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NFL TEAM RELOCATIONS IN THE AGE OF MODERN STADIUM FINANCE: MOTIVATIONS FOR A TEAM TO MOVE AND IMPLICATIONS FOR SMALLER MARKETS

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INTRODUCTION: FOOTBALL IN LOS ANGELES

It was only a matter of time before a professional football team returned to Los Angeles. Access to this sort of desirable market, with a population of more than eighteen million people,[1] an entertainment industry that annually generates approximately $120 billion in output,[2] property with an aggregate value of more than $1 trillion,[3] and over forty-five million tourists a year,[4] could not remain untapped for long. In fact, teams used the threat of moving to Los Angeles to extract sub-

1. DISCOVER LOS ANGELES, http://www.discoverlosangeles.com/press-releases/facts-about-los-angeles (last updated Mar. 30, 2016) (this population figure includes the entire Los Angeles Five-County Area).

2. KLEINHENZ ET AL., , THE ENTERTAINMENT INDUSTRY AND THE LOS ANGELES COUNTY ECONOMY (Nov. 2012), http://laedc.org/reports/Entertainment in LA.pdf.

3. Hannah Miet, *Los Angeles Real Estate More Valuable Than Ever*, L.A. BUS. J. (Aug. 28, 2014), http://www.labusinessjournal.com/news/2014/aug/28/los-angeles-real-estate-more-valuable-ever/ (this aggregate property value is inclusive of property in the entire Los Angeles Five-County Area).

4. DISCOVER LOS ANGELES, *supra* note 1 (this tourism total is inclusive of tourism in the entire Los Angeles Five-County Area).

sidies from their local municipalities for years.[5] By the 2015 National Football League (NFL) season, however, moving to Los Angeles was no longer just a threat. Three different teams, the Oakland Raiders, San Diego Chargers, and St. Louis Rams, all taken by the appeal of Los Angeles, began vying for the opportunity to play in the city.[6] On January 12, 2016, the NFL owners approved the St. Louis Rams' bid to relocate to Los Angeles[7] and left open the possibility of the San Diego Chargers moving there as well.[8]

Yet, the fact that Los Angeles gained a football team with potential for a second is only one side of the story. The other side is that team ownership in Oakland, San Diego, and St. Louis no longer viewed their smaller markets as viable to support professional football teams. In the words of one prominent economist, St. Louis is "too small of a community" to support an NFL team, as teams "want to be in bigger markets [such as Los Angeles]."[9]

This Note will demonstrate that, in a period of declining municipal subsidies, smaller market NFL teams stand to profit from relocating to larger markets due to several new stadium financing methods. These increasingly common techniques, which help generate revenue through "sports communities,"

5. *See, e.g.*, Mike Florio, *The Staggering Taxpayer Costs of Paul Brown Stadium*, PFT (Jan. 18, 2016 10:35 AM), http://profootballtalk.nbcsports.com/2016/01/18/the-staggering-taxpayer-costs-of-paul-brown-stadium/ (reporting Hamilton County, Ohio subsidized both stadium construction and ongoing operating expenses of the Bengals under threat of the team moving, totaling $1.1 billion between 2000 and 2026).

6. CBS News, *Will Los Angeles Finally Get a Football Team? They Might Get Two*, CBS THIS MORNING (Oct. 31, 2015 2:34 PM), http://www.cbsnews.com/news/will-los-angeles-finally-get-a-football-team-they-might-get-two/.

7. Although the team will be called the Los Angeles Rams, the stadium will actually be in Inglewood, California, which is less than nine miles away from downtown Los Angeles. *See* DISTANCE BETWEEN CITIES, http://www.distance-cities.com/distance-los-angeles-ca-to-inglewood-ca (last visited Mar. 14, 2016).

8. Sam Farmer & Nathan Fenno, *NFL Will Return to Los Angeles for 2016 Season*, L.A. TIMES (Jan. 12, 2016), http://www.latimes.com/sports/nfl/la-sp-nfl-la-chargers-rams-20160113-story.html.

9. A.J. Perez, *After Losing Another NFL Team, Unlikely St. Louis Will Be Able to Get Another*, USA TODAY (Jan. 14, 2016), http://www.usatoday.com/story/sports/nfl/2016/01/13/st-louis-rams-nfl-relocation-los-angeles-economics/78741320/ (quoting Allen Sanderson, an economics professor at the University of Chicago).

personal seat licenses, and stadium sponsorships, are far more effective at financing stadiums in larger markets and therefore encourage smaller market teams looking to build new stadiums to move to larger markets. Moreover, the NFL's owners are likely to approve these moves because larger markets generate additional television revenue that is entirely shared among NFL teams. Additionally, the owners collect a relocating free from the moving team. Consequently, this Note will argue that further relocations to larger markets can be expected in the coming years as long as these stadium financing methods continue to be used.

I.
THE EVOLUTION OF STADIUM FINANCE

A. *Introduction*

In order to understand the nature of modern NFL stadium finance and its effect on team relocations, it is first necessary to track the historical evolution of stadium finance and describe how each model has impacted NFL teams' incentives with regard to relocating. To properly do so, this Section will venture beyond the NFL and describe the broader evolution of stadium finance across all professional sports, including Major League Baseball (MLB), the National Baseball Association (NBA), and the National Hockey League (NHL).

B. *History*

At the beginning of the twentieth century, the early years of professional sports, teams did not relocate often. Instead, any city that did not have a professional sports team, but could support one, was able to form their own new team (i.e., an expansion team).[10] As a result, teams were left without any leverage to induce stadium subsidies from their local municipalities and were forced to finance their own stadiums.[11] Over time, however, teams with shrinking stadium attendance began to see the benefits of relocating to the quickly-growing cit-

10. MARK CONRAD, BUSINESS OF SPORTS: A PRIMER FOR JOURNALISTS 204 (Lawrence Erlbaum Assocs., 2d ed. 2006) (noting that the New York Giants, Detroit Lions, and Cleveland Browns were all expansion teams).
11. *Id.* at 212.

ies out West, which did not already have their own teams.[12] Financially-pressed teams in struggling markets started to recognize that if they relocated, they could capture the benefits of these burgeoning markets rather than an expansion team.

In the 1950s, teams exhibited a newfound desire to relocate, while a limited supply of teams were allowed in each professional league in order to create territorial monopolies.[13] These conditions produced a different power balance in which teams that were looking for new stadiums held leverage over their municipal governments.[14] If a municipality would not provide financial assistance for the local team's stadium, the team could easily relocate to a municipality that would contribute funding.[15] Initially, elected municipal officials were happy to offer generous financial assistance, claiming that it boosted local economic activity.[16] Moreover, politicians were well aware of the strong "emotional bond" that their constituents had toward local teams and feared the political backlash that they would face if they allowed the team to leave.[17] In other words, the general public supported stadium subsidies, and, without serious public scrutiny, elected officials were able to offer large subsidy packages without fully considering their costs and benefits.[18]

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12. *Id.* at 205. These markets did not already have their own teams because they were only first becoming accessible to sports leagues with the advent of commercial air travel.

13. Louis P. Cain & David D. Haddock, *Similar Economic Histories, Different Industrial Structures: Transatlantic Contrasts in the Evolution of Professional Sports Leagues*, 65 J. ECON. HIST. 1116, 1121 (2005).

14. Bruce W. Burton & Matthew J. Mitten, *Professional Sports Franchise Relocations from Private Law and Public Law Perspectives: Balancing Marketplace Competition, League Autonomy, and the Need for a Level Playing Field,* 56 MD. L. REV. 57, 97 (1997).

15. Zachary A. Phelps, *Stadium Construction for Professional Sports: Reversing the Inequities Through Tex Incentives*, 18 ST. JOHN'S J.L. COMM. 981, 985 (2004).

16. ?"For politicians eager to embrace sports deals, it's easy to find consulting firms willing to produce glowing 'economic impact studies.'" Neil DeMause, *Why Do Mayors Love Sports Stadiums?*, THE NATION (Jul. 27, 2011), http://www.thenation.com/article/why-do-mayors-love-sports-stadiums/; *see also* Phelps, *supra* note 15, at 1012; Dennis Coates & Brad R. Humphreys, *Do Economists Reach a Conclusion on Subsidies for Sports Franchises, Stadiums, and Mega-Events?,* 5 ECON. J. WATCH 294, 300 (2008).

17. Burton & Mitten, *supra* note 14, at 98.

18. *Id.*

Traditionally, municipal subsidies were offered in one of three ways: (1) by designating the stadium construction bonds as tax-exempt municipal bonds,[19] which allowed teams to pay lower interest payments to bondholders because the bondholders would not be taxed on the interest payments they received; (2) by exempting the stadium property from property taxes;[20] and/or (3) by offering direct cash contributions to help fund the stadium construction.[21]

As public stadium subsidies became increasingly common, economists began to study their effectiveness. The general consensus, nearly universally accepted in the academic community,[22] was that these subsidies were an inefficient way to promote economic development.[23] The studies found that sports stadiums do not actually impact the local economy significantly[24] and that there are much more effective methods to create jobs and boost the local economy with public money.[25] Moreover, stadium subsidies tend to cause municipalities to spend far beyond their means.[26] Meanwhile, team owners benefitted tremendously, as their franchises' values were significantly boosted as a result of public subsidies.[27] A recent study focusing on cities that lost a professional sports team subsequently confirmed that such cities saw "no statistically sig-

19. Anoop K. Bhasin, *Tax-Exempt Bond Financing of Sports Stadiums: Is the Price Right?*, 7 VILL. SPORTS & ENT. L.J. 181, 182–83 (2000). Subsequently, the Tax Reform Act of 1986 was passed to curb this abuse. *Id.* at 184.

20. Stephen F. Ross, *Monopoly Sports Leagues*, 73 MINN. L. REV. 643, 649 (1989).

21. Phelps, *supra* note 15, at 1011.

22. Coates & Humphreys, *supra* note 16, at 296 (eighty-six percent of economists surveyed "agreed" or "strongly agreed" governments should cut subsidies to professional sports franchises).

23. Matthew J. Parlow, *Publicly Financed Sports Facilities: Are They Economically Justifiable? A Case Study of the Los Angeles Staples Center,* 10 U. MIAMI BUS. L. REV. 483, 513–17 (2002).

24. *Id.* at 517.

25. *Id.* ("Several studies indicate that cities could benefit more through other investment and development options.").

26. *See, e.g.*, Phelps, *supra* note 15, at 996. In particular, municipal bidding wars often result in the winning municipality offering a subsidy that is beyond its financial means. Burton & Mitten, *supra* note 14, at 61; *see also* Florio, *supra* note 5 (arguing Cincinnati spent well beyond its means when it offered the Bengals a $1.1 billion subsidy over a twenty-six year span).

27. Parlow, *supra* note 23*,* at 490.

nificant effects" on per capita income or on unemployment in the years after losing the team.[28]

Notwithstanding the cogent argument put forth by economists, many municipalities[29] turned to the initial justifications for stadium subsidies and continued to offer them.[30] They claimed that the economic studies did not paint the full picture, without the ability to capture the effects of many unquantifiable local benefits, such as civic pride[31] and the notion that being a "big-league city" legitimizes the city and helps it attract business.[32] Yet, even those elected officials who accepted the legitimacy of the economic studies were still stuck with a catch-22. Their choice was to either provide the costly subsidy in order to keep the team or show restraint, lose the team to a municipality willing to provide the subsidy, and deal with the fallout from constituents. Despite the growing body of economic literature demonstrating the ineffectiveness of stadium subsidies, municipalities continued to offer subsidies because of the strong leverage held by the teams.[33] In this era of municipal subsidization, a team's decision about where to locate was significantly affected by the subsidies that municipalities offered them. As a result, municipalities that could afford subsidies

28. Jesse Stephenson, Letting Teams Walk: Exploring the Economic Impact of Professional Sports Franchises Leaving Cities, 21 (Spring 2013) (unpublished MPA/MPP Capstone Project, University of Kentucky), http://uknowledge.uky.edu/cgi/viewcontent.cgi?article=1024&context=mpampp_etds.

29. Note, however, that municipalities in certain states were never able to offer these sorts of subsidies. For example, municipalities in California were, for all intents and purposes, never able to offer subsidies because "Propositions 13 and 218 require two-thirds of voters to support a special tax levied specifically to finance a specific project, such as a stadium." Mike Swift, *Seeking a Way to Pay For a New 49ers Stadium*, SAN JOSE MERCURY NEWS (Mar. 20, 2007), http://www.mercurynews.com/ci_5477250.

30. *See* Coates & Humphreys, *supra* note 16, at 299–300.

31. Burton & Mitten, *supra* note 14, at 60.

32. *Id.* at 65, 98. Wisconsin State Representative Marlin Schneider highlighted this point in the memorable quote: "Without the Brewers, without the Bucks, without the Packers, [Wisconsin] ain't nothing but another Nebraska." *Quotables*, CHI. TRIB. (Oct. 2, 1995), http://articles.chicagotribune.com/1995-10-02/news/9510020083_1_cubs-fan-law-professor-paul-rothstein-cab-drivers.

33. *See* Roger G. Noll & Andrew Zimbalist, *Sports, Jobs, & Taxes: Are New Stadiums Worth the Cost?*, BROOKINGS (Jun. 1, 1997), http://www.brookings.edu/research/articles/1997/06/summer-taxes-noll.

were much more likely to attract and maintain professional teams.

C. *The Economics of Business Subsidization as Compared to Stadium Subsidization*

To better understand the role and impact of stadium subsidies, it is important to situate them within the broader context of business subsidies. Generally, economists view the competition to offer business and tax subsidies designed to attract specific businesses to their state as costly and unproductive, both to the state offering the subsidy and to the national economy as a whole.[34] Notwithstanding this generally accepted position, "each state finds it difficult to walk away from the competition as long as other states continue to up the ante."[35] Put differently, as long as some states offer tax incentives, it becomes very difficult for other states to refrain from offering similar ones. In particular, businesses have become adept at pinning local governments against one another,[36] and they have come to expect subsidies from states.[37] The forces underlying general business subsidies are thus similar to those underlying stadium subsidies. Both demonstrate how elected officials are essentially strong-armed into offering incentives in order to induce local businesses or teams to stay. Furthermore, in both cases, although the local government may recognize the economic inefficiency of offering these subsidies, they will ultimately relent to the business or team, which retains all the leverage.

Despite the similarities between business subsidies and stadium subsidies, there is a crucial difference between the two. When businesses decide where to locate, they pay little attention to state subsidies. Other factors, such as "wage levels, skill levels, utility costs, accessibility of raw materials and markets, and regulatory stringency," more centrally influence their choices.[38] For sports teams, on the other hand, favorable stadium subsidies play a larger role in their decisions where to

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34. Peter D. Enrich, *Saving the States from Themselves: Commerce Clause Constraints on State Tax Incentives for Business*, 110 HARV. L. REV. 377, 380 (1996).
35. *Id.*
36. *Id.* at 395.
37. *Id.* at 394.
38. *Id.* at 391.

locate.[39] This is because stadium financing constitutes a substantial portion of a team's expenses and therefore plays an integral role in their bottom line.[40] In other words, while stadium subsidies may be economically inefficient to the municipality, they at least significantly impact a team's decision where to locate. In that sense, stadium subsidies are not as ineffective as general business subsidies, which are both economically inefficient and, unless enormous in size, unlikely to affect a business's ultimate decision about location.

II.
NEW METHODS OF FINANCE

A. *The Fall of Municipal Stadium Subsidization and Rise of New NFL Stadium Financing Methods*

The recent evolution of NFL stadium finance can now be understood within the context of general stadium financing.[41] As described above in Part I, although the economic arguments against stadium subsidies were widely accepted, NFL stadiums continued to receive subsidies for many years due to the leverage that teams held over municipalities. Consequently, many public officials interested in curbing this abuse of municipal funds wanted to nip the leverage problem in the bud by ensuring that cities did not compete against one another to attract NFL teams.[42] As a result of these efforts, a few different suggestions emerged: (1) deny relocations and require that a certain percentage of television revenue be used to create a stadium trust fund that would help teams pay for their new stadiums;[43] (2) charge a *relocation fee* to teams that move;[44] and/or (3) expand the number of teams in each league to

39. Phelps, *supra* note 15, at 1004–09.
40. *See, e.g.*, *id.*, at 1004; CONRAD, *supra* note 10, at 206.
41. All of the analysis in this Section is NFL-specific. Nonetheless, because the stadium financing methods described in this Section are used to finance all professional sports stadiums, many of the sources cited in this Section are not NFL-specific.
42. Many of these measures were not meant to address the NFL's relocation problem in particular, but to address the relocation problem that faced all professional sports teams.
43. Stadium Financing and Franchise Relocation Act of 1999, 1999 S. 952, 106th Cong. (1st Sess. 1999).
44. Phelps, *supra* note 15, at 1005.

meet the country's demand.[45] Although all of these recommendations were generally viewed as viable, the relocation fee alone was implemented.[46] Although the relocation fee—which in the case of the Los Angeles Rams was reported to be a hefty $650 million to be paid out over twenty years[47]—does limit a team's incentive to move, it clearly does not discourage relocations entirely. This is demonstrated by the fact that the Chargers, Rams, and Raiders were all interested in relocating to Los Angeles in spite of the fee.[48]

Notwithstanding the failure to curb relocations entirely, the supply and size of municipal subsidies has shrunk as a result of the 2008 recession, as cities began looking for ways to tighten their budgets.[49] Yet, even before municipal subsidies began to dry up, teams started experimenting with innovative models to privately finance their stadiums over the past two decades.[50] Since the recession, however, these models have

45. Burton & Mitten, *supra* note 14, at 133.

46. Ken Belson, *Rams Moving to Los Angeles Area, and Chargers Could Join Them*, N.Y. TIMES (Jan. 12, 2016), http://www.nytimes.com/2016/01/13/sports/football/rams-moving-to-los-angeles-area-and-chargers-could-join-later.html?_r=0; *see also* Phelps, *supra* note 15, at 1002 (implying that the Franchise Relocation Act of 1999 did not pass because of powerful lobbying by NFL owners and their investment bankers).

47. Belson, *supra* note 46.

48. *Supra* Introduction.

49. Martin J. Greenberg & Dennis Hughes, Jr., *Sports.comm: It Takes a Village to Build a Sports Facility*, 22 MARQ. SPORTS L. REV. 91, 92 (2011). "The recession has also increased the aggressiveness of public watchdog groups opposed to public subsidies for sports facilities." *Id.* at 160. *But see* Brad Tuttle, *'Fricking Ridiculous' NFL Stadium Seat Fees Cost Thousands—But Fans Pay Up*, TIME (Oct. 6, 2013), http://business.time.com/2013/10/06/fricking-ridiculous-nfl-stadium-seat-fees-cost-thousands-but-fans-pay-up/ (indicating that some subsidies are still being offered after the recession). Moving forward, this paper will assume that large municipal subsidies are a thing of the past. Nonetheless, as the economy continues to recover, this assumption may turn out to be incorrect. It is important to note that the conclusion of this paper is not dependent on this assumption, as the favorable stadium financing available in large markets, see *infra* Part III, may still overcome the municipal subsidies that smaller market municipalities are able to offer. *See infra* Part IV; *infra* text at note 166; Mike Florio, *St. Louis Submits Stadium Proposal to Keep the Rams*, NBC SPORTS: PFT (Dec. 29, 2015, 12:51PM), http://profootballtalk.nbcsports.com/2015/12/29/st-louis-submits-stadium-proposal-to-keep-the-rams/ (noting the over $150 million in public funds offered to finance a Rams stadium in St. Louis).

50. *See infra* notes 51–55.

taken on even greater importance since teams could no longer continue to rely on municipal subsidies as they had in the past. One model, the "sports communities" model ("sports.comm"),[51] involved concurrently building the stadium and developing its surrounding real estate in order to provide an additional income stream to offset the stadium construction costs.[52] Another model involved raising construction funds by selling personal seat licenses (PSLs), or rights to purchase season tickets for a particular seat in the new stadium before construction even began.[53] Finally, stadium sponsorships, the sale of a stadium's naming rights to a sponsor, although not new, have begun to demand substantially higher premiums in recent years and therefore play an increasingly important role in modern stadium financing.[54] These revenue sources,[55] which are used to offset stadium construction costs, will now be described in detail.

B. *Sports.comms*

A new stadium, like any other real estate development, provides an opportunity to revitalize an area. This is especially true when the stadium is built as a part of a "master planned sports and entertainment community," i.e., a sports.comm, that constructs office, retail, residential, and restaurant space based on an area's local needs.[56] To accomplish this, savvy

51. Martin L. Greenberg, Symposium, *International Sports Law & Business in the 21st Century: Sports Facility Financing and Development Trends in the United States*, 15 MARQ. SPORTS L. REV. 93 (2004) (coining the term sports.comm).
52. *See infra* Section II.B.
53. *See infra* Section II.C.
54. *See infra* Section II.D.
55. Another such model, created by Greg Carey and Robert Kraft and not considered further in this paper, lowered interest payments on the stadium's financing by combining construction financing and permanent financing in a complicated structure, which: (a) pledged future revenue from ads, naming rights, luxury suites, and concessions; (b) purchased credit enhancement; and (c) guaranteed construction with completion bonds. Greg Farrell & Andrew Martin, *How Goldman Banker Became NFL's Go-to Stadium-Finance Guy*, BLOOMBERG BUS. (Jan. 29, 2015), http://www.bloomberg.com/news/articles/2015-01-29/how-goldman-banker-became-nfl-s-go-to-stadium-finance-guy. Because the benefits provided by this model should not vary much across different markets, it will not be considered further.
56. Greenberg & Hughes, *supra* note 49, at 115.

team owners buy[57] more land than is needed for the stadium alone, knowing that the property will become more desirable once the stadium is built and made more accessible by infrastructure improvements, which typically follow stadium construction.[58] This property is then developed into a broader entertainment community. The sports.comm has proven to be an effective financing method since the property that surrounds the stadium provides the team owner with an additional source of revenue.[59]

Sports.comms also have the benefit of being flexible, in that teams can control the design of the surrounding development, and the advantage of its revenue not being shared among NFL owners in the same way as ticket revenue.[60] Moreover, unlike the traditional stadium revenue stream, sports.comms provide a 365-day-a-year revenue stream from diverse sources, including office, retail, and residential use. In other words, a sports.comm becomes a "super-regional lifestyle destination."[61] Further, the sports.comm is helpful to owners because the revitalizing nature of the development makes cities more willing to contribute to the capital needs of the area, such as roads and sewers.[62] The sports.comm has thus become an increasingly common model for stadium finance, as it provides a source of financing in an era of when government subsidies are minimal[63] and offers financial benefits at the onset of construction to help offset prohibitive construction financing in a way that a stadium's revenue cannot.[64]

57. Other procurement methods can be used as well. For example, eminent domain was used to acquire the land around the Barclays Center, an arena that is home to an NBA team and an NHL team, in order to develop the Atlantic Yards sports.comm. 730 Equity Corp. v. N.Y. Urban Dev. Corp., 43 Misc.3d 1226 (N.Y. Sup. Ct. 2014).

58. Greenberg & Hughes, *supra* note 49, at 115–16.

59. *See id.*

60. *See id.* at 116.

61. *Sustainability Initiatives,* PATRIOT PLACE, http://www.patriot-place.com/green-initiatives#.VucTZJMrKfQ (last visited Mar. 14, 2016).

62. Greenberg & Hughes, *supra* note 49, at 121. Note that even municipalities in California, which for all intents and purposes are unable to offer general stadium subsidies due to Propositions 13 and 218, are able to offer these sorts of ordinary capital improvements, which do not require levying any additional special taxes. *See* Swift, *supra* note 29.

63. *See* Greenberg & Hughes, *supra* note 49.

64. *See supra* Section II.A (describing this process in greater detail).

Capturing the sports.comm revenue at the onset of construction can be accomplished in several different ways. The first is via cross-subsidization, whereby the revenue received from the properties surrounding the stadium help pay for the cost of the stadium itself.[65] While this method is straightforward and may help offset the costs of financing the stadium over the long run, it does not help offset the stadium's high construction costs in early years.[66] This is because the properties developed around the stadium are unable to generate much revenue until a few years after the stadium is complete and the market has calibrated to reflect the real estate's new value.[67] Therefore, expensive financing is still required to fund the stadium construction and the surrounding development initially. Nonetheless, having the surrounding development can still provide some benefit in early years. The stadium's construction loan can be secured by the surrounding property, in addition to being secured by the stadium property itself, to lower the stadium's borrowing costs.[68]

The second way to benefit from the future income stream is through tax increment financing (TIF).[69] TIF allows the developer to secure the benefits of the expected increase in property taxes in the area—due to higher property valuations attributable to the sports.comm—in the form of payments from the government.[70] What makes TIF extremely helpful to the developer is the fact that she is given the benefits upfront, even though the increased tax revenues will not be generated until some time in the future. It is important to note that TIF,

65. *See* Greenberg & Hughes, *supra* note 49, at 116.

66. Even with construction financing, the financing is still expensive in early years, as interest on the construction loan compounds even if there are no interest payments due.

67. *Cf.* Greenberg & Hughes, *supra* note 49, at 137.

68. This type of loan is often called a blanket mortgage. "Rather than mortgaging each lot separately, a blanket mortgage can be used to reduce costs." QUICKEN LOANS, http://www.quickenloans.com/mortgage-glossary/blanket-mortgage (last visited Mar. 14, 2016).

69. Greenberg & Hughes, *supra* note 49, at 98.

70. CRAIG L. JOHNSON, TAX INCREMENT FINANCING 4 (Nov. 2002) (on file with author). See also *The NFL's Return to Los Angeles*, L.A. TIMES, Slide 6, http://www.latimes.com/sports/nfl/la-sp-sn-the-nfl-in-l-a-20151111-storygallery.html, for a rendering of the extravagant sports.comm, which is likely to fetch a high property valuation, that will surround the Rams' new stadium in Inglewood.

while providing financing upfront, also delivers an *additional* revenue stream, separate from the future revenue stream that the sports.comm itself will generate. Consequently, TIF is very helpful to the developer by lowering construction financing costs. In general, TIF is structured in one of two ways, both of which allow the developer to receive the benefits upfront: (1) the government provides funding for the sports.comm and expects to recoup at least that amount in the future through the higher property taxes;[71] or (2) the stadium owner is promised a right to a certain portion of the increased property tax revenue that the sports.comm is expected to facilitate.[72] Under the latter method, although the benefits do not materialize until after the stadium is complete, the owner can still utilize these benefits immediately by issuing bonds that are securitized by this future receipt of tax revenue.[73] Done properly, TIF presents a viable model for sports.comm financing and helps to substantially reduce stadium construction costs. Furthermore, it presents a more efficient form of government subsidy, as the subsidy amount is capped at the increase in tax revenue that the stadium generates.[74] Yet, the TIF model can run into problems in a situation where the appropriateness of the tax financing method is challenged in court. If the court ultimately rejects the appropriateness of the TIF, the bondholders are left at risk of not receiving the tax revenue. One illustrative contemporary example revolves around the bonds that were used to fund University of Phoenix Stadium, home of the Arizona Cardinals, which, instead of being secured by property taxes, were securitized by a local rented vehicle tax.[75] A few

71. Greenberg & Hughes, *supra* note 49, at 96. The government justifies these subsidies as "expenditures to promote development that would not otherwise be likely to occur." *Id.*

72. *Id.* at 97–98.

73. Jesse S. Ishikawa, *Developer-Funded Tax Incremental Financing: Promoting Development Without Breaking the Ban*k, STATE BAR OF WISCONSIN (May 2006), http://www.wisbar.org/newspublications/wisconsinlawyer/pages/article.aspx?Volume=79&Issue=5&ArticleID=1039.

74. In this sense, TIF is less a subsidy and more a way of allowing the stadium owner to capture some of the positive externality that she creates. *See* Greenberg & Hughes, *supra* note 49, at 96.

75. Aaron Kuriloff, *While Arizona Cardinals Soar, Legal Battle Puts Stadium Investors in Red Zone*, WALL ST. J. (Oct. 24, 2015), http://www.wsj.com/articles/while-arizona-cardinals-soar-legal-battle-puts-stadium-investors-in-red-zone-1445679183.

parties have challenged the legality of using this tax to fund the stadium.[76] In the interim, the bondholders' ability to reach the funds generated by this vehicular tax is uncertain.[77] To conceptualize the issues that TIF faces, if the TIF is secured by too expansive of a tax base—and thus becomes more like a general municipal subsidy than funding that actually captures the revenues that the project generates[78]—it will face the same hurdles that general municipal subsidies face.[79]

There are other ways in which the surrounding sports.comm development can be used to help finance stadium construction, including, the new market tax credit, which offers federal income tax credits for investments in certain low-income communities,[80] and the EB-5 program, which encourages access to cheap foreign capital by offering a green card to its participants.[81]

Overall, the sports.comm model is particularly promising because it is advantageous to both the NFL team owner and to the local municipality. Teams are happy with the favorable financing, and municipalities, meanwhile, appreciate the revitalization of entire urban areas that have fallen into disrepair.[82]

C. *Personal Seat Licenses (PSLs)*

A personal seat license is best described as a "deed to a specific seat in an NFL team's stadium."[83] Similar to sports.comms, the sale of PSLs has proven to be an effective financing method because PSLs allow the stadium owner to raise substantial additional revenue before construction even begins. A PSL entitles its owner to purchase season and post-season tickets for that seat, which can then be used or resold.[84] The PSL is issued by the team itself, and the license holder

76. *Id.*
77. *Id.*
78. *See* Greenberg & Hughes, *supra* note 49, at 96.
79. *See supra* Section I.B.
80. Greenberg & Hughes, *supra* note 49, at 98–99.
81. *Id.* at 99–100.
82. *Id.* at 101.
83. Mike Ozanian, *Are NFL Personal Seat Licenses Good Investments*?, FORBES (Nov. 25, 2015, 2:02 PM), http://onforb.es/1R6HiC2.
84. *Id.*

subsequently may resell the license on the secondary market.[85] PSLs are strictly regulated by the league's collective bargaining agreement, and a team can only issue them when it is constructing a new stadium or renovating its current stadium.[86]

In general, PSLs are tremendously beneficial to team owners, as they provide additional means to finance stadiums and lower the amount of funding the owner must contribute.[87] This is a windfall to team owners since they are given these additional funds without giving up anything in return. As a result, a portion of the stadium financing incidence, which would have fallen on team owners themselves before PSLs existed, now falls on the team's fans. Moreover, these revenues are exempt from the league's revenue sharing formula.[88] It is therefore not surprising that NFL teams have recently come to rely more on PSL financing. While PSLs raised $800 million in primary market financing between 1995–2008, they raised over $2 billion between 2009–2014.[89] To date, seventeen NFL teams have used PSL financing to help offset their stadium costs.[90] The Dallas Cowboys raised an astonishing $650 million in PSL financing.[91]

While the advent of PSLs has brought considerable benefits to NFL owners, and has helped reduce teams' reliance on municipal subsidies, it does present some downsides. One negative impact of PSLs is the fact that their resale values typically increase immediately after their issuance, only to taper-off over time and ultimately drop below the initial offering price.[92] Although many purchasers are aware of this trend,

85. *Id.* PSLs are thus similar to stocks due to their IPO-like initial sale and fairly liquid secondary market. *See, e.g.*, PSL SOURCE, http://www.pslsource.com/transfer_periods/ (last visited Sept. 27, 2016).

86. Steven H. Salaga, Empirical Essays in Sport Management (2012) (unpublished Ph.D. dissertation, University of Michigan) (on file with author).

87. Ozanian, *supra* note 83.

88. Salaga, *supra* note 86, at 7.

89. Ozanian, *supra* note 83.

90. PSL SOURCE, *supra* note 85.

91. For a complete list of the amount of PSL revenue that each team raised through September 2011, see, for example, *NFL Teams Sold an Average of 48,200 Personal Seat Licenses Last Season*, STREET & SMITH'S SPORTS BUS. DAILY (Sep. 8, 2011), http://www.sportsbusinessdaily.com/Daily/Issues/2011/09/08/NFL-Season-Preview/PSLs.aspx [hereinafter *Average PSLs Sold*].

92. Ozanian, *supra* note 83; *see also* Jason Notte, *5 Ways NFL Fans Lost the Personal Seat License Gamble,* THESTREET (Oct. 9, 2015), http://www.thestreet.

they decide to buy the PSLs anyway because even if a poor investment, PSLs are needed in order to buy season tickets.[93] Another related downside of PSLs is their impact on ticket prices. While NFL tickets were already considered unaffordable by many fans, PSLs have only exacerbated the problem. One politician went as far to describe PSLs as "just stealing from the people."[94] Finally, legal complications regarding seat ownership rights can arise once a team decides to relocate. In the case of the Rams, the team's existing PSL holders, from St. Louis, brought an unsuccessful lawsuit to have their PSL rights transferred to the Rams' new Inglewood stadium.[95]

D. *Stadium Sponsorships*

Although stadium sponsorships are not new,[96] the size of these sponsorships has grown tremendously over the past two

com/story/13318781/2/5-ways-nfl-fans-lost-the-personal-seat-license-gamble.html.

93. "Despite their risky investment prospects, San Francisco fans are racing to buy PSLs. After all, most fans don't buy PSLs to make money—they buy them to see their favorite teams." Dan Alexander, *NFL PSLs Have Become Very Risky Investments*, FORBES (Sep. 5, 2012), http://www.forbes.com/sites/danalexander/2012/09/05/nfl-psls-have-become-very-riskyinvestments/#d4c9c4712447.

94. Tuttle, *supra* note 49.

95. Although the PSL contract explicitly included the clause, "Licensee acknowledges that this Agreement remains valid only as long as NFL football is played at the Stadium by the Rams," PSL holders claimed that this represented a contract of adhesion, and that their rights to season tickets should be transferable to Inglewood Stadium. Mike Florio, *Rams PSL Contained Language Regarding Relocation, Lawsuits*, PRO FOOTBALL TALK (Jan. 23, 2016, 1:06 AM), http://profootballtalk.nbcsports.com/2016/01/23/rams-psls-contained-language-regarding-relocation-lawsuits/. The judge ruled against this transferability claim, but is requiring the Rams to "refund . . . deposit[s]," whose amounts are to be "determined at a later date." Nathan Fenno, *Rams Must Refund Deposits for Personal Seat Licenses or Offer Tickets to Some in St. Louis, Judge Says*, L.A. TIMES (Sep. 22, 2016), http://www.latimes.com/sports/rams/la-sp-rams-psl-lawsuit-20160922-snap-story.html. Had the plaintiffs won on the transferability grounds, it would have severely limited the Rams' ability to issue new PSLs, as many of the Inglewood seat licenses would already be owned. As it is, should the judge ultimately award large "deposit" damages, much of the revenue advantage of offering new PSLs at Inglewoord Stadium would be undermined. Large damages would also impact some the PSL analysis below. See *infra* Section III.E.1.b.

96. The first modern day stadium sponsorship was agreed to in 1972, for Rich Stadium, onetime home of the Buffalo Bills. Brad Sarna, *Wrigley Field Naming Rights Value*, ABSOLUTE BRAND (Apr. 1, 2008), http://www.absolute

decades.[97] Unlike PSL revenue, however, stadium sponsorships only provide revenue once the stadium is complete.[98] Nonetheless, pledging the stadium sponsorship revenue as collateral can be helpful in offsetting construction costs.[99] Because of the high dollar totals that these sponsorships demand in larger markets, they have come to play an increasingly important role in stadium financing.

III.
THE IMPACT OF SPORTS.COMMS, PSLS, AND STADIUM SPONSORSHIPS ON RELOCATIONS

A. *Do These New Financing Methods Facilitate Relocations?*

This Section will focus on teams' decisions where to locate in light of the increasing importance of sports.comms, PSLs, and stadium sponsorships (collectively, "modern stadium finance") and analyze the impact of a team's location on each of these three components. Regarding the financing methods respectively, the emphasis will be on: (1) the role that the strength of a city's real estate market plays in determining whether it can support a sports.comm; (2) the role that a market's wealth plays in determining its ability to raise substantial PSL funding; and (3) the role that a market's size plays in determining its ability to land a lucrative stadium sponsorship.

Additionally, this Section will examine whether the general shift from the municipal subsidy model to the modern stadium finance model influences teams to no longer relocate or continue to move, with the only difference being their motivation to do so. While previously teams may have relocated to obtain generous municipal subsidies, the current financial model may still encourage teams to move, take advantage of a market's ability to support real estate development, raise addi-

brand.com/brand-news/wrigley-naming-rights.asp. Note that Wrigley Field, although named in 1926, was named "after former team owner William Wrigley Jr.," and not the Wrigley Company. *Id.*

97. *Infra* Section III.E.1.c.

98. This is because stadium sponsorships are typically structured as yearly payments, beginning once the stadium is opened. *Infra* Section III.E.1.c.

99. *See* Greenberg & Hughes, *supra* note 49, at 121 (pointing out that stadiums often secure their construction loans with the future revenue stream from the stadium's luxury boxes, the stadium sponsorship, and the parking lots that surround the stadium).

tional PSL funding, and support lucrative stadium sponsorships.

B. *Ramifications of Inquiry*

Before addressing whether the relocation problem that existed in the municipal subsidy era still exists in the modern stadium finance landscape, it is important to note the ramifications of this inquiry. In the past, when subsidies were offered, the tangible threat of relocation was crucial because it could be used to leverage subsidies from the team's local municipality. Conversely, when the team's ability to relocate was limited,[100] the team would lose its leverage and would not be able to coerce a municipality into providing a subsidy. In this sort of environment, taking away a team's ability to relocate was seen as the way to curb inefficient municipal expenditures.

Yet, in the current stadium financing marketplace, where large subsidies are no longer being offered, restricting the ability to relocate no longer has these same ramifications. Put differently, limiting relocations is no longer about regulating the subsidies that a team can strong-arm from its municipality. Instead, limiting relocations mostly impacts the orderings of the private NFL market. Therefore, even if these new financing models do facilitate relocations, they are not a significant concern of local government.[101] Instead, the NFL or its owners should be the ones to intervene, as they are now the main parties that are (potentially) adversely affected by relocations.[102]

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100. *Supra* Section II.A.

101. Of course, there is still some impact on local government. In addition to the small subsidies that municipalities sometimes offer, municipalities must also figure out what to do with the relocated team's deserted stadium. *See, e.g.*, James Bartolacci, *After the Crowds Leave: 4 Abandoned Stadiums That Avoided Demolition*, ARCHITIZER (Oct. 3, 2013), http://architizer.com/blog/repurpose-abadoned-stadiums/ (canvassing repurposing proposals for vacant stadiums worldwide).

102. For example, if the NFL decides that alienating its fan base in St. Louis is bad for the sport, then the NFL must be the entity that limits relocations. Nonetheless, in light of the fact that the league ultimately profits from these relocations, it does seem unlikely that the NFL's owners would want to step in and restrict the ability of NFL teams to relocate. *See infra* Section III.E.1.b.

C. *Methodology*

In order to evaluate the impact that modern stadium finance has on a team's decision whether to relocate, this paper will assume that a team will only relocate if it is in the team's best economic interest to do so. To pinpoint a team's economic motivations, one must identify the economic gains provided by relocating. In order to do so, the following methodology will be used: (1) the various components ("variables") that constitute a team's value will be broken out; (2) variables that are expected to change from a relocation ("key variables"), will be considered[103] and the impact that a relocation will have on each of these key variables will be analyzed (3) The aggregate effect that relocating will have on these key variables will then be reviewed. If this aggregate effect is positive, and larger (in dollar terms) than the costs of moving, then a team stands to increase its overall value by relocating. Of course, this conclusion alone will not determine whether a team will ultimately decide to move, for reasons discussed further below, but it does indicate that a team is positioned to gain economically by relocating.

D. *The Various Components that Constitute a Team's Value*

In order to apply the above methodology, the variables that constitute a team's value must be identified. While estimating the value of a professional sports team has been described as "an art as much as it is a science,"[104] traditionally the first step is to discount the team's revenues and expenses into present value terms.[105] The valuation can then be tweaked to account for certain difficult-to-quantify subjective measures, such as the "contender factor," which accounts for the competitveness of a team.[106] To simplify matters, this Note will only

103. Variables that are not expected to change from a relocation, or will be assumed not to change for purposes of this Note, will not be considered further. For instance, variables that are constant no matter where the team is located will not have any impact on a team's decision where to locate.

104. Ilhan K. Geckil, Tim Mahon & Patrick L. Anderson, *Sports Franchise Valuation: The Chicago Cubs* 1 (Anderson Economic Group, Working Paper No. 2007–03, 2007) (pointing out that closely held teams, which are not traded on public markets, are difficult to value properly).

105. *Id.* at 2–3.

106. *Id.* at 7–8 (defining the contender factor as "an expectation of future winning seasons"). The contender factor impacts revenue because it "en-

consider a team's revenue and expense cash flows without accounting for these subjective tweaks.[107] A typical team's revenue includes the sale of television broadcasting rights, advertising, game attendance, concession sales, and merchandise sales.[108] A typical team's expenses essentially include stadium financing, team payroll, and general business expenses.[109]

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courages ticket and merchandise sales above those expected for a typical franchise in the same league." *Id.*

107. In addition to being complicated, there is no consensus as to the proper way to account for these subjective measures. For example, there is variation between valuations provided by Forbes and Financial World magazines. *Id.* at 3 tbl.1.

108. *Id.* at 5–7; WIS. ST. LEGIS. AUDIT BUREAU, GREEN BAY PACKERS 8 tbl.4 (2005) (outlining historical data for Green Bay Packers' TV rights revenue). In addition to revenue, an NFL team's value can also increase when there is a cap on the number of teams in each league (i.e., team cap value). To a certain extent, the fee that an expansion team pays to join the NFL reflects this amount (since the fee also reflects the fact that a buyer is willing to pay for the positive cash flows that an NFL team can expect). The expansion team fee can be quite substantial, as demonstrated by the Houston Texans' $700 million payment to join the NFL in 2002. *NFL Expansion Fees,* PRO FOOTBALL HALL OF FAME (Jan. 1, 2005), http://www.profootballhof.com/news/nfl-expansion-fees/ (providing a complete list of the NFL's expansion fees over the years). Nonetheless, because the team cap value variable is not affected by relocations, it will not be considered in this Note.

109. WIS. ST. LEGIS. AUDIT BUREAU, *supra* note 108, at 10 tbl.6 (outlining historical data for Green Bay Packers' expenses). General business expenses include game expenses, income taxes, interest expenses, and other operating expenses. *Id.*

E. *Pinpointing the Components that Vary from Market to Market*

This Note will assume, for the sake of clarity, that game attendance,[110] concessions, advertising,[111] and merchandise[112] will be similar from market to market.[113] Similarly, this Note will assume that team payroll and general business expenses

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110. While this assumption is meant to simplify the analysis, and is not fully accurate, it is not entirely unreasonable either. Every NFL team sold at least seventy-nine percent of their home tickets in the 2015 season. *NFL Attendance-2015*, ESPN, http://espn.go.com/nfl/attendance/_/sort/homePct (last visited Mar. 14, 2016). Moreover, the variance in ticket *revenue* attributable to attendance differences across markets is limited, as only sixty percent of ticket revenue is kept by the home team with the other forty percent shared across the league. Justin R. Hunt, *To Share or Not to Share: Revenue Sharing Structures in Professional Sports*, 13 TEX. REV. ENT. & SPORTS L. 139, 146 (2012). It is important to note, however, that game attendance did vary widely across different markets in the mid-twentieth century, and, at that time, played a significant role in a team's decision whether to relocate. CONRAD, *supra* note 10, at 203.

Although differences in game attendance across markets will not be considered, differences in ticket *prices* across markets will be considered. In other words, although it is assumed that the same number of tickets will be sold in every market, it is not assumed that those tickets are sold for the same price. This latter difference is accounted for in the PSL analysis. *See infra* Section III.E.1.b. In the same way that PSLs will sell for higher prices in larger markets, the tickets themselves will also sell for higher prices in larger markets. This is especially important in the context of premium seating ticket revenue because this revenue is *not* shared among teams and can generate significantly more revenue in larger markets. Hunt, *supra*, at 143. Thus, general ticket revenue, especially the revenue generated by premium tickets, will be greater in larger markets for the same reasons that PSL revenue will be greater in larger markets. Although in reality ticket revenue is separate from PSL revenue—and this matters because PSL revenue, unlike ticket revenue, is generated before construction—to make the organization of this Note more straightforward, ticket revenue will be considered to be a part of PSL revenue. *See infra* Section III.E.1.b.

111. For purposes of this paper, stadium sponsorships will be classified as a component of stadium financing and not as a component of advertising. *See infra* Section III.E.1.c.

112. Although a team that relocates to a new city creates new uniforms and expects to generate additional merchandise revenue, merchandise revenue is evenly shared among NFL teams and is therefore unlikely to factor into a team's decision whether to relocate. *See* Hunt, *supra* note 110, at 143–50 (describing the NFL's revenue sharing arrangement). For a more detailed explanation of this reasoning, as it relates to television revenue, see *infra* Section III.E.2.

113. These represent the revenue items on a team's income statement.

remain generally constant across different markets.[114] Because these variables are unlikely to change from market to market, they will not affect a team's decision whether to relocate and will not be considered further. The remaining variables, stadium financing and television, do stand to vary widely across markets and affect a team's determination whether to move. In other words, a team may want to relocate for one of two main reasons: to gain access to a larger television market or, as discussed earlier, to get more favorable stadium financing. Ultimately, as explained below, it is stadium financing alone, and not television revenue, that impacts a team's decision whether to relocate.

1. *Key Variable #1: Stadium Financing*

In general, teams maximize their income by minimizing their stadium costs. Therefore, teams stand to benefit from all sources of stadium revenue that can be used to offset their stadium construction costs. As discussed above, modern stadium finance provides three such revenue sources: Sports.comm cash flows, funds from a PSL offering, and corporate sponsorship revenue. This Section will analyze the degree to which these sources vary across different markets. Viewing the aggregate variance of these factors can then be used to illustrate the effect that modern stadium finance has on a team's incentives to relocate.[115]

a. Sports.comm Cash Flows

In order to assess the degree to which sports.comm revenue varies across different cities, it is important to first detail the cash flows that sports.comms generate. Real estate development typically generates two main revenue streams, property appreciation and property cash flow.[116] The revenue stream for sports.comm real estate developed around a stadium is no different, and both property cash flow and property

114. These represent the expense items on a team's income statement.
115. The aggregate effect on the stadium finance variable is not the end of the analysis, as the television variable must also be considered. *See infra* Section III.E.2.
116. Aswath Damodaran, Investment Valuation 729 (2d ed. 2002).

appreciation are considered.[117] Yet, it is difficult to accurately quantify revenue steams in an uncompleted sports.comm because the sports.comm creates an entirely new destination hub from scratch.[118] What is clear, however, is that the strength of the broader real estate market surrounding the sports.comm will directly affect its cash flows,[119] and thus a sports.comm in a robust real estate market will produce higher cash flows than a sports.comm in a weaker real estate market[120] In sum, although the exact extent is difficult to determine, it is clear that a sports.comm in a stronger real estate market will generate higher cash flows.

b. Funds from a PSL Offering

It is difficult to properly analyze the degree to which the funds raised by PSL offerings are affected by a team's market size because of the small sample size of PSL offerings, coupled with the fact that these offerings were made over a span of more than twenty years. Nonetheless, when one plots the recent secondary market values of various PSLs against their city's population,[121] one can see a trend in which higher PSL prices appear in larger markets.

117. Of course, only the property cash flow, and not its appreciation, is available to help offset the cost of construction in early years.

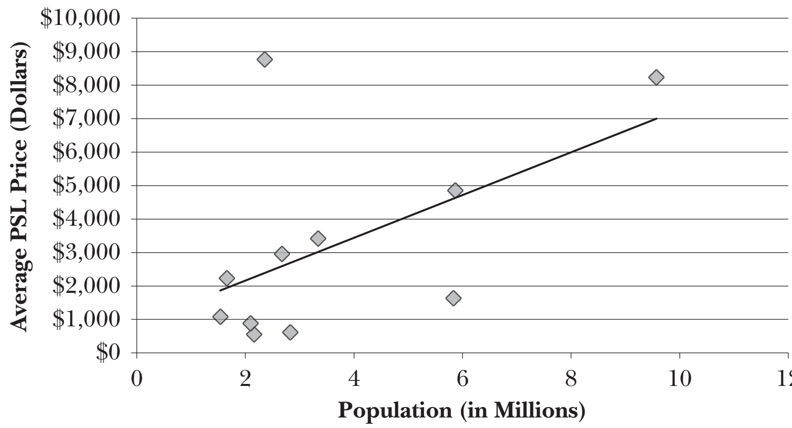
118. Although it is difficult to accurately quantify the cash flow of a sports.comm before it is completed, it is clear that the property's pre-sports.comm cash flow is not reflective of its cash-flow potential. The agglomeration of uses, including residential, retail and commercial, has a positive network effect on the cash flow. For example, a study of Dutch real estate revealed a 1% increase in commercial real estate development leads to a 0.35% increase in demand for residential real estate. Dennis A. J. Schoenmaker & Arno J. Van der Vlist, *On Real Estate Development Activity: The Relationship Between Commercial and Residential Real Estate Markets*, 8 LETTERS SPATIAL & RESOURCE SCI., 219, 227 (2015).

119. Similarly, it is clear that certain markets do not have enough demand for additional real estate to support a sports.comm at all.

120. To simplify matters, this Note will not consider the difference in construction costs in different markets, which, in reality, do impact a sports.comm's cash flows.

121. Salaga, *supra* note 86, at 71 tbl.2.16, 75 tbl.2.20 (providing the data points). Although secondary market PSL transactions do not provide any revenue to teams, they are useful for comparison purposes. This is because they provide a snapshot of the comparative strength of the different PSL markets at a given time.

FIGURE 1.



Due to the small sample size of data this trend has little evidentiary value. However, it does follow the trend that one would expect, based on the basic rules of supply and demand. Because all NFL stadiums have roughly the same fixed supply of seats that can be assigned PSLs, larger markets, which have more people, and therefore more demand, vying for this fixed supply,[122] can anticipate higher average PSL prices.[123] As a result, teams can expect to raise additional PSL revenue, which is not shared with the rest of the NFL, by moving to a larger market.[124] This difference in PSL revenue can be quite sub-

122. Notwithstanding the recent trend of declining college football attendance, NFL attendance has remained fairly steady over the past eight years and PSLs can expect continued demand. Jon Solomon, *College Football Attendance Drops for Fifth Straight Year, but at Slower Rate*, CBS SPORTS (Dec. 18, 2015, 10:45 AM), http://www.cbssports.com/collegefootball/writer/jon-solomon/25418087/college-football-attendance-drops-for-fifth-straight-year-but-at-slower-rate; *National Football League Total Attendance at Regular Season Games 2008 to 2015 (in Millions)*, STATISTA, https://www.statista.com/statistics/193420/regular-season-attendance-in-the-nfl-since-2006/ (last visited Mar. 15, 2016).

123. This price increase is important because even if all cities are able to sell all of their PSLs, cities that can sell their PSLs for higher prices are able to generate substantially more revenue. *See also infra* note 145 (describing how a market's wealthiest individuals will ultimately shape the PSL market).

124. Note that even if, counter-intuitively, PSL revenue does not change by market, the conclusion of Section III.E.1 still stands, as sports.comm and PSL revenue demonstrates that a team stands to improve its stadium financing by relocating.

stantial,[125] and it is therefore a significant draw to larger markets. Moreover, and crucial to those teams that have already offered PSLs for all the seats in their current stadiums, moving to a new stadium in a new market provides a full second round of PSL revenue—an added funding source that would otherwise be unavailable to a team that builds a new stadium in its current market.

c. Stadium Sponsorship Revenue

Many corporations are willing to pay top dollar—$16 million a year being the highest total to date[126]—for a stadium's naming rights. The small data set of NFL stadium sponsorships[127] indicates that sponsorship values are determined by the size of the sponsored team's market. The six largest deals are all for teams that play in the country's ten largest metropolitan areas,[128] while the six smallest are all for teams that play outside of the country's top ten largest metropolitan areas.[129] This is the case notwithstanding the findings of a recent study that a corporate stadium sponsorship's true value is determined by the success of the sponsored team, rather than

125. For example, in 1999, the small market Cleveland Browns sold PSLs for seventy-two percent of their new stadium's seats for $35 million. Meanwhile, in 2009, the large market Dallas Cowboys sold PSLs for seventy percent of their new stadium's seats for $650 million. *Average PSLs Sold, supra* note 91. Moreover, larger markets will provide an even bigger advantage after the stadium is complete and its higher ticket prices, especially for its luxury boxes, are accounted for. *See supra* note 110.

126. MetLife is paying $16 million a year for the naming rights of the New York Jets' and Giants' stadium. Assaf Eisendorf & Elizabeth Kohl, Corporate Sport Sponsorship and Stock Returns: Evidence from the NFL 41 tbl.A-1 (April 2015) (Social Science Research Network) (on file with author).

127. The data size is small because of the relatively small number of NFL stadiums, coupled with the fact that the terms of a few stadium sponsorships have not been made public.

128. The six largest stadium sponsorships are in New York, Houston, Washington, Miami, Foxborough, and Philadelphia. Eisendorf & Kohl, *supra* note 126. These cities are all among the country's ten largest metropolitan areas. American FactFinder, *Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2014*, UNITED STATES CENSUS BUREAU, http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk.

129. The six smallest stadium sponsorships are in Nashville, Detroit, Jacksonville, San Diego, Pittsburgh, and Oakland. Eisendorf & Kohl, *supra* note 126. None of these cities are among the country's ten largest metropolitan areas. American FactFinder, *supra* note 128.

the size of the team's market.[130] Nonetheless, the aforementioned data indicates that teams tend to obtain larger sponsorships in larger markets. The ability to obtain a more lucrative stadium sponsorship, therefore, proves to be a powerful incentive to relocate to a larger market.

d. The Aggregate Effect of These Three Revenue Sources on Stadium Finance

This analysis demonstrates that each form of stadium revenue, whether sports.comm cash flows, funds from a PSL offering, or revenue from a corporate sponsorship, is likely to be larger in bigger markets. Of course, all of the extra stadium revenue provided by larger markets is subject to income tax,[131] and thus, the extent to which it improves stadium financing is lesser than it may appear at first glance.[132] Regardless, all else equal, a team stands to improve its overall stadium financing by relocating to a larger market. The Rams' move to the Los Angeles market illustrates this very point. While the Rams would have only needed to pay $250 million to stay in St. Louis, Rams' owner Stan Kroenke chose instead to go to Los Angeles, where the team is expected to contribute over $3 bil-

130. Eisendorf & Kohl *supra* note 126, at 29. The study's exact conclusion is that sponsorships "are affected by the outcomes of important games played in the stadiums." Obviously, successful teams are more likely to host important games at their stadiums.

131. I.R.C. § 61(a) (1984). Meanwhile, debt financing, which provides an alternative means of financing stadium construction, is tax-deductible. I.R.C. § 163(a) (1954).

132. The following example, which assumes a flat tax rate of forty percent, demonstrates why taxes can significantly impact this analysis and offset some of the benefits provided by modern stadium finance. Suppose that, in a smaller market, a team can raise $500 million toward their stadium from modern stadium financing methods and borrow any additional capital that is needed. Meanwhile, in a larger market, the team could raise $1 billion from modern stadium financing methods. Although the larger market appears to be at a full $500 million dollar advantage, after taxes are accounted for—with taxes incurred on the funds raised by modern stadium financing, but not on the borrowed funds—the larger market actually only provides a $300 million advantage. Moreover if the larger market has higher state income taxes than the smaller market, this advantage may be even further limited.

lion.[133] Although the Inglewood stadium costs are significantly higher to the Rams than costs would be for a new St. Louis stadium, the expected revenue that Kroenke can generate from the stadium and its surrounding sports.comm should more than offset these increased costs.[134]

Had the Rams continued to play in St. Louis, there would not have been any development, aside from the stadium facilities themselves.[135] Meanwhile, the Inglewood stadium has significant additional development in store.[136] In addition to the stadium, Kroenke will be building a 6000-seat performing arts

133. Belson, *supra* note 46. This $3 billion price tag is separate from the *additional* $650 million relocation fee that the Rams must pay the rest of the league's owners.

134. In other words, the revenue stream from the surrounding sports.comm can be used as a means of *cross-subsidizing* the stadium's construction costs. TIF, however, is not being utilized to finance the Inglewood Stadium. *See supra* Section III.B (discussing the various ways in which stadiums can utilize sports.comm revenue upfront in order to offset high stadium construction costs).

135. *See* Michael Gaio, *Here's How a $985M Rams Stadium Looks—in St. Louis*, ATHLETIC BUS. (Mar. 2015), http://www.athleticbusiness.com/stadium-arena/new-renderings-released-of-985m-st-louis-nfl-stadium.html. The lack of any additional development is particularly poignant, considering that the blocks around the proposed stadium, in St. Louis proper, have been described as being "striking in their emptiness." Tim Bryant, *Stadium Site Has Obstacles Easy to Overlook,* ST. LOUIS POST-DISPATCH (Jan. 18, 2015), http://www.stltoday.com/business/local/stadium-site-has-obstacles-easy-to-overlook/article_01ee52c4-41a7-50ea-8eb9-6203fdf3053f.html.

136. The development plan actually predated the plan for the stadium itself. The development plans were approved in 2009, and Kroenke first joined with the development venture in 2014, when his Inglewood Stadium plans first came under discussion. *No Horsing Around: Rams NFL Stadium at Hollywood Park*, MYNEWSLA (Jan. 12, 2016), http://mynewsla.com/government/2016/01/12/no-horsing-around-rams-nfl-stadium-at-hollywood-park/. Therefore, it is inaccurate to claim that the surrounding development was designed solely to be a sports.comm. Nonetheless, it is fair to presume that Kroenke was willing to join in the surrounding development due to its potential as a sports.comm. *See* Don Van Natta Jr. & Seth Wickersham, *The Wow Factor, Inside the NFL's Wild, Divisive Sweepstakes to Return to Los Angeles,* ESPN MAG., Feb. 29, 2016, at 34 (demonstrating that Kroenke recognized the particular importance of the surrounding development in the stadium's plans, as Kroenke has said that he is willing to allow a second team as a stadium partner, "though it would not extend to the stadium's design or the *surrounding development*") (emphasis added).

venue at the stadium site.[137] Kroenke[138] will also be developing a shopping center, a 300-room hotel, office space, 2995 residences, multiple parks, and two lakes on the adjoining lot.[139] In other words, it is clear that a sports.comm near Los Angeles has greater potential than any sports.comm near St. Louis possibly could exhibit. This discrepancy can be attributed to the fact that residential real estate in Los Angeles demands prices (per square foot) that are five times greater than that in St. Louis.[140]

Along with these traditional sports.comm revenue sources, the entertainment hub that Kroenke envisions will also take advantage of its proximity to the large, wealthy Los Angeles market in other ways. The venue will be specifically designed to host to a wide range of events, including conventions and the NCAA Final Four.[141] Furthermore, because the stadium is beneath LAX's flight path, its roof will be programmable as "the world's biggest billboard."[142]

In addition to the sports.comm revenue stream, the Inglewood stadium can expect to raise significant additional revenue from its PSL offering and stadium sponsorship deal. Regarding PSLs, while pricing is still to be set,[143] there is a strong

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137. Sam Farmer, *Stan Kroenke Ready to Show NFL Owners Detailed Inglewood Stadium Plans*, L.A. TIMES (Mar. 21, 2015), http://www.latimes.com/sports/nfl/la-sp-nfl-stadium-inglewood-20150322-column.html.

138. Here, Kroenke acts as a co-developer alongside Stockbridge Capital Group. Adrian Glick Kudler, *Take a Good Look around Los Angele's Future NFL Stadium*, CURBED L.A. (Jan. 13, 2016, 10:24 AM), http://la.curbed.com/archives/2016/01/nfl_stadium_inglewood_los_angeles_rams.php.

139. Eve Bachrach, *Massive Hollywood Park Redevelopment Finally Beginning*, CURBED LOS ANGELES (May 10, 2013, 3:17 PM), http://la.curbed.com/archives/2013/05/massive_hollywood_park_redevelopment_finally_beginning.php.

140. *Compare Saint Louis Home Prices & Values*, ZILLOW, http://www.zillow.com/saint-louis-mo/home-values/ (last visited Mar. 15, 2016), *with Los Angeles Home Prices & Values*, ZILLOW, http://www. zillow.com/los-angeles-ca/home-values/ (last visited Mar. 15, 2016). *See also How Expensive is Your State*, DISCOVER (Sep. 23, 2014), https://www.discover.com/home-loans/blog/how-expensive-is-your-state (reporting California's state-wide median real estate listing prices at $256 per square foot were more than three times those of Missouri at $92 per square foot at the end of 2014).

141. Kudler, *supra* note 138.

142. *Id.*

143. *LA Rams Anticipate Majority of Seats in 2019 Will Require Personal Seat Licenses*, CBS L.A. (Jan. 18, 2016, 6:53 PM), http://losangeles.cbslocal.com/

likelihood that, unlike the Rams' previous arrangement in St. Louis, all seats in the stadium will have a PSL.[144] Moreover, access to Los Angeles' wealthy market[145] will raise each PSL's price well above what the St. Louis market could have supported.[146] Although a deal has yet to be reached regarding the stadium sponsorship, a sponsorship deal in Los Angeles will likely dwarf the St. Louis offer of $158 million for twenty years (or $7.9 million per year).[147] A 2011 attempt to bring football to Los Angeles had already inked a thirty-year sponsorship worth either $700 million ($23.33 million per year) or $1 billion ($33.33 million per year), depending on whether one or two teams made the move.[148] Once again, this demonstrates the ability of larger markets to generate the revenue necessary to support a stadium in a way that smaller markets cannot.

2016/01/18/la-rams-anticipate-majority-of-seats-in-2019-will-require-person al-seat-licenses/.

144. *Id.*

145. The wealth level of the area's wealthiest inhabitants—or those who will ultimately purchase the PSLs—is more relevant than the area's average wealth in determining the area's ability to raise additional PSL funding. Los Angeles does well in this regard, as the top one percent of wage earners earns $466,895 a year. Kathleen Elkins, *Here's What You Need to Earn to Be in the Top 1% in 13 Major US Cities*, BUS. INSIDER (Aug. 27, 2015, 12:19 PM), http://www.businessinsider.com/income-top-one-percent-us-cities-2015-8.

146. Tim Marcin, *NFL Los Angeles: How LA Move Benefits Franchises, League*, INT'L BUS. TIMES (Jan. 13, 2016, 7:50 AM), http://www.ibtimes.com/nfl-los-angeles-how-la-move-benefits-franchises-league-2262172. This revenue increase is also reflected by the fact that the Rams received deposits for their entire 2016 season ticket supply within a month of the announcement that they were moving to Los Angeles. Nick Wagoner, *Los Angeles Rams Get 56,000 Deposits for 2016 Season Tickets*, ESPN (Feb. 9, 2016), http://espn.go.com/blog/st-louis-rams/post/_/id/26774/los-angeles-rams-get-56000-deposits-for-2016-season-tickets.

147. Ken Belson, *Stadium Sponsor Unveiled in Move to Keep Rams in St. Louis*, N.Y. TIMES (Oct. 6, 2016), http://www.nytimes.com/2015/10/07/sports/football/stadium-sponsor-unveiled-in-move-to-keep-rams-in-st-louis.html?_r=0.

148. Arash Markazi, *Farmers to Sponsor L.A. NFL Stadium*, ESPN (Feb. 2, 2011), http://espn.go.com/los-angeles/nfl/news/story?id=6078709. This price range was recently confirmed by the Apex Marketing Group, which stated that "the naming rights alone could command about $25 million annually." Eben Novy-Williams, Scott Soshnick & Harry Weber, *Rams Head Back to Los Angeles, Making NFL Even Richer*, BLOOMBERG BUS. (Jan. 13, 2016, 9:45 AM), http://www.bloomberg.com/news/articles/2016-01-13/for-rams-mov ing-to-los-angeles-is-a-bargain-at-550-million.

In sum, Kroenke was not bothered by the huge added cost required to construct this Inglewood mega-stadium[149] since the overall project is expected to generate sufficient revenue to offset its high construction costs. As Kroenke proclaimed in his description of the project, "we're long-term investors."[150] St. Louis, on the other hand, was not a great place to make a long-term investment. The Rams' relocation statement made clear that St. Louis' population has low projected growth and GDP growth is "projected to be 26th . . . among NFL markets moving forward."[151] The Inglewood stadium thus illustrates why modern stadium finance tends to truly favor bigger metropolitan areas. Because these cities provide favorable stadium financing, which has a big impact on a team's bottom line,[152] a team can substantially increase its value by moving to them. Therefore, when viewing the stadium financing variable ("Key Variable #1") in isolation, it is clear that modern stadium financing encourages relocations to larger markets.

2. *Key Variable #2: Television Revenue*

Favorable stadium financing is not the only variable that impacts a team's decision where to locate. Another reason that a team may move is to gain access to a larger television market. If the *additional* television revenue provided by one city exceeds the savings provided by favorable stadium financing in another, a team may ultimately decide where to locate based

149. It is also important to note that the Inglewood Stadium, in addition to personally costing Kroenke more money than the stadium proposed in St. Louis, is more expensive overall. All else equal, this expense is beneficial to Kroenke, as he is able to receive larger tax deductions from depreciation. *See* I.R.C. § 167 (2007).

150. Sam Farmer & Nathan Fenno, *Q&A: Stan Kroenke Discusses His Picture-Perfect Vision for the L.A. Rams*, L.A. TIMES (Jan. 13, 2016), http://www.latimes.com/sports/nfl/la-sp-nfl-la-kroenke-20160114-story.html.

151. STATEMENT OF REASONS IN SUPPORT OF THE RAMS' APPLICATION TO RELOCATE TO LOS ANGELES 20–22 (Jan. 4, 2016), http://www.gannett-cdn.com/experiments/usatoday/Sports/rams-relocation-statement-010516.pdf.

152. CONRAD, *supra* note 10, at 207 (noting the Rams actually moved from Los Angeles to St. Louis in 1994 because of favorable stadium terms and revenues, *see supra* Section III.E.1, causing the Rams to relocate to Los Angeles for the very same reason).

on the maximization of television revenue, rather than the attainment of favorable stadium financing.[153]

An understanding of the NFL's revenue sharing agreement is essential in order to evaluate the variability of a team's television revenue across different cities. Under the current agreement, all NFL teams share *all* television revenue evenly, unlike many of the local revenue sources.[154] In other words, while each NFL team is individually incentivized to generate local revenue, the entire league shares in the incentive to generate television revenue.[155] Because all television revenue is shared, a team would not want to relocate to a larger city solely to increase its viewership and generate additional television revenue.[156] For example, although the Rams stand to gain from the increased viewership in Los Angeles—an increase of over four million television homes as compared to the St. Louis television market[157]—that gain is shared evenly among all NFL teams.[158] This marginal gain in television revenue is not likely to represent a substantial motivation for the Rams to move.[159] It is, however, likely to encourage NFL owners—who

153. This statement is consistent with the methodology outlined *supra* Section III.C.

154. Local revenue, which is not shared evenly, includes revenue from concessions, local advertising, signage, local sponsors, parking, and novelties. Hunt, *supra* note 110, at 143 tbl.1.

155. The NFL's television revenue is very significant. In 2014, largely as a result of television revenue, the NFL generated $7.3 billion in national shared revenue. Matthew Rocco, *TV Deals Boost NFL Revenue to New Record*, FOX BUS. (July 21, 2015), http://www.foxbusiness.com/features/2015/07/21/tv-deals-boost-nfl-revenue-to-new-record.html.

156. Although this Note is focused on the NFL, it is worth noting that for professional leagues that do not share television revenue evenly, this provides even further incentive for teams to move to larger markets.

157. *Local Television Market Universe Estimates*, NIELSEN (Sept. 26, 2015), https://www.tvb.org/Portals/0/media/file/DMA/2015-2016-dma-ranks.pdf (demonstrating the four million television home gain—from 1,217,370, in St. Louis to 5,489,810 in Los Angeles).

158. The New York Times, for example, was clear about who stands to gain from this increase in television revenue, stating that "with Los Angeles the nation's second-largest television market, the *N.F.L.* has longed for a return to the area." Belson, *supra* note 46 (emphasis added).

159. *See* Neil Paine & Andrew Flowers, *The Rams Won't Get as Much From LA as the Lakers and Dodgers Do*, FIVETHIRTYEIGHT (Jan. 15, 2016, 6:33 PM), http://fivethirtyeight.com/features/the-rams-wont-get-as-much-from-la-as-the-lakers-and-dodgers-do/ (pointing out that television revenue alone cannot be the main reason for the move).

would receive an equal share of this additional television revenue[160] without giving up anything in return—to approve any relocation plan that is proposed.[161]

Conclusion

Ultimately, an NFL team may decide to relocate in order to receive more favorable stadium financing, but it would not relocate solely to receive additional television revenue. Because modern stadium financing presents an opportunity to receive considerably more stadium-related revenue in bigger markets, it certainly encourages teams to relocate to larger markets. This, of course, will only hold true if the marginal increase in stadium revenue exceeds all of the costs associated with moving. These costs, which can be quite large in certain instances, include the relocation fee in present value terms, the cost of constructing a new practice facility,[162] the opportunity cost of declining a smaller municipality's minimal subsidy, should they offer one, and all logistical costs of moving. When the math does work out, however, a team stands to benefit tremendously. For instance, certain projections indicate that the Rams move to Los Angeles could increase their valuation from $930 million to around $3 billion.[163]

Yet, even if a team stands to gain economically from a move, there are still many reasons why a team may decide

160. The relocation fee, which is shared among owners, is also likely to encourage NFL owners to approve a move. Van Natta & Wickersham, *supra* note 136 (suggesting the sharing agreement among owners of the relocation fee was a significant motivation).

161. The NFL's relocation guidelines require twenty-four out of thirty-two team owners to approve a relocation plan before a team can move. Ken Belson, *A Primer on the N.F.L. Relocating a Team to Los Angeles*, N.Y. Times (Jan. 10, 2016), http://www.nytimes.com/2016/01/11/sports/football/nfl-los-angeles-relocation-vote-oakland-san-diego-st-louis.html.

162. The Dallas Cowboys' recently-built practice facility cost an estimated $115 million. Associated Press, *Frisco Council OKs $115M Dallas Cowboys Practice Facility*, NFL.com (Aug. 12, 2013, 11:53 PM), http://www.nfl. com/news/story/0ap1000000229213/article/frisco-council-oks-115m-dallas-cowboys-practice-facility. Of course, the cost of a new practice facility should only be characterized as a cost of moving if the team's current practice facility does not need to be replaced itself.

163. Cork Gaines, *The St. Louis Rams Would Be Worth $2.5–3.5 Billion the Moment They Moved to Los Angeles,* Bus. Insider (Jan. 5, 2015, 3:43 PM), http://www.businessinsider.com/st-louis-rams-los-angeles-value-2015-1.

against moving. For one, a team owner may decide that she is uninterested in relocating. While a $2 billion valuation increase, like that predicted for the Rams, may incentivize any team to move, smaller valuation increases may not be sufficient to compel a team to relocate. Many owners invest in a team as a hobby, and they are more concerned with winning and pleasing their fan base than they are with maximizing value.[164] Such owners are less likely to move and upset local fans unless confronted with tremendous financial incentives to do so. Second, a team may be locked into a long-term deal in its current stadium that prevents it from relocating. Third, for the many teams that already play in fully modern stadiums, there is little benefit to attaining favorable stadium financing and thus less reason to relocate. Finally, even if a team is interested in moving, it may not be able to obtain the necessary ownership vote to approve its relocation.[165]

Overall, it is likely that many owners who stand to increase their team's valuation by relocating will decide to move. Consequently, as long as these modern stadium financing techniques continue to be used, further relocations to larger markets can be expected.[166] Smaller markets must recognize this likely outcome in order to understand the forces that they are competing against when attempting to retain local teams. Moreover, if this outcome is troubling to the NFL, it must address the issue by altering relocation rules. Otherwise, the cur-

164. For example, Micky Arison, an NBA team owner, has claimed that "this is a hobby of passion, it's not a business." Kelly Dwyer, *Miami Heat Owner Micky Arison: Owning a Team 'Is a Hobby of Passion, It's Not a Business,'* YAHOO! SPORTS (Jul. 3, 2012, 12:30 PM), http://sports.yahoo.com/blogs/ball-dont-lie/miami-heat-owner-micky-arison-owning-team-hobby-163352251—nba.html.

165. This was the result of the Raiders' bid to move to Los Angeles.

166. Note that even if large municipal subsidies do return, and they are offered by smaller markets, relocations to larger markets may still continue. In the words of Gregory Carey, "there is only so much public money that can be used to overcome [these market forces]." Telephone Interview with Gregory Carey, Chairman of the Public Sector and Infrastructure Group, Goldman Sachs (Feb. 10, 2016). Furthermore, if multiple teams become interested in relocating to the same large markets, a race may ensue. *See* Van Natta Jr. & Wickersham, *supra* note 136 (demonstrating how the Chargers and Raiders jockeyed against the Rams in order to reach the necessary twenty-four votes to relocate).

rent market created by modern stadium finance will only continue to encourage these relocations.

In short, this paper set out to determine the impact of modern stadium finance on team incentives to relocate. Ultimately, because stadium financing varies widely across markets with a big impact on a team's bottom line, a team can substantially increase its value by moving to a market that provides favorable stadium financing. Given that modern stadium finance, which harnesses sports.comm, PSL, and stadium sponsorship revenue, is most favorable in larger markets, teams can increase their valuations by moving to these larger markets. As a result, with the continued use of these stadium financing methods, further relocations to larger markets can be expected in the coming years. In all likelihood, the Rams will only represent the start of the modern relocation trend.