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SUBJECT: ECONOMIC IMPACT OF PROPOSED BASEBALL STADIUM

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## 1 BACKGROUND

The City of Portland (City) is considering construction of a sports / baseball stadium in the Lents neighborhood. The proposed stadium would accommodate minor league baseball games that will be displaced from PGE Park is remodeled into a facility for Major League Soccer. This stadium project would require the relocation of two soccer fields to a nearby property in Lents.

On May 8 the City asked ECONorthwest (ECO) to evaluate the economic impact of the proposed stadium in Lents. The City requested an analysis by May 12. The City and ECO clarified the scope of work on May 11. An obvious point is that with only a day to address the issue, the analysis is necessarily approximate. As important as the results of the analysis are the assumptions used to conduct. Thus, this memorandum starts with a *Framework* section describing the approach and key assumptions, describes the findings of other related studies in *Insights from the Literature*, and then reports our *Analysis and Results*.

## 2 FRAMEWORK

Our analysis focuses on *economic* impacts in *the City of Portland*.<sup>1</sup> The economic impacts can be, in theory: (1) directly associated with expenditures, or indirectly a result of construction and operation activities, and (2) short-term (construction) and long-term (operation). Economic impacts are typically measured as changes in wages or income, employment, sales, or output / value added. Direct expenditures on the project (e.g., for construction) create jobs, and the income that businesses and workers get supports yet other jobs when they spend it (indirect impacts). That effect is often referred to as “the

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<sup>1</sup> Impacts, both positive and negative, can occur outside the City’s boundaries as other regional and even national economic activity.

multiplier effect”).<sup>2</sup> The magnitude of the employment impacts depends upon the nature of the project – in particular, on how much of that spending is directed at various industrial sectors.

Yet other impacts (referred to here as “secondary” impacts)<sup>3</sup> are more difficult to isolate and measure in economic terms – they are often measured in other units (e.g., number of visitors or facility users) or described qualitatively (e.g., increases in community pride or cohesiveness). Our analysis does not include those types of impacts: it is limited to look at a narrower definition of economic impacts as defined in the previous paragraph.

Our analysis is simple and approximate. We are looking at the stadium as an incremental investment on its own merits. We are working with the City’s estimates of project costs and the proposed financing structure, and building our analysis from a recent, unrelated economic impact analysis we completed for the City.<sup>4</sup>

Other important definitions, assumptions, and analytical techniques are described in the next sections.

## 2.1 GROSS VS. NET IMPACTS

Gross impacts are those that are created without consideration of whether they increase or impair spending elsewhere. Net impacts are those that incorporate these offsetting effects. As an example, consider a developer who plans to demolish a grocery store and build a restaurant in its place. If the restaurant creates 20 jobs, then the gross impact would be 20 jobs. If closing the grocery store loses 100 jobs, then the net impact would be negative 80 jobs (20 jobs created – 100 jobs lost = -80 jobs).

In the context of this analysis, one needs to consider where the money for the stadium project is coming from, and what it might be used for if it were not spent on the stadium. On the one hand, if all the money for building the stadium were coming from outside the region and would not otherwise be available in the region, net effects might be large and approach gross effects. On the other hand, if all the money for the stadium

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<sup>2</sup>The practice of input-output analysis often refers, in addition, to *induced* impacts, which arise as the spending associated with direct and indirect impacts affects activity elsewhere in the local and broader economy. The analysis in this memorandum includes induced effects in its estimates of jobs, but does not break them out separately.

<sup>3</sup>Sometimes referred to as secondary impacts or indirect impacts. Use of the latter term creates confusion, because input-output models of the regional economy use the term “indirect impact” to refer to the impacts of expenditures made by businesses receiving the first-round funds (e.g., a construction firm uses its payments to buy supplies from another firm, which then increases the supply firm’s income and employment). To avoid that confusion in this memorandum, we use the term “indirect” to refer to second-round impacts in an input-output model, and “secondary” to refer to all the other types of effects that are not specifically evaluated in an input-output model.

<sup>4</sup>ECONorthwest, “Comparison of Economic Multipliers of Proposed Projects,” dated January 7, 2009. Applying those multipliers to the costs of the project provided by the City allows rough measurement of input-output impacts.

comes from taxes on residents and property owners in the City of Portland, then even if the gross effects are large the net effects would be small because the tax revenue would otherwise be spent by government or citizens on other local economic activity that would also generate jobs.

## 2.2 SHORT-TERM VS. LONG-TERM IMPACTS

Short-term impacts of a project such as the stadium generally are generated during construction of the project. Our analysis measures the direct, indirect, and induced impacts of construction. When measuring these impacts, we include both soft costs (planning, permitting, architecture, engineering, etc.), and hard costs (construction labor and materials). Not all of these expenditures would impact the Portland economy. A majority of the materials and equipment used in construction would be obtained outside the City of Portland. Additionally, a majority of the jobs created would be filled by employees that live outside the City. The jobs and wages associated with the construction period are the gross economic impacts of the project.

To determine the net economic impact of construction, we also consider financing costs. The details of the financing plan are yet to be determined. Based on the most current information provided by the City, \$47 would be publicly financed, primarily through the sale of bonds. This impact is included as a “short-term” impact because it is associated with the initial development costs of the project. The actual expenditure of public money would occur over a period of many years, however, through debt service payments on the principal and interest of bonds.

This cost imposes a burden on private spending. We assume, if the stadium is not built, then it would result in a decrease in government spending. This money would then be available for other purposes in the Portland economy.<sup>5</sup> In effect, the project diverts \$47 million from private consumption and investment activities to the construction of the stadium. Our analysis of net impacts considers the effect of removing money from private consumption.

Long-term impacts are those that are expected to recur at various intervals during the life of the project. *Our analysis does not consider long-term impacts.* This is partly because of data limitations, time constraints, and the nature of the project. However, to a large degree, the proposed stadium is intended to accommodate events currently hosted at PGE Park. Therefore, the stadium would not be drawing new events to the City, nor creating new entertainment opportunities. Generally, the stadium simply would shift

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<sup>5</sup> It is possible that if the stadium is not built the City would choose to spend the same amount of public money on some other project(s). There are many scenarios that one could consider for alternate uses of this public money. Each scenario would result in a different net economic impact. ECONorthwest was not asked to consider any particular scenarios. For simplicity, we assumed the alternative to the City building the stadium in Lents, is not building anything at all, and reducing the tax burden for Portland residents and businesses for private consumption and investment.

events already occurring in the City from one location to another. Operating the stadium would support a number of jobs on-site (e.g., vendors, ticket-takers, coaches, players, etc.) and off-site (e.g., employees at bars, restaurants, and other retailers near the stadium). However, to a large degree, this activity also would be shifted from PGE Park and surrounding businesses.

It is possible that the new stadium may qualitatively improve the fan experience, so there may be improvements in the quality of activity if not the quantity. Even if the end result were greater spending by Portland-area consumers on sports events, this necessarily comes at the expense of spending on other activities, with little net economic effect. (See the discussion below of consumer choice benefits.)

Without detailed information on how the operations of the proposed stadium would differ from operations at PGE Park, we assume the two stadiums would operate in substantially the same manner, and the positive impacts of the new stadium would be offset by the negative impacts at PGE Park. In other words, operating the new stadium would generate no net, new economic benefits.

### **2.3 CONSUMER CHOICE AND OTHER BENEFITS**

Stadium developments have the potential to add to the level of economic activity and growth by means other than their construction spending impacts. In particular, to the extent a new stadium adds to the diversity of recreational opportunities in the region, an increase in public welfare may result. More choices allow consumers to better match their spending desires with recreational choices, increasing what economists call economic “utility.”

It also is theoretically possible that sports stadiums can increase a sense of regional pride thereby attract or retain residents and businesses wishing to share in these experiences. This appears unlikely in the case of the proposed baseball stadium since the team would be merely moving from one part of the City to another and, thereby, the action would not expand the diversity of recreational opportunities for residents Citywide. It is possible the stadium could boost civic pride in the Lents Neighborhood. Regardless, the available evidence suggests that these enhancement effects are small or negative.

### **2.4 CONSIDERATION OF ALTERNATIVE USES OF PUBLIC FUNDS**

Because the public sector has limited ability to borrow and tax to finance development, consideration of alternative uses of such funds should be part of any public investment decision. Public financing of the proposed baseball stadium would limit other, potentially more beneficial, opportunities. For example, other urban renewal or infrastructure projects, such as infrastructure improvements like roads, sewers, and parks, may be foreclosed by the exhaustion of borrowing or taxation capacity.

In addition, there may be synergies (positive or negative) between the new stadium and other events or opportunities created by moving activity from its current venue. We do not speculate here what, if any, those synergies might be. If there are no synergies, then each development option (at the new stadium or at its prior venue) can be examined incrementally, as is done here. It is more important to recognize that it is not just sport venues and activities that are involved in the stadium decision; the stadium development project properly should be part of a more comprehensive consideration of the portfolio of projects that best utilizes scarce public sector funding capacity.

### **3 INSIGHTS FROM THE LITERATURE**

Economists have conducted studies using data on the economic trends of cities that subsidized and financed stadiums, and those that did not. A review of the empirical literature, which was published by economists Dennis Coats and Brad Humphreys for the North American Association of Sports Economists (August 2008), concluded:

“The evidence reveals a great deal of consistency among economists doing research in this area. The evidence is that sports subsidies cannot be justified on the grounds of local economic development, income growth or job creation, those arguments most frequently used by subsidy advocates. The paper also relates survey evidence showing that economists in general oppose sports subsidies.”

Coats and Humphreys further note some common methodological errors in promotional literature advocating public subsidies for stadiums. Among the most common error is to neglect considering that “tax collections used to pay stadium debt, for example, could have gone for other public projects with higher social rates of return than a stadium.”

In one study, Professors Robert Baade and Richard Dye (“The Impact of Stadium and Professional Sports on Metropolitan Area Development” *Growth and Change*, 1990) concluded:

“More and more cities are being encouraged to subsidize sports stadiums as an economic development tool. In this paper regression analysis using census data on nine different metropolitan areas is employed to evaluate the impact of stadiums and professional sports teams on area development.... The evidence presented here is that the presence of a new or renovated stadium has an uncertain impact on the levels of personal income and possibly a negative impact on local development relative to the region. These results should serve as a caution to those who assume or assert a large positive stadium impact.”

Based on previous research and literature on the topic, and our understanding of the proposed baseball stadium, ECO, indeed, took a cautious approach to this analysis.

## 4 ANALYSIS AND RESULTS

### 4.1 GROSS JOBS IMPACTS

Regarding gross job impacts, our analysis concludes:

- The construction cost of the stadium is estimated to be \$49 million.
- Construction of the stadium would result in gross impacts of 383 job-years of employment directly on construction and a combined 453 job-years of employment in total throughout the economy while the stadium is built.
- But because approximately 67 percent of workers on heavy construction projects and 26 percent of workers, in general, employed in the City live outside of Portland, the project would only yield 175 gross job-years of work for Portland residents during the construction phase.
- The purchase of land for the replacement soccer fields would cost \$2 million. This has little employment impact, but does add to the financing burden.<sup>6</sup>

### 4.2 NET JOBS IMPACTS

Based on the data provided and estimated, the entire Lent's project would cost about \$51 million. Of that, it is our understanding the approximately \$42 million would come from tax increment bonds in the Lents urban renewal area, and the remaining \$9 million would be generated from a combination of funds that include private finance, state funds and the metro regions spectator visitor's fund. For the purposes of our analysis, we have assumed \$4 million would come from private investors. This public financing imposes a burden on private spending, and thus creates job losses that offset the gross gains:

- To the extent that the City's obligation is financed using local tax and fee mechanisms, City property or other taxpayers thus bear the burden of the stadium finance. In effect, the project diverts \$47 million from private consumption and investment activities to the construction of the stadium.
- The economic impact of a reduction in private spending of \$47 million by households and businesses yields 357 job-years (present value) of employment losses to residents living in Portland. Thus, the Lent's project would have a net impact of a 182 job-year loss on the City's economy (a gain of 175 from the construction less a loss of 357 due to reduced spending by households and businesses because of higher taxes).
- Depending upon the precise pattern of non-City jobs creation or losses associated with the stadium development and operation, jurisdictions other than

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<sup>6</sup> This does not include the cost of converting the new land to soccer fields. Using 2006 Facilities Construction Cost Data (R.S. Means) we estimate this cost would be about \$2,033,000.

the City would be affected. The composition and net effect of these non-City impacts was not calculated.

The analysis concludes that the net economic impact of the Lents stadium project would be to cause a decline in economic activity resulting in a loss equivalent to 182 job-years of employment in present value (current year) terms.

### **4.3 IMPLICATIONS**

Our analysis suggests that the construction of the proposed Lents stadium will create fewer jobs in the City of Portland than would otherwise be created if the public money from taxes were left with households and businesses to spend on private consumption and investment activities. In other words, the project would have a negative economic impact. This is because construction projects are capital- and materials-intensive and use specialized labor that tends not to live in the City. If the stadium is not built, we assume that residents and businesses would keep the money for private consumption and investment. The money would tend to be spent locally, and thus have a higher employment impact in the City.

The implication of our analysis and professional studies is that stadiums are best justified as enhancements of consumer choice, and not as economic or development engines. If consumer choice is enhanced by such activities, patrons should be willing to pay for the enhancement. Whether they view the value of the enhancement to be of sufficient magnitude that their purchases of tickets and concessions generates enough revenue to fund the stadium is a question for a market analysis, and not one we have examined here. It seems fair to assume, however, that since almost all of the \$51 million cost of the new stadium is expected to come from public funds, users of the stadium are unlikely to pay prices that will pay for the amortized cost of constructing the facility.