

Executive Summary

The Red Sox are proposing to construct a 44,130 seat stadium on 15 acres of land adjacent to the present Fenway Park. The Owners of the Red Sox are poised to seek a minimum of \$250 million in state and local taxpayer subsidies for the \$600 million plus project.

In an attempt to justify their request for state and local taxpayer support for the project, business groups allied with the Red Sox have argued that there will be substantial economic benefits associated with the project. To this end, the Greater Boston Chamber of Commerce and the Greater Boston Visitors and Convention Bureau released a study in June of last year, written by Chicago consultant C.H. Johnson, claiming that the construction of a new stadium would create 1,032 new permanent jobs in Greater Boston.

The conclusions reached by the C.H. Johnson report cannot be supported by any objective economic analysis. Its projections are based on unrealistically optimistic assumptions, highly selective use of data, and the failure to fully consider the experience of other similar projects. **Moreover, the findings of the study are inconsistent with numerous economic analyses that demonstrate that sports stadiums almost universally fail to generate statistically significant economic benefits or increased employment. This report shows that the Johnson study cannot reliably be used to project economic benefits.**

Technical Shortcomings

The Johnson study recognizes that economic benefits flow only from increases in spending by **out-of-state** patrons and calculates the benefits according to this framework:

$$\text{Projected increase in annual attendance} \times \text{Percentage of fans from out of state} \times \\ \text{Average spending by out of state fans} \times \text{Multiplier for indirect and induced} \\ \text{Benefits} = \text{Economic Benefit to Mass.}$$

The following flaws contained in the Johnson study demonstrate that each element in the calculation is overstated. The result is largely inflated claims of economic and employment benefits.

Future Annual Attendance Figures Are Inflated: the study accepts without serious evaluation the estimates of attendance provided by the Red Sox, compares today's attendance to a year soon after the stadium opens (a "honeymoon" year), overstates likely future capacity utilization and does not factor in access issues or the effect of replacing a unique historic facility. Further, base year (1999) attendance was understated by 11%, exaggerating the prediction of attendance increases.

The Anticipated Percentage of Fans From Out-of-State Is Inflated: the study accepts, again without serious evaluation, estimates from the Red Sox and fails to adjust for the loss of heritage tourism, the fact that many out-of-state patrons attend games while in town for other reasons, and the fact that most of the additional seats in the proposed new stadium are premium seats which will be purchased by in-state residents.

Average Spending by Out-of-State Fans Is Overstated: the study fails to adjust for the fact that most spending increases will be from in-state premium seat patrons, the fact that some out-of-state patrons are the guests of in-state residents, makes an unfounded assumption of new stadium induced spending, inflates hotel spending, and fails to account for the out-of-state value added to goods and services sold.

The Indirect and Induced Spending Multiplier Is Too Large: the study applies an effective multiplier of 1.76 when economists estimate the appropriate multiplier to be 1.18.

Employment Figures Are Calculated Using an Inapplicable Model: job creation is calculated using a model which fails in circumstances of current economic conditions.

The study also fails to account for the following significant factors:

- **The Social Cost of Taxes Needed to Fund the Stadium Project;**
- **Job Losses Brought On by Disruption of Local Businesses; and**
- **The Effect On The Local Economy of Diverting Government Spending from Other Programs.**

Policy Considerations

The Johnson Report does not discuss the policy implications to be considered by decision-makers in the debate over taxpayer subsidies for the new stadium. However, when considered, they further bolster the argument against public subsidies.

Cost Per Job Created. Assuming a **\$300,000,000** taxpayer subsidy and the study's unwarranted **projection** of 1,032 permanent jobs created, the cost per job created would be nearly \$300,000. This is nearly **ten times greater than the cap for SBA and HUD assistance to job creation programs.**

Quality of Jobs Created. Generally, stadiums create low paying, seasonal, part-time jobs without benefits.

Opportunity Cost of Spending Tax Dollars Inefficiently. Expenditures on stadiums can, and often do, result in decreases in spending on other government programs.

Team Ownership Pockets the Subsidy. The prime beneficiaries of the subsidy are those least in need of public support - the team's owners.

Return on Investment Must Be Considered. No baseball stadium project has ever returned more to its subsidizing governmental unit than it cost.

The New Stadium Would Increase Costs of Government Services. Any rise in the number of patrons attending games would require increased government services such as additional police details, sanitation, and environmental remediation.

As has happened in cities across the country it is expected that the findings of this promotional report will be incorporated into the debate over whether taxpayer dollars should be spent on the project. Some political leaders have already begun to cite the study as their reason for supporting taxpayer subsidies.

This analysis and the recommended policy considerations demonstrate that the Johnson promotional study is so deeply flawed it cannot be used to justify public contributions to the proposed stadium project.

I) Introduction

This report analyzes a study, done for the Greater Boston Chamber of Commerce, by C.H. Johnson

Consulting, Inc., which promotes the economic benefits of the proposed new stadium for the Boston Red Sox. This analysis evaluates the reliability of the Johnson promotional study as a tool for evaluating the wisdom of taxpayer participation in the new stadium project.

The Red Sox propose to construct a 44,130 seat stadium on 15 acres of land adjacent to the present Fenway Park – dozens of small businesses would have to be displaced by eminent domain to make way for the stadium. The cost of the project is projected to be approximately \$600 million dollars. At least \$250 million in state and local taxpayer subsidies are likely to be requested by the Red Sox' owners.

In June 1999 the Boston Chamber of Commerce and the Massachusetts Tourist and Convention Bureau issued a report entitled "Economic Impact Analysis of the Proposed Ballpark for the Boston Red Sox." The study, written by Chicago consultant C.H. Johnson, asserts that construction of a new Red Sox baseball stadium would generate 1,032 new permanent jobs in Greater Boston, mostly in the hospitality industry (restaurants and hotels).

As has happened in cities across the country it is expected that the findings of this promotional report will be incorporated into the debate over whether taxpayer dollars should be spent on the project. Some political leaders have already begun to cite the study as their reason for supporting taxpayer subsidies.

This analysis demonstrates conclusively, however, that the Johnson promotional study is so deeply flawed it cannot be used to justify public contributions to the proposed stadium project.

II) Framework of the Johnson Promotional Study

The promotional study compares the economic and employment impacts of the proposed new ballpark (called the "proposed ballpark scenario") with the current ballpark scenario. This approach itself is troublesome since there are alternatives to the proposed ballpark scenario such as renovation on site or relocation to a new site. Rather than compare the Red Sox" proposal to the current ballpark scenario, the study should compare the proposed scenario to a range of scenarios.

Even as a comparison between proposed and existing, however, the Johnson promotional study is generally inaccurate and of little or no utility. The report touts "total spending" and "total employment" figures. It is critical to note that these figures are meaningless. Only the figures recording incremental increases due to spending from outside the state are relevant. For example, the relevant employment figure is one-seventh the "total employment" figure. The "total" figures are not important because only increased spending beyond that at the current Fenway Park by out-of-state visitors contributes to the regional economy.

The two meaningful statistics that the Johnson promotional study purports to generate are:

1. The incremental increase in spending due to the new ballpark; and
2. The incremental increase in employment due to the new ballpark.

To generate these numbers the Johnson promotional study uses the following framework: anticipated future attendance is multiplied by 35% to arrive at the number of anticipated out-of-state patrons; this number is then multiplied by presumed per patron spending and then a multiplier is applied to this direct spending figure to account for indirect and induced spending. The result is anticipated total spending by out-of-state patrons and this is compared to the base year, 1999. Employment figures are derived from an assumption that increased spending by baseball patrons generates a certain level of jobs per dollar increase.

This report demonstrates that the framework itself is flawed and the information entered into it is

incorrect to begin with. The results are grossly inflated estimates of both economic impact and job creation. Additionally, the Johnson promotional study fails to take into account important policy considerations that are essential prerequisites for considering public investment in a project.

III) Technical Shortcomings in the Analysis of Economic Benefits

1) Anticipated Increases in Future Attendance Are Inflated

The Johnson promotional study assumes that the Red Sox average per game attendance will rise from 27,165 to 39,500. This assumption can be challenged for a number of reasons.

The base year of 1999 had an actual average attendance of 30,201, not 27,165. Since only incremental increases over the base year are significant, every meaningful calculation contained in the Johnson promotional study is overstated by 11% right off the bat.

The projected attendance figure of 39,500 per game was provided by the project proponent, the Boston Red Sox, and accepted without serious evaluation by C.H. Johnson Consulting. Standard practice requires that the consultant evaluate all factors likely to affect attendance and develop an independent estimate of future attendance. Allowing the project proponent to establish the baseline figure upon which all other calculations are made undercuts the impartiality and validity of the entire analysis.

The Johnson promotional study compares base year attendance with yearly attendance during the years immediately after the opening of the new stadium. During this so-called honeymoon period attendance is artificially high. Multiple independent studies demonstrate that after the novelty of a new stadium wears off attendance declines appreciably. A recent article in the Wall Street Journal indicates that this has already begun to occur in the stadiums that were built in the 1990s. To be accurate, a study must use a figure for average attendance over a long period of time; thirty years, which is the probable life of the bonds and other instruments that would be used to finance construction, would be a more appropriate study period.

The Johnson promotional study presumes attendance at 90% of capacity in the new stadium, but Table A shows the average capacity utilization of baseball stadiums built since 1989 to be only 71% in 1999.

Table A: 1999 Attendance and Capacity Utilization, Stadium Constructed Since 1989*

Team	Stadium Opening Date	Capacity	1999 Attendance (Average)
Capacity Utilization (Percent)			
Arizona	1998	49,075	37,069
Atlanta	1996	49,831	40,493
Baltimore	1992	42,785	48,785
Chicago	1992	44,321	17,598
Cleveland	1994	42,865	42,815

Colorado	1995	50,200	43,070	86
Tampa Bay	1997	46,000	20,560	44
Texas	1994	49,178	34,681	71
Toronto	1989	50,516	26,710	53
Total Average				71

Source: The Boston Globe, Major League Baseball

*Excludes Seattle's Safeco Stadium which opened mid-season.

Certain factors which drive attendance to the current ballpark will be lacking in the new facility. Fenway Park is a venerable historic structure of landmark status. The new stadium, if constructed, will be the fourteenth Camden Yards-style baseball stadium to be built. Market differentiation and uniqueness are powerful economic draws and the fact that these will be lost argues against significant increases in attendance at the new facility.

The comparative stadiums selected by C. H. Johnson Consulting (Baltimore, Cleveland and Atlanta) were replacements of undistinguished multi-use stadium, and therefore are not illustrative. The experience of the Chicago White Sox, however, may be a more apt illustration of the effects of replacing an historic ballpark. The White Sox replaced the original Comiskey Park (then the oldest stadium in baseball) in 1991 with a new stadium of the same name constructed across the street from the original. In 1999, the new Comiskey, still in its first decade of service, averaged a mere 17,598 fans per game, well below 50% of capacity. In fact, average attendance is now already *less* than it was in the original Comiskey Park. Meanwhile, Wrigley Field, home of the Chicago Cubs, which opened in 1915, averages 36,075 fans. The Chicago contrast between a successful old stadium and a failed new stadium indicates a significant risk of *falling* attendance that is not reflected in the promotional study.

Access problems could also very well limit attendance. Today the Kenmore-Fenway area is grid-locked on game nights and the Green line subway is at capacity. It is hard to imagine how more patrons can get to a game at this location under current conditions. Yet the Red Sox have proposed only \$4.2 million in transit improvements (less than 1% of the project total of \$600 million) and it is self-evident that construction of additional access roads or widening of existing roads in this area is not truly possible.

Simply building a ballpark with a larger capacity does not mean larger average attendance. Since the ballpark is less differentiated than today's park and more difficult to get to, rosy assumptions of increased attendance are inconsistent with the realities of the proposed ballpark scenario. Further, the acceptance of data from the project proponent and the selection of a year during the honeymoon period for comparison render the study's attendance assumptions impossibly compromised.

2) The Anticipated Number of Out-of-State Patrons Is Inflated

Public subsidies for ballpark construction are only valuable to the extent that they draw patrons from outside of Massachusetts. Local consumers spend only so many dollars on entertainment per year. Since nearly all of any increase in dollars spent by local patrons at a new stadium will correspond to a decrease in spending at local restaurants, theaters and other entertainment establishments, the project will have no net positive effect on the local economy without strong attendance from out-of-state visitors. The Johnson promotional study refers to data collected by the Red Sox on the percentage of out-of-state patrons, accepts this number and then accepts that in the future the percentage will remain the same. The assumed percentage is 35%. Once again, the fact that the percentage was provided by the project proponent tends to invalidate the analysis.

The percentage of out-of-state patrons who attend games at Fenway Park today is very high due to the renown of the current Fenway Park. A 1997 survey found that unlike every other major league team, the Red Sox' attendance since 1970 is consistently high and does not depend upon the team's performance on the field. The Boston Chamber of Commerce and the Red Sox list Fenway Park as the largest tourist draw in Massachusetts and a *Boston Globe* survey indicated that more than fifty percent of fans state that they attend games at Fenway Park primarily to see the ballpark and not the Red Sox or their opponent. In a new stadium lacking the tradition and renown of historic Fenway Park fewer fans will be drawn from out-of-state. This is particularly true since the Red Sox' new park, opening in 2003, would not be special, unique or authentic in any way.

Most additional seats in the proposed new stadium would be premium seats. Club seats will be increased by more than 800% and luxury suites by more than 200% while general admission seating will be increased by less than 20%. Since these premium seats must be purchased for the entire season in-state patrons will primarily purchase them. This is another reason why out-of-state patronage would not be maintained at 35% in the new stadium.

The Johnson promotional study also assumes that every out-of-state patron is in town for the primary purpose of attending a game at the new facility. This is not the case. Although the study raises the issue that many out-of-state patrons may be individuals who are in town for other reasons, the study elects to treat all as stadium tourists. To the extent that some visitors attending a game will be in town for other reasons (for a convention or on business, for example) and would patronize other venues (cinemas, theatres, restaurants) their spending at the game is not an economic benefit to the local economy but a substitution for spending that would occur at other establishments. By not recognizing this, the promotional report overstates the percentage of *relevant* out-of-state patrons. Those who are not in town for the stadium are not relevant. The relevant percentage is probably closer to 50% of all out-of-state patrons. Thus, the percentage of out-of-state patrons, after adjustment for the overstatements indicated above, should then again be reduced by half.

3) Per Capita Spending by Out-of-State Patrons Is Inflated

The promotional report incorrectly assumes that in-state and out-of-state patrons will spend equally at the stadium. But the major source of increased revenue from the proposed ballpark would come from club seat and luxury suite sales, and in-state patrons would primarily purchase these. As premium seats will be a larger percentage of overall revenue, a larger percentage of overall revenue will be attributable to in-state patrons.

The Johnson promotional study also overstates spending by out-of-state patrons by failing to take into account the fact that some visitors are guests of local residents. If a local company or individual paid for the out-of-state visitor's ticket there is no out-of-state spending. This effect can be significant; particularly when considering premium seating where the ticket price, food catering and bar tab is often paid by a local host.

4) The Assumption of Induced Additional Overall Spending Is Unfounded

A significant factor in the Johnson promotional study's analysis rests on a largely unsubstantiated hypothesis that the proposed new stadium will induce visitors to spend more both inside and outside the ballpark. The study assumes patrons will spend 15% more inside the park and 20% more outside the park. These are not increases due to inflation; it is contended that somehow the stadium will cause people to spend more of their personal budgets in and out of the park than they do today. This contradicts studies that show that families and individuals have fixed entertainment budgets.

5) Hotel Spending Is Inflated

Another substantial factor in the increased spending found in the Johnson promotional study is derived from hotel spending by out-of-state patrons. The study assumes more than 70,000 room nights at local hotels, a virtual impossibility given the tight hotel market in the Boston area. Further, to the extent that stadium attendees freeze out other intending tourists who now can't travel to Boston due to a lack of accommodations, spending by these patrons is merely a substitution for that by another out-of-state visitor and therefore has no positive economic benefit to the region.

A more serious error is that the Johnson report does not base its projections of hotel occupancy on current data. It is simply not known how many out-of-state fans coming to Boston for a ballgame actually stay overnight in Massachusetts. Many from nearby New Hampshire and Rhode Island simply commute, snack at ballpark concessions and return home.

An analysis by Johns Hopkins economists of hotel occupancy by Baltimore Orioles' fans seems to confirm this pattern of fan behavior. In their report, economists Hamilton and Kahn concluded there's "no support for the conjecture that large numbers of incremental fans are coming to Baltimore to see the Orioles; or if they are coming they appear not to be staying in downtown Baltimore."

6) Out-of-State Value Added to Goods and Services Sold Is Ignored

The Johnson promotional study makes a major statistical error by treating all spending by out-of-state patrons as a net economic benefit to the region. This ignores the fact that much of the economic benefit from a sale accrues to individuals and companies out-of-state. For example, when a patron purchases a baseball cap from a local vendor for \$12.00 much of the benefit belongs to an out-of-state distributor that sold the cap to the vendor for \$6.00. Only the \$6.00 earned by the vendor is an economic benefit to the local economy. The failure of the Johnson promotional study to take this into account results in an overstatement of the local benefit on the order of 100%.

7) The Indirect and Induced Spending Multiplier Is Overstated

In the case of increased direct spending by out-of-state patrons on tickets, souvenirs, food and beverages, etc., there will be a trickle-down effect within the economy as individuals and companies who benefit from this increased spending turn around and spend their additional revenue within the local region. To measure this effect the increase in direct spending is adjusted by a multiplier to arrive at indirect and induced spending. In the case of a professional sports stadium the appropriate multiplier has been estimated by authorities in the field to be 1.18. The Johnson promotional study, however, in effect applies a bloated multiplier of 1.76 resulting in further significant distortions to the study's economic benefit analysis.

The low levels of indirect and induced spending associated with a sports stadium project result in large part from significant leakage of income from the local economy. Much of the spending at a sports stadium goes to ball players and team owners as income. These recipients often do not reside locally, those who do spend a great deal of time out of state, their incomes are heavily taxed and they put a large percentage of their income into investments. For these reasons they spend a much smaller percentage of their income locally than would a typical local business and its employees.

8) The Social Cost Of Taxes Is Ignored

To pay its share of the cost of the stadium project government would have to raise taxes. Common mechanisms include sales tax increases, so-called "sin taxes" on tobacco and alcohol, hotel taxes, and rental car fees. Hotel and rental car levies have already been imposed to help defray the costs of the new

Convention Center in South Boston. Economists recognize that the social cost of these and other taxes exceed tax collections by approximately 25% because taxation reduces consumption of the goods taxed. Thus, with full employment the cost to society of a \$200 million stadium subsidy is actually \$250 million.

9) Employment Figures Are Calculated Using an Inapplicable Economic Model

The Johnson promotional study derives increased employment figures using what is called the “IMPLAN” method. This is an unsophisticated economic model which simply assumes that a certain level of spending correlates to a certain number of jobs. This model fails, however, in situations such as today’s where there is full or near-full employment in the region. The misapplication of the IMPLAN method has resulted in a substantial overstatement of jobs created.

10) The Project Would Create No New Construction Era Jobs

The study’s discussion of construction era employment is meaningless since none of the construction era jobs touted in the study are additional jobs above and beyond those that would exist in the region were the new stadium not constructed. The construction era jobs are not attributable to the proposed stadium project because, as the study recognizes, all construction spending originates from within the Commonwealth; these jobs simply substitute for others.

A region has only so much capital and can only undertake a limited number of projects with that capital. If the stadium is built other projects will have to be foregone. Stadium construction era employment would be the same in the region whether the stadium project proceeds or not; if it does not proceed employment related to other projects will make up the difference.

Thus, the promotional study invites the misperception that there would be additional jobs in the region by loudly touting construction era employment figures when this employment does not constitute additional jobs for the region. There would be stadium-related employment of course, but there would not be *additional* employment benefiting the region.

11) The Project Would Eliminate Some Jobs in the Region

The Johnson promotional study fails to consider the loss of jobs in the region caused by re-location of viable businesses due to lost sales and potential business failures resulting from massive traffic and congestion associated with the proposed new stadium.

Also, the study does not acknowledge potential job losses due to a failure to invest in critical areas such as infrastructure, housing, and education. These losses could entirely offset any small increases in employment due to the new stadium.

12) The Effect of Budget Shortfalls Is Ignored

The Johnson promotional study does not factor in the downward pressure on an economy that results from government spending on projects of this size. Spending on the proposed new stadium would need to be compensated for by lower spending on government services, by higher taxes or a combination of both. Reductions in services and/or increased taxation would slow the local economy and offset, at least in part, any economic benefit from the stadium project.

13) Findings Are Inconsistent With Proven Economic Models

Independent analyses of the economic and employment impacts of sports stadiums have consistently found that there is no statistically significant economic benefit to building a stadium. An analysis by Robert Baade of Lake Forest College studied thirty cities over thirty years and found that twenty-seven experienced no significant impact from new stadiums, while three cities experienced a negative economic impact. The Johnson promotional study is inconsistent with the findings of this and other impartial analyses, but there is no explanation why this proposed new stadium would have a more positive effect than experience would otherwise indicate. The most successful stadium project, Oriole Park at Camden Yards, has created 550 jobs during its honeymoon period, although at a cost to taxpayers of \$366,000 per job. The promotional study's contention that the proposed Red Sox stadium would create twice the number of jobs created during Camden Yards' honeymoon period is, on its face, extremely doubtful.

Recapping the technical shortcomings of the Johnson promotional study, it has been demonstrated that an inflated attendance figure was multiplied by an exaggerated out-of-state patron percentage. Spending by this oversized group was then overstated and out-of-state value added to goods and services purchased was ignored. This wholly unrealistic and bloated spending figure was then adjusted by an overly large multiplier and the result was entered into the inapplicable IMPLAN model. The final product is an estimate of economic benefit and job creation that is, not surprisingly, inconsistent with the experience in other communities across the nation where stadiums have been built.

IV) Policy Considerations Argue Strongly Against Taxpayer Subsidies

Although the Johnson promotional study does not address policy implications these must be considered when deciding whether or not to expend taxpayer monies on a project. A thorough analysis of the propriety of public support for the project indicates that there are serious policy reasons weighing against public participation.

1) Cost Per Job Created

It is noteworthy that no impartial study of Boston's economy has ever recommended a sports stadium as a means of expanding and diversifying the region's job base. Sports stadium projects are among the most inefficient job producers imaginable. The Johnson promotional study itself is more evidence of this. Due to the technical flaws pointed out elsewhere in this report, it is evident that the study's contention of 1,032 jobs created is grossly exaggerated. Even if the figure were true, at a public cost estimated to be at \$300 million, the cost per job is approximately \$300,000. By comparison, the Small Business Administration and Department of Housing and Urban Development will mandate that to receive federal assistance a job creation program must have a cost per job value of \$35,000 or less.

Spending such huge sums in the name of job creation would be unpardonably irresponsible. There are myriad ways to create many more and better paying jobs for much less taxpayer money.

2) The Quality Of Jobs Created

The Johnson promotional study does not address the quality of jobs that may be created. Generally, stadiums create low paying, seasonal, part-time jobs without benefits. In times of full or near-full employment such as today government should not blindly spend to create jobs. Instead government should try to create better jobs – jobs that pay more and provide security to employees in the form of health insurance

and other benefits.

3) The Opportunity Cost Of Spending Tax Dollars Inefficiently

In deciding whether to invest public moneys in a large project – especially in deciding whether to subsidize a private business – an alternative investment analysis is mandatory. Given the limited amount of resources in the public treasury and the current budgetary and fiscal crises brought on by the Central Artery/Tunnel Project, inefficient expenditures of public money can have vastly deleterious effects. This is due to the opportunity cost of not addressing established government mandates.

Expenditures on stadiums can, and often do, result in decreases in spending on other government programs. For example, in 1995, shortly after completing construction of Jacob's Field largely at public expense, the Cleveland School System became seriously under-funded; teachers were laid off, interscholastic sports cancelled and the school system itself entered receivership. This was the result, in part, of overly optimistic economic reports that indicated the new stadium would generate millions in additional revenues for local schools; in reality, debt service on the stadium resulted in a drain of several million dollars annually from the school system. The economic report in question contained many of the same shortcomings found in the Johnson promotional study.

Services likely to suffer due to an unwise investment of public money in the proposed ballpark project include: school construction and physical plant investment, prescription drug coverage, early childhood education, needed infrastructure projects, housing programs, public safety, and public health programs. To make economic sense a project must not only return an economic benefit, it must return more of a benefit than the same amount of spending on other public needs.

4) An Unwarranted Shift of Spending from One Business to Another

To the extent that the goal of the project is to increase spending by local patrons on major league baseball as a form of entertainment it is purporting to benefit the operator of one business at the expense of others. This is not an appropriate governmental purpose and therefore not an activity in which government should participate. Channeling local entertainment dollars away from local cinemas, restaurants, museums and theaters to team ownership and millionaire baseball players fails as a justification for taxpayer support of the project.

5) An Unwarranted Shift of Spending from One Locality to Another

To the extent that the project is successful in increasing spending at and around the ballpark in the Fenway, it will decrease spending at entertainment businesses in surrounding neighborhoods and communities. Shifting patronage from businesses in the Financial District or Medford (for example) to Fenway / Kenmore businesses (including the Red Sox) also fails as a justification for taxpayer participation.

6) Team Ownership and Players Pocket the Subsidy

Significantly, the prime beneficiaries of the subsidy are those least in need of public support – the team's owners and players. In Cleveland, for example, the Indians baseball team was valued in 1993 at \$81 million and was sold in 1999 (after public money built the team a new stadium) for \$320 million. The public "investment" in sports stadium has the main effect of raising the value of the franchise, and this increased value inures almost exclusively to the benefit of team ownership. For this reason, government spending on stadium cannot be likened to spending on a public park, which also provides enjoyment for local residents; a major league baseball team is a private, profit-making business.

7) *Government's Return on Investment*

The government's return on investment is not addressed in the Johnson promotional study, but, as is the case in other communities, it is certain to be negative to an astonishing degree, belying the fact that the term "investment" itself is inappropriate in this context. No baseball stadium project has ever returned more to its subsidizing governmental unit than it cost. In fact, federal law prohibits a state or municipality from using tax-exempt bonds to finance a stadium if more than 10% of the revenue used to pay off the bonds comes directly from the stadium. And increased tax collections typically do not offset government outlays on stadium projects.

Orioles Park at Camden Yards illustrates the potentially negative nature of the government's return on "investment". In the Hamilton and Kahn study cited above it was noted that "the state of Maryland spends approximately \$14 million a year to attract \$3 million a year in job-creation and tax import benefits... This \$11 million figure represents our best estimate of the annual subsidy borne by Marylanders."

8) *The New Stadium Would Increase Costs of Government Services*

Any rise in the number of patrons attending games would require increased government services such as additional police details, sanitation, environmental remediation, and infrastructure maintenance. Thus, any increases in tax revenues that may be attributable to greater attendance would be at least partially offset by additional government expenditures. This factor is not addressed in the promotional study.

9) *The Possibility and Effect of Cost Overruns Is Not Considered*

Cost overruns are extremely likely in stadium projects. Examples of stadiums that cost more than originally expected are legion; instances where a project was completed on budget are rare. One customary feature of stadium projects is that the public sector participants pay cost overruns. By not considering likely cost overruns the Johnson promotional study fails to realistically assess the government's costs and the risks inherent in government participation in the project. Such overruns often run to 40% and can run as high as 500%. Seattle's just completed Safeco Field started at a projected price of \$200 million and actually came in at more than \$500 million. By way of perspective, a 40% cost overrun on the proposed new Red Sox stadium would bring the project cost to \$840 million and could increase the government's share of the cost to more than half a billion dollars.

V) **Conclusion**

The promotional study by C.H. Johnson Consulting does not in any way justify the use of public monies for the proposed baseball stadium project. The report is technically flawed and lacking in proper policy analysis. In fact, a careful reading and understanding of the Johnson promotional study indicates that government support of the project would be an extraordinarily irresponsible use of taxpayer dollars.

Endnotes

¹ Sam Walker, "Full Counts and Empty Seats," *Wall Street Journal*, October 12, 1999, p. B1.

² During the final ten years of service (1981-1990) average attendance at Comiskey Park was 18,827.

³ Roger G. Noll and Andrew Zimbalist, Sports, Jobs & Taxes: The Economic Impact of Sports Teams and Stadiums, p. 110.

- ⁴ “*Team Performance, Attendance and Risk*,” Real Estate Issues, April 1997.
- ⁵ Sports, Jobs & Taxes, p. 507 fn. 2.
- ⁶ Sports, Jobs & Taxes, pp. 261-262.
- ⁷ Sports, Jobs & Taxes, p. 498 fn. 3.
- ⁸ Sports, Jobs & Taxes, p. 63.
- ⁹ Robert A. Baade, “Stadiums, Professional Sports, and Economic Development: Assessing the Reality.” A Heartland Policy Study, April 4, 1984.
- ¹⁰ The subsidy is placed at \$210 million (National Congress of State Legislatures, Playing the Stadium Game, April 1, 1998, Appendix: Financing Professional Sports Facilities). The number of jobs created was calculated in Sports, Jobs & Taxes at p. 266.
- ¹¹ See generally, Sports, Jobs & Taxes, chapter 3.
- ¹² Greg LeRoy and Tyson Slocomb, Economic Development in Minnesota: High Subsidies, Low Wages, Absent Standards, Institute on Taxation and Economic Policy, February 1999, p.18. For SBA see 13 Code of Federal Regulations Sec. 120.829 and Sec. 120.802. For HUD see HUD Block Grant Section 108 regulations on Public Benefit Standards, Part 570.209, subpart B.
- ¹³ Joanna Cagan and Neil deMause, Field of Schemes, How the Great Stadium Swindle Turns Public Money into Private Profit, p. 23.
- ¹⁴ Tax Reform Act of 1986 (P.L. 99-514).
- ¹⁵ Sports, Jobs and Taxes, p. 268.