Tell ‘im he’s dreamin’

First published as a Post on LinkedIn 7 April 2015

IN ONE OF THE MOST CLASSIC OF MOVIE LINES EVER, DARRYL KERRIGAN IN *THE CASTLE* ROCKS BACK AND, WITH AN AURA OF ACQUIRED WISDOM, SAYS:

tell 'im he's dreamin'.

This is exactly what the general public combined with independent academic economists would say to the Townsville super-stadium boosters.

And yet, the proposition continues to draw claims about its supposed benefits. As recently as last week, TEL's CEO Patricia O'Callaghan claimed that the stadium is pivotal to the CBD. It's an opportunity for urban renewal, she says; for creating a "CBD heart this city can be proud of".

The *Feasibility Study* (completed in September 2013 by KPMG) that supposedly substantiates the claims has never been released for public consideration. The hoary old excuse of "commercial-in-confidence" is dragged out to justify this. I've asked for the *Study* to be released, and short of releasing it, for some basic questions about operational expectations to be answered (e.g. will it run at a loss each year?).

To date, these requests have been ignored. (Which probably tells us something about the extent to which the contents are worth publicising!)

Study after study says: dud

So, unless we get to evaluate the *Feasibility Study* itself, we can only rely on the experiences and expertise elsewhere. So, that's what I've done. In scouring the global database (courtesy of Google), a fairly large volume of academic and other literature can be found dealing with the supposed benefits of publicly funded sporting arenas. Armed with this, we're able to deal with the myth once and for all, and put the so-called economic case out of its misery.

In almost all instances, despite the grand claims for public funding, commitments of public monies to new stadia result in a major financial hangover once the party is over. This is the sober conclusion of a recent study "Circus Maximus" undertaken by economist Andrew Zimbalist. Zimbalist has analysed the consequences of successfully bidding for Olympic Games and Soccer World Cups, and the winners inevitably experience "buyer's remorse".

If that's a bit of an "apples and oranges" comparison, perhaps we could consider other more "mundane" examples. So we have. And they simply don't stack up.

Experiences like those in Cincinnati aren't good, where a bad deal negotiated by the county has been compounded by over-runs and the basic failure of the stadia projects on financial and economic grounds. And it's not simply a case of "exception to the rule". In fact, stadium hangovers are the rule.

In a 2004 report, sports economists Professors Brad Humphries and Dennis Coates concluded that:

> *Our conclusion, and that of nearly all academic economists studying this issue, is that professional sports generally have little, if any, positive effect on a city's economy.*

That report was called "Caught Stealing" and is available here. Elsewhere, the same economists observe that:

> *The recent spate of sweetheart stadium and arena deals is only the latest manifestation of owners of professional sports franchises getting richer at the public's expense.*

And here's another study that comes to the same conclusion: Public Funding of Sports Stadiums by Sarah Wilhelm (2008).

Cutting to the chase, journalist Neil deMause writes:

> *Studies demonstrating pro sports stadiums' slight economic impact go back to 1984, the year Lake Forest College economist Robert Baade examined thirty cities*

> *that had recently constructed new facilities. His finding: in twenty-seven of them, there had been no measurable economic impact; in the other three, economic activity appeared to have decreased. Dozens of economists have replicated Baade's findings, and revealed similar results for what the sports industry calls "mega-events": Olympics, Super Bowls, NCAA tournaments and the like. (In one study of six Super Bowls, University of South Florida economist Phil Porter found "no measurable impact on spending," which he attributed to the "crowding out" effect of nonfootball tourists steering clear of town during game week.)*

Another study concludes as follows:

> *Officials go to the taxpayers and ask for public funding for new projects, assuring them that new jobs will result. However, as fiscal impact studies show, this is often the exception and not the rule. Taxpayers usually do not get a positive return on their investment. The main benefits that comes from having a professional team are intangible, such as civic pride and prestige, but these do not justify using public money to subsidize such ventures.*

In the face of consistent, credible, independent conclusions that there is no good reason for public funding of sporting stadia, the real question is why is it that seemingly responsible and intelligent folk continue to fall for the same two-card trick from sporting franchise owners? The answers aren't flattering.

CBD Renewal?

If the general economic profession more or less unanimously concludes that the basic idea is a dud, we should also look at the specific proposition about CBD renewal.

There are quite a number of dimensions to this (the construction multiplier actually isn't one, because the multipliers from one dollar spent on one project are actually as good as another as any economics undergrad can tell you), but let's stick to addressing the basic one about the proposed super stadium: *the catalytic impact on expenditure at restaurants, bars and cafes and boost to the hospitality industry.*

The catalytic impact on hospitality expenditure would likely be contained to a reasonable geographic catchment. Otherwise location wouldn't matter, would it?

Urban planners love to talk about the "ped-shed" (the walkability catchment), which is usually depicted with two concentric circles. The first is a 400m radius circle, which represents a 5 minute walk; the second is an 800m radius circle. The proposition that these walk-circles are applicable to the dry tropics of Townsville is arguably the first flaw in this basic model. Under Townsville conditions - even in Winter - it is unlikely that residents will want to walk beyond 400m to access hospitality services (before or after an event). (The ped-shed rules of thumb are based on temperate context experiences.)

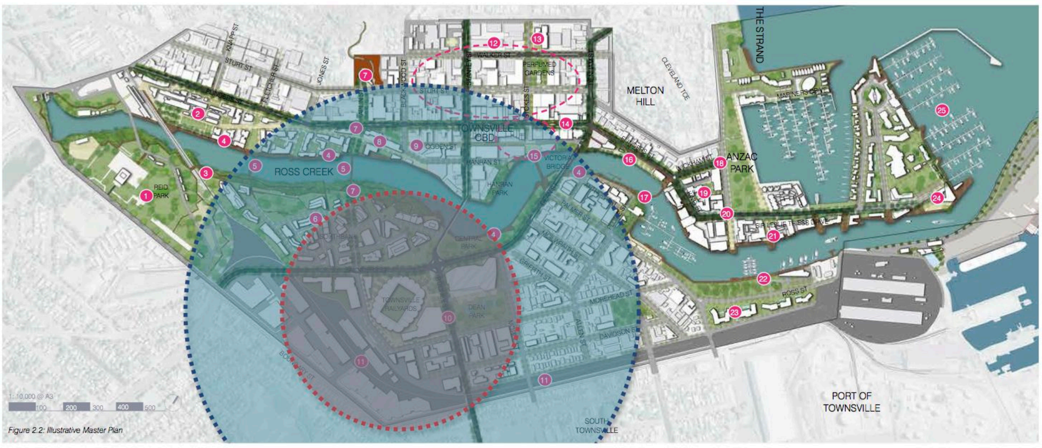
As the image below shows, the 400m radius from the stadium reaches just over Ross Creek and just comes to Griffith Street. It will, of course, cover a fair slice of the yet to be built Southbank project (who would be the clear beneficiaries of this massive public injection of funds).

However, the proposed stadium location is:

- still 400m shy of Palmer Street East,
- 900m+ short of Flinders Street East, and
- about 300m short of the revamped Palmer Street.

In other words, it's hard to see how stadium event patrons are likely to spill over in big numbers to existing hospitality venues in these three hot spots. Folk are simply not going to walk that far in big numbers (and then back to the car again). Those willing to walk 800m are a hell of a lot less in number!

So, if there are crowds thirsty for a drink or keen on some food (even if they do get a hot dog or a pie and chips during the footy), then it's more likely that they will be serviced by hospitality providers closer to the



proposed stadium. There really aren't any there at the moment, so the expectation - one presumes - is that the new stadium will catalyse such new offers. Will this happen?

Well, the future is an uncertain thing at the best of time, but recent experiences elsewhere may provide a clue. I'm thinking of the large numbers of restaurants, bars and cafes that have emerged over the past 5 years around 1300Smiles Stadium - the existing footy stadium. What did I hear you say, "there haven't been any"? Surely that can't be the case.

In fact that has basically been the case. Despite the fortnightly crowds during the four-month footy season, there simply is no business case for new hospitality businesses to be set up to service this itinerant patronage. If there was, you'd expect to see plenty of hospitality activity in and around the existing stadium, new applications for liquor licenses, new applications for restaurants etc. But alas, no.

Now, if the stadium is to be accompanied by a convention centre of some sort, the new convention facility will surely have its own catering and hospitality capabilities. With such facilities in situ, it's more likely that the new facility will "crowd out" existing venues. There is no net impact as such, just a redistribution.

This "reality check" tells us something.

On key propositions, namely location and recent experience, it tells us that the urban renewal catalytic effects are unlikely to materialise. It is at best a long bow, but then again, we already knew that from learning from the analysis and experiences of those elsewhere.

No wonder local economist Col Dwyer calls the proposal an economically dubious coliseum.

Last words

Independent assessments of public funding of stadia consistently find that such proposals:

1. Don't stack up financially. In the language of bankers and financiers, the projects' capital investment assessment comes up with a negative Net Present Value. The NPV is equivalent to changes in shareholders' wealth. So, if the shareholder is the public at large, and the project NPV is in negative territory, that means the project destroys community shareholder value over time.
2. Operate at a loss. That's hardly unexpected I guess given that such facilities are used so rarely each year. These losses are year in, year out. Stadiums Queensland, which runs 9 facilities, had an operating deficit of $32m or thereabouts last financial year. I'd hazard a guess that the annual operating deficit of the

proposed super stadium would be in the vicinity of $1.5-2m.

3. Deliver a regional net loss when you take into account the annual costs (including depreciation or capital replacement allowances) versus the supposed economic value of the employment multipliers. That is, the community spends more than it receives in flow-on benefits.

Learning from others isn't a bad thing.

Frank Rashid, a lifelong Detroit Tigers fan and college English professor, co-founded the Tiger Stadium Fan Club in 1987, and for the next twelve years fought an unsuccessful battle against Michigan's plans to spend $145 million in public funds to replace that historic ballpark. According to him:

> *Public subsidies for stadiums are a great deal for team owners, league executives, developers, bond attorneys, construction firms, politicians and everyone in the stadium food chain, but a really terrible deal for everyone else ... The case is so clear against this being a top priority for cities to be doing with their resources, I would have thought that wisdom would have prevailed by now.*

Once again, Q.E.D. as the Old Latin would put it.

In light of such overwhelming analysis, the challenge for Stadium Boosters is to prove that Darryl Kerrigan is wrong by releasing the Feasibility Study in full for public consideration.