NFL Players' Protests Focusing Attention on League's Tax Breaks

The knee-bending antics of professional football players are focusing attention on a key issue: Are the taxpayer subsidies involved in supporting the NFL worth it in generating new revenues as promised? An issue getting less attention is whether taxpayers should be involved in supporting professional football in the first place. Especially when those in the league are thumbing their noses at the very taxpayers who are funding them.

Jeff Mordock, writing in the *Washington Times*, said that "the protests are sparking a conversation on the NFL itself and whether the public investment in teams pays off for [the] communities that host them — and often serve [instead] as their cash machines."

That conversation is revealing what economists have concluded from time immemorial: there is no net gain to taxpayers either from their funding of stadiums or helping the teams' owners purchase their players' contracts.

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Here is the pitch from owners: "Pay for our new stadium because it will create economic growth and jobs. That will generate greater tax revenue which will assure that the community comes out ahead in the end. Besides, it will be a 'feather in the cap' for your city to have us locate our team there."

The cost of that "feather" turns out to be enormous and often continues long after the team leaves for greener pastures elsewhere. Professor Michael Lees, chairman of Temple University's Economics Department, said there is no net gain, thanks to the "substitution effect": "NFL games have a huge substitution effect. That means new money is not introduced into the economy but rather gets shifted around." Translation: The presence of a brand new shiny and expensive NFL stadium doesn't increase spending. It merely siphons away money that would otherwise have been spent on other forms of entertainment such as restaurant dining or theatre shows.

A look at how the taxpayers were hoodwinked into inflicting on themselves a half-percent sales tax to pay for the Paul Brown Stadium in Cincinnati in 1995 reveals the fraud. It began when owner Paul Brown of the Cincinnati Bengals threatened to move the team unless a new stadium was built. A study from the University of Cincinnati released at the same time showed that the Bengals added $77 million to the local economy.

After passing the tax increase and allowing the issuance of tax-exempt bonds to help build the $287 million stadium, reality set in. By the time the stadium opened in 2000 cost overruns had pushed the price tag to nearly $450 million. Whatever economic calculations that were made by the UC professors went out the window.

First, the estimated tax revenues from the tax increase fell below expectations. Second, the costs of maintaining the stadium — maintenance of the facility and the surrounding parking lots — skyrocketed. Projections now put the cost to the taxpayers of operating the Paul Brown Stadium at an eye-popping $1.1 billion over the next nine years. Missing from the calculation is the lost revenue from turning valuable land that could have been developed by for-profit tax-paying enterprises into non-tax-generating parking lots.

But that was then. This is now: Las Vegas is bringing the hated Raiders from Oakland but only on the condition that local taxpayers agree to help pay for a new stadium. The Nevada state House decided, however, that rather than inflict a sales tax on Las Vegans it would instead inflict the pain on visitors to Sin City by raising the hotel room tax. Once again the idea is that outsiders who will flock to the city to see the Raiders play eight home games a year after the stadium is built will provide a stimulus to the local economy: a win-win all around.

The illogic is clear: when hotel room costs go up, economic law predicts that tourism will go down. But when the stadium goes up, tourism is instead supposed go up?

One key assumption that was used to sell the $2 billion project is that 450,000 new visitors every year will trek to Las Vegas to see the Raiders play. And it is further assumed that each visitor will stay there an average of 3.2 nights each time they visit. In addition it is assumed that at least a third of the tickets sold will go to tourists despite that fact that in no other city with a football stadium manages to sell more than 10 percent to visitors from outside. Henry Graber, writing for Slate, asked the most important question: "Why [would] half a million people fly across the country to watch a team that no one wants to pay $20 to see in Oakland?"

Nevertheless the city fathers, the bankers, and the taxpayers are moving ahead with financing the building of the second most expensive football stadium in the country. The Bank of America is loaning $650 million, $500 million is coming from the Raiders, and the balance from the increase in the hotel room tax. What could go wrong?

Behind the scenes the Bank of America was never part of the initial equation. Sheldon Adelson promised to pony up the $650 million but backed out when his accountants — using real numbers, no doubt — told him he couldn't count on getting even a two percent return on his money.

It's no wonder that Stanford economist Roger Noll looked at the numbers and said the Las Vegas/Raider stadium project is the "worst deal for a city" that he had ever seen.

Then there's a quirk in the federal tax law that allows a team owner to write off (deduct from current income taxes) what he paid for the team. Remember that a pro football team isn't anything more than player contracts. It's not a building that wears out or equipment that must be upgraded. It's salaries. And under federal tax law, the owner can write off the cost of the team over 15 years. For Terry Pegula, the owner of the Buffalo Bills, that amounts to a $93 million tax deduction every year for the next 15 years. That's $1.4 billion that he won't have to pay taxes on until he sells the team at some distant time in the future. Immediately, however, the American taxpayer is forced to make up the difference.

The Brookings Institute put all the numbers together and reported that American taxpayers have subsidized the construction of stadiums at more than $3.2 billion since 2000. Another study showed a much higher number: closer to $7 billion.

But why should taxpayers be involved in these schemes at all? If they're so wonderful, so profitable, to economically stimulating to local communities, why aren't they allowed to stand (or fall) on their own? Allowing them to issue tax-exempt bonds hides the cost while blatant upfront tax concessions and tax hikes reveal the costs, running into the billions.

Even after a team leaves, the costs continue. In 1995 St. Louis was so desperate to have the Los Angeles Rams move there that they granted the team owner a lease with an “out”: if the Edward Jones Dome ever lost its status as a “first-tier stadium” he could take his team and leave. It did and he did, leaving taxpayers with the tab. St. Louis and the state of Missouri still owe $78 million on bonds issued to build the stadium (which they will continue to pay on through the year 2022) while maintenance costs on the now largely vacant and unused facility are expected to cost taxpayers $144 million over the next five years.

What a deal! Plus, according to the media narrative, the players get to “exercise” their First Amendment rights — and in so doing offend the very taxpayers who help pay their salaries!

Photo of three Miami Dolphins players kneeling during National Anthem: AP Images

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