Policy Brief ■ March 2022

Determining an Appropriate Buffalo Stadium Subsidy:

Don't Just Wing It

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The National Football League (NFL) franchise Buffalo Bills' lease at Highmark Stadium, the Bills' home since 1972, ends in 2023. Without a new stadium, the Bills owners have said they will move the team from Buffalo. To support construction, the team's owners seek public funding, which according to some reports could be up to or more than $1 billion.[1]

All economic development spending, whether direct, through tax incentives, or through reduced utility or other costs, should be justified by a rigorous analysis that shows that the public benefits that would accrue will exceed the public's costs. Proponents of stadium subsidies and sports franchises generally have claimed that in addition to a team providing a locale with cultural value and identity, sports facilities create construction jobs, generate new spending, expand local employment, attract tourists, and lead to overall economic growth on their own and through a "multiplier effect."[2] As part of shaping any policy to publicly subsidize a capital investment, these impacts and their level should be quantified.

To help New York's policymakers and the public determine if and how much the State should subsidize a new stadium, this brief provides background on New York's economic development spending and best practices, reviews the literature on sports stadium subsidies, presents the available data on potential costs and benefits of a new stadium, and provides a framework on how to determine the level of subsidy that is justified by its benefits.

In sum, New York does not have a good track record of demonstrating that its economic development programs yield benefits exceeding their costs. Furthermore, past research most often has found that professional sports franchises and investments in sports facilities do not have significant, consistent, positive economic impacts. While data on the costs of building a new stadium for the Bills and the total economic and fiscal benefits of the franchise being in Buffalo exist, available data do not identify the incremental impacts of a new stadium or of the Bills leaving Buffalo. If a State subsidy is proposed, these impacts should be identified and used in a rigorous, transparent analysis that shows the incremental benefits will exceed the subsidy's cost.

NEW YORK'S ECONOMIC DEVELOPMENT TRACK RECORD

New York historically has been a leader in state economic development spending.[3] Unfortunately, evidence that these investments have returned results is lacking. New York has not followed best practices CBC has identified, such as: a) establishing a unified economic development budget, b) standardizing measures of impact that facilitate decision making about proposals, c) publishing a comprehensive database of deals, d) improving program design that includes requiring private investment before public and performance metrics for tracking progress and determining possible penalties, and e) making administrative reforms to bolster transparency and accountability.

CBC has documented that the State continued to increase spending for economic development projects while failing to provide evidence that such spending is effective. The State has neither been transparent in providing data justifying and reporting activities, nor consistently rigorous in its decisionmaking and evaluation.

EVIDENCE OF IMPACTS FROM STADIUM INVESTMENTS

Public funding for stadium construction is common and has a long history. The Los Angeles Coliseum, completed in 1923, was the first stadium in the nation completely financed by taxpayer money. The Coliseum was constructed as part of Los Angeles' failed attempt to obtain the 1924 Olympics and cost taxpayers just under $1 million.[4] Public financing for stadiums remained rare until the 1950s, when stadium construction overall increased dramatically.[5] Between 1953 and 1970, 30 stadiums were built across the country, 27 of which received taxpayer support. This support totaled over $450 million, nearly 70 percent of the total cost of all 30 stadiums.[6]

A number of studies have sought to identify the economic impacts of sports teams and stadium investments. To determine whether or how much the public sector should subsidize sports

franchises and facilities, the impacts of the team, stadium, and investment should be quantified. Specifically, this should include the total economic impact of the team and its infrastructure, how much of that economic impact is new and would not have occurred without the team or stadium, the impact resulting from investments in stadium infrastructure and sports franchise subsidies, and the appropriate amount, if any, of a public subsidy for a sports franchise or facility.

Much of the economic literature examines data on local or regional output, income, jobs, and more recently, tax revenues and effects on rents and property values. Typically, economists employ time series or panel data from metropolitan areas and states that were home to professional sports franchises and facilities. Researchers then develop econometric models that estimate the impact of stadiums and franchises on economic indicators like real income per capita or total employment.[7]

Prior economic research has found little to no evidence that professional sports franchises and facilities have measurable economic impacts.[8] This research is very consistent in finding that sports franchises and facilities do not necessarily have a positive impact on levels of employment, income, and tax revenues.[9] One study concluded, "We find near unanimity in the conclusion that stadiums, arenas and sports franchises have no consistent, positive impact on jobs, income, and tax revenues."[10]

Baade and Sanderson examined the employment resulting from sports stadiums and other facilities.[11] Using data on employment from the Amusements and Recreation, and Commercial Sports Industry classifications of the Standard Industrial Classification for ten cities and their states from 1958 through 1993, the authors found little evidence that newly constructed stadiums or professional sports teams affect employment. They concluded "(i)n general, the results...do not support a positive correlation between professional sports and job creation."[12]

Lertwachara and Cochran evaluated the use of public incentives to induce major professional sports teams to move to a certain locality.[13] The authors examined the difference between the city or regional economy before and after the expansion or relocation of a team. Their results indicated that major league sports franchises from baseball, football, basketball, and hockey had an adverse impact on local per capita income for U.S. markets in both the short and long run.

Taking a case study approach, Miller examined the relationship between professional sports facility construction projects and construction industry employment levels in St. Louis, MO.[14] The author's empirical models controlled for factors that affect construction industry employment such as lagged building permits and non-residential investment expenditures and accounted for the effects of wages on employment in construction. Miller's study indicated that facility construction had no statistically significant effect on employment in the construction industry. Applying case study conclusions or econometric results based on historical data should be done with care. Miller's findings may apply to Buffalo since both are small markets experiencing below full potential economic activity. Conversely, they may not apply if Buffalo's situation differs significantly due to its stadium construction representing a much higher proportional investment in the local construction activities.

Some studies also attempt to quantify "intangible" benefits. These studies seek to understand whether sports franchises provide communities with non-monetary benefits as a result of the cultural enrichment and local community identity that a sports team may bring.[15] There is little consensus emerging from these studies, although they do suggest that the focus on economic impacts by stadium proponents may not fully capture why sports franchises and facilities should receive subsidies.

COSTS AND BENEFITS OF A NEW BILLS STADIUM

The Buffalo Bills currently play at Highmark Stadium in Orchard Park, a suburb of Buffalo. The stadium, owned by Erie County, was built in 1972.[16] Although $130 million was spent to renovate the facility in 2014, the stadium is nearing the end of its useful life. The State paid $54 million of that renovation, with the remainder split between the Bills ($35 million) and Erie County ($41 million).[17] The Bills' current lease at Highmark Stadium expires in 2023 and the team's owners, Kim and Terry Pegula of Pegula Sports and Entertainment (PSE), are seeking public funding to help finance a new stadium. The Pegulas have said they will not renew their current lease at Highmark Stadium, so without a new stadium, the Buffalo Bills might relocate to another city.[18] The NFL also has voiced support for a new stadium.[19] Governor Kathy Hochul said that she is confident the parties can reach an agreement before the State budget is due in April 2022.[20]

The State and team commissioned studies to examine available renovation and construction options. Empire State Development hired AECOM, which calculated that renovating Highmark Stadium would cost approximately $862 million. It further determined that a new stadium would cost between $1.4 billion and $1.7 billion, depending on whether the stadium is built with a roof (and a midpoint of that range if the stadium is built roof-ready). The cost climbs by $350 million for a stadium in downtown Buffalo due to increased costs of site acquisition.[21] Because the cost of renovation is more than 60 percent of the cost for new construction, AECOM recommends new construction due to the expected 15- to 20-year useful life of a renovated stadium versus the 30+ year useful life of a new stadium.

The owners, PSE, commissioned CAA ICON, a sports marketing firm, to identify the economic and fiscal impact of the Buffalo Bills on Buffalo, Erie County, and New York State. The study first captured expenditures related to the sports franchise's operation including salaries paid to players and staff, spending by visitors to the games either in the stadium itself or at businesses surrounding it, and additional spending by local residents receiving income from the visitors and staff spending. The analysis then used an economic multiplier approach to determine the full economic and fiscal impacts.[22] The analysis assumed that spending outside of the stadium (such as going out to dinner) by in-market residents would have occurred even without the team, and therefore not counted towards the economic impact, a reasonably conservative approach.[23] However, the analysis further assumed that all spending directly attributable to the Bills franchise and stadium (such as ticket and souvenir sales) would not have occurred without the team, and would thus disappear from the local

economy if the team moved to another locality. This assumption that the entire economic impact of all direct spending would be lost contrasts with the economic literature which attributes the marginal economic activity that the team generates over and above what would have been spent in absence of the team.[24]

CAA ICON concluded that the presence of the Bills generates an estimated $27 million in fiscal impacts (tax revenue) for the City ($328,000), County ($4.0 million) and State ($22.3 million). Personal income tax – primarily related to Bills team payroll – is the largest single fiscal revenue source, generating approximately $19.5 million per year for the State of New York.[25] The report finds that the economic impact, inclusive of direct, indirect, and induced impact, totals 2,317 jobs, $179.7 million in labor income, and $385.8 million in output annually.[26]

AECOM further analyzed how a new stadium would affect these estimates. It found that visitor levels are not expected to change with a new (or renovated) stadium, and "a new NFL stadium is unlikely to drive new private ancillary development in and of itself."[27] Although a new NFL stadium will likely provide new revenue streams for the Buffalo Bills through premium seating and sponsorships, those revenues will "not necessarily flow through the greater economy in terms of economic or fiscal impact as they represent team profit as well as local expenditures."[28]

FRAMEWORK TO CONSIDER A PUBLIC SUBSIDY FOR THE BILLS STADIUM

Ideally, a public stadium construction subsidy should be based on the net economic impact of the sports facility above and beyond what would happen in its absence. This marginal impact, annually for how long it is expected to last, would be the best measure to use to determine the return of investment for the government.[29] Unfortunately, the available data do not provide this.

AECOM concluded that the new stadium by itself would not increase economic activity, thus providing no basis for any State subsidy.[30] However, in this case, the change may not just be the stadium itself, but whether the Bills decide to leave Buffalo. CAA ICON assumed all direct spending would not happen if the team moved, which does not seem plausible based on the literature. In all likelihood, if the team moved some share of the estimated $385.8 million economic impact (and fiscal impact) to the State may be lost, but data on the marginal loss are not available.[31] Based on the literature, the loss is likely to be relatively small, with most disposable consumer income directed towards other recreational and entertainment purchases instead.[32]

Following CBC's recommended practices, the State should transparently provide an analysis that identifies the benefits and full costs for any proposed subsidy. The analysis should credibly identify the incremental economic and fiscal impacts attributable to a proposed subsidy and use them in conjunction with the length of time the subsidy would provide benefit (such as a lease term) to calculate a proposed subsidy's value. Ideally, it also should discount the benefits by a factor that represents the benefit that would be accrued should the State use those funds for another purpose. Also following best practices, any subsidy should be after private investment and include clawback provisions.

CONCLUSION

Buffalo residents deserve investments that yield positive, measurable results and the State should ensure the cost-effectiveness of its programs. Talks between the State and the team's ownership presumably continue, just as the State enters the heat of budget negotiations.

Public stadium subsidies have a long history, and many stadiums have been built with a mix of public and private funding. Interestingly, two NFL stadiums, the SoFi stadium in Inglewood, CA and MetLife Stadium in East Rutherford, NJ were funded entirely privately, but some make the case that critical and unique characteristics of Buffalo's market and economy support a substantial State subsidy.[33] These should be included in a rigorous, transparent analysis that should show how a possible proposed subsidy would deliver benefits exceeding its costs, and thus help bolster the full potential of the Buffalo and the State's economy. The process should also provide sufficient time for the public and lawmakers to evaluate the terms and justification for any deal.

ENDNOTES

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[25] Patrick Rishe, CAA Icon, *Pegula Sports and Entertainment Economic and Fiscal Impact* Analysis (January 15, 2021), p.104, https://esd.ny.gov/sites/default/files/PSE-Economic-and-Fiscal-Impact-Analysis.pdf

[26] "Direct Impact" refers to the "first round of visitor spending," inclusive of how much restauranteurs, hoteliers, and others who receive an initial round of money spent on goods in the local economy and paid to employees who live in the jurisdiction; "indirect impact" is defined as "the ripple effect of additional rounds of recirculating the initial dollars spent," and "induced impact" applies to "further ripple effects caused by employees of impacted businesses spending some of their salaries and wages in other businesses." See John L. Crompton, "Economic Impact Analysis of Sports Facilities and Events: Eleven Sources of Misapplication," *Journal of Sport Management*, vol. 9 (1995), p. 20.
According to CAA ICON, direct employment includes direct jobs supported by off-site patron spending; direct employment will be larger than direct jobs, see: Patrick Rishe, CAA Icon, *Pegula Sports and Entertainment Economic and Fiscal Impact* Analysis (January 15, 2021), p.16, https://esd.ny.gov/sites/default/

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