4-23-1999

A Feasibility-Desirability Study to Develop and Finance a Sports Complex, Broward County, Florida

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A Feasibility-Desirability Study to Develop and Finance a Sports Complex, Broward County, Florida

A Graduate Project

In Partial Fulfillment of the requirements for a
Masters of Science Degree in Sports and Athletics Administration

Graduate School
Lynn University

By
Seth Shurtleff

April 1999

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Boca Raton, FL 33431
First and foremost I would like to thank my family and friends for their continued support through the last year and a half. I would like to especially single out my mother Carol Shurtleff, without her constant assurances and unwavering confidence in me, going back to Graduate School would never have happened. My adviser Dr. Richard Young has also been a very valuable resource for me during my time at Lynn University I can not thank him enough for his time and guidance.
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CHAPTER I

INTRODUCTION

THE PROBLEM AND ITS SETTING

The Statement of the Problem

A study to identify and assess the feasibility and desirability of developing and financing a sports complex project.

The Subproblems

The first subproblem is to determine how this specific project will be funded, along with the tax policy it will operate under.

The second subproblem is to determine the plan of financing and the mix of public capital and public and private cash flow.
The third subproblem is to begin negotiations with prospective ownership's of professional sports franchises which might become long term tenants.

**The Hypotheses**

If Broward County constructs a new civic center the residents will support it by attending events.

The second hypothesis, if there is construction of a new civic center the people of Broward County will be willing to spend public funds.

The third hypothesis states that if we examine similar civic centers that have been successfully built in similar areas, then you can make assumptions on the success of this project.

**The Delimitation's**

The study will not try to predict if any other events outside the world of sports will succeed.

The study will not take into account the particular attendance patterns by South Florida
fans for other sports that will be played outside the civic center.

The study will not show what the public's voting patterns have been on similar measures.

The Definition of Terms

Assumption - Something taken to be true without demonstration or proof.

Civic Center - An auditorium or performance center that is relating to, or belonging to a city.

Demographic - Study of the vital statistics of human populations, as size, growth, density, and distribution. Used especially to identify consumer markets.

Financing - To supply the funds or capital for project completion with specific conditions in terms of time, rate, and amount.

Abbreviations

CMSA - Consolidated Metropolitan Statistical Area

EBI - Effective Buying Incomes

MSA - Metropolitan Statistical Area

NBA - National Basketball Association

NHL - National Hockey League
A Historical Overview

In the mid-1980's, in order to advance its case to be selected as an expansion city for the National Basketball Association's (NBA) 1987 four team expansion, the city of Miami implemented public financing of the Miami Arena. The strategy paid off as the NBA awarded a franchise to an ownership group in Miami. The facility was built with it's 52.5 million funding created through a tourist development tax and other public funding. "As a publicly owned facility, designed without the benefit or burden of having to negotiate space, or other planning features with its actual tenant, the Miami Arena suited the requirements of the NBA to have a facility with the minimally accepted seating capacities, but failed to recognize the changing..."
economic face of the professional sports industry and the ultimate need to leverage facilities to strengthen franchise economics” (Stafford Sports Ventures, L. P, 1996).

There were many other problems when the Miami Arena was built that did not come to the attention of the owners until after it was completed. “It was plunked down in a less-than-desirable part of the city. Camela House for instance is a soup kitchen a half a block away that feeds the homeless”(Sport 1992). There were other concerns facing the ownership in Miami, such as support from the community. Pauline Winick, the executive vice president of the Heat said, “It was clearly an underserved neighborhood in Miami. The fear was that people would be afraid to come to the arena. Even though the University of Miami Hurricanes were National Football Champions three times within a decade, they often did not sell out the games. We were not particularly comfortable”(Sport 1992). As a result of these factors and despite the award of a National Hockey League (NHL) franchise in 1993, the facility that is currently being used is unable to relieve the economic pressure that both teams now operate under.
The Miami Arena is unable to compete as a revenue generator with the rest of the NBA and NHL who are now operating in new facilities. “Lacking an adequate inventory of luxury seating, insufficient concourse space to facilitate more retail sales opportunities, insufficient seating inventory, and a broad range of other amenities, the Miami Arena has, unfortunately become obsolete well before what should have been its time. While it is a clearly functional building, it does not and cannot be an income generator for it’s two primary users in an era of higher capital bases and escalating team personnel expenses” (Stafford Sport Ventures L. P, 1996).

In response to these conditions and to reported operating losses, both the Miami Heat and the Florida Panthers have indicated there desire to move to a new facility. Both organizations have threatened to move one or both teams out of the South Florida market, even though South Florida remains one of the strongest and deepest professional sports markets in the country. The South Florida market
compares favorably demographically to other markets that is home to two indoor sports franchises. The NBA and NHL want and need to have stable franchises in the South Florida market. With this background there has been an effort within Dade, Palm Beach and Broward Counties to examine sites and areas that could handle construction of a new arena. These sites could handle the requirements deemed necessary for a profitable "state-of-the-art" facility. "This development activity reflects a growing recognition on the part of public officials around the country and in the South Florida region of the direct and intangible benefits of having a professional sports franchises domiciled in their communities" (Stafford Sport Ventures L. P, 1996).

For the past decade there has been tremendous support for the development of new public assembly facilities, both indoor and outdoor stadiums. "State and local governments have become increasingly responsible for financing many of the new arenas and stadiums demanded by professional sports teams" (Olbermann, 1997). There are many arguments that support the public investment of funds to procure professional sports teams. Mayors and governors argue that teams and the facilities
they use (1) generate economic growth through high levels of new spending in a region, (2) create a large numbers of jobs, (3) revitalize declining central business districts, and (4) bringing professional athletic teams into a neighborhood can develop a community pride. The exciting atmosphere created in a city where a sports team wins is another “intangible” benefit even for people who do not attend games. “In a society where sports are a dominant cultural icon, teams do create a level of recognition that generates pride for residents of a community” (Kotler, Haider, and Rein, 1993).

Many experts believe that new sports facilities do not bring in the economic benefits that are expected after such an investment with tax dollars. “Although the building of many new facilities in downtown areas has attracted millions of visitors to areas previously avoided by most residents, there is no evidence that these facilities have significantly changed employment or residential patterns. Employers still seek more suburban locations for their businesses, and their employees still prefer outlying areas to inner-city locations for their residences” (Rosentraub 1997).

The location incentive is nothing new, this is a long standing business practice with state and local governments. “Tax abatements, low interest loans, job training, and
facility and infrastructure development have been some of the incentives offered to influence the location decisions of firms” (Kantor 1995). This practice looks as though it will continue in the years to come; “The owners of sports franchises can demand public assistance because the number of regions that want sports teams have outstripped the supply of franchises. The increase in the nation’s population and wealth has led many economists and students of professional sports to conclude that as many as twenty five additional franchises could be created by the leagues given the financial performance of existing teams”(Ahmad-Taylor 1995).

One reason there may be a need for publicly financed stadiums, is that even with the number of teams escalating, the number of people who seek to own sports teams has stayed relatively the same. “Despite increasing costs, bitter political battles over tax support of facilities, and escalating salaries of players, the number of individuals willing to buy sports teams have not increased”(Zimmerman 1996).

Today arena’s are being opened up to try to improve the economics in a specific area of a city, usually in the downtown area. “Cleveland’s gateway project, consisting of Jacob’s field,(major leagues baseball’s Indians) and Gund Arena
(NBA’s Cavaliers), was designed, in part, to stimulate job growth in one part of the city’s downtown area. Two years after both facilities opened approximately 1,300 jobs have been added in the Gateway area, and more than 700 million has gone into other major developments in downtown Cleveland since 1991. To create these jobs, however, the public sector invested almost 300 million in the sports complexes—over 200,000 per job” (Austrian, 1997).

Each community that evaluates a public sector investment, as the one that is being used in the Broward County project, must decide what type of tax should be used to generate the funds needed for a new stadium. The four commonly used taxes include: a tax on food and beverages consumed at restaurants and bars, an increase to the sales tax, taxes on alcohol and tobacco products (the so-called sin taxes), and a tax on hotel rooms and short term rentals. When these alternatives are being discussed the most support generally resides with the sin tax, and the hotel and car rental taxes. The reason for this is most people view these taxes as exportable to tourists and nonresidents. Tourists and nonresidents will pay these taxes and the local people will reap the benefits. One idea on how to raise the
necessary funds was developed for the state of Texas. This plan stipulated that the
revenues raised within the tax district should be compared to the resources
needed to build a facility. For example, if 25-year financing were acceptable, a 200
million dollar facility, at an interest rate of 7 percent, would require annual
payments of approximately $17.2 million. Arenas for hockey and basketball teams
can be built for less (typically $150 to $175 million; $12.9 to $15 million per
year).

Direct beneficiaries from the existence of a facility include the players, team
owners, fans, concession operators, and the media. "Some financing options
proposed centered around user charges or other assessments that would affect each
group of beneficiaries" (Rosentraub 1998). Currently, nineteen states collect
income taxes from the players; local governments in these states collect from both
the home teams and the visiting teams. Even though states collect these taxes,
owners have not been discouraged from moving their teams to these locations
(e.g., Arizona, North Carolina, and Ohio). Another popular method of taxing is to
charge the fans who attend the games. The tax is used for the cost and maintenance
of the facilities, e.g., user charges would be assessed on tickets purchased. “These per-ticket charges represent a tax on the team; in the absence of the charge the teams would still charge the higher price to maximize their revenues. As a result, the fans are not paying this charge because they would pay the same price for the ticket regardless of the existence of the fee” (Irani 1997).

Another suggestion that has been discussed is assessing fees for the broadcasting rights of games. The broadcast and telecast can create substantial revenues and profits for teams, players, the stations involved, and advertisers. What the cities could do is assess a fee on the number of households that watch and listen to the games.

This would lead to higher advertising costs and additional commercials, but would help defray some of the costs incurred by the fan. The last suggestion is the use of multi-use arenas that serve as home to more than one professional team, as the Broward County project would, the annual incomes would be added together. With a multi-use arena revenue will be generated by hosting other events since the team or teams would not need the facility for more than one hundred dates a year.
CHAPTER III

METHODOLOGY

To measure interest in a local or incoming sports franchise the researcher would use a telephone survey to measure what the residents thought about the specific venture. In order to understand the value placed on sports in a specific community, one part of the questions must focus on the respondents; they should be asked how much civic pride they would have for a team that would move into their city. This would be very difficult to measure. Therefore as the researcher I propose there be five basic indicators. The respondents would be permitted to assign numeric numbers on how they feel about a specific question, for example five if they felt the issue was very important or agree, or a one if they felt the question was not very important or if they disagree. If somebody felt unsure about their specific answer they could answer with a three.

\[
\begin{array}{cccc}
5 & 4 & 3 & 2 & 1 \\
\text{STRONG} & \text{MODERATE} & \text{WEAK}
\end{array}
\]
The questions would be very basic so everyone could understand them easily and not be confused by the terminology that is used. Here are a list of a few basic questions that will be used.

1. Would a professional sports team in your community make you proud to be a resident of Broward County?

2. Do you feel that a major league sports team could define and or change your regions national reputation?

3. Would you or any of your family members attend any events that might be held at the sports complex.

4. Would you be willing to spend public funds on a new sports complex?

5. Do you feel the addition of a professional sports team would help the identity of the region?

6. How would you feel about a civic center being built in your county?

7. Do you feel that the civic center would help businesses economically in the area?
These questions should measure how much civic pride a community would have in a professional sports franchise. Civic pride is a good indicator how much support the team would have if it eventually moved to this location. One hundred randomly selected people in the Broward County area were surveyed to get to get a good cross reference of the people in the community.

**The Validity and Reliability of the Measurement**

The telephone survey could be the most valid way to conduct an accurate measurement on how the civic center will succeed in the community. The reason that the telephone survey is the most unbiased is that it catches people without prepared answers or thought time as in a mail survey. The telephone survey will give the researcher an understanding of the support the civic center will receive in the region.
The Criteria for the Admissibility of the Data

The data that will be collected, will be applied research and will be screened against the people who have special interest in the project being built. The data collectors will try to get in-depth market research to find out a conclusion of what people in the community feel. The study will also select people in various community sites that have no vested interest in the project being built either way.
After randomly selecting one hundred people in Broward County, the researcher proceeded to conduct a telephone survey. The questions asked were discussed earlier in this study and assumed that the people in this study answered all of them honestly. The results were not very surprising; they were fairly similar to other studies that have been conducted on this issue around the country. The responses that were received tended to prove the first hypothesis correct, that the residents of Broward County would support the project by attending games and other events that were to be held at the facility. The second hypothesis is disproved, most of the
respondents said that they would not approve using public funds to build a sports complex. The third hypothesis is proven to be accurate because of the support that the project has in the community. This will prove to be a reliable indicator in judging the success of the sports complex.

A majority of the people that responded to the survey remarked that they would be receptive to a sports complex being built in Broward County. The respondents who said that building the sports complex would be a good idea also voiced that they would support any team that should move into the arena. People surveyed doubted that a team or a building could define Broward County’s national reputation.

The preponderance of the individuals surveyed said they would attend a game or event at the sports complex. There was also an overwhelming majority of people who felt that the sports complex would help boost the local economy. The respondents felt this benefit surpassed any negative aspects that may result by building this facility. Respondents tended to think that the civic center would be a truly beneficial project for the entire county.
There was not as much support for this building to be publicly financed, many respondents felt that taxes should not pay for this endeavor. There was strong sentiment that the tax money that would be needed to build the sports complex, might be better spent on other more needed projects in the county. Many people pointed out the serious lack of supplies and materials in the local public schools. There are strong feelings that the money that would be used to build the sports complex be used to support and revitalize the inner city.
### Data Received During Survey

<table>
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<th>3</th>
<th>2</th>
<th>1</th>
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<tbody>
<tr>
<td>Would a professional sports team in your community make you proud to be a resident of Broward County?</td>
<td>58%</td>
<td>10%</td>
<td>32%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you feel that a major league sports team could define and change your region's national reputation?</td>
<td>43%</td>
<td>15%</td>
<td>52%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Would you or any of your family members attend any events that might be held at the sports complex?</td>
<td>73%</td>
<td>3%</td>
<td>24%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Would you be willing to spend public funds on a new sports complex?</td>
<td>35%</td>
<td>12%</td>
<td>58%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you feel the addition of a professional sports team would help the identity of the region?</td>
<td>42%</td>
<td>18%</td>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How would you feel about a civic center being built in your county?</td>
<td>65%</td>
<td>7%</td>
<td>28%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you feel that the civic center would help businesses economically in the community?</td>
<td>74%</td>
<td>8%</td>
<td>18%</td>
<td></td>
<td></td>
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Chapter V

Conclusion

For the past decade or so, there has been a tremendous amount of activity in the development of new public facilities. Much of this has to deal with communities wishing to retain their professional sports teams, as is the case in Broward County. “Some of it has been fueled by the phenomenon of franchise free agency, for example, the willingness of ownership’s of sports franchises to relocate their teams to communities offering a better stadium deal “ (Stafford Sports Ventures, L. P, 1996). Professional sports now represent huge dollars, for the ownership, sponsors, players, television networks and for the economies of host communities.

The very difficult question the public has to answer in respect to planning, and building these venues is very complex. The arguments come down on two sides;
the proponents of public investment point to the economical benefits generated by
the venue. The opponents take these same calculations and argue against public
investment, saying that the benefits of the project do not justify the significant
amount of tax money that is spent. What most people do not understand is the
intrinsic value these complexes have on communities that cannot be calculated into
dollars and cents. The benefit that Cleveland has undergone in their development of
Jacob’s Field and Gund Arena is remarkable. These kinds of endeavors are very
important because they tend to bring other teams that are looking to relocate to the
city; also these arenas bring in events that would normally pass these towns.

It is very hard to argue that these new facilities create new money for people to
spend. Professional sports, first class concerts, family shows and other forms of
entertainment add to the quality of living in a specific area. These types of activities
may attract more industry and personnel relocation to the area. With excitement in
an area, developers and entrepreneurs will begin to make private economical
decisions that should prove to be beneficial to the community.
Bibliography


