Public Investment in Sports Facilities: Who Really Pays and the Implications for Progressive Taxation

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Abstract 2011-081
Friday, June 3, 2011
8:55 AM
20-minute oral presentation
(Room 35)

In the aftermath of widespread public investments to construct and maintain the facilities used by numerous professional sports teams (Long & Zimbalist, 2006), policy analysts opined three sets of concerns. First, elected and community leaders often justified their support of higher taxes for sports facilities with robust claims of future economic development generated by a team’s presence. Numerous academic studies were quick to debunk this claim finding no evidence of substantial financial returns at the regional level (see, for example, Baade, 1996; Coates & Humphreys, 1999). Second, academicians, activists, and journalists also noted that after new facilities opened, the inclusion of luxury seating and other revenue generating amenities propelled teams’ earnings to new heights generating higher profits for owners and robust salaries for players (Rosentraub, 1997; Cagen and de Mause, 1999; Rosentraub, 2010). This suggested to some that tax-supported sports facilities involved the use of political processes to transfer wealth from taxpayers to team owners and players. Third, given the reliance on sales, consumption, and gaming (and other sumptuary) taxes for the public’s investment in new sports facilities, there was also concern that governments relied on regressive taxes that disproportionately shifted the burden for these investments to lower income households (Siegfried & Zimbalist, 2000). This negative effect would be amplified if higher taxes for sports led to diminished support for public services disproportionately consumed by lower income families (Clotfelter & Cook, 1987).

However, recent findings (Nelson, 2002; Humphreys & Feng, 2007; Rosentraub, 2010) suggest there might be value in reassessing some of the early conclusions of the effects of public funding of sports facilities. This paper reassesses two of these earlier observations. First, is the net incidence of the taxes spent on sports facilities regressive? Answering this question assesses the view that public investments in sports facilities disproportionately burden lower income households. Second, if the tax instruments used to pay for sports facilities are not regressive, then is it possible that the public sector has captured a portion of the consumer surplus from sports enjoyed by higher income fans and businesses? If so, then there may be little difference between an owner charging higher prices and a government raising taxes as similar people end up paying for the facility. Owners could then be advised to avoid the political costs of securing what is not really a subsidy but a transfer of responsibility for collecting fees for the cost of a facility. The current research uses in-depth case studies to examine two recent examples of public stadium financing—Cleveland, Ohio and Arlington, Texas—using an increased or additional tax paid by the public. In each case, the city has used its own unique position to take advantage of taxation tools to fund the building of a new stadium/arena for the Cleveland Cavaliers and Cleveland Indians, and in Arlington, the Texas Rangers and now the Dallas Cowboys.

The city of Cleveland and Cuyahoga County formed a partnership in order to fund the new arena for the Cavaliers, leveraging the higher-income areas surrounding the downtown city of Cleveland. Using entertainment (ticket and parking) taxes and county-wide sin and property taxes, the city was able to finance new stadiums for both the Cavaliers and the Indians. The most important aspect of the use of a property tax is that residential property in Cleveland accounts for less than 10 percent of the County’s tax base. As a result the overwhelming majority of the public funds used for the facility came from higher income residents of suburban cities and the business sector within the county. If the facility then generated local tax dollars used to provide services to lower income residents of the city, their gain (services at lower than required tax levels) could offset the taxes paid for the facility yielding a progressive net incidence. We will discuss this possibility in more detail using data from the Census and Cleveland City/Cuyahoga County.

Arlington, on the other hand, has leveraged its position as a regional retail center using a local sales tax. Arlington is home to two large regional malls containing retail stores most likely catering to those from higher income areas. Our data suggest that Arlington exports a large portion of the tax revenue to those living outside the city limits. Again, if the new facility generates local tax dollars used to provide services to the lower income residents—most likely coming from higher income households outside of Arlington—the sales tax may ultimately serve in a net progressive nature.

As we will discuss in more detail, both of these urban centers managed to leverage their position in unique ways, which may hold important lessons for those cities interested in retaining sports teams within their respective city limits. This more extensive look into the ways in which local governments actually paid for their investments in professional sports franchises suggests the fear that the taxes used may have disproportionately burdened lower income households could be unwarranted in some areas.
In addition, if the taxes used are progressive and simply capture a portion of the consumer surplus, teams could do the same by charging higher prices for tickets, souvenirs, and food and beverages, rather than using the city as an intermediary. This suggests the need for the public sector to pay for sports facilities may be an exaggerated concern. The public’s participation in financing is then a form of insurance against reduced fan interest if a team performs poorly on the field. Of course, understanding who bears the burden of the taxes used to pay for sports facilities—and if that payment is unfair or merely the capturing of the consumer surplus for sports—is a complex issue. The results will likely vary from region to region. With regard to the two cities and regions studied here, there is evidence the taxing tools were progressive and did indeed capture a substantial portion of the consumer surplus.