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Willingness to pay for downtown public goods generated by large, sports-anchored development projects: The CVM approach ☆

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ABSTRACT

North American cities have long encouraged redevelopment of their downtown cores to counteract the flight of residents and business to the suburbs in the postwar period. Building subsidized arenas and stadiums for professional sports teams downtown became common in the 1990s. In recent years, downtown stadiums and arenas have been proposed as components in larger redevelopment projects containing a number of other amenities, as well, including housing and other entertainment attractions. The justification for such developments rests in part on the public goods generated by vibrant, prosperous downtowns. Yet little is known about the value of such downtown public goods. This paper reports the results of two Contingent Valuation Method surveys to determine willingness to pay for new National Hockey League arenas in downtown Edmonton and Calgary in the Canadian province of Alberta. The hypothetical scenarios in both surveys varied to include affordable housing, a casino, and cultural space in addition to the arena. The surveys provide the first estimates of willingness to pay for downtown public goods for sports arenas, and also provide the first estimates of scope effects, that is, the willingness to pay for expansions of public goods, in the sports economics literature.

Introduction

Ever since postwar suburbanization and urban sprawl precipitated the decline of downtown central business districts in North American cities, local and regional economic development policy has focused on revitalizing downtowns (Mitchell, 2001; Robertson, 1995). In part, the policies promoting downtown may have been motivated by the belief that central business districts – representing the heaviest concentrations of economic activity in cities – drive growth, and therefore vibrant downtowns are key to a city's economic sustainability (Hannigan, 1998; Harvey, 1989). Thus, the efforts to relocate economic activity back to downtown have been motivated in part by the belief that there may be more potential economic benefits to locating amenities in the downtown as opposed to elsewhere (Nelson, 2002).

In addition, the notion that downtowns produce unique and valuable intangible benefits for their cities has also shaped policies promoting urban growth, where downtowns can become exciting, bustling areas for locals to live and work, and tourists to visit (Eisinger, 2000; Turner, 2002). At the same time, there has been growing discourse surrounding the competitiveness of cities, as civic leaders attempt to reinvent their respective communities in order to draw in, or retain, tourism, business investment and, ultimately, to meet the needs of the taxpayers who live there (Begg, 1999). As a result, the downtown has become a key site for pro-growth supporters to champion various urban development projects, including convention centres, new housing, casinos, aquariums, shopping centres, and other amenities thought to make downtowns more desirable locations to visit, live, or work in (Althshuler & Luberoff, 2003; Clark, 2004).

Although considerable academic research has explored pro-growth agendas in various North American cities (cf. Elkin, 1987; Logan & Molotch, 1987; Stone, 1989), and evaluated the specific projects that have been developed (cf. Rosentraub, 2009), little research about how taxpayer valuation of such development has been conducted. While

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research has examined specific development projects, it has not evaluated the public goods produced for their host communities. In this paper, we further explore the public goods value that vibrant downtowns potentially confer to local residents**.** This makes an important contribution that provides additional insight that cannot be gleaned from reviewing referendum outcomes (Brown & Paul, 2002). This paper also examines the persuasive strategies employed by proponents and opponents of these projects (Buist & Mason, 2010).

The public goods produced by healthy downtowns have been described in many ways. A prosperous downtown benefits a city because its residents have "a cultural attachment to Main Street" (Mitchell, 2001, p. 115). Downtowns "give identity, meaning, and character" to urban regions (Ford, 2003). Downtowns influence a city's image to the rest of the world, give it a sense of identity, serve as a source of civic pride, and provide a venue for mixing among different socio-economic classes (Rosentraub, 2008).

As a result, cities seeking to reinvent or reposition themselves in an urban hierarchy have focused on more comprehensive development that involves a number of "anchor" projects (Lehrer & Laidley, 2008; Orueta & Fainstein, 2008). However, this is not a simple process, and often involves many discrete development projects over a number of years, or even decades (Levine, 1987). One strategy for revitalizing downtowns has proven widely popular in the North American context—using public money to build downtown stadiums and arenas for professional sports teams. Since the early 1990s, many cities, including Baltimore, MD, Cincinnati, OH, Cleveland, OH, Indianapolis, IN, and San Diego, CA, have built at least one publicly funded major league stadium or arena to boost activity in their respective downtowns (Rosentraub, 2008). Many others, including Durham, NC, Dayton, OH, and Louisville, KY, have built minor league stadiums in their downtowns. However, these projects tend to be evaluated in terms of their individual impacts on their respective cities. This is problematic, as any specific development project is not designed to be a standalone entity; rather, it is part of a broader, more comprehensive development plan. Thus, such projects should be treated as components in a broader strategy and their impacts should be considered accordingly. Seen in this manner, sports facilities should not simply be viewed in terms of their own tangible and intangible benefits. Instead, they should be viewed in terms of how they contribute to the overall urban development agenda. Where sports facilities are placed in downtown cores as part of revitalization efforts, the benefits should be viewed in terms of the ability of the facility to help meet that aim.

For this reason, if public money is used to fund a sports facility as part of creating a more vibrant downtown, then the issue to explore is not the public goods that a sports facility (and the related franchise) confers. Instead, the issue is whether or not it is a wise investment to spend public money to build a facility to make the downtown more vibrant. In this case, then, it is the potential public goods value of the arena to make the downtown more vibrant that is the relevant subject to explore.

This is an important question because, despite the arguments put forth by proponents, a vast economics literature has developed since the 1980s to repeatedly, convincingly, and virtually unanimously refute the claim that stadiums and their teams increase a metropolitan area's income, employment, or tax revenues (see, for instance, Baade & Dye, 1988; Noll & Zimbalist, 1997; Quirk & Fort, 1992; Coates and Humphreys, 1999). Since the existence of a new stadium or team does not affect household budget constraints, if a stadium increases economic activity downtown, economic activity falls in other neighborhoods in the metropolitan area. (Coates, 2007, p. 568). Meanwhile, others have argued that "locating major league teams in suburban areas is not likely to improve economic conditions of the metropolitan area, but locating teams in the central city and, more specifically, in the downtown may" (Nelson, 2002, p. 112).

With this in mind, if there is also a public goods value to placing the facility downtown as opposed to elsewhere in the city, then this might provide additional justification for allocating some public funds to the construction of the facility. Identity, civic pride, and the other intangible benefits have the qualities of public goods—they are nonexcludable and nonrivalrous. As public goods they are likely to be under-produced without a subsidy. If stadiums and arenas do contribute to healthier, more prosperous downtowns, subsidizing them could enhance economic efficiency if the value of the public goods produced exceeds the cost of the subsidy. In other words, if downtowns can produce public goods more efficiently than other neighborhoods can, subsidizing downtown stadiums and arenas may be economically efficient.

But how would anyone know what the value of civic pride and community identity is? With no market for such goods, there are no data on prices and quantities, no data on willingness to pay. Contingent Valuation Method (CVM) surveys, developed to value environmental public goods, offer a way to estimate the value of downtown public goods. Beginning with a study of the public goods values of a new college basketball arena and a minor league baseball team (Johnson & Whitehead, 2000), economists have used CVM to value sports public goods, focusing on willingness to pay to keep existing teams, such as hockey's Pittsburgh Penguins (Johnson, Groothuis, & Whitehead, 2001), football's Jacksonville Jaguars (Johnson, Mondello, & Whitehead, 2007), and on willingness to pay to attract new teams such as a basketball team to Jacksonville (Johnson et al., 2007), and a baseball team to Portland (Santo, 2008). The Contingent Valuation Method has also been used to estimate the value of public goods from hosting the Olympics (Atkinson, Mourato, Szymanski, & Ozdemiroglu, 2008).

This paper employs CVM surveys to extend the literature in urban economics to estimate willingness to pay for downtown public goods such as civic pride and community identity from building new National Hockey League (NHL) arenas in Edmonton and Calgary, Alberta.

This paper also tests whether the current penchant for using stadiums and arenas to anchor diversified downtown developments, including elements such as other entertainment venues, housing, and cultural facilities, might be justified by greater public goods produced by diversified developments. The results provide the first evidence in sports CVM studies of scope effects, that is, the willingness to pay different amounts for varying quantities of public goods. Scope effects exist when variations in quality or