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Economists: Taxpayers Should Cry Foul at Funding Basketball Arena

By: Adam Tobias
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Wesley Edens and Marc Lasry, the new owners of the Milwaukee Bucks, have a combined net worth of \$2.9 billion.

Yet, the two New York investment firm executives have so far committed just \$100 million of it to build an arena for their basketball team. Former U.S. Sen. Herb Kohl, who sold the Bucks after almost 30 years to Edens and Lasry for \$550 million, has pledged another \$100 million.

The balance of the estimated \$400-to-\$500 million cost likely would be picked up by taxpayers.

That arrangement is going to be a tough to sell. Nearly 65 percent of all registered voters in Milwaukee's five-county metro area are opposed to using state funds to build a new venue for the Bucks, according to a recent poll released by the UWM Center for Urban Initiatives and Research.

Statewide, that figure is 73 percent.

'No Matter What, No Measurable Impact'

Economics professors Dennis Coates and Brad Humphreys say a generation of research and reporting has shown the return to communities on the investments made to house professional sports teams, including the Bucks and the Milwaukee Brewers baseball team, is minimal at best.

"No matter what cities or geographical areas are examined, no matter what estimators are used, no matter what model specifications are used, and no matter what variables are used, articles published in peer-reviewed economics journals contain almost no evidence that professional sports franchises and facilities have a measurable economic impact on the economy," said Coates, of the University of Maryland, and Humphreys, of the University of Alberta.

“Stadium deals,” Nicole Kaeding, a budget analyst for the Cato Institute, told *Wisconsin Reporter*, “are just another example in a long line of businesses — in this case a wealthy sports franchise — going to the government with their hand out.”

Politicians are more than happy to accommodate.

“Sports franchises continue to ask for subsidies because few localities say no,” Kaeding said. “It’s a win-win for both parties. Policymakers are rewarded for building new, fancy, state-of-the-art facilities, and sport franchises get their stadiums at a much lower cost.”

Losing Money and Fans

The Milwaukee Bucks have been a losing proposition, on and off the court, for years. The Bucks also had the worst record and lowest attendance in the NBA this past season.

The BMO Harris Bradley Center, the team’s current home, built with no public funding for \$90 million in 1988, lost \$3.2 million in 2012, \$300,000 in 2011 and \$2 million in 2010.

The center did report \$1.2 million in profits in 2013, but its \$8.1 million in increased operating revenue came from one-time payments, including state grant money and donations.

Paying for Baseball Stadium

Milwaukee metro taxpayers are particularly wary because they continue to pay a sales tax for Miller Park, the Milwaukee Brewers’ stadium. The sales tax originally was expected to sunset in 2010, but lethargic tax collections and weak investment returns have extended the expiration date possibly to 2020.

Miller Park, which opened in 2001 after construction costs ballooned to \$413.9 million, was supposed to receive \$310 million in public financing through a 0.1 percent sales tax in five surrounding counties. Recent projections put that sales tax figure at \$530 million because of amenities added to the stadium, according to Bruce Murphy, editor of *Urban Milwaukee*.

Proponents insist Miller Park has been a tremendous boon to the local economy, packing hotels, restaurants and retail outlets.

Major League Baseball reports Miller Park generates an estimated annual economic impact of \$355.7 million. Nearly 60 percent of Miller Park attendees travel from outside the metropolitan area and spend \$327.3 million a year, the MLB report says.

Milwaukee Area Technical College economic instructor Michael Rosen thinks those numbers are largely exaggerated.

“This is almost double the most successful stadium, Camden Yards in Baltimore, where less than a third of the crowd at every game came from outside the area and the net gain to Baltimore’s economy was roughly \$3 million a year,” Rosen said in an opinion piece published in the

Milwaukee Journal Sentinel. “Not much of a return on a \$200 million stadium investment and not close to \$327 million.”

It’s also unknown how many of those Milwaukee visitors actually stay in hotels or spend money at other local businesses.

“Fans from Green Bay or Chicago don’t spend nearly as much as projected because tailgating, the rationale for the stadium’s location, ensures that visitors spend their food and beverage dollars in the communities they come from,” Rosen said.

Ballpark Opens, Employment Falls

In the years after Miller Park opened, hotel employment in Milwaukee County declined by 2.9 percent, according to Mark Levine, founding director of the University of Wisconsin-Milwaukee’s Center for Economic Development. Overall private sector employment in the county dropped by 5.4 percent.

Many modern sports economists argue sports arenas aren’t good financial investments because consumers don’t increase their overall entertainment spending when a new sports venue is built, according to a report by the Wisconsin Legislative Reference Bureau.

Rather, they substitute what they normally would spend on other forms of entertainment for game tickets, refreshments and other items at games, the report says.

“What supporters of these types of subsidies say is only half the story,” Stephen Slivinski, a senior economist at the Goldwater Institute, told *Wisconsin Reporter*. “They’re only looking at one very specific transaction and ignoring the other transactions that don’t occur as a result of that. So, in the grand scheme of things — empirically it’s shown — you can never actually make the case that it increases overall economic activity.”

Good for Image, Bad for Taxpayers

Undeterred, politicians continue to sell sports palaces as economic development engines, according to Christopher Koopman, manager of the Project for the Study of American Capitalism at George Mason University’s Mercatus Center.

Government officials will hand out these privileges to help their public image — even if it means giving taxpayers a raw deal, Koopman said.

“People love their hometown teams, and most politicians are eager to associate themselves with anything that appears popular,” Koopman said.

Milwaukee Mayor Tom Barrett, a Democrat, has indicated he would support a sales tax for the new arena, but only if it’s assessed in surrounding counties as well.

“I have been consistent on calling for a regional approach and a commitment from the governor and the state,” Barrett told the *Milwaukee Business Journal* in April.

If a sales tax is imposed, it would need to be approved by the Wisconsin Legislature. But Laurel Patrick, press secretary for Republican Gov. Scott Walker, said in an email there’s no offer on the table at this point.

“Once we hear details of a plan from elected officials and civic leaders in Milwaukee, we will review and evaluate any role that might involve the state government,” she added. “Any further comment right now would be premature.”

Threat of Relocation

The NBA has the right to buy back the Bucks from Edens and Lasry and possibly move the franchise if construction is not underway by November 2017, according to ESPN reports.

“(The NBA) does have a monopoly on their own product, so as a result, they can kind of pit cities and towns and states against one another and they threaten to leave if they don’t get their pound of flesh,” Slivinski told *Wisconsin Reporter*.

But Slivinski is confident Milwaukee wouldn’t take much of a hit if the Bucks relocate to another state.

“It’s almost immaterial whether the team is there or not,” Slivinski said. “It’s not going to generate any new economic activity because the team is there.”