

Stanford University
Department of Economics
Stanford, California 94305-6072

Roger G. Noll
Professor *Emeritus*

rroll @ stanford.edu
(650) 723-2297

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Dr. Alison Alter, Member
Austin City Council
City of Austin
301 West 2nd Street
Austin, Texas 78701

Dear Alison:

I am herein responding to your request to assess the “Commitment to the Community” and, more generally, the proposal to build a soccer stadium on the McKalla Place site, as set forth in the letter of March 13, 2018, to the Mayor and City Council from Anthony Precourt and Dave Greeley of Precourt Sports Ventures. My main focus is to outline the information that the Austin government needs to evaluate this proposal and, should the project be pursued, to shape the project so as to maximize its benefit to the city.

My main conclusions are as follows. The principle (and, usually, only) community benefit from attracting a major league sports franchise to a community is the direct benefit to local sports fans of having a local team. Whether a stadium that brings a Major League Soccer (MLS) team to a city generates net additional community benefits is highly dependent on the details of the development plan. Among the issues that will influence the net benefits of a new stadium are the alternative uses (opportunity cost) of the site that are foreclosed if a stadium is built, the explicit and implicit costs to the city for both construction and operations at the site, the design of the stadium and its supporting infrastructure (especially transportation), the intensity of use of the stadium, and the integration of the stadium development into the development plans for adjacent neighborhoods (especially The Domain). Stadiums can contribute to the community beyond being simply another entertainment option only if the plans for the stadium and its operations are integrated into the long-term development plans of the surrounding neighborhood in which the stadium is located.

The focus of the letter from Precourt Sports Ventures is the gross direct economic impact from construction and operation of the stadium. In essence, the letter recasts the main elements of the expenditure side of Precourt’s business plan as economic benefits to Austin. While further questions need to be asked to pin down some uncertainties about the estimated financial impact, the City should bear in mind that most of these gross economic effects reflect the expected cost of building and operating the stadium. For example, the letter mentions that \$200 million in private funds will be spent on jobs and

materials in the local community, and that \$326 million over 25 years (including \$234 million on wages and salaries) will be spent on stadium operations. Gross revenue flows are not an accurate estimate of the net benefits to the local community from attracting an MLS team to Austin.

In general, the costs of building and operating a stadium are paid from the gross revenue that is derived from events in the stadium. With few exceptions this revenue is collected from local residents who shift some discretionary spending from other entertainment and recreation activities to attending events in the stadium. Thus, spending on events in a stadium generally is a “demand substitute” for other local expenditures, which means that the costs associated with building and operating the stadium are substitutes for the jobs and materials that otherwise would have been used to produce other things. This principle even applies to the community support and charitable donations from the team. These contributions come from team revenues, and so to some degree substitute for the contributions from the other business that suffer a revenue loss. By comparison, a new business that sells its products to customers outside of Austin uses new revenue from outside the community to pay its employees, to buy local supplies, and to contribute to community service organizations. Hence these kinds of new businesses contribute to local economic growth in a way that a stadium and a team normally do not.

A stadium that brings in visitors from outside the community – tourists – can cause a net increase in the income of residents. For most major league professional sports teams, a small fraction of attendance – typically much less than five percent – is comprised of out-of-town visitors who plan a trip to a team’s host city for the purpose of attending a game. Surveys of fans find that most fans travel less than fifteen miles to attend a game.

There are two reasons that sports teams are rarely a significant tourist attraction. First, the U.S. has approximately 150 major league sports teams (including MLS) that are spread over the entire nation, so the vast majority of sports fans do not need to plan an expensive trip to see a major league game. Second, most major league sports teams sell all or nearly all of their good seats to local residents on a season ticket basis. An MLS team in Austin might be able to do somewhat better than most major league sports teams in attracting out-of-town customers because of its proximity to San Antonio. Certainly one question to pose to Precourt Sports Ventures is whether they have marketing studies to assess the number of tickets they will sell to out-of-town fans. The fraction of tourists in attendance at events in the stadium is a good indicator of the extent to which construction and operations costs represent a net increment to income in the community.

Whether the construction of a sports stadium provides benefits to the community also depends on the state of the construction industry in Austin. My understanding from reading press reports is that Austin has a robust construction industry in which growing construction demand has led to cost increases and project delays. If this is the case, then the construction of the stadium will cause “supply substitution” – a reduction in other activities to free labor and materials for use in building the stadium. Thus, spending on the stadium will be offset by delays and reductions in other construction activities, and so will not represent a net benefit to the community. A useful component of evaluating the

stadium proposal is to assess the extent to which the project will substitute for other local construction projects.

Included in the operating expenditures of the team are \$234 million in wages and salaries over 25 years. As with construction costs, this figure does not represent a net increase in local earnings if spending in the stadium is a substitute for spending on other local activities. In addition, some clarification should be sought about the jobs that are covered by this spending. A substantial fraction of employment by a sports team is accounted for by part-time jobs that, on an annual basis, cumulate to a relatively small number of paid hours of work and so are insufficient to support even a single person, let alone a family. For this reason, economics research has found that in some cases the arrival of a new sports franchise causes a small decline in total full-time employment in a metropolitan area. The reason is that a team pays a small annual salary to a large number of part-time employees and very high salaries to a small number of full-time employees (front-office executives, on-field coaches, etc.), whereas the substitute activities that suffer a decline in business are more likely to employ people full time at wages closer to the median. To assess the employment impact of bringing an MLS team to Austin requires more details on the nature and number of the jobs that are included in this calculation.

The letter does not address the most important issues that will determine the net benefit of attracting the team to Austin. These issues are the financial costs to the City for accommodating the stadium and its operations, the opportunity cost of dedicating the site to an MLS stadium, and the extent to which the plans for the stadium can be integrated into the development plans for the surrounding area. These issues are all interrelated, and so are discussed together.

The financial exposure of the City arising from the stadium consists of three components: initial facilitating investments, services associated with stadium operations, and potential future liability should the team not be a successful business in Austin.

A stadium requires investments in supporting infrastructure, such as water, sewer, utilities, parking, and mass transportation. These can easily cumulate to a direct cost of \$50 million or more, depending on the current status of infrastructure in the area. A high priority for the City is to ascertain the team's expectations about the responsibility for these investments. For example, normally local government undertakes investments to improve road access to the stadium site, but practices vary among teams with respect to the responsibility for creating parking lots and structures. Moreover, the interests of the team and the City in designing an access and parking plan may diverge. In many cases teams have preferred to surround the stadium with parking, but this has the effect of cutting off the stadium from the neighborhood in which it is located and, thereby, preventing synergies between the stadium and other nearby development.

The operation of the stadium also creates costs for the city. Stadium events increase traffic flow, and so increase the need for police services. Agreements between a sports team and a city concerning a new stadium often contain provisions about payments from the team to defray the costs of security and emergency services. Likewise, water and

sewage services must be provided. In many cases cities find that prices for utility services for a stadium do not generate sufficient revenue to cover the incremental cost. Thus, a high priority for the City is to ascertain the impact of stadium operations on the provision of various services to inform future negotiations with the team about how these costs will be covered.

My understanding of the area that includes the stadium site is that it is undergoing a transition to uses that bring greater value to the community, as exemplified by the development of The Domain a few blocks away. The possibility of a substantial transformation of this neighborhood raises the stakes of dedicating part of this area for the construction of a soccer stadium. On the one hand, if the potential neighborhood transformation becomes a reality, the stadium site may have more valuable alternative uses. Hence, a priority for evaluating the stadium proposal is to identify the best among the plausible alternative uses. On the other hand, the fact that the stadium would occupy a small fraction of the area that could be part of a larger redevelopment program creates the possibility for pursuing all projects simultaneously in a coordinated fashion that would enhance the value of both the stadium and the other parts of the development plan.

Recent stadium development plans, such as the new facilities under construction for the Los Angeles Rams and the Golden State Warriors, embed the sports facility in a larger plan that includes retail shopping, office buildings, and residential development. In some cases the dollars spent on these other components of the plan substantially exceed the cost of the sports facility. In these cases the sports facility resembles an anchor tenant in a retail shopping center – a centerpiece for enhancing the economic and political viability of the entire development. Comprehensive redevelopment plans that incorporate new sports facilities in a much more ambitious plan have been pursued successfully in several cities, notably Baltimore, Brooklyn, Cleveland and Indianapolis.

Given the available area for redevelopment in the neighborhood surrounding McKalla Place, it may be feasible to devise a long-run development plan that has no opportunity costs – that is, a plan that allows Austin simultaneously to pursue business, residential and community service goals in a way in which the value of each is enhanced, rather than undermined, by the stadium development. But to ascertain the feasibility of this possibility and its implications for how the stadium and its supporting infrastructure are constructed requires an extensive investigation of the development possibilities for the entire neighborhood, not just the stadium site.

One important element of a comprehensive development plan is to maximize the extent to which the stadium is used. An MLS team only plays 17 league games a year, plus a few other games in “friendlies” with non-MLS teams and matches in tournaments. In addition, many MLS stadiums schedule some games between teams from Mexico or Europe. But these games average about one game every two weeks. Obviously Neiman Marcus could not be an anchor tenant for a shopping mall if it announced that it would be open for four hours on 25 days per year!

The plan put forth by Precourt Sports Ventures does not really address utilization of the

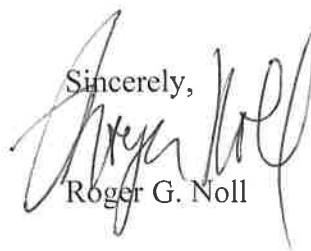
facility, although implicit in the expenditure estimates are assumptions about utilization. The plan includes one event per year for local soccer teams, so one possibility is to make substantially great use of the stadium for other local matches. Another possibility is to integrate the concession area into a broader retail development in the neighborhood, as has been done for the NBA arena in Washington, D.C., and is being done for the new NFL stadium in Los Angeles. The key point is that if a sports stadium is almost always dark, it essentially kills the vitality of the surrounding neighborhood. Thus, to enable a stadium to add value to the neighborhood requires finding ways to keep it in use and open as much as possible.

The final concern about the stadium proposal is the implications for the City if the stadium is built but the team does not become a successful business venture. While MLS has experienced growing popularity and revenue in recent years, its future is not yet completely secure. The profitability of the established teams, like Columbus, has been greatly enhanced by the fees that have been collected for expansion franchises, and expansion cannot continue indefinitely. Moreover, the other Texas teams are not among the MLS teams with the highest attendance. The nature of the concern over the future of an MLS team in Austin is NOT that the team is likely to fail, but that failure is not so wildly implausible that the possibility of failure should not be taken into account.

For an example of this concern, suppose that the City invests in infrastructure to support the stadium and, after a decade or so the team is not financially successful, the revenue stream that was anticipated to pay off these investments may be insufficient. All of the financial projections from Precourt Sports Ventures are based on forecasts of team revenues for 25 years. If these forecasts prove to be significantly optimistic, what financial liabilities will the City face? And, if the team should either cease operation or move to another city long before the 25 year planning horizon in the letter, what liability will the City face regarding the stadium, given that it owns the land beneath it?

I hope that this brief summary of the issues that need to be addressed in considering the stadium proposal is useful.

Sincerely,

A handwritten signature in black ink, appearing to read "Roger G. Noll", written in a cursive style.

Roger G. Noll