



***Some Observations of Analyzing Economic Impact:
A Case Study, the Economic Impact of the Staples
Center on the City of Los Angeles***

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Introduction

The purpose of this report is to assess the impact the Staples Center has had on the economy of the City of Los Angeles, and in so doing identify and analyze the problems involved in estimating the economic impact of public development projects. The Staples Center primarily serves as a host for professional sports events, and this report focuses on the impact that professional sports teams and their facilities have on local economies. The lessons from the professional sport experience, however, can be applied to other development projects that are financed jointly by the public and private sectors.

The nature of the relationship between professional sports venues and the economy of the city in which they are located has been a contentious subject, and that reflects the reliance upon public funds to build an unprecedented number of stadiums and arenas throughout the United States and the world. Several forces have conspired to induce public subsidies in excess of \$14 billion on sports venues in the last decade and one-half in the United States alone. A portion of this report elaborates on stadium financial dynamics to provide a context for the experience the City of Los Angeles has had with professional sports. That, in turn, may help the decision making process not only as it relates to the question of stadium funding, but to private/public financial partnerships in a more general sense.

Free agency in professional sports as it relates to player movement has contributed to more aggressive financial behavior among professional sports teams and leagues. Players generally move to the highest bidder, and teams have perceived that they can be competitive in the standings only through being competitive on their income statements. One manifestation of the heightened financial ambition of teams has been the increasing incidence of new stadium and arena construction and renovation, which host cities have been asked to subsidize. Cities that have been reluctant to comply with team and league demands for new, more lucrative venues have been threatened with the loss of their franchise. The movement of National Football League (NFL) teams from established markets in Los Angeles, Houston, and Cleveland in the past decade has added currency to these threats. The City of Los Angeles, the second largest city in the country, has been without a professional football team since 1995. The NFL Raiders and Rams moved from Los Angeles to Oakland and St. Louis, respectively, that year.

Cities have balked at the demands of owners in part because popular resistance to subventions for sports teams has been galvanizing. Some citizens view sport subsidies as a particularly egregious form of corporate welfare, and many taxpayers resent the use of

public funds to enhance the financial privilege of owners and players many of whom are already extraordinarily wealthy. The public objection to subsidies extends beyond these equity concerns. New stadiums and arenas often replace facilities that are physically sound but have been rendered economically obsolete by the ongoing financial revolution in professional sports. As a result cities quite often find themselves with too many stadiums. One consequence of the excess supply of sports facilities is that the venues compete with one another for highly attended events jeopardizing the financial viability of all of them. Thus in addition to the equity issue, a significant efficiency problem helps explain the current antipathy for subsidizing the construction of more professional sports facilities.

In light of these circumstances and given the need to deflect negative press relating to the political muscle that has been exercised to retain a professional sports presence,¹ it is not at all surprising that an economic rationale (with “hard” numbers) has evolved in defense of subsidies. This rationale is based on the notion that a stadium can serve as a catalyst for economic development. Stadium subsidies, according to boosters, should be construed not as an expense but as an investment returning multiple dollars for each dollar spent. If subsidies generate a flow of revenues in excess of costs, investments in schools, streets, and sewers can be enabled, rather than sacrificed to provide stadiums.

¹ Political leaders perceive that losing a team sends strongly negative messages to political constituencies within the community and people outside the community. The message is one of political impotence and a loss of vitality. When confronting the loss of the Minnesota Twins before the construction of the Metro Dome convinced the Twins to stay, Merlin E. Dewing, the head of Governor Rudy Perpich’s task force on economic revitalization, opined, “It’s almost worse for the city’s image to lose a major league team than to never had had one at all.” This quote appeared in Staff, “Stadium Mania,” *Business Week*, May 14, 1984, 2828, p. 142.



Some Observations Relating to the Construction of Sports Facilities and the Nature of Subsidies for Stadiums and Arenas

During the latter stages of the twentieth century cities confronted increasing demands on their resources due to increasing urban problems while simultaneously experiencing a contraction in their economic bases. Cities had to make do with less in part because of the post World War II flight to the suburbs, and, more recently, the reductions in federal revenue sharing beginning in the early 1980s.² To deal with their financial crises, some cities have adopted more entrepreneurial financial strategies which have transformed city centers into cultural and tourist destinations. One aspect of this metamorphosis has been the relocation of professional sports back to central business districts (Cleveland and Phoenix) or to areas on the downtown periphery (Milwaukee and Seattle) where land has remained relatively cheap. The location of the Staples Center in the City of Los Angeles exemplifies this trend; the Staples Center has been located on the southwest edge of Downtown Los Angeles adjacent to the Convention Center in the South Park district.

The inclusion of professional sports in a city's economic mix has advantages and disadvantages, which bear on the question of economic impact. On the positive side, professional sports teams are limited in supply, and individual teams through league conventions have been designated local monopolies through the granting of exclusive television rights defined by geographic area. This arrangement implies, for all intents and purposes, that if fans want to attend a professional sporting event, the community in which the stadium is located will ostensibly benefit from the influx of visitors. In effect the host city "exports" professional sports, and the local economy benefits from spending by non-residents in conjunction with the games the facility hosts. The local economy receives an additional boost due to the fact that residents of the community who used to spend money on professional sports viewing somewhere else now spend that money inside the city (import substitution). Other investments in public infrastructure also attract outside visitors, but few have the economic advantage associated with geographic monopolies. Thus while Arrowhead Pond in Orange County can compete with the Staples Center for concert business, it cannot compete at present for NBA fans since it cannot host an NBA team other than the Lakers or Clippers.

A geographic monopoly as it relates to a sports team is not unambiguously positive in an economic sense. Professional sports teams capitalize on the fact that they are perceived to be economically beneficial. Cities and teams often contest ownership of the economic benefits imparted by teams, including those that potentially spill beyond the stadium walls into the community. Given the fact that an excess demand for professional sports teams exist, cities often engage in harmful financial competition to either retain or attract a team. Leagues control expansion (through an extraordinary majority vote of the current team owners), and they have been successful in wringing economic concessions from cities through restricting the number of teams. Los Angeles has had a rather

² The decline in federal revenue sharing has been sufficiently great that some authors dubbed the period after 1984 the "postfederal era." See, for example, S.E. Clarke and G.L. Gaile (1998), *The Work of Cities*, Minneapolis, MN: University of Minnesota Press.

eventful and tense history with the NFL, in large part because Los Angeles did not accede to the demands made by either the Raiders or the Rams for a new or renovated stadium. Furthermore, the fact that Los Angeles, the second largest media market in the country, is without a team puts other NFL cities on notice that they had better provide what their team seeks in the way of financial support or run the risk of losing the franchise to Los Angeles.

An accurate estimate of the economic benefit that a team generates for a city is crucial for defining the community's position on the size of the subsidy for a playing facility. The City of Los Angeles apparently did not believe that the Raiders or Rams provided benefit that equaled or exceeded the cost the City would incur in providing a new stadium. The City of Los Angeles, however, believed that the \$71.1 (this does not necessarily represent the amount provided by taxpayers) it contributed to the construction of the Staples Center would generate a stream of revenues that would equal or exceed that amount. This report will address the issue of whether the City of Los Angeles derives revenue sufficient to justify their \$71.1 million investment in the Staples Center.³

Several important caveats need to be noted and addressed regarding the subsidy the City of Los Angeles provided for the Staples Center. First, assessing the efficacy of a subsidy involves more than a simple recitation of the money or monetary equivalents provided by the public sector for a project. Cities do seek to improve the quality of life for their citizens through providing cultural amenities. In addition to the economic return to the Staples Center, it can be argued that a psychological benefit accrues to the community through enhancing the quality of life as a consequence of hosting a professional sports team. This report does not attempt to quantify non-pecuniary benefit or the "contingent value"⁴ the team imparts, but that is not to say that it should not be a part of subsidy deliberations. While public officials may wish to consider contingent valuation, a word of caution should be offered against a cavalier use of the quality of life argument. Psychology cuts both ways, and a team can yield negative or positive non-monetary returns.

Second, subsidies for what appears to be similar projects in different cities are not directly comparable because they are intended to serve quite different purposes. Camden Yards in Baltimore and Jacobs Field in Cleveland were intended to do more than provide a home for the local major league baseball teams. These stadiums were integral parts of

³ The \$71.1 million includes the \$38.5 million the City of Los Angeles borrowed to fund the project ("Securities Proceeds"), the \$20 million from the Convention Center Debt Service Reserve Fund ("City Proceeds") in addition to the \$12.6 million the Los Angeles Community Redevelopment Agency (CRA) contributed to the project. The CRA paid the Developer \$12.6 million in fiscal year 2001 "using fiscal agent funds (CBD Series I Reserve and interest income) which became available after all outstanding CBD bonds were defeased." See "Notes to Combined Financial Statements, June 30, 2001," for The Community Redevelopment Agency of the City of Los Angeles, California.

⁴ Contingent valuation has emerged as one way of defending the subsidies that cities provide teams. What the team is worth to the community, many would argue, should include what it contributes to the quality of life. The valuation of a team, therefore, should follow principles that are used in valuing parks, museums, and zoos. Among the important differences, however, is the fact that public parks are not owned and operated by individuals who privately derive financial benefit accruing from the operation of the park.

more comprehensive developmental plans to rejuvenate those cities. The Staples Center could also be construed as part of an ongoing, larger developmental plan for the South Park District and the City of Los Angeles. In such cases, the parts of the plan are best evaluated as a whole rather than piecemeal.⁵

Third, subsidies possess a qualitative as well as quantitative character, and any evaluation of a subsidy should consider the “kind” as well as the amount of the subsidy. Furthermore, the kind and amount of the subsidy has to be considered from the point of view of various constituencies. For example, if a subsidy were evaluated from a taxpayer perspective, one aspect of that evaluation would be to assess the financial burden it imposes on citizens. As this relates to the City of Los Angeles, the entire \$71.1 million subsidy provided by the City for the construction of the Staples Center does not equate to an additional tax of that amount imposed on taxpayers. Taxpayer exposure was limited through the guarantee from the Developer that the debt service on the \$38.5 million the City borrowed for the project (“Securities Proceeds”) and the interest lost on the use of the \$20 million the City provided from the Convention Center Debt Service Reserve Fund (“City Proceeds”) would be covered through a dedication of a portion of event parking fees and a tax imposed on tickets.⁶ Expenses assumed by the City through the \$58.5 million it provided, therefore, have been covered by what could be construed as a “user fee” imposed on the Developer.

A logical initial reaction would be that taxpayers are completely absolved from costs associated with the loans taken out by the City but paid for by the Developer through the sharing of parking revenues and the imposition of a ticket tax. Parking revenues and proceeds from ticket sales, however, could have been collected for the City’s general fund and need not have been dedicated to debt repayment. In the absence of City issued debt, therefore, Los Angeles would have had revenue at its disposal for other purposes. The benefit to the City equates to incremental revenues and not total revenues collected. If parking revenues and ticket taxes being used to repay the debt represents an entirely new or previously inaccessible revenue stream, then the City’s total financial burden is limited to the \$12.6 million from the CRA (see footnote 3). On the other hand if the ticket and parking revenues would have been collected at another venue, for example the Los Angeles Arena, then the loans represent a cost to the City since the revenues must be used to pay off the debt. Similarly if the project would have been undertaken even without the City’s financial support, then the current debt service constitutes a cost to taxpayers because the money used for that could have been used for other purposes. The cost to taxpayers, therefore, lies somewhere between \$12.6 and \$71.1 million. Compared to public support for other similar projects throughout the United States the Staples Center qualifies as exceptionally taxpayer friendly particularly

⁵ The evidence indicates that the City of Los Angeles viewed the Staples Center as part of a larger development. To corroborate that assertion see *Disposition and Development Agreement*, October 31, 1997, Article 10, p. 41-44.

⁶ For details relating to the financial support of the Staples Center, see *Gap Funding Agreement between City of Los Angeles and L.A. Arena Land Company, Inc. and L.A. Arena Company, LLC*, March 26, 1998. For an identification of the amount of the Securities Proceeds and City Proceeds see pages 2 and 7 of this document.

since, as will be argued later, it is likely that the cost lies toward the lower end of this range.

Finally, in the long-term cities should be aware that they assume continuing financial risk in hosting a professional sports team. Predicting the evolution of professional sports economics is hazardous, but it can be said with some certainty that professional sports teams and leagues will continue to be financially ambitious. The Great Western Forum was built in 1967, and the NBA Lakers and NHL Kings did play in the Forum through the 1998 season. The Forum, however, among other things, lacked luxury seating, which explains to a substantial degree the Lakers and Kings move to the Staples Center. Will some other financial innovation render the Staples Center economically obsolete before the end of its useful life? It is prudent for a city to pay careful attention to specific clauses in the memorandum of understanding as it relates to team specifications with regard to their revenue standing within their league. As it currently stands the Lakers and Kings have contracted to use the Staples Center for twenty-five years and the Clippers have signed a contract for six years. Teams often push for a clause that allows them to void the contract if the stadium/arena does not maintain revenue that places it among the league's elite. The NFL notwithstanding, Los Angeles does possess countervailing power given the size of its market and other traits that teams and leagues obviously find attractive.

An evaluation of the economic impact of the Staples Center on Los Angeles necessitates an examination of both direct and indirect benefits and costs. For the purposes of this report, direct benefits and costs will be identified as those that emanate from activity occurring inside the walls of the Staples Center to include on-site parking controlled by the arena owner. Indirect benefit and costs will be identified as those that originate through Staples Center activities but spill over into the local community and beyond, e.g., food consumed by fans at the Palm Restaurant on Flower Street before or after a game. Does the Staples Center generate revenues that will enable the City of Los Angeles to address other social needs, or does the arena drain scarce City resources? In the next section of the report, attention is focused on specific things that relate to costs and benefits to the City of Los Angeles that occur from activities hosted by the Staples Center.



The Economic Implications for Los Angeles of the Staples Center

The Staples Center has both direct and indirect financial implications for the City of Los Angeles. In constructing sports facilities cities typically share the cost of construction with a private developer, provide land, and lend proprietary power unique to government to clear private obstacles to insure the project's completion. Of course, sports leagues have some say in franchise location, and the move of the Lakers and Kings from the Great Western Forum in nearby Inglewood to the City of Los Angeles came with the blessing if not the overt encouragement of the NBA and NHL. Among other things individual teams and leagues consider the population and economic character of a market in locating franchises and playing facilities. There is no doubt that metropolitan Los Angeles possesses the demographic characteristics that make it a prime sports market. In Table 1 below selected statistics that characterize the Los Angeles Primary Metropolitan Statistical Area (PMSA) have been recorded.

Table 1
Year 2000 Economic Statistics that Characterize Buying Power
in the Los Angeles Primary Metropolitan Statistical Area (PMSA)

Population (Rank out of 319 MSAs)	Personal Income in \$ millions (Rank)	Personal Income Per Capita (Rank)	Most Recent Growth Rate in Personal Income 1999-2000
9,546,597 (1 st)	\$281,835 (3 rd)	\$29,522 (74 th)	6.2%

Source: Department of Commerce, Bureau of Economic Analysis, "Personal Income and Per Capita Personal Income by Metropolitan Statistical Area 1998-2000," <http://www.bea.doc.gov/bea/regional/reis/scb.cfm>, September 24, 2002.

The information in Table 1 is significant in that there is a strong positive correlation between income and population and entertainment spending. Furthermore, between 1980 and 2000 and 1990 and 2000, the population of the Los Angeles CMSA has grown by 26.4 and 12.7 percent, respectively, which is faster than any of the other five largest CMSAs in the U.S. All else equal, the larger the population, the larger will be the turnstile count and television ratings for professional sports events. All professional sports leagues want to be represented in the largest, most affluent, fastest growing markets in the country. Given its economic profile defined in the most fundamental terms, the City of Los Angeles has an advantage over virtually every other city in negotiating lease terms and stadium subsidies with professional sports teams.

Theoretically, all else equal, one would expect an inverse relationship between the size of the subsidy for a playing facility and the population and size of the metropolitan economy. The reason for the inverse relationship relates to the relatively greater revenue that the largest urban areas command through a larger fan base, naming rights, the sale or lease of luxury seating, and greater media revenue. Large markets are more highly valued by leagues and owners, and it is logical to think that large-market clubs do not require as much financial assistance. That theory does not appear to be ironclad, however, and does not hold uniformly for arenas that have been constructed to jointly accommodate the NBA and the NHL. Given the demographic characteristics of Los Angeles, the leagues need the City more than the City needs the leagues.

Municipalities in the United States on average contributed 11 percent of the construction costs for venues that jointly accommodate NBA and NHL teams.⁷ In an effort to make this comparison more valid for the Staples Center, the 11 percent figure reflects the average public contribution for arenas built through 1997, the year before ground was broken for the Staples Center.⁸ The maximum public contribution of \$71.1 million for the Staples Center represents about 21.5 percent of the reported \$330 million construction cost.⁹ Taxpayers, however, as indicated in the previous section of the report, may have contributed only \$12.6 million, or 3.81 percent, of the cost of the project if the cost was \$330 million. If the smaller percentage applies, clearly the Staples Center qualifies as exceptionally taxpayer friendly, which conforms to the theory that large markets require less taxpayer support in building sports facilities.

In Table 2 below statistics have been summarized for arenas built since 1994 that have been used to accommodate both an NBA and NHL team. The initial subsidy is not the sole indicator of the soundness of the agreement between the developer and a city in financing a development project. Duly noting the hazards involved in comparing subsidy percentages, and assuming the figures provided by Munsey and Suppes are accurate, a simple reading of the “Public % of the Cost” shows that the Los Angeles maximum contribution to the Staples Center exceeded that for Chicago, Boston, and Philadelphia, but was less than the percentage provided by Washington, D.C. Building on the caveats articulated in the previous section of the report, the sharing of revenues must be considered in tandem with facility construction costs.

⁷ It should be noted that a combined NBA-NHL facility receives the smallest public subsidies both in percentage and absolute dollar terms. These facilities rate as the most taxpayer friendly in that the public sector has provided only 11 percent of the construction costs. NBA arenas are the next financially demanding facilities, and the public sector on average provides 31 percent of their construction costs.

⁸ See <http://www.forbes.com/forbes/97/1215/6013175.htm>

⁹ See <http://www.sfo.com/~csupes/NBA/Los AngelesLakers/newindex.htm>. It should be noted that construction costs as high as \$400 million have been reported for the Staples Center. One source, see Matthew J. Parlow, “Publicly Financed Sports Facilities: Are They Economically Justifiable?” A Case Study of the Los Angeles Staples Center,” *University of Miami Business Law Review*, Volume 10, 2002, 528, reported a \$375 million construction cost. Of course, the greater the construction cost, the smaller the percentage of that cost constituted by a public subsidy that is fixed in amount.

Table 2
Summary Statistics for Arenas Built
Since 1994 to Accommodate an NBA and NHL Team

Arena	Date Built	Total Cost \$Mil	Public % of Cost	Tenants	Seating Capacity	Number of Luxury Suites	Club Seats	Owner	Naming Rights	Population Base (Millions)
United Center Chicago	1994	\$175	Less than 10% for infrastructure only	NHL 'Hawks; NBA Bulls	NHL: 20,500 NBA: 22,879	216	3,100	United Center Joint Venture	\$1.8 M annually for 20 years	7.5
Fleet Center Boston	1995	\$160	10%	NHL Bruins; NBA Celtics	NHL: 17,565 NBA: 18,624	104	2,350	Delaware North Companies	Fleet Bank: \$30m for 15 years	3.5
First Union Center Philadelphia	1996	\$206	Less than 10% for infrastructure only	NHL Flyers; NBA Sixers	NHL: 19,519 NBA: 21,600	126	1,880	Comcast-Spectacor	\$40 M for 29 years	3.0
MCI Center Washington, D.C.	1997	\$260	23%	NHL: Capitals; NBA: Wizards	NHL: 19,700 NBA: 20,674	110	3,000	Entertainment Ltd.	MCI Not Disclosed	3.0
Pepsi Center Denver	1999	\$160	Appears to be less than 10%	NHL: Avalanche; NBA: Nuggets	NHL: 19,309 NBA: 19309	95	1,800	Ascent Arena Company	\$68 M	2.3
Staples Center Los Angeles	1999	\$330 to \$400	3.81% to 21.55% (\$12.6 M to \$71.1 M of \$330 M) ^a	NHL: Kings NBA: Lakers and Clippers	NHL: 18,500 NBA: 20,000	160 and 32	2,500 Party Suites	Los Angeles Arena Company	\$116 M for 20 years	9.5
American Airlines Dallas	2001	\$325	50%	NHL: Stars NBA: Mavericks	NHL: 18,000 NBA: 19,200	144	1,600	City of Dallas	Not Disclosed	3.5

^a See the previous section of the report for a discussion of why the public subsidy for the Staples Center could be construed as \$12.6 to \$71.1 million.

Source: *Ballparks by Munsey & Suppes*, <http://www.ballparks.com/index.html>

The information recorded in Table 2 indicates that the Staples Center generates substantial revenue as it ranks first among its cohorts in naming rights, and close to the top in terms of the number of luxury seats. On the negative side is the fact that these revenues have to be allocated among five professional sports teams. The Staples Center is utilized for major league sports more than any other large urban arena in the United States, and that statistic alone suggests that public funds were not as vital to the completion of the arena.

How did the City of Los Angeles fare in its negotiations with the private developer, the L.A. Arena Development Company? Evidence exists to support the notion

that in terms of the financial risk Los Angeles assumed and the direct costs incurred relative to the direct benefits, the City of Los Angeles fared well. A brief review of the specifics defined in the Disposition and Development Agreement (DDA) approved by the Los Angeles City Council on October 31, 1997 in particular have convinced some that the City is “guaranteed” a positive direct return on its investment in the Staples Center.¹⁰

In assessing the efficacy of a city’s investment in a sports facility, the size of a subsidy and its attendant debt service has to be considered in tandem with the realization of various revenues generated by the stadium. The national trend has been toward a slightly greater fraction of facility construction costs borne by the private sector, but it has come at some cost to cities. Specifically, the *quid pro quo* for the increase in the private sector contribution for construction costs has been that cities now receive a smaller share of stadium revenues generated by new sports facilities. In many cases the private sector commands 100 percent of all significant revenue streams. Common sense informs us that teams would not be clamoring for new venues if they did not improve their financial condition.

In essence the DDA’s assurance that the City of Los Angeles will not incur any debt service came at the expense of the Developer receiving virtually all of the significant revenue streams the new arena generated. Specifically the arena naming rights (\$116 million), revenues from luxury seating revenues (luxury loges and club seats), membership fees for the Grand Reserve Club, sponsorship deals, and \$9.6 million per year in parking revenues go to the Developer.¹¹ It would not be misleading to say that the City of Los Angeles traded some uncertain revenue for the certainty of not having debt service expenses.¹²

What were the direct costs and benefits to Los Angeles of the Staples Center as articulated in the DDA? As previously noted, the City of Los Angeles provided \$71.1 million for the construction of the Staples Center. The annual debt service payment for the \$38.5 the City borrowed amounted to approximately \$3.8 million. The author has not been able to identify a complete description of expenses the City incurs to operate the facility (additional police protection, transportation, garbage collection, etc.), but all operation and maintenance expenses, to include set-asides for capital improvements, have to be considered in accurately assessing the net, direct financial contribution of the Staples Center to the City of Los Angeles.¹³

¹⁰ It is important to remember that the City Council voted in favor of a Motion of Understanding (MOU) on January 17, 1997 that offered little direct financial benefits for the City while exposing the City to potentially significant financial risk. It is clear that given the better financial terms articulated in the DDA, the City of Los Angeles by virtue of its size and favorable demographic characteristics has the ability to negotiate favorable terms with professional sports leagues and teams.

¹¹ Parlow, p. 539.

¹² The debt service expense includes only the annual interest expense incurred on the \$58.5 the City borrowed to fund the project. The CRA paid the Developer \$600,000 in interest on what amounted to a “bridge loan” to fund the project, but that has been incorporated in the analysis as a “one-time” expense, which has been included in the subsidy figure. See footnote 3.

¹³ The available information indicates that these costs may not be trivial. For example, information furnished by the Department of Transportation for the first five months of the 2002-2003 fiscal year indicates that the City incurred \$75,275.65 in labor costs for services provided in conjunction with

Benefits accrue to Los Angeles directly (within the arena's walls) from activities hosted by the Staples Center. These direct benefits include: (1) the lease of the Staples Center site at \$302,737.87 per year and debt-service for City-owned property of \$149,091.74;¹⁴ (2) taxes from ticket sales; (3) the City's share of parking revenues;¹⁵ and (4) net additional property taxes garnered from the operation of the Staples Center, which equal \$3,399,033.74;¹⁶ and (5) incremental sales taxes, business license taxes, and utility taxes. The \$2.7 jobs program for local residents program qualifies as both a benefit and cost to the City, and is, therefore, not included in the analysis except to the extent that additional jobs contribute indirectly to revenues, e.g., increased sales taxes, for the City of Los Angeles. The debt service guarantee in the DDA is a notable achievement and represents a significant improvement for the City over the financial terms stipulated in the MOU.

Summarizing this information, the City has received or will receive \$3,850,863.35 in benefits in excess of direct costs per year over the life of the agreement with the Developer according to the various agreements between the City and Developer.¹⁷ It should be noted, however, that the calculations in this report do not account for what the City could have generated in revenue had it retained the Olympic properties nor a complete description of the incremental costs the City assumes as a consequence of the operation of the Staples Center. Operational costs include additional police, transportation, and sanitation expenses, which are substantial on game day.

The sum of the increases in direct benefits and indirect tax revenues in excess of direct costs are vital for computing the explicit economic return to the City of Los Angeles from its \$71.1 million initial investment in the Staples Center. The next section of the paper provides a context for the estimates of indirect benefits for Los Angeles through providing economic impact estimates for other cities in the United States.

activities at the Staples Center. See, Department of Transportation, "Labor Cost Report for Staples Center, Pay Period 1 to 10, Fiscal Year 2002-2003," *Mimeograph*. Using this amount and extrapolating for the entire year, additional transportation labor costs to accommodate activities at the Staples Center would equal \$180,661.56. If the services provided by the LAPD, LAFD, and the sanitation departments are similar in amount, then the incremental costs incurred by the City in operating the Staples Center approximate the incremental discretionary revenues in excess of debt service generated by the City through the operation of the Staples Center (see page 45 of this report). It should be noted that net profit should be calculated for each year and discounted back to the time the Staples Center began operating, i.e., future net profit should be expressed in terms of its present value.

¹⁴ Annex B to the Gap Funding agreement of March 26, 1998.

¹⁵ Taken together the revenue from the tax on ticket sales and the City's share of parking revenues equal at least the debt service on \$38.5 million, approximately \$3.8 million per year, and the "City Proceeds Obligation," \$730,000 or \$900,000 per year as represented in Annex C to the Gap Funding Agreement of March 26, 1998.

¹⁶ This information was obtained from the Office of the Assessor, City of Los Angeles.

¹⁷ The \$3,399,033.74 in incremental property taxes assumes that either the property the Staples Center replaced generated little or no property taxes previously. It is also true that the property could have been used for some other purpose, which presumably would have generated property tax revenues for the City. There is no way of determining how much those revenues would have been and when they would have commenced. For the purposes of this analysis it is assumed that the figures are accurate and the opportunity cost, the benefit foregone by the next best alternative use of the land, is zero.



Evidence Relating to the Total Economic Impact of Sports Facilities and Events

Estimates of the economic impact imparted by professional sports teams, stadiums/arenas, and events vary dramatically. In Table 3 below, a sample of impact estimates provided by those who advocate for public subsidies for facilities and events are recorded.

**Table 3
Economic Impact Estimates Provided by Boosters for Selected Teams, Facilities, and Events**

Year of Study	Team, Facility, or Event	Area Measured	Impact (\$millions)
1992	NBA All Star Game	Metro Orlando	35 ^a
1995	Summer Olympic Games	Metro Atlanta	5,142 ^b
1996	Cincinnati Reds (MLB) – Old Stadium*	Metro Cincinnati	158 ^c
1996	Cincinnati Reds – New Stadium*	Metro Cincinnati	192 ^c
1998	Arizona Diamondbacks	Metro Phoenix	319 ^c
1999	Super Bowl	South Florida (Miami, Dade and Broward Counties)	396 ^d
1999	Boston Red Sox (MLB) – Current Stadium*	Metro Boston	120 ^c
1999	Boston Red Sox – New Stadium*	Metro Boston	186 ^c
1999	San Antonio Spurs (NBA)	Metro San Antonio	71 ^c
1999	Summer Olympics Dallas	Metro Dallas	4,000 ^e
2000	Houston Rockets (NBA)	MetroHouston	187 ^c
2001	World Cup Soccer	Countries of Japan and South Korea	24,800 (Japan) 8,900 (S. Korea) ^f

* Economic impact estimates based on spending by out-of-area fans only.

^a Houck, Jeff, “High-stakes courtship: Cities build new arenas to bring in major sports events hoping to make big money,” *FoxSportsBiz.com*, January 21, 2000.

^b Humphreys, Jeffrey M. and Plummer, Michael K., “The Economic Impact on the State of Georgia of Hosting the 1996 Summer Olympic Games,” *Georgia Business and Economic Conditions*, May-June 1994, 18-21., June 1995

^c Rappaport, Jordan and Wilkerson, Chad, “What Are the Benefits of Hosting a Major League Sports Franchise?” *Federal Reserve Bank of Kansas City Economic Review*, Volume 86, 1, 55-86, 2001.

^d National Football League, “Super Bowl XXXII Generates \$396 Million for South Florida,” *NFL Times*, Volume 58, 7, 1999.

^e Cawley, Rusty, “The Olympic Race: The Metroplex Bid for the 2012 Games Has a Parallel in Atlanta, Where the ’96 Games Generated Less Gold Than Expected,” *Dallas Business Journal*, April 5, 1999.

^f Finer, John, “The Grand Illusion,” *Far Eastern Economic Review*, March 7, 2002, 32-36.

Several things relating to the numbers recorded in Table 3 warrant discussion. First, the estimates generally result from prospective analyses, and are used, of course, in various ways to convince the public sector that investment in sports offers substantial yields. Second, the size of some of the numbers compels skepticism, and, therefore, invites scrutiny. Is it possible that the World Cup, for example, induced a .6 and 2.2 percent increase in Japanese and South Korean GDPs, respectively? Can a single event such as the Super Bowl do more for the economy of a region or a metropolis than a baseball team that plays eighty-one home games? Third, more recent economic impact studies focus greater attention on the spending of non-residents. Why? What important point does that type of analysis concede? Fourth, the estimates exhibit wide variation. Do the NBA Rockets really induce an economic impact in Houston that is more than two and one-half times that induced by the NBA Spurs playing in San Antonio?

The sample of economic impact estimates, of course, has been selected to help identify issues that need to be considered in designing a model to estimate the economic impact the Staples Center has had on the City of Los Angeles.

Subsidy critics contend that these results should be viewed with skepticism given that funding approval depends at least to some degree on “proving” that stadiums are worth it. To be blunt, can the group or groups that stand to benefit be trusted to provide a fair appraisal of the potential economic contribution of a sports facility or event?

Independent scholarship on the economic impact has failed to confirm the substantial positive impact asserted by subsidy advocates. Baade (1996) found no correlation between the real growth differential in real per capita personal income for a city experiencing some change in their professional sports industry and cities experiencing no such change or having no professional sports presence. Baade’s analysis included all cities hosting a team in one of the four major professional sports (baseball, basketball, football and hockey), and covered more than three decades of observations beginning in 1958.¹⁸ A study by Coates and Humphreys (1999) similarly examined all 37 cities that had at least one big-league football, baseball, or basketball franchise at any point between 1969 and 1996. They found that per capita income actually fell by \$10 and \$73 as a consequence of building a new baseball stadium or basketball arena, respectively.¹⁹

Other independent economists who have studied the economic impact of professional sports have reached conclusions that echo the research of Baade and Coates and Humphreys. In fact in reviewing the collected research on the subject Siegfried and Zimbalist (2000) concluded:

¹⁸ Robert A. Baade, “Professional Sports as a Catalyst for Metropolitan Economic Development,” *Journal of Urban Affairs*,” Volume 18, Number 1 (1996), 1-17.

¹⁹ Dennis Coates and Brad R. Humphreys, “The Growth Effects of Sports Franchises Stadia and Arenas,” *Journal of Policy Analysis and Management*, Vol. 14, No. 4 (Fall 1999), pp. 601-624.

Few fields of empirical economic research offer virtual unanimity of findings. Yet, independent work on the economic impact of stadiums and arenas has uniformly found that there is no statistically significant positive correlation between sports facility construction and economic development.²⁰

What accounts for the substantial disparity in the prospective economic impact estimates of boosters and the retrospective estimates of economists? The next section of the report identifies and analyzes the underlying theoretical distinctions that account for the discrepancies and offer guidance in developing models that can provide credible indirect economic impact estimates.

²⁰ John Siegfried and Andrew Zimbalist, "The Economics of Sports Facilities and Their Communities," *Journal of Economic Perspectives*, Vol. 14, No. 3, Summer 2000, p. 98.



Theoretical Issues Involved in Estimating Indirect Economic Impact

Exaggerations regarding the net (benefits less costs) economic impact from constructing a sports facility generally occur because costs are underestimated, benefits are overestimated, and opportunity cost is ignored. With regard to opportunity cost, the relevant issue should not be whether a new stadium or arena has any net impact on area development, but rather if it has the largest impact on the area among alternative development projects. The analysis performed in this study, therefore, has been developed with an eye toward ensuring that the benefits are not exaggerated and the opportunity costs have not been ignored. Consider first the issues relating to benefit hyperbole.²¹

The exaggeration of benefits created by a sports facility occurs for several fundamental reasons. First, the increase in direct spending attributable to the venue may be a “gross” as opposed to a “net” measure. (It should be noted that indirect spending derives at least in part from direct expenditures, and, the nature of direct spending, therefore, logically precedes an analysis of indirect spending.). Gross spending may be estimated by simply summing all receipts associated with the activities hosted by the facility. The problem with this gross spending approach is it fails to account for spending reductions induced by the facility in other areas of the economy. Entertainment spending, to include that which occurs at a sports event, is subject to elementary budget constraints. It is axiomatic that the more time and money consumers spend at the Staples Center, the less time and money is available for other activities that involve time and spending. Tickets sold to a Lakers’ game may mean fewer tickets are sold at the local theater, and food and drink consumed at the Staples Center implies less food and drink consumed elsewhere. Clearly, to the extent that those who attend activities at the Staples Center are residents of the City of Los Angeles, the Staples Center may simply reallocate entertainment spending in the City’s economy while leaving total spending unaltered.

The difference between gross and net expenditures is not trivial. Consider the economic impact the Major League Baseball (MLB) Mariners generated for the City of Seattle, King County, and the State of Washington as estimated by Dick Conway & Associates for King County in 1994.²² Net direct spending as a percentage of gross direct spending was identified as 44.3% for the City and County (\$40.4 million/\$114.0 million for both the City and the County) and 32% (\$29.1 million/\$114.0) for the State. The

²¹ It is important to emphasize once again how small the professional sports business is in a relative sense. Given its size, professional sport cannot reasonably be expected to induce a large economic impact. For example, in debating the efficacy of using several hundred million dollars of public funds for subsidizing a new stadium for the NFL’s Tampa Bay Buccaneers to replace a twenty-year old facility, an opponent of the public subventions observed that the team’s revenues ranked below more than 70 other enterprises in that city (Baade, 2001). In using an academic context to provide perspective, Noll (1997, p.57) observed that the top ten universities in the United States received \$2.8 billion in federal grant money in 1994 which was more than the combined revenue of the NFL and National Hockey League (NHL) or the combined revenue of MLB and the NBA for that year.

²² Dick Conway & Associates, “Seattle Mariners Baseball Club Economic Impact,” *Mimeograph*, Report Prepared for King County, August 1994.

difference between gross and net total economic impact are more pronounced, since multipliers will compound differences in gross and net measures of direct economic impacts. Total net economic impact as a percentage of total gross economic impact as calculated by Conway & Associates was 23.9% (\$42.9 million/\$179.7 million), 38.5% (\$53.3 million/\$138.8 million), and 40.1% (\$47.7 million/\$119.1 million) for the State, County, and City, respectively.

One other observation with regard to the difference between gross and net spending estimates warrants mention at this point. The Conway & Associates report suggests that in relative terms, gross economic impact is likely to be most pronounced in the neighborhood in which the stadium is located. It is arguable that in measuring the impact professional sports has on economies, a circle could be drawn from the point where the event actually occurs, and that the magnitude of the impact, in relative terms at least, varies inversely with the size of the circle. Stated somewhat differently, the economic effect achieves greatest relative strength at "ground-zero," the exact location of the event. As the circumference of the circle expands, the net impact diminishes as the dollars spent on the sporting event are more completely offset by reduced spending elsewhere.

Following this budgetary logic as it relates to leisure spending, the global impact of even the largest sporting events such as the Summer Olympics approximates zero if an increase in global net spending is not induced by the event itself. This is true since even those who come from great distances spend time and money at the Olympics in lieu of time and money they would have spent elsewhere. The impact locally, therefore, depends on the extent to which spending and respending occurs by those residing outside the environs where the event is held, or by local citizens who spend money on the local sports event as opposed to spending their discretionary income outside their neighborhood. Theoretically, a local government might decide to subsidize sports if the audience is distinctly non-local. As will be discussed later, however, within a neighborhood there are outflows associated with team and stadium activities, and so even at the local level, professional sports might fail to provide much of an economic boost

Eliminating the spending by residents of the community would at first blush appear to eliminate a potentially significant source of bias in estimating direct expenditures. Surveys on expenditures by those attending an event at the Staples Center, complete with a question on place of residence, would appear to be a straightforward way of estimating direct expenditures in a manner that is statistically acceptable. However, while surveys may well provide insight on spending behavior for those patronizing the event, such a technique offers no data on changes in spending by residents not attending the event. It is conceivable that some residents may shift their spending out of the environs of the Staples Center on game day simply because they want to avoid the chaos and congestion that accompanies the event. In general, a fundamental shortcoming of economic impact studies is not with information on spending for those who are included in a direct expenditure survey, but rather with the lack of information on the spending behavior for those who are not.

In conjunction with the information represented in Table 3, it was noted that several of the economic impact estimates reflected spending by out-of-area residents only. As indicated previously, this technique recognizes the potential for overestimating the economic impact by failing to account for various substitution effects. Skilled researchers will often eliminate the spending undertaken by local residents at an event because it is likely to be financed by reductions in spending by local residents on other entertainment options available within the community.

Second, if errors are made in assessing direct spending, those errors are compounded in calculating induced indirect spending through standard “multiplier” analysis. For example, tips given to a waitress at the “City View Grill” in the Staples Center could generate additional spending in the community when the waitress spends her tips on some other business in the City of Los Angeles. The additional spending in the Staples Center arguably multiplies as it is spent again and again within the economy of the City of Los Angeles.

This “multiplier” process, however, has the potential to bias upward the economic impact if it is not recognized that the tip for the City View Grill waitress simply substituted dollar for dollar the tip another waiter would have received in Los Angeles had the City View Grill not existed. Furthermore, suppose the waitress who received the City View Grill tip resides outside the City of Los Angeles? If she spends her tip money in the City of Inglewood, a leakage from the flow of spending in Los Angeles, an unsophisticated multiplier analysis exaggerates the impact activities at the Staples Center have on the economy of the City of Los Angeles. Indeed, if the leakage of spending at the Staples Center is complete (the marginal propensity to save plus the marginal propensity to import equals one), meaning all money spent there leaks in some way from the City of Los Angeles economy, a multiplier process does not exist at all. The point, therefore, is that precise multiplier analysis includes all “leakages” from the circular flow of payments and uses multipliers that are specific to the entertainment industry and adequately describe the City of Los Angeles economy.

Leakages may be significant depending on the state of the economy. For example, if the Los Angeles economy is at or very near full employment, it may be that the labor essential to accommodating events at the Staples Center will require workers who reside in other communities where there is a labor surplus or unemployment.²³ To the extent that this is true, then the indirect spending that constitutes the multiplier effect must be adjusted to reflect this leakage of income and subsequent spending that is thought to exist.

Labor is not the only factor of production that may repatriate income. If hotels experience higher than normal occupancy rates during events hosted by the Staples Center, then the question must be raised about the fraction of increased earnings that

²³ The stadium construction accident at Miller Park in Milwaukee on July 14, 1999 illustrates this point. A crane collapsed killing three ironworkers and seriously injuring the crane operator. Of these four people, only two of them resided in the Milwaukee MSA. The third steelworker was from Kimberly, Wisconsin, and the crane operator was from Houston, Texas.

remain in the City of Los Angeles if the hotel is a nationally owned chain.²⁴ In short, to properly assess the impact of the Staples Center requires a consideration of not only dollar inflows broadly induced by the facility but also the dollar outflows that occur as a consequence of the operation of the arena. Input-output models used in the most sophisticated prospective analyses require accurate information on net spending changes as well as updated representations of the fixed relationships between inputs and outputs to generate accurate estimates of the economic impact induced by some economic development. Such models do not automatically account for the subtleties of spending substitutes, full employment and capital ownership noted here.²⁵ As a consequence, it is not clear if economic impact estimates based on them are biased up or down.

Community groups in Los Angeles who have voiced concerns with the developers of the Los Angeles Sports and Entertainment District have recognized the fact that a local community may not necessarily share the benefits created by a facility such as the Staples Center. Local organizations such as the “Figueroa Corridor Coalition for Economic Justice” and “Strategic Actions for a Just Economy,” to name a few, have fought to ensure that they will benefit from the further development of the Southwest corner of downtown Los Angeles.²⁶ If the experience has been that residents of the community automatically benefit, there would be no need for such activism.

Empirical evidence indicates that the rate of growth induced through a sports development strategy lags the rate of growth associated with generating development in other ways. After examining economic growth for numerous cities that built or renovated professional sports facilities, Baade and Dye (1990) concluded:

The impact of stadium construction or renovation on the metropolitan area’s share of regional income is negative and significant. This result is consistent with the kind of economic activity that stadiums and professional sports spawn. Professional sports and stadiums divert economic development toward labor-intensive, relatively unskilled labor (low-wage) activities. To the extent that this developmental path diverges from less labor-intensive, more highly skilled labor (high-wage) activities

²⁴ It is not altogether clear whether occupancy rates increase during sports events. Los Angeles is a very popular tourist and convention destination. It may be that overnight stays in conjunction with sporting events displace some hotel activity that would occur as a consequence of other activities that would take place in their absence.

²⁵ The potential shortcomings for calculating the multiplier values described above applies to the uncustomized versions of the most recent United States Department of Commerce’s Regional Input-Output Systems (RIMS II) which is a popular tool used by forecasters. Even when the models used to forecast are customized, the possibility remains that essential pieces of information are ignored and the forecast may miss the mark as a consequence. The models constructed by Regional Economic Models, Inc. (REMI) to their credit specify an endogenous labor sector which gives more accurate readings on the employment and wage implications of an “economic event,” but the accuracy of the REMI projections depends on the quality of the model that predicts the future of the regional economy in the absence of an event (control forecast) and the economy’s future (alternative forecast). The event’s economic impact is estimated as the difference between the control and the alternative forecast.

²⁶ See, Damian Williams, “If They Build It, the Jobs Must Come,” *Economic Development Now*, Volume 1, Issue 3, June 30, 2001.

characteristic of other economies within the region, it would be expected that the sports-minded area would experience a falling share of regional income.²⁷

In general factors on the supply side as well as the demand side of the economy potentially mute the impact of professional sport. In the broadest sense, it is essential to understand that the money flowing into the arena may just as quickly leave. Economic impact critically depends not on the money spent in total, but rather on the total amount of money spent that remains in the City of Los Angeles' economy. When the City taxes income generated by events taking place in the Staples Center, economic activity in Los Angeles increases potentially by a multiple of the taxes received by the City. When a resident of the City of Los Angeles receives wages as a consequence of work at the City View Grill at the Staples Center that qualifies as economic impact for the City. On the other hand, when a player on one of the five professional sports teams utilizing the Staples Center repatriates her/his earnings to San Francisco, that represents a leakage from the flow of funds into the City associated with activities occurring at the arena. In this latter situation the Staples Center functions more as a conduit through which funds pass to non-resident players and, in some cases, owners, rather than as an economic engine for the City of Los Angeles.

The reality is that the market for professional athletes exhibits a national or even international character. Many players and owners do not reside where they play, and the money spent on sports events follows the non-resident producers. It can be argued that players and owners from other teams reside in Los Angeles, but if that occurs, it cannot be reasonably or convincingly argued that the Staples Center determines a professional athlete's decision about residence.

Items sold in the arena may similarly originate outside the City of Los Angeles. Resources located outside the City may produce the sports paraphernalia, hot dogs, and beer sold at the Staples Center. The "value added" locally, that is within the borders of the City of Los Angeles, represents a fraction of the total value of the goods sold, but only local value added contributes to economic impact. The economy for the City of Los Angeles is large and diverse, and local value added through the activities hosted by the Staples Center likely exceeds that found in many other cities. The fact remains, however, that precise measures of economic impact require painstaking analysis or other appropriate methods for identifying the value that has been added to the local economy by the activities taking place as a consequence of the arena.

As noted previously, empirical evidence indicates that rates of economic growth for cities adopting a sports development strategy lag those in cities relying on different growth strategies. Part of the reason for that should now be clear. Sports with resource markets that are largely national in character may displace locally owned and operated industries. Value added locally may well be replaced by value added nationally or internationally. To maximize the benefits of any economic development project, local

²⁷ See Robert A. Baade and Richard F. Dye, "The Impact of Stadiums and Professional Sports on Metropolitan Area Development," *Growth and Change*, Spring 1990, p. 12.

governments must endeavor to limit the leakage of economic activity created by the project. The importance of this fact should not and cannot be ignored in generating credible economic impact estimates.²⁸

An adequate description of the value added process for immense urban economies has eluded the grasp of scholars to date. It is not a cynical statement to observe that an estimate of the value added by a sports facility has not been emphasized in prospective analyses used to evaluate the efficacy of subsidies for them. In the most general sense that explains why *ex ante* economic impact estimates financed or conducted by those who stand to benefit from public subsidies for them have been greeted with such skepticism by scholars. If prospective estimates are to be used in assessing the merits of subsidies for sports facilities, then they should, at the very least, be filtered through retrospective analyses for cities of a similar economic character to lend some context or supportive evidence.

The theoretical issues identified and discussed in this section of the report offer guidance for the construction of a model to retrospectively analyze the impact the Staples Center has had on the City of Los Angeles. The actual model and the other techniques that were employed to assess the economic impact that Staples Center has had on the City of Los Angeles can be found in the July 21, 2003 report that this author wrote for the Office of the Controller, City of Los Angeles. In the next section of this report, the conclusions, lessons learned, and policy suggestions that followed the Los Angeles study are articulated.

²⁸ For a description of the mathematics involved in calculating what a team, event, or stadium/arena contributes to a local economy see Roger G. Noll and Andrew Zimbalist (editors), *Sports, Jobs & Taxes*, Washington, D.C.: The Brookings Institution, 1997, p. 75, and Robert A. Baade and Victor Matheson, "High Octane? Grading the Economic Impact of the Daytona 500." *Marquette Sports Law Journal*, Volume 10, Number 2, Spring 2000, pp. 413-415.

Conclusions

- Over the past decade and one-half, cities have been subsidizing the construction of sports facilities in unprecedented numbers. The subsidy the City of Los Angeles provided for the Staples Center project follows this national trend.
- The City of Los Angeles provided \$71.1 million for the construction of the Staples Center (\$38.5 million in City “Securities Proceeds,” \$20 million in “City Proceeds,” and \$12.6 million from the Los Angeles Community Redevelopment Agency, which includes a \$600,000 interest charge the Agency paid the Developer). In return the City received several benefits over the life of the agreement with the Developer to include: (1) Developer guarantee for payment of the debt service, approximately \$3.8 million per year, on the \$38.5 million loan; (2) Developer funding for the foregone interest earnings on City Proceeds used for the project, “City Proceeds Obligation,” equal to \$730,000 to \$900,000 per year; (3) debt service for City-owned property, an amount equal to \$149,091.74 per year; (4) annual rent for the arena site, a \$302,737.87 benefit; and (5) property tax from the Staples Center equal to \$3,399,033.74 per year. These guarantees and other direct benefits significantly limit the financial burden imposed on taxpayers. From the perspective of taxpayers, the Staples Center, therefore, ranks among the most financially friendly professional sports facilities recently built in the United States.
- Neither the five-county Los Angeles Consolidated Metropolitan Statistical Area (CMSA) nor the County of Los Angeles experienced an increase in economic activity from the operation of the Staples Center that was statistically significant, that is measurably different from zero. This statistical evidence suggested that residents of Los Angeles County and the Los Angeles CMSA who attended events at the Staples Center financed the visit through reduced spending on other items.
- Statistical analysis indicated that the Staples Center provided some stimulus for the economy of the City of Los Angeles, and some indirect economic benefit to the City as a consequence. The measured economic impact, however, was relatively small. Specifically, the activities hosted by the Staples Center have increased taxable sales for the City of Los Angeles by an average of \$35.56 million per year.
- Given average spending by fans on items included in the “taxable sales” category in arenas across the country, the estimated increase in taxable sales that occurs within the Staples Center likely exceeds the \$35.56 million estimated economic impact for the City of Los Angeles. Any increase in spending in the arena and the South Park District attributable to the economic development project in excess of \$35.56 million substitutes for spending that would otherwise occur in City of Los

Angeles in the absence of the operation of the Staples Center. This is so because the estimated change in spending in total induced by the economic development project is \$35.56 million per year.

- At current tax rates, the City generated an estimated increase of \$.711 million annually in sales tax receipts from the operation of the Staples Center. Multiplying the increase in taxable sales by 2.0 percent, which arguably represents the tax rate the City of Los Angeles in effect imposes on taxable sales, yielded the figure of \$.711 million.
- Conventional wisdom holds that building a facility that hosts professional sports, boosts local economic activity. The converse is also thought to be true, a local economy will contract as a consequence of the loss of a professional sports team. The relocation of the NBA Lakers and NHL Kings from the Great Western Forum in the City of Inglewood to the Staples Center in the City of Los Angeles provides a test for these theses. The evidence from these two cities fails to support what is widely believed. Economic activity in Inglewood actually rose following the departure of the Lakers and Kings. The experience of Inglewood, coupled with the small positive economic response in Los Angeles to the relocation of the teams, fails to support the thesis that professional sports contribute significantly to economic activity in the host community. Following the loss of the Lakers and Kings, Inglewood adopted development strategies that more intensively utilized local resources. Accelerated rates of growth in Inglewood relative to other communities in the County of Los Angeles suggests the relative potency of growth strategies centered on something other than professional sports.
- An economic assessment of a development project requires estimates of benefits and costs over the project's life relative to the initial investment. Given that the Developer has guaranteed to fund the City's debt service, the present value of other direct and indirect incremental benefits less incremental costs represents information sufficient for evaluating the economic efficacy of the development project. The net present value of benefits, benefits less costs, has been estimated at \$49.23 million over the life of the agreement. The initial cost to the taxpayers lies between \$12.6 and \$71.1 million. The exact amount depends on the answer to two questions: (1) Could the revenue earmarked for servicing the City's debt have been captured without the City's investment in the Staples Center? (2) Would the Developer have gone forward with the project without the City's financial support? An affirmative answer to either question offers the possibility that the revenues flowing from the Staples Center could have been garnered without the City's investment. In such case, the expenses associated with the arena investment could not be construed as taxpayer neutral. The fact that four of the five professional sports teams that use the venue are new to the City of Los Angeles suggests that the majority of revenues from the ticket tax and parking would not have been available to the City in the absence of the Staples Center. In the final analysis, if it is determined that the City's taxpayer-neutral investment in the Staples Center is less than \$49.23 million, the investment yielded a positive

economic return. That appears to be the most likely case given the evidence. This would represent a major achievement given the recent experience of municipal investments in arenas and stadiums throughout the United States.

- If the Staples Center does not generate a stream of quantifiable public benefits in excess of quantifiable public costs, the subsidy for the arena can be rationalized if it contributes significantly to the “quality of life” in the City of Los Angeles or promotes an ongoing more comprehensive developmental strategy, the benefits of which will be recognized upon the project’s completion.

Lessons Learned

- Economic growth occurs as a result of increases in spending on goods and services. Spending relating to professional sports events substitutes for expenditures on other items. The economic impact of any economic development project, therefore, is determined not by the increase in total or gross spending, but by the net change in expenditures induced by it. The City of Los Angeles did experience an increase in net spending as a consequence of the operation of the Staples Center.
- The economic viability of professional sports facilities critically depends on high utilization rates. The Staples Center earns high marks for utilization rates in comparison to facilities in similar cities, especially as it relates to highly attended events.
- The Staples Center does not utilize local resources extensively enough to realize significant gains in economic activity in the City of Los Angeles from its operation. In large part this is attributable to the fact that professional athletes, the resource that accounts for much of the additional value created in arenas, generally do not reside and/or invest extensively enough in the communities in which they play. Since Los Angeles and other host cities have limited influence in determining where athletes live, these communities must devise other means for retaining the value created by athletes. Given the life amenities that exist in Southern California and Los Angeles, the City is able to retain relatively more of the economic value added through hosting professional sports than other cities.
- There exists an imbalance of power in negotiations between professional sports teams and their host cities in matters relating to sharing financial obligations in building new playing facilities. The excess demand for teams, which accounts for this asymmetry, is promoted by league policies and actions. The lack of a unified policy by cities for countering league expansion and relocation decisions makes them financially vulnerable. Cities acting alone should seek, at the very least, objective appraisals of the benefits and costs of economic development projects to include those relating to professional sports. Furthermore, in the absence of a unified urban policy, cities such as Los Angeles whose demographics are

particularly attractive to the professional sports industry should capitalize on that appeal. The terms of any public-private financial partnership created to develop sports infrastructure in the City of Los Angeles should be particularly favorable to the public sector. The public-private partnership in the development of and the allocation of revenues from the operation of the Staples Center to a significant degree reflects the relative strength of the bargaining position the City of Los Angeles holds among cities in the U.S.

Policy Suggestions

- Adopt policies that ensure the maximum utilization of local resources in producing professional sports entertainment. For example, legislation could be explored that requires a certain percentage of the arena workforce reside locally. This could include the athletes employed by the professional sports teams. Some cities have drafted similar legislation for municipal employees. Legal prohibitions exist that prevent Los Angeles from adopting residency requirements currently.
- Adopt or expand local value added taxation as a means of ensuring a greater local receipt of the value of economic activity at the place and time it originates. Practically, this also could be accomplished through increased taxes on event tickets and income earned on site by non-local resources, such as professional athletes. The City of Los Angeles exercised diligence in this regard through securing a guarantee from the developer that the operation of the Staples Center covers all debt service expenses incurred by the City.
- Strategically manage the construction of sports facilities within the Los Angeles CMSA to insure the optimal allocation of resources for sports venues. As it currently stands, individual cities and counties within the Los Angeles CMSA duplicate venues which results in competition among them to attract highly attended events. Such competition jeopardizes the financial health of each venue, and the City of Los Angeles would benefit from the coordination of sports infrastructure projects within the City, County of Los Angeles, and contiguous counties.
- Strategic management of stadium resources requires among other things data collection and performance monitoring. Sports teams exhibit variability in interest and attendance with team performance, and those charged with monitoring venue performance should be mindful of that in developing a long-term plan for the construction and operation of sports facilities. This would be particularly relevant for the City of Los Angeles in light of heightened security concerns following the terrorist attacks on September 11, 2001.

- Secure an agreement from developers to assume the incremental costs incurred in operating facilities such as the Staples Center to include security, transportation, and sanitation. Despite evidence that indicates that the additional discretionary income accruing to the City of Los Angeles in excess of debt service expenses imparted by the Staples Center is less than \$1 million annually, the City should implement procedures to carefully track the costs associated with operating the arena and other such facilities. Such information is vital to assessing the economic viability and attractiveness of such projects for the City of Los Angeles in the future.



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