Athens State University Economic Updates

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This publication is provided as a service by the Logistics, Technical, and Programmatics Institute (LTPI) at Athens State University and concentrates on providing access to the expertise and research capabilities of the University's College of Business to government and businesses. The University publishes an annual update to provide data and information on the economy of north Alabama and to assist the professional community to quickly respond to a growing global demand from a cross-section of businesses. Our faculty are leading efforts with both government and business agencies to provide economic impact assessments, marketing analysis, employee climate surveys, training, and personnel growth, and we stand ready to assist with your requirements.

If It Were Profitable, They Would Build Themselves by Dr. Thomas Pieplow

Opened in 1976 as a multipurpose stadium, Seattle residents paid to construct the Kingdome, though its official name was the King County Multipurpose Domed Stadium. It served as the new home for professional baseball and football, despite the fact both teams were owned by private investors. Twenty-four years later, as people watched footage of the Kingdome's implosion, few realized that for the next 15 years this pile of rubble would continue costing them long after its destruction. When Seattle leveled the Kingdome, $83 million was still owed. But this albatross dwarfs the almost quarter billion dollars still owed by New Jersey residents. For Giants Stadium, another facility imploded in 2010, taxpayers will pay over $34 million annually for the next 8 years to retire the construction costs for a facility that not only generates zero revenue, but also no longer exists. It is important to note that during their life, none of the teams playing in these facilities shared any of their profits with those who built their stadiums—the taxpayers.

Let me be clear upfront; I have enjoyed sports most of my life, and to this day, attend events across a wide spectrum of college and professional sports. Growing up near Cleveland, Ohio, some of my fondest memories are attending games with my dad at Municipal Stadium in the 1960s. I know firsthand how a city forms a bond and trust with its local teams and just how demoralizing it can be to a region when a beloved team leaves. Many believe that writer and director Barry Levinson's best work was an Oscar-nominated film titled, *Diner*, about a circle of friends in the twenties who lived in Baltimore and loved the Baltimore Colts. My love for sports runs deep, and its positive effect on a community is unquestioned. When President George W. Bush took the mound at Yankee Stadium before the third game of the 2001 World Series, it was much more than a ceremonial first pitch. It signaled to America that our healing had started after the 9/11 terrorist attacks.

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Since 1998, over $2 billion each year in public subsidies goes toward building new or enhancing existing sports facilities. Whenever these proposals are initially broached by political leaders seeking taxpayer support, the rationale offered generally falls into one of two categories—they provide for the "common good" of their region or they will be "investments" that will pay off in terms of "economic development." But are these plausible arguments that withstand the scrutiny of objective research, or instead, what many have termed "corporate welfare?"

Let's first look at the argument of sports facilities providing for the common good or public interest. This concept with roots that are deep in both philosophy and economic theory, and dating to the times of Aristo-

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We Are All Americans (an Editorial) by Dr. William Wilkes

The ability for an undocumented immigrant in the United States to become legal and achieve permanent resident status has been discussed and debated for several centuries; many attempts for a comprehensive set of legislation have been passed, but generally proven unsatisfactory. However, according to a 2016 article published by CitizenPath.com (an American company that provides self-directed software to prepare USCIS forms for undocumented workers), there are four ways to legal status for undocumented immigrants to become a permanent resident. These four paths are discussed in detail in the Citizen Path article, but can be summarized as follows:

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- Green Card through Marriage to a U.S. Citizen
- Dreamers Green Card through Employment with LIFE Act Protection
- Asylum Status
- Victims of Crime in Their Country of Birth

Each of the different paths have various requirements and can result in considerable expense, documentation, and generally require that the person applying for residency return to the country of origin during the process. Individuals who are trying to obtain one of the visas should get the assistance of lawyers familiar with the rules and regulations and be prepared to spend considerable funds in the process. Most undocumented immigrants are relatively poor, which is the primary deterrent to completing the process.

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"...they are hardworking individuals, ambitious, and desire to spend the rest of their lives living in and improving the United States."

The several possible ways for undocumented immigrants to become green card holders discussed above were available before the current legislations were enacted to deal with the considerable number of illegal young immigrants who were brought by the parents, also illegal, during the large Hispanic immigration which peaked in 2000. The sequence of the Legislative action and Executive orders to provide relief for the young illegal children is well documented and public knowledge. The key events are summarized below.

The long approval process to formally address the issue of young immigrants began on August 1, 2001 through a bill introduced in the House and Senate under the title of **D**evelopment, **R**elief, and **E**ducation for **A**lien **M**inors Act or DREAM Act, for short. However, since the initial bill was passed, the DREAM Act has been modified and introduced in Congress at various times with both economic and political issues greatly complicating the process and preventing any long-term solution.

In March 26, 2009, a bill was introduced in both Houses of Congress which specified the requirements an illegal immigrant needed to meet in order to be eligible for a six-year temporary Residency status under a latest version of the Dream Act.

- Be between the ages of 12 and 35 at the time the Law is enacted
- Arrived in the United States before the age of 16
- Resided continuously in the United States for at least 5 consecutive years since the date of their arrival
- Graduated from a U.S. high school or earned a GED

Meeting the requirements would also allow immigrant students to apply for student loans, in-state tuition, work studies, be employed, and qualify for a driver's license. However, if the individual committed a minor crime or did not meet the educational or military requirements within a six-year time, they were subject to lose the temporary immigration residence. If they were convicted of a major crime, the six-year temporary residence status would be revoked and the individual would be subject to immediate deportation.

The most notable change occurred on June 15, 2012, when President Obama signed an Executive Order that would stop deportation of undocumented immigrants who met the criteria included in the proposed DREAM Act. This new program was called the **D**eferred **A**ction for **C**hildhood **A**rrivals (DACA). While DACA and the DREAM Act deal with the immigration status of basically the same population, the two programs are often discussed together. However, it is important to remember that the DREAM Act is subject to Legislative Approval and that DACA is subject to the Executive Power of the President.

On September 5, 2017, President Donald Trump signed an Executive Order rescinding DACA and challenged Congress to accept its legislative responsibility and pass the DREAM Act. The President's decision not to support DACA long term has been challenged in various law suits and its future remains unclear. Because of the current partisan differences between the two major parties, no significant action has been taken by Congress to reach a compromise. In addition, President Trump appears

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"If stadiums and arenas were a profitable proposition, team owners would not be asking for government involvement, but they would be building themselves."

tle, Plato, and Adam Smith, refers to anything that is either shared or beneficial for all or most members of a given community. This formed the basis of government taking the lead for providing its citizens with clean water, libraries, roads, and schools. What immediately comes to mind when one thinks about government's role is facilitating the common good such as fighting fires and providing the means for safely disposing of solid waste. And through the years, providing for the common good now involves mandatory recycling ordinances, curbside trash pickup, or the purchase of public lands for parks and wildlife or nature reserves. Over the past half century, the programs and initiatives that constitute the common good has taken on vastly different definitions from both sides of the political spectrum. I believe John Rawls said it best as it being "equally to everyone's advantage."

In 2002, the Miami Marlins were sold to Jeffrey Loria for $159 million. Seven years later, faced with the threat of the team's relocation to another city, the city of Miami and Dade County borrowed $400 million to construct a new stadium and an additional $100 million for parking garages to keep the city's major league baseball club. This deal permitted the Marlins to move from a shared facility with the local pro football team into its own ball park with a retractable roof and air conditioning. Miami and Dade County wanted to ensure the team's owner was not simply using the new stadium and parking garages the taxpayers were providing as a means for him to sell the team for a profit. So the 2009 agreement included stipulations that required Mr. Loria to share 5 percent of any profits from the sale with Miami and Dade County should the team be sold. Last year, the Miami Marlins were bought by a new ownership group headed by future Hall-of-Famer Derek Jeter for $1.2 billion—over $1 billion more than the previous owner paid. However, the city and county will not receive anything from the sale. Due to language agreed to by the government when the original 2009 deal was struck, Mr. Loria claimed expenses and incurred charges that allowed him to claim a $141 million loss on a sale that netted over $1 billion. So much for common good.

What about economic development? In 1995, my beloved Cleveland Browns were uprooted by their owner and relocated to Baltimore, Maryland—the same Baltimore that lost their Colts to Indianapolis eleven years earlier. What puzzled Clevelanders was that even though the Browns were universally viewed as a mediocre team at best, every home game was a sellout, with over 80,000 fans flocking each week to a stadium known as one of the worst in professional sports. So why would their owner, a community icon and civic philanthropist with a packed stadium, suddenly uproot the city's prized asset and move to a place that currently had an equally bad stadium seating fewer than what he had? To better understand this relatively new phenomenon of teams playing "musical chairs," I started with Jay Weiner's book titled, *Stadium Games*, which discussed the growing trend of professional team owners threatening to move their teams unless a new facility was constructed using public financing. Though Weiner's book was first published 28

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years ago, every piece of follow-on academic research I have reviewed has been both clear and compelling—there may be no worse use of public monies than to build stadiums and arenas under the premise of economic development.

This certainly is not a one-size-fit-all because the framework of each program is unique. Returns will certainly depend on the mechanics of each arrangement and the degree of the public's contribution. But when the data is objectively analyzed for virtually every major project over the past 25 years, the costs borne by the taxpayer have far outweighed the returns actually realized. Possibly more telling is the fact that unless these public contributions are funded with a dedicated revenue stream, this $2 billion comes at the expense of other critical government responsibilities such as education, highways, etc.

As mentioned, each arrangement is unique and requires differing obligations from the taxpayers; but this subsidization starts with the federal government. States and localities, whether they are cities, townships, counties, and school districts, have long relied upon tax-free municipal bonds to finance large, expensive, and long-lived projects, such as infrastructure projects, sewer systems, highways, and other capital developments. Because these instruments are backed by the governmental entity, investors view them as a relatively risk-free vehicle to earn interest. Albeit, these bonds generally pay lower interest rates to the buyer, but the combination of their quality coupled with their tax-free status make for an attractive investment alternative for those looking for safe, steady returns. Tax exemption also lowers interest on the debt incurred by the borrower, reducing the amount that governments must pay. But the employment of tax-free municipal bonds for the financing of stadium construction and renovations comes with a price.

As recently as 2016, when the federal government was already required to borrow 17 cents of every dollar spent that year, President Obama proposed an elimination of all tax-free bonds to help finance stadiums. In 2012, a joint study by the Brookings Institute and Bloomberg estimated this practice cost the United States Treasury over $146 million annually in lost revenue. Since 1986, over $17 billion in tax-free bonds had been used to build stadiums, costing taxpayers $4 billion in lost tax revenue. This idea failed to gain traction with Congress, even though stadiums, unlike roads, bridges, hospitals, and libraries, serve a very small number of people and enrich team owners.

The direct subsidies from state and local governments are much larger, and these bodies assume exponentially greater risk. In 2001, Glendale, Arizona civic leaders entered into agreement with then-owner of the Phoenix Coyotes, Steve Ellman, to borrow $180 million to build an arena for the National Hockey League team. While the city would be on the hook for the arena, Ellman committed to build the $1 billion Westgate City Center, a sprawling multi-phased development of hotels, restaurants, apartments, and retail concerns that would generate the additional tax revenue needed by Glendale to pay for the arena. However, when the Westgate Center did open in 2007, it was two years behind schedule and Ellman now faced deep financial distress. He was forced to sell the hockey team. Less than two years later, the Coyote's new owner faced similar financial strains. With the team facing bankruptcy, the owner planned to sell to Canadian buyers who would move the team to Ontario. As to the Westgate Center, the city's revenue stream for paying off the arena...by 2011 it, too, was in foreclosure.

Without the revenue stream from the Westgate Center and faced with the possibility of losing its only permanent tenant, Glendale agreed to a creative financing agreement in order to keep the team. The new owners would receive $15 million annually to manage the facility, but even that was not enough. By 2017, the Coyotes decided they would never be successful in the 13-year-old arena and, instead, was lobbying legislators to approve over $225 million in new public funding for an arena in downtown Phoenix. For the $500,000 Glendale annually receives in rent from the Coyotes, the team retains all ticket, parking, merchandising and

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unwilling to sign a Legislative Bill that does not contain funding for "The Wall" between the U.S. and Mexico that he believes will significantly improve U.S. Border Agents' ability to reduce ongoing illegal crossing. Unfortunately, because of the differences in the Executive branch and Legislative branch, it appears that passage of the Dream Act is being held as a hostage in the negotiations to resolve these differences.

As noted by *Time Magazine* in a recent article, "A Dreamer's Life," the attempted cancelling of DACA and the use of the DREAM Act as a bargaining chip in the bargaining process has caused huge concerns among the illegal immigrants who are partially covered under some form of the DREAM Act and the uncertain DACA program. As a result, many of these illegal citizens are spending as little time as possible in public for fear of being randomly picked up by U.S. Immigration and Customs Enforcement (ICE), sent to the holding areas along the Southern border for processing and possible deportation. If they are properly documented as a "dreamer," they most likely will be allowed to return home, but after paying significant legal costs. I have been told by an owner of a local company that hires dreamers, they are frightened since this has happened to several Hispanics living in North Alabama whom they know about.

The irony of the discussion of DACA and DREAMER acts is that they are not about immigration; neither are they about immigrants. These young immigrants have not broken a criminal law; they are in the United States illegally because of actions taken by their parents to escape undesirable and unsafe environments in their countries of origin. These "Dreamers" deserve residence in the United States. They have grown up here, attended school here, worked here, and even served in the United States military. These "Americans" deserve to continue living in the country which they have supported during all their lives. Their contributions to the United States economy have been well documented. According to the business owner mentioned above, they are hardworking individuals, ambitious, and desire to spend the rest of their lives living in and improving the United States. During many conversations with "dreamers" it is apparent to me that they are concerned about being deported to their countries of origin with which they are unfamiliar and which they fear. They are reluctant to make any plans until their status to remain in the United States is more certain.

According to the Pew Research Center, "Key Facts about Unauthorized Immigrants Enrolled in DACA" (September 25, 2017), since the creation of DACA 5 years ago, approximately 800,000 young illegal immigrants have received work permits and protection from deportation. At present, according to data from U.S. Citizenship and Immigration Services, approximately 690,000 of these immigrants are enrolled in the program. According to the Center for Migration Studies of New York: 1) 85% have lived in the U.S. longer than 10 years, 2) 89% are gainfully employed, 3) 93% have graduated high school, and 4) 91% are fluent in English. Therefore, a substantial number of immigrants covered by DACA have participated in the benefits provided and were educated or trained in the United States. They will face insurmountable barriers to achieving their dreams if DACA is ended.

Why would the United States adopt a position where we would be returning these productive individuals to their countries of origin, only to lose our investment? They learned these skills while living in the United States, and they will be continually valuable to us. Dreamers should not be threatened with deportation since, by our own admission, they have done nothing wrong. Their parents put them in this position, something which these children could not control. Are we not acting like parents by putting them in another position which they cannot control?

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concession revenue from hockey games, earns $1.9 million a year in naming rights, has rent-free use for the team's corporate headquarters in the arena, and continues earning the $15 million each year to manage the facility. Meanwhile, every year Glendale still must pay $13 million in arena debt payments in addition to annual capital maintenance expenses of between 1 and 2 million dollars.

With such egregious and one-sided arrangements, why do communities continue to invest in such deals? The economic rationale heard most often can be found in the slogan used by the San Francisco 49ers when rallying public support for their $1.4 billion plus facility in Santa Clara: "Build the Stadium—Create the Jobs!" Advocates have long argued the local economy is boosted in four ways. First, building creates construction jobs and second, those attending games spend money within the community, expanding local employment through "induced" jobs. Third, tourists and suppliers flock to the host city and boost local spending and jobs. Fourth, the aggregate effect of this spending has a "multiplier effect." Restaurants have more customers, customers require more workers, workers pay taxes and spend money, etc. These backers believe that new and enhanced stadiums spur so much economic activity that they are self-financing and, in fact, return more in tax revenues from new employment, ticket sales, sales taxes on concessions and other spending outside the stadium, and property tax increases arising from the stadium's economic impact than what the subsidies cost. Unfortunately, every academic study available clearly shows these arguments utilize faulty economic reasoning that leads to overstatement of the benefits. Only when people, capital investments, and natural resources like land become more productive does economic growth take place. Certainly, building a stadium is good for the local economy, but only if a stadium is the most productive way to make capital investments and use its workers. According to University of Chicago sports economist, Allen Sanderson, "There are only two things you do not want on a valuable piece of real estate. One is a cemetery, and the other is a football stadium."

Research conducted by the Brookings Institute, in conjunction with 15 independent collaborators, examined this from a multitude of angles and, in every instance, the conclusions were the same. A new or modernized sports facility has, at best, a miniscule and, in most instances, negative impact on overall economic activity and employment. None of the recent facilities have achieved anything near a reasonable return on investment and most were significant drains on the finite tax streams available. No recent facility has been self-financing in terms of its impact on net tax revenues.

In 1996, Cincinnati-Hamilton County voters approved a one-half cent increase to the sales tax (along with a promise that real estate levies would eventually be cut sometime in the future) to build two new stadiums along the Ohio River. They initially borrowed $623 million beginning in 1998, but quickly doubled to well over $1.2 billion. The football stadium opened in 2000 and the baseball park opened three years later. Due to two recessions, sales tax collections only grew at less than half what had been projected and the region's population declined. Today, these two stadiums cost the city-county over $70 million a year, approximately 8% of its spending. This includes debt service, costs for the teams, property tax cuts, and payments to schools in lieu of taxes. In order to make ends meet, the county has fired workers, abandoned the planned property tax cut, and sold its hospital. When overcrowding necessitated new spending for a needed jail, voters overwhelmingly defeated the referendum. Their only hope now is to refinance the debt. Hopefully, lower interest rates will provide additional revenue for vital services such as police and fire protection.

In summary, my point is not to dissuade anyone from wanting to build sports facilities, but simply to have an objective discussion if government is expected to contribute. If the belief is that it provides for "common good," government should not be expected to facilitate the profitability of individual team owners; instead, government providing a common good should come with an expectation of earning mutual benefits. Or if the premise is economic development, some will argue that whether it was Toyota, Remington, or Polaris, local government was vital in making that happen. Even then, we must do a fair comparison. When calculating the cost of each job created versus the government's contribution, the higher paying jobs coming from stadium construction are temporary while the permanent positions that remain are mostly at or near minimum wage. However, the jobs coming from a 21st century manufacturing facility are not only long term, but higher paying. I love sports and always will; but as a friend once told me, if stadiums and arenas were a profitable proposition, team owners would not be asking for government involvement, but they would be building themselves.