises that will just go somewhere else if unsatisfied.

4) What arguments have been made against the positive economic impact of sports subsidies?

Many researchers counter that the positive economic impact of professional sports teams is largely overrated. Some argue that the funds spent on games would be spent on recreational activities whether a sports team resides nearby or not, and that the only individuals deriving big benefits from sports subsidies are the team owners and players. Some economists believe that leagues, team owners, and event organizers have a strong incentive to provide economic impact numbers that are as large as possible in order to justify heavy public subsidies.^{vii}

The financial advantage of sports subsidies accrues to team owners as businesses purchase tickets, food, and skyboxes that they are then permitted to write-off 50% of these costs as business expenses. This tax subsidy to businesses and corporations helps keep ticket and skybox prices inflated and profits steady and is of no use to the everyday taxpayer who helped fund the stadium or arena construction.^{viii} Some economists argue that at best, public expenditures on sports-related construction or operation have zero net impact on the economy as the employment benefits of the project are matched by employment losses associated with higher taxes or spending cuts elsewhere in the system.^{ix}

5) What stadium subsidies have the Buffalo Sabres and the Buffalo Bills received?

Buffalo Sabres

- Joined the National Hockey League in the 1970-71 season
 - Owner: Tom Gosliano, purchased team in 2003
- Current Stadium: HSBC Arena
 - Opened: September 21, 1996
 - Ownership (Management): Hockey Western New York, LLC (Centre Management)
 - Operating Rights: Tom Golisano, team owner
 - Cost of Construction: \$127.5 million
 - Arena Financing: \$72 million from private sources and \$55 million from the combined resources of New York State, Erie County, and the City of Buffalo.
 - \$10 million from the City of Buffalo
 - \$20 million was provided by Erie County
 - \$25 million by the State Urban Development Corporation.^x

Non-relocation clauses were included in the Sabres' lease with the HSBC Arena in return for this public investment, which commits the team to the arena and to Buffalo through 2022.

- Naming Rights: Marine Midland Bank paid \$15 million for 20-year naming rights in 1996. On March 17, 2000 the name changed to parent company HSBC Arena.



Buffalo Bills

- The Bills began competitive play in 1960 as a charter member of the American Football League and joined the NFL as part of the AFL-NFL merger.
 - Ownership: Ralph Wilson Jr.
- Current Stadium: Ralph Wilson Stadium
 - Opened: 1973, Renovation in 1999
 - Ownership: Erie County, New York
 - Construction cost: \$22 million
 - Total Cost of 1999 Renovation: \$63 million
 - State Public Subsidy: \$63 million, 100% of total (general fund)
 - Rent: paid to ERIE COUNTY STADIUM CORPORATION^{xi}
 - “On or before March 31st of each Lease Year, the Bills shall pay to the ECSC, as rent for the Stadium Complex, fifty percent (50%) of the amount by which Net Ticket Revenue exceeds NFL Average Net Ticket Revenue for the NFL Season concluded on or about February 1st of such Lease Year.”^{xii}



6) How is the economic impact of a professional sports team on the local economy measured?

The economic impact of professional sports teams on local economies is generally measured by:

- a. estimating attendance at sporting events
- b. surveying a sample of spectators as to their spending associated with the game
- c. applying a multiplier to account for money circulating through the economy after the initial round of spending.^{xiii}

There is no uniform or conclusive way to measure the intangible benefits of professional sports on the local economy. Many researchers find no correlation between the economic growth and the presence of new sports facilities or franchises. Other studies have focused on housing prices, which tend to be higher in cities with professional sports teams

indicating a higher willingness for buyers to pay for housing in cities that provide this amenity.^{xiv}

Finally, whether or not the sports team and their games/events attract out-of-town visitors is an indicator economic impact. In order to measure accurately, weight must be given to the fact that most sports teams are in cities that are already tourist destinations, so tourists may be in the area for purposes other than the sporting event.

7) What is the economic impact of the Buffalo Sabres on the local economy?

In February of 2003, the State Comptroller reported that in a typical season, the Buffalo Sabres contribute \$65 million per year towards the local economy.

Direct Team Revenue:

- With an average per game attendance of 17,500, gate receipts have totaled \$31 million per year
- Concessions have accounted for \$8.6 million per year.
- Revenue from the sale of television rights and advertising account for approximately \$4 million in additional direct income per year.
- This provides a total of \$43.6 million per year in direct team revenues, not including post-season play.^{xv}

Indirect Team Revenue:

- Complementary spending, such as in local bars and restaurants on game nights, from visiting teams and fans staying in local hotels, and from spending on the part of Sabres' employees. To account for these additional benefits to the local economy, the State included a multiplier of 1.5, which brought the total of the direct and indirect impact per season to \$65 million.^{xvi}



8) What is the economic impact of the Buffalo Bills on the local economy?

In 1996 the teams' gross economic impact, reflecting total economic activity resulting from the Bills presence in the marketplace was estimated to be \$111.5 million. The Bills employed 1,664 people, and total direct expenditures by fans were estimated to be \$31.5 million.^{xviii}

In February of 1996, a 25-member task force was assembled and using recent studies in comparative NFL markets and based on discussions with team officials, the Greater Buffalo Partnership Buffalo Bills Task Force concluded the franchise had a:

- Gross Economic Impact of \$111.5 million for 1996.
- Net Economic Impact of \$33.4 million for 1996.

- Paid \$4.2 million in state and local taxes.
- Generated \$1 million in ticket and parking surcharges.
- Would bring an estimated one-time economic impact of \$15.1 million if Ralph Wilson Stadium was renovated at an approximate cost of \$60 million. xix



Fans have purchased 52,000 2008 season tickets, but the Bills have the lowest average ticket price in the league at under \$50. ^{xxi}

9) Are the Buffalo Bills or the Buffalo Sabres able to attract visitors into Buffalo?

As many as 15,000 Canadians attend Bills home games. The Bills actively promote the team in Ontario, and even put on a Canada Game Day, for which fans are bused in to Buffalo. ^{xxii}

The Bills are expected to play eight games in Toronto over the next five seasons, a move some believe will have negative economic impact on Buffalo. Local restaurants and bars and stores that are frequented on game days believe it translates into more than just one or two games a season for their business and in the long run that really adds up. But some argue that in order for the Bills to grow in one of the smallest markets in the league, they need to look elsewhere for more fans and corporate sponsors. for the game. The Toronto deal expires in 2012, the same year the stadium in Buffalo lease expires. ^{xxiii}

The Buffalo Sabres have long proven that their games are a draw to Canadian residents. Hockey fans frequently shuttle back and forth across the border. In 2008, the Sabres added a new pricing category called “Platinum” specifically for Sabres vs. Toronto Maple Leafs games. Leafs fans often have trouble securing single game tickets for home games in Toronto without feeling the financial pinch, tickets are usually cheaper and more accessible for games that the HSBC Arena. This new pricing category makes Maple Leaf games the most expensive tickets at the Arena. ^{xxiv}

Fans may be traveling to Buffalo for professional sporting events, but are they contributing enough to the local economy while they are here to make a difference?

10) Where is the revenue going?

Bills lease includes provisions to keep all revenue incurred by the stadium in relation to the Bills. This includes tickets, parking, concessions, and retail. The County still pays all operating expenses for every Bills event. Forbes lists the Buffalo Bills as #27 in NFL Team Valuations, down two spots from 2005’s #25 placement. According to Forbes, revenue is at \$206 million dollars. (Net of stadium revenue is used for debt payments.) ^{xxv}

Revenue	\$206 mil
Operating Income	\$12.4 mil
Player Expenses	\$139 mil
Gate Receipts	\$40 mil

Sabres are ranked at #19 on Forbes NHL Team Valuations, with \$70 million dollar revenue. (Net of stadium revenue is used for debt payments.)^{xxvi}

Revenue	\$74 mil
Operating Inc.	-\$4.9 mil
Player Expenses	\$44 mil
Gate Receipts	\$28 mil

11) If Sabres and/or Bills leave, how would the dollars getting spent on them get spent? Would those spending patterns be better or worse?

A Boston Globe report focusing on the financial impact of the Red Sox quoted economist John Siegfried at Vanderbilt University: "What are people going to do with their money if they don't spend it on the Red Sox, flush it down the toilet? No, they'll spend it on something else: books, maybe, or bowling, things that Boston would benefit just as much from."

Business First of Buffalo writer Gary Burns suggested that the same argument applies to Buffalo and the Sabres and Bills but admits "it is a stretch to expect that in our town, fans abandoned by their sporting heroes would suddenly begin flocking to Barnes and Noble for solace. They might golf, or go fishing, or watch more television. But more reading? Ah... We think not." Burns concluded that professional sports provide the citizens with many things, but sweeping economic benefits are not high on the list.^{xxvii} Money not spent on sporting events may very well be used on other recreational activities.

ⁱ Answers.com-- <http://www.answers.com/topic/subsidy>

ⁱⁱ Eitzen, D. Stanley, *Fair or Foul: Beyond the Myths and Paradoxes of Sport*, Rowman & Littlefield, 2006.

ⁱⁱⁱ Andreff, Vladimir and Stefan Szymanski, *Handbook on the Economics of Sport*, Edward Elgar Publishing, 2006 (280.)

^{iv} Noll, Rgoer G. and Andrew Zimbalist "Sports, Jobs, and Taxes: Are New Stadiums Worth the Cost?", *Readings in Urban Economics: Issues and Public Policy*, Wassmer, Robert W., Blackwell Publishing, 2000. 169-180

^v Id.

^{vi} Baade, Robert A. and Robert Baumann and Victor A. Matheson, "Selling the Game: estimating the economic impact of professional sports through taxable sales", *Southern Economic Journal*. January 1, 2008.

^{vii} Id.

^{viii} See note 2

^{ix} See note 3

^x <http://www.osc.state.ny.us/press/releases/feb03/22503report.htm>

^{xi} A New York business corporation and wholly-owned subsidiary of the New York State Urban Development Corporation d/b/a the Empire State Development Corporation, a public benefit corporation.

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- xii Bills Stadium Lease, section 3 RENT <http://www.erie.gov/billslease/stadium.phtml>
- xiii See note 3
- xiv See note 3
- xv <http://www.osc.state.ny.us/press/releases/feb03/22503report.htm>
- xvi <http://www.osc.state.ny.us/press/releases/feb03/22503report.htm>
- xvii http://www.forbes.com/lists/2006/31/biz_06nhl_Buffalo-Sabres_313362.html
- xviii Greater Buffalo Partnership Buffalo Bills Task Force, Value Assessment
- xix <http://buffalo.bizjournals.com/buffalo/stories/1997/06/09/story4.html>
- xx See note 3
- xxi <http://www.thespec.com/article/390300>
- xxii Belson, Ken, "Buffalo Area Wonders: Could it Lose the Bills?" *Orchard Park Journal*, March 9, 2008.
- xxiii Id.
- xxiv Gleason, Bucky, "Sabres Going Platinum", *The Buffalo News*, 7-29-08
- xxv http://www.forbes.com/lists/2008/30/sportsmoney_nfl08_Buffalo-Bills_301765.html
- xxvi
- xxvii <http://buffalo.bizjournals.com/buffalo/stories/2006/05/15/editorial3.html>