# Sports stadia (The Mega ones): what legitimacy for public funding?

## From the ancient stadium to the connected stadium

Whatever their purpose (competition, education, leisure, practice, entertainment), sports venues (stadia, arenas, specialised or multi-purpose sites, public or private, free or paid access) have been undergoing an unprecedented dynamic of construction, modernisation and upgrading throughout the world since the end of the 20th century. Indeed, the dilapidated state of the facilities, their monofunctionality, their unsuitability to the new expectations of the population, as well as the requirements of high-level sport explain the extent and intensity of these investment programmes. This is the sixth generation of stadia:

1. Ancient stadia (straight track and stands);
2. 19th century Stadia up until the 1920s (amphitheatre model);
3. Stadia that were symbols of power until the 1950s (very large, bowl-shaped and surrounded by a cycling track);
4. Stadia incorporating technological developments in materials and adapted to democratisation by television (no cycling or athletics track, rectangular stands and all covered);
5. Stadia designed to ensure the safety of the public after the tragedies of the 1980s and 1990s (Heysel in Brussels, Furiani in Bastia), to improve the media coverage of competitions, with the emergence of multifunctionality and multi-activity (retractable roof, boxes, etc.);
6. Functional, multifunctional, multi-activity and connected stadia at the beginning of the 21st century, with an architectural approach that reflects the identity of a territory, a sustainable development dimension, optimal comfort, a customer path, a public relations venue, etc. (business seats, VIP areas.) [Andreff, 2012].

## The general economics of sporting venues

A sports facility is always underused. If it is solely dedicated to practicing, then there is always an imbalance between the number of services offered and the volume of demand for these same services because it is impossible, for obvious reasons, to operate a facility twenty-four hours a day, every day of the year. If it is a venue offering entertainment as well, then it is in excess of its services for a large part of the year barring matchdays (about fifty per season on average) and even on matchdays, since the occupancy rate of the stadium or hall fluctuates, depending on the championship and the discipline, of between 40 and 100%. On the other hand, sometimes the venue capacity may be insufficient, particularly during major events in the calendar.

The construction of a new stadium devoted solely to sporting events is rarely profitable. This is why only sports diversification (several resident clubs as in North America) and extra-sports activities (concerts, trade fairs, conventions, etc.) can reduce the deficit. In addition, if there were no public funding, the decision to build would not be taken by the private sector.

The recurrent impact of a mega-stadium on local public finances is to increase their deficit, which is amplified if, beyond the construction cost, the public authority assumes its operating and maintenance cost yet does not receive any income from its operation or if the authority grants the resident club or temporary occupier of the public domain a tax exemption.

In all these cases, there is a transfer of income from taxpayers to club owners and event organisers, as well as to professional athletes through local taxation. Residents who are not fans, spectators, nor interested in sport, are taxed to improve the finances of the shareholders of the companies concerned as well as the players and the clubs' supporters.

## A new concept: sports entertainment

The operation of a sports stadium is becoming a growing concern in the economic strategy of professional clubs, even if the considerable increase in TV rights may have led people to believe for a while that, in certain sports (football for example), the spectator's contribution was marginal and secondary [Bourg and Gouguet, 2017]. Therefore, these new stadia must be communal areas where people not only meet on matchdays but also benefit from them on other occasions. This is why their modernisation requires the transformation of the stadium or hall into comfortable, safe, interactive, federative and profitable spaces, integrating various forms of entertainment or activities.

These investments must correspond to real urban projects, bringing together a housing estate complex, a shopping centre, a sporting and cultural spectacle business, hotels and restaurants. It is advisable to focus on sports entertainment and to develop the 'business centre' concept, with modular equipment to attract companies (meetings, conferences, seminars, offices, catering, accommodation, etc.).

This strategy has already been implemented in the United States, England and Germany. Of course, this model is only envisaged in large metropolitan areas with a hinterland, in terms of population-level and the size of the public and private partners, who can bear both the investment and operating costs of an elite club and this type of stadium. A new facility is expected to increase the average attendance by 30-40% on a sustainable basis. The conditions for the profitability of the stadium are based on multifunctionalism, gentrification and the organisation of at least 120 to 150 events per year, one-third of which are sporting events.

## Public funding of dedicated professional sports facilities: the reasons

How can it be said that a mega-sports stadium is in the public interest? How can we determine that such an allocation of public funds would not be more socially profitable in another sector (education, health, environment, etc.)? [Gouguet, 2011]. Several lessons can be drawn from the public funding of North American arenas. Indeed, the professional teams in the five main leagues (MLB, MLS, NBA, NFL, NHL) have been receiving increasing public subsidies for the development of their facilities for about sixty years. More than 80% of them have benefited from public funds, which have represented more than three-quarters of their overall cost.

There are several reasons for the increase in public funding and the increase in the pace of construction over the last three decades. For the franchises (clubs), the revenues from the operation of the stadium are vital because they are not shared equally like TV and commercial rights. Moreover, a change of venue systematically allows clubs to renew their audience and increase their revenues by attracting a more affluent and higher spending clientele in addition to increasing the ticket price.

Two peculiarities of the North American model give considerable lobbying power to franchise owners over local public authorities. First, the producers of the sporting spectacle (the clubs) function as unregulated monopolies in the territory in which they operate, as do the leagues, which hold an unregulated monopoly on the supply of their discipline, both of which are exempt from anti-trust laws. In addition, with the geographical mobility of franchises (the operating licence is not legally attached to a city, but an owner), the clubs may, with the approval of the league, seek the most profitable conditions by moving to another city, county or state.

Competitive bidding between cities to host a professional team, with the threat of losing economic and media returns is often an effective way to pressure elected officials to obtain public funding and tax exemptions [Coates, 2019]. There is always one city that will outbid the others, without knowing the exact value of what the club will bring to the city. The city that wins is the one that overvalues the benefits the most.

Many large cities, faced with the dilemma of losing their team or building a new stadium, take the latter option. The leagues' imperative is to accelerate the upgrading of facilities, on the one side, to maintain or increase the percentage of spectator entertainment spending captured by their clubs, and on the other to mitigate the opposition of the richest clubs to the system of egalitarian pooling of the revenues they redistribute. The leagues' monopoly allows them to choose both the number of franchises and where they play. This strategy creates excess demand from cities by rationing supply. This strengthens the bargaining power of franchise owners over local officials who fear team relocation.

## The justifications for public funding: economic *vs.* political legitimacy

Two categories of arguments are frequently put forward: modernising stadiums would allow clubs to develop their revenues and be less dependent on subsidies; the economic impact of these new stadia for the territories concerned would become significant, or even compensate for the public investment. A positive correlation has been established between the level of public subsidies and the evolution of the wage bill, as the increase in team resources is fully absorbed by the increase in salaries that it immediately generates. Frankly, the ratio of coverage of expenses by revenues has not improved at all and public support is more essential than ever [Baade, 2005].

With regard to calculating the economic impact of mega-sports facilities, econometric tests in North America to see if there is a link between sales, value-added, employment and the presence of a franchise and a stadium on a given territory are very disappointing. The economic benefits for the local area are minimal, spending by non-local spectators is derisory and there is no cumulative effect of increased activity. The media impact is real, but difficult to quantify.

New venues simply redirect people's entertainment spending, as three examples illustrate. By building stadia with shops, cities direct consumers to them, which enriches the clubs at the expense of other shops in the city (substitution effect). By suspending their leagues for long periods due to owners' lock-outs or players' strikes, the leagues have not caused any decrease in the level of business in the cities concerned, but a simple transfer of spending to the cinema, the theatre, restaurants, etc. (substitution effect). By paying very high salaries to their players, the clubs contribute to exporting part of the region's wealth, since most of this income is not spent locally (leakage effect).

At the crossroads of economics and political science, another origin of the power of sporting authorities over public authorities is the rational actor model [Fort, 2011]. According to this approach, the benefits tend to be captured by the most powerful lobbies, while the costs are borne by those who have no power because they are unorganised. As a monopolist in the local and regional market for baseball, basketball, American football, soccer, or ice hockey, the franchise will capture additional revenues through its dominance in the market. In other words, this market failure allows this redistribution of wealth to the benefit of the sports actors (leagues, franchises, athletes), and of the actors belonging to the sports business industry (construction companies, shops located in the stadium, television channels, sponsors, sports agents, etc.), to the detriment of public authorities, taxpayers and spectators.

Public aid is not justified by economic factors. The decision is based on societal and political criteria: pride in belonging to the same community, social mix, social cohesion, encouragement of sporting activities, and reputation of the city. There are external effects generated by the resident clubs in terms of social utility: the value of the events co-produced by the teams for the supporters (use value) and the inhabitants (non-use value). In addition, local elected officials consider that a new stadium is a very positive element in the balance sheet of their mandate. No elected official wants to appear as the one who has lost the city's professional team, nor risk losing the next election over it.

The legitimacy of new venues can be seen through two questions:

1. What can a mega-stadium bring in terms of economic impact to a territory?
2. What other investments are a department or region ready to renounce to have a larger stadium? [Gouguet, 2011].

The answer to these two questions implies making an enlarged economic calculation, which in reality is extremely rare [Gouguet, 2011].

## Oversized and expensive public policies: the case of France

In terms of mega-stadia, the public authorities have sometimes made questionable choices: costly and inefficient legal arrangements (the public-private partnership contracts for the Euro 2016 football stadiums stigmatised by the regional audit chambers), economic inconsistency (oversizing the capacity of the stadia by around 20 to 40%), underestimation of the sporting risk for the resident club (irregular presence at the highest national and European levels), failure to take into account the financial risk (consequences of sorting uncertainty). The cost of these bad practices is socialised, with the taxpayer compensating for the inconsistency of public decisions, the lack of spectators and the failure of shareholders. [Bourg and Gouguet].

Since the 2010s, unprecedented investments (more than ten billion euros) have been devoted to the development or renovation of numerous facilities to meet the specifications of several mega-events hosted by France: Euro 2015 basketball, Euro 2016 football, 2017 World Handball Championship, 2023 World Rugby Championship, and 2024 Summer Olympics.

The public contribution required for Euro 2016 (1.8 billion euros) represents a significant expense for an exceptional but non-recurring event, with a very high concentration of budgetary resources on a very small number of ultra-sophisticated facilities (four new stadia, six upgraded stadia), and only dedicated to hosting a few Euro matches and certain Ligue 1 clubs. Similarly, how the stadia are operated by UEFA during the event, via an ad hoc commercial company (and then during the French championship by SASPs) reflects a situation of socialisation of costs and privatisation of profits. Almost all the costs of the Euros were borne by taxpayers. On the other hand, 95% of the commercial revenues and profits of the event (€830 million out of a turnover of €1.93 billion) were collected by UEFA.

Additionally, the 'Euro 2016' effect and the 'new stadia' effect, with quantitatively and qualitatively better standards, should have led to a sustainable increase in public attendance. This was not the case. Before and after the opening of these stadia, the average number of spectators per match remains between 21,000 and 23,000 and the occupancy rate fluctuates between 70 and 75%. The structural nature of the handicaps of French football should have encouraged the public decision-makers to be more measured in the calibration of these venues in relation to the real needs of the clubs.

As a corollary, the objective of the new football stadium development programme was to enable a change in the revenue models of French clubs, and in parallel, a reduction in the public subsidies paid to them. The ex-post economic results did not match the ex-ante objectives. The final impact of these investments underlines the lack of relevance of such a public policy and the lack of efficiency in the use of the 'stadium' resource [Moulard,2018].

In effect, the fundamental problem posed by the French Ligue 1 is that of the relevant market for its clubs, which in theory have far fewer opportunities to fill their stadia than their foreign competitors. This is because the capacity of French stadia is overestimated concerning the number of inhabitants of the urban areas, and of the clubs' hinterlands (20 potential customers per seat in France, more than 30 in Germany). The low density of French elite clubs in very large cities (only one club in Paris, 60% of clubs in urban areas with fewer than 500,000 inhabitants) is another illustration of the weakness in their potential audience compared with foreign domestic teams (six clubs in London, two in Madrid, Rome, Barcelona, Milan, Turin, Liverpool and Manchester).

The shortcomings in the functioning of the democratic game (no referendums, no scientific studies on the economic impact of the project and its social utility, no cost-benefit analyses), the dominant position of pressure groups (the sports entertainment industry) and the power of influence of the sporting authorities (the specifications and standards of the stadium conditioning participation in the competition, the development projects of the resident clubs to be more competitive) lead to the same results as in North America, i.e., almost everywhere fully public financing of large sports venues. Despite the growing budgetary constraints of local authorities and the policy trade-offs they have to make, local authorities are still reluctant to privatise the ownership of sports facilities and the management of facilities that structure the life of the city and territory.

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