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'STICKBALL IN SAN FRANCISCO

By

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'Stickball in San Francisco

by

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Abstract

In this paper, we analyze the recurring controversy over investment in a new baseball stadium for the San Francisco Giants. We analyze the history of this controversy and the process of deciding the terms of an investment acceptable to San Francisco citizens. Our conclusion is clear and somewhat surprising -- at least to us. The procedures adopted to make complicated decisions about the baseball stadium in San Francisco are as good as one could reasonably expect. The procedure -- decision-making on the basis of a single-issue ballot initiative -- is exactly the mechanism favored by those who subscribe to the model of public choice. Using this procedure, San Francisco voters have expressed their preference for a new stadium; they are willing to provide public support for infrastructure and assistance with land assembly, but they are not willing to provide a direct subsidy to a private profit-making firm.

We start by examining the factors behind the New York Giants' decision to move to San Francisco in 1958, including the hasty construction of the now-infamous Candlestick Park in time for Opening Day of the 1960 season. We then review the thirty-five year history of analyses, proposals, and referenda focusing on renovating or replacing Candlestick.

Since the construction of Candlestick, the voters of San Francisco have had three opportunities to vote on measures to replace the ballpark. These opportunities came in the form of ballot referenda in 1987, 1989, and 1996. Voters rejected the first two proposals which clearly called for public financing by 53 to 47 percent and 51 to 49 percent respectively. Both of these proposals called for significant public financing and, as such, attracted significant opposition from community leaders, environmental and planning groups, and elected officials. Proposition B, offered in 1996, asked voters to approve a zoning exemption for the stadium and a statement that

the new ballpark would be privately financed. This initiative attracted the active support of political, religious, and community leaders who had opposed the earlier proposals, and Proposition B passed by a two-thirds vote.

The various ballot referenda, particularly Proposition P in 1989, were attended by a host of economic impact studies and forecasts. Each of these studies was limited and rested on questionable assumptions; the result was a confusing and often contradictory series of signals to the informed voter. However, the amount and sophistication of analytical information provided to voters during the decision-making process in San Francisco exceeded that available in most public choice decisions, such as investments in weapons systems or even the San Francisco Opera. The media gave wide coverage to these conflicting analyses, but voters were able to observe the resulting support or opposition of informed opinion leaders.

We examine precinct voting data for each ballot initiative, aggregated to the level of census tracts and then matched to the available demographic data. Our results are consistent with the view that, for San Francisco residents, a baseball stadium is not only an investment but also a consumption good, making it particularly appropriate for a single-issue ballot referendum. Higher income, better educated San Franciscans were more likely to favor a new baseball stadium, as were those in professional and executive jobs. Presumably, those with higher income and education levels are better able to evaluate the dubious investment nature of a new stadium. However, these groups are more willing to pay for the stadium than those with less income. A stadium to supply entertainment services is a normal good with a positive but inelastic demand.

“This is a simple game: you throw the ball, you catch the ball, you hit the ball.”

from Bull Durham

I. Introduction

On July 11, 1961, one year after opening, San Francisco’s Candlestick Park was the site of baseball’s thirtieth All-Star Game. The new stadium, built to lure the former New York Giants to the West Coast, became the stage for a most unusual comedy. As *The New York Times* described it, “For eight innings, in the stillness of an unusually hot and almost windless afternoon, brilliant National League pitching, starting with Warren Spahn, had held the vaunted American League to just one hit while the senior loop piled up a 3-1 lead.”¹ But in the ninth inning, the already infamous Candlestick Point winds picked up. While “local fans, knowing full well what was coming, were heading for the exits before being blown into the Bay,” the National League made three errors -- including a comical muff of a pop foul by catcher Smoky Burgess. Finally, with runners on first and second, right hander Stu Miller was brought in to replace Sandy Koufax. As he wound up for his first pitch, a sudden gust blew Miller off the pitchers’ rubber, and the runners advanced on a rare balk. Another gust helped Rocky Colavito’s grounder get past Ken Boyer. The American League scored two runs, pushing the game into extra innings. Eventually, however, the National Leaguers pulled it out in the tenth.

The wind did not change the outcome of the game, but this did not spare Candlestick from the players’ utter and vocal disdain. In the clubhouse afterwards, Colavito declaimed, “If I was

¹ John Drebing, “Hit By Clemente Ends 5-4 Contest,” New York Times, July 12, 1961.

traded to the Giants and had to play here all the time, I'd quit baseball."² Yogi Berra grumbled, "You can have this park," while Arthur Daley of *The Times* pontificated, "Candlestick Park is like nothing else in the world. Whatever it is, though, it is definitely not a major league ballpark."³

But Willie Mays summed up the local perspective. "What can you do? You do the best you can in the park in which you got to play. And you just hope you don't look too foolish too often."⁴ Mays' forbearance turned out to be a grim necessity. Giants players and fans have lived with the consequences of hasty decisions about the site and design of their stadium for three decades, despite endless and repetitive battles about fixing or replacing Candlestick.

II. Purpose

In this paper, we review the story of the ballpark that replaced Coogan's bluff. We recount and evaluate the financial analyses underlying proposals for building a new ballpark to replace the embarrassment of Candlestick. We also review the political economy surrounding public choices in San Francisco about the design, location, and public involvement in a new ballpark.

Our conclusion is clear and somewhat surprising, at least to us. The procedures adopted to make complicated decisions about the baseball stadium in San Francisco are, we conclude, as good as one could expect. The procedure -- decision-making on the basis of a single-issue ballot initiative -- is exactly the mechanism favored by those who subscribe to the model of public choice.

² Phil Berman, "Colavito: Play Here? I'd Quit First," San Francisco Chronicle, July 12, 1961.

³ Arthur Daley, "Life in a Wind Tunnel," New York Times, July 12, 1961.

⁴ Milton Gross, "It Proved Two Things," San Francisco Chronicle, July 13, 1961.

As professional policy analysts, we would of course prefer a procedure in which the consumer surplus of each of the affected individuals were added up, rather than their votes. But the procedures adopted in San Francisco dominate most of those found outside of economic textbooks.

The ballot initiative procedure provides ample opportunity for political elites and interest groups to affect the outcome -- but their analyses and exhortations are inputs in a local plebiscite.

The plebiscite represents a choice about public investment, but also about public consumption. Clearly, a reckoning of the investment costs and benefits is important, but the issue does not turn on a cost benefit analysis alone.

Our review of the financial analysis underlying the stadium proposals suggests that much of it is flawed and self-serving. However, these analytical documents are only inputs to voters' decisions. Certainly, the electoral process is improved if the analyses presented are more credible. It is not clear, however, that the information available for baseball stadiums is systematically worse than the information relied on in other areas of public choice.

III. History

The debacle of the All-Star Game arose only a year after Candlestick park had been opened. The stadium itself, and the financial deal behind it, was the crucial factor in inducing owner Horace Stoneham to move the Giants from New York for the 1958 season. Bayview Point, the specific site of Candlestick Park, was available immediately. This permitted San Francisco's Mayor George Christopher to promise that the Giants could begin playing in a new ballpark soon after their arrival. On August 19, 1957, the New York Giants Board of Directors

voted 8 to 1 to move to San Francisco. Within a matter of weeks, the Brooklyn Dodgers also decided to flee New York. Baseball was forever changed.

For several years, Stoneham and Dodgers owner Walter O'Malley had made no secret of their dissatisfaction with the Polo Grounds and Ebbets Field, respectively. Despite a quite public scramble for alternative sites in the local area, there had been little enthusiasm in New York for providing government subsidies to the Giants or Dodgers. A majority of New York City's Board of Estimate (New York's equivalent to San Francisco's Board of Supervisors, for these purposes) was opposed to granting funds to construct a new stadium for either team.⁵ Mayor Robert Wagner expressed similar views: "If we began to subsidize baseball teams, all sorts of business enterprises would demand the same things. Our feeling is that professional ball clubs class as private enterprise. They have to carry their own weight. We will not be blackjacked."⁶

Ironically, Wagner mused years later that New York City in 1957 was simply not ready to do what history and technological change had made necessary -- put public funds into keeping a ball club in the city. "Had it all happened five years later, the outcome would probably have been different. The idea of municipalities building stadiums or helping in the building of stadiums was not really politically possible in New York City in 1957."⁷

A public subsidy for a baseball franchise was unthinkable in New York, but out in California it was quite doable. The deal offered by the City and County of San Francisco was an attractive one. The government agreed to use the proceeds from a \$5 million bond issue already approved to build a 40,000 to 45,000 seat stadium at Bayview Point, with a 12,000 car parking

⁵ Philip Benjamin, "Closed TV Linked to Baseball Shift," New York Times, June 5, 1957.

⁶ Bruce Lee, "Stadium Set For Two Years," San Francisco Chronicle, June 1, 1967.

⁷ Harvey Frommer, New York City Baseball - The Last Golden Age: 1947-1957, p. 15.

lot. Contractor Charles Harney, who conveniently owned most of the land around Bayview Point (and could therefore promise rapid construction), was commissioned to build the park. He agreed to provide all additional financing to meet the total expected cost of \$10 to \$12 million. The City agreed to repay Harney with interest from stadium revenues, after which the park would be owned by the city.⁸

In addition to the friendly business climate proffered by city officials in San Francisco, the chimera of pay-TV appeared to make the West Coast far more attractive for professional baseball than New York City. Pay-TV seemed likely to become a reality very quickly in California, while its future in New York was far less certain.

The financial appeal of pay-TV was significant. In 1956, the Giants received \$603,000 for commercial radio and TV rights to their games. Under the proposed pay-TV system, Stoneham anticipated net receipts of \$2.2 million a season by airing home games.⁹

While other publicly-financed baseball stadiums at the time commanded a rent of at least seven percent of net receipts, the Giants negotiated the surprising figure of five percent. The agreement did specify a minimum rent payment of \$125,000 each year,¹⁰ but it also allowed the Giants to pocket all revenue from the stadium concessions. The agreement specified the standard split of advertising revenues: the city would keep receipts from advertising under the stands, while the team would receive income from advertising on the stadium fences.¹¹

⁸ "Giants Here in '58: Mayor Tells Terms," San Francisco Chronicle, August 20, 1957.

⁹ AP/UP, "NY Boss Tells Congress of Shift," San Francisco Chronicle, July 18, 1957.

¹⁰ Art Rosenbaum, "Directors Approve Shift Next Year," San Francisco Chronicle, August 20, 1957.

¹¹ "This is What Brought Giants Here," San Francisco Chronicle, August 20, 1957.

The City expected to recoup its investment primarily through parking fees, with gross parking revenues anticipated to be \$368,000.¹² After Harney's investment was repaid, the Controller predicted complacently that the city could add the half million dollars in stadium receipts to its general fund each year.¹³

A grand jury investigation of a possible "secret deal" between Mayor Christopher and developer Harney found no conflict of interest, but the grand jury report characterized the agreement on the Candlestick location and related economic terms as "a bad deal."¹⁴

A wind study commissioned by Mayor Christopher shortly after the 1961 All-Star Game recommended a dome for the stadium. By 1967, there were discussions of either expanding Candlestick or razing it. In 1968, the influential San Francisco Planning and Urban Research Association (SPUR) recommended a downtown ballpark, citing the high cost of operating Candlestick.

In 1969, when the City expanded Candlestick to facilitate play by the football 49ers, the situation got even worse for baseball. The front row in left field was pushed further back, away from the field, and the artificial turf made play more dangerous.¹⁵

The wind study commissioned in 1961 was only the first reanalysis of housing for the Giants. Two decades later, in the spring of 1981, the Giants released a 254 page report¹⁶

¹² Darrell Wilson, "City's Loot to Come From Parking Lot at Bay View," San Francisco Chronicle, August 20, 1957.

¹³ The City Controller added up the parking fees, the minimum rent, and the estimated \$25,000 in advertising revenues. He estimated annual receipts to the city of \$518,000, which would pay off Harney within 21 years. The \$5 million bond issue would cost San Francisco taxpayers \$420,000 annually in additional sales taxes for the next 15 years.

¹⁴ "Grand Jury Majority Report Calls Stadium Proposal a 'Bad Deal,'" San Francisco Chronicle, December 30, 1958.

¹⁵ Glenn Dickey, "Why Candlestick Isn't Working: A Lesson in Obsolescence," San Francisco Chronicle, December 20, 1982.

declaring Candlestick “unfit for baseball” and offering two options: building a new domed stadium, at an estimated cost of \$100 million; or doming Candlestick, at an estimated cost of \$60 million. The report set off years of debate, site studies, economic analyses, stadium proposals and bond initiatives which have continued to the present day. The alternatives discussed in the wake of the 1981 study are those which have been re-examined throughout the intervening decade and a half: make improvements to Candlestick; build a downtown stadium; build a stadium at China Basin; or do nothing at all.

The Giants’ 1981 report led Mayor Dianne Feinstein to impanel a task force which identified four sources of funding for a new stadium: the sale or lease of private luxury boxes; tax benefits for stadium developers; corporate sponsorships and advertising revenue from the scoreboard and the media; and sale of the Candlestick property. The city still owed \$20 million in bond payments for the improvements to Candlestick made for the benefit of the 49ers. The task force hoped that proceeds from the sale of the land would exceed this amount,¹⁷ but other observers were less optimistic.¹⁸ The Mayor’s task force also proposed that \$3.5 million in hotel occupancy tax revenues be earmarked each year for Candlestick Park.

In October of 1982, after studying ten different sites, the task force proposed a new stadium at China Basin. The advantages of the site included the fact that the land was owned by two public agencies -- the State of California and the San Francisco Port Commission. The task force hoped that both agencies could be convinced to give up the land at very reasonable prices.

¹⁶ *The Future of Candlestick Park*, was compiled for the San Francisco Giants by Laventhol and Horwath, and released on May 19, 1981.

¹⁷ Allan Temko, “SF Officials Optimistic About a New Stadium,” San Francisco Chronicle, August 11, 1982.

¹⁸ Richard Leger, “The Staggering Costs of a New SF Stadium,” San Francisco Chronicle, December 21, 1982.

In addition, the task force anticipated that the stadium could share parking facilities with the planned Mission Bay development project, which was expected to combine commercial and retail facilities with affordable housing.

However, some pointed out that the low-cost donation of China Basin land was not really a bargain. The task force valued the land at \$58 to \$65 a square foot, for a total cost of \$32.8 to \$36.8 million. If used for a new city-owned stadium, this land would produce no property taxes, and could not be used for other attractive purposes. According to the City Budget Analyst, such alternatives might include 700 single family homes, valued at \$100,000 each, which would yield \$651,000 per year in property taxes.¹⁹

Meanwhile, former Mayor George Christopher went on record in support of doming Candlestick. He criticized the \$100 million estimate put forth in the Giants' report for building a new stadium, noting that with the cost of land at China Basin, the project would require a minimum of \$165 million. Noting that city regulations on debt financing would further increase the cost of financing the project, he declared that the Giants' report was written by "people who haven't studied San Francisco government," and recommended building a \$60 million dome using the city's \$187 million budget surplus.²⁰

In December, the San Francisco Board of Supervisors approved \$300,000 for a feasibility study for a new stadium. They conditioned their approval on assurances that the study would focus not just on Mayor Feinstein's favored China Basin site, but on other possible locations as well as on continued use of Candlestick.²¹

¹⁹ Richard Leger, "The Staggering Costs of a New SF Stadium," San Francisco Chronicle, December 21, 1982.

²⁰ Harry Jupiter, "Ex-Mayor Wants a Dome," San Francisco Chronicle, September 30, 1982.

²¹ Evelyn Hsu, "\$300,000 OK'd for Sports Stadium Feasibility Study," San Francisco Chronicle, December 2, 1982.

For the next five years, feasibility was studied and restudied. In 1987, Giant owner Robert Lurie convinced Mayor Feinstein to put a proposal for a new stadium on the ballot. Feinstein warned Lurie that the proposal was not likely to succeed, but he persisted. Thus, San Francisco voters had their first opportunity to express their preferences about a new stadium for the Giants. According to the Registrar of Voters,²² “Proposition W would make it the official policy of the people of San Francisco to build a baseball park at 7th and Townsend Streets on land provided at no cost to the City. There would be no increases in taxes, and all debt [would be] repaid with non-tax money.”

According to proponents, the new ballpark would be financed by \$45 million in bonds guaranteed by the private sector. \$35 million would come from the sale of luxury boxes and the name of the new park, from corporate sponsorships associated with it, from proceeds of the sale of Candlestick Park, and from “surplus” hotel transient occupancy tax receipts.²³

Opponents took issue with the claim that the ballpark could be constructed at no cost to the city. Although the industrial or revenue bonds proposed would be sold to private investors, the bonds would be guaranteed by the city -- and the city could not allow a default without damaging its own bond rating and increasing the cost of financing future projects. Furthermore, the land was to be “donated” by the Santa Fe Corporation, developer of the adjacent Mission Bay development. Skeptics suggested that there was no such thing as a free acre, and that Santa Fe undoubtedly expected subsidies for its project in return for this donation.

²² Office of the Registrar of Voters, City and County of San Francisco. *San Francisco Voter Information Pamphlet*, Municipal Election, November 3, 1987.

²³ The arguments of proponents were spelled out in the San Francisco Voter Information Pamphlet, op cit.

Opponents also emphasized that while Proposition W ruled out tax *increases* to finance the stadium, there was nothing to prevent *current* tax funds from being diverted to stadium construction -- and in fact, the City planned to use some of the proceeds from the current tax on hotel occupancy.²⁴

Mayor Feinstein, a majority of the Board of Supervisors, numerous law enforcement officials, labor groups, SPUR, and the San Francisco Chamber of Commerce all supported Proposition W. The ballot initiative was opposed by three Supervisors; by a vocal urban environmental group (San Francisco Tomorrow), and by a variety of neighborhood groups.

Importantly, the proposition was opposed by Mayoral candidate Art Agnos, who felt that the financial package left the city with an unacceptable budgetary risk. Agnos ran against a strong ballpark supporter who had a large early lead in the polls. Agnos was elected, and his success was reflected in the fate of Proposition W, which the voters rejected by a 53 to 47 margin. This defeat stood in sharp contrast to the voters' concurrent approval of \$99 million for parks, streets, health centers and police stations.²⁵

Giants owner Bob Lurie initially seemed to take the vote personally, as if San Francisco voters were rejecting the team itself rather than a particular stadium financial arrangement. He announced that the Giants would leave San Francisco no later than 1994, when their Candlestick lease expired. In fact, Lurie announced that he wished to move his team to a South Bay location. Civic leaders in the South Bay communities responded positively to this message.

Over the next year and a half, various communities on the Peninsula, including Santa Clara, East Palo Alto, San Jose, and Half Moon Bay, lobbied Lurie. However, key staff members

²⁴ Ibid.

²⁵ Gary Enos, "San Franciscans to Vote Again on Sports Stadium," City and State, October 23, 1989, p.3.

to Mayor Agnos aggressively pursued efforts to keep the Giants in San Francisco. In October of 1988, they solicited bids for a 42,000 seat downtown baseball stadium along with a 20,000 seat entertainment and sports arena. Meanwhile, Santa Clara was conducting a feasibility study, and Lurie commissioned a marketing study to see whether Santa Clara could support a ballpark.

On July 27, 1989, the mayor and Bob Lurie announced their plan for a 45,000 seat stadium at China Basin. The economics of the new deal, along with the participation of the Spectacor Management Group (experienced veterans at constructing and managing new sporting facilities) convinced Lurie to put the ballpark before San Francisco voters one more time. Mayor Agnos was willing to support a stadium with a more clearly defined financing package if it meant keeping the Giants from moving to the South Bay. Lurie, though, was adamant this was the last shot for San Francisco. During negotiations with the mayor he demanded, and received, a provision that would release the Giants from their Candlestick lease starting in 1990 if the proposal were defeated by the voters. This lease amendment was approved by the Board of Supervisors in early October.

While there was no legal requirement that this ballpark agreement be approved by the voters, the Mayor decided to put the proposal on the November ballot in light of the voters' rejection of the 1987 initiative. Thus, in Proposition P, voters were asked to approve the financial package contained in Memoranda of Understanding between San Francisco and the Giants and between San Francisco and the Spectacor Management Group.²⁶

Debate over Proposition P was intense. Stadium proponents described the city's financial commitment to building the stadium as a mere \$20 million, plus \$10 million in loans. This money

²⁶ Gary Enos, "San Franciscans to Vote Again on Sports Stadium," City and State, October 23, 1989, p. 3.

would be paid to the developer, Spectacor, in \$3 million increments over ten years, starting in 1995, out of the city's hotel tax. Carol Wilkins, Deputy Mayor for Finance, projected a return of \$80 million over forty years on the \$20 million investment. She also estimated that the investment in the ballpark would generate \$230 million in additional sales, property and payroll taxes.²⁷

Opponents pointed to additional costs to the city beyond the \$30 million commitment. For example, the city accepted liability for up to \$10 million in cost overruns. The city would purchase and prepare the land. While the city would retain title to the parcel, it would give up the right to assess property taxes on it. In order to purchase the land, the city intended to sell a municipal bus lot, valued at about \$18 million. In addition, under the Memoranda of Understanding, the city would be required to relocate port facilities and tenants, at an estimated cost of between \$2 million and \$7 million.

The most unpredictable portion of the cost involved toxic cleanup of the China Basin property. While the city projected these costs at \$2 million, subsequent testing could reveal a price tag of anywhere from \$2 to \$20 million.

The city was responsible for constructing a 1,500 car parking garage; it was unclear how this structure would be financed, especially when 1,200 of the spaces would be given free to luxury box owners and Giants affiliates. Critics argued that, to ensure proper access to the ballpark, the city would have to finance significant transit improvements to the municipal systems.

The city agreed it would not assess an admissions tax for the duration of the lease. In addition, the city would agree to give the Spectacor Management Group the exclusive right to develop a multi-purpose arena adjacent to the ballpark.

²⁷ Wilkins, Carol, Letter to San Francisco citizens, September, 1989.

In return, the City would receive twenty percent of any stadium net cash flows for forty years. The city would retain title to the land. Giants officials confirmed that their rent -- to be paid to Spectacor -- would increase from about \$700,000 at Candlestick (which represented the five percent of revenues specified in the Giants' original lease) to \$7 million at China Basin.

Spectacor would pay the remainder of the \$115 million in construction costs. These would be financed in part through \$50 million in tax-exempt bonds, authority for which had been obtained by Mayor Feinstein as a special provision of the Tax Reform Act of 1986 (and which otherwise would expire at the end of 1990). The remaining \$46 million required to build the park would be financed by Spectacor through taxable bonds. Spectacor planned to repay these bonds through revenues from luxury boxes, concessions, and rent. Spectacor also had the right to sell the park's name and to set ticket prices. At Candlestick, prices were set by a San Francisco city agency.

The battle over the initiative looked very close indeed. Proposition P was supported by most of the city's political establishment, by SPUR, by the League of Conservation Voters, by the San Francisco Chamber of Commerce, by both political parties, and by some affordable housing groups. In addition, elites in the gay community generally supported the ballpark, despite organized baseball's perceived hostility.

Nevertheless, in mid-September, polls showed the ballpark trailing slightly. But public opinion polls lost most of their relevance on October 17, 1989. On that date, just before the beginning of the third game of the San Francisco-Oakland World Series, a major earthquake hit San Francisco. Many observers believed that this, more than anything else, doomed the ballpark proposal. Candlestick was damaged, but it did withstand the earthquake, while other

infrastructure and buildings crumbled. Suddenly building a new ballpark seemed far less important than housing the homeless and rebuilding the city.

The leaders of the Mayor's "Yes on P" campaign were immediately diverted to Red Cross stations and relief offices. The Mayor concentrated on raising money for disaster relief. Mayor Agnos did send out previously printed materials on the ballpark with a revised message: the ballpark was needed now, more than ever, for economic development and also to send a message of vitality to the rest of the country. In a cover letter, Agnos made a personal appeal: "I need to draw private investment into the city. I need to stimulate the economy. And construction of the new ballpark will help me do that. And this election will send a signal to the rest of the world that we believe in our future. The new construction methods used for the downtown high-rises, built on landfill, showed that we can build safely by anchoring foundations deep in the earth. The same will be true of the ballpark at China Basin."²⁸

A few days before the vote, the campaign took a bizarre twist. It was revealed that a contractor in the employ of a prominent Sacramento financier, Greg Lukenbill, had contributed \$12,500 to a little-known ballpark opposition group known as "Yes on V/No on P." Mayor Agnos angrily charged that Lukenbill meant to "loot San Francisco of its baseball team in order to complete a financing package that is necessary for him to get the (Los Angeles) Raiders in Sacramento."²⁹ While some observers raised their eyebrows, noting that Lukenbill was a business partner of Angelo Tsakopoulos, a close friend and political supporter of Mayor Agnos, the media picked up on the charges that outsiders were trying to steal the Giants. The Mayor urged San Francisco voters to defeat the efforts of these "outsiders" by supporting Proposition P.

²⁸ Agnos, Art, Letter to San Francisco citizens, October, 1989.

²⁹ Balderston, Jim, "Prop. P, R.I.P.," San Francisco Bay Guardian, November 15, 1989.

Agnos' appeal was not enough. Proposition P lost by fewer than 2,000 votes.

During the next seven years, the Giants looked south to Santa Clara County, to San Jose, to Tampa, and finally back to San Francisco, seeking a home. South Bay voters twice showed their reluctance to pay higher utility taxes to finance a stadium, and Tampa lost out when Major League Baseball owners rescinded a sale of the team to interests in Tampa, forcing fed-up owner Bob Lurie to accept \$15 million less in selling the team to a group of San Francisco investors cobbled together by Mayor Frank Jordan. The new owners set out to develop a new kind of stadium proposal.

On December 21, 1995, the Giants once again announced their intention to build a 42,000 seat ballpark at the China Basin site. A ballot initiative was drafted, providing an exemption from zoning regulations. This initiative did not ask voters to approve a detailed financial understanding, but rather a policy statement: the ballpark would be privately financed.

The private financing aspect drew the support of many who had opposed previous stadium initiatives. The campaign for the stadium was chaired by the conservative state senator Quentin Kopp, the liberal supervisor Roberta Achtenberg, and the well known black clergyman Reverend Cecil Williams. The campaign would be chaired by Mayor-elect Willie Brown's campaign manager Jack Davis, who along with Kopp had actively worked against the 1987 and 1989 proposals.³⁰

The ballpark was expected to cost \$255 million. Of this, \$140 million would be raised through a private bond issue. \$90 million would come from the sale of the stadium name, personal seat licenses for 15,000 seats, advertising and concession rights, and luxury boxes.

³⁰ Phillip Matier and Andrew Ross, "Ballpark Win a Fine-Tuned Political Effort," San Francisco Chronicle, March 27, 1996.

Direct public money would be limited to tax increment financing from the Redevelopment Agency. Of the \$3.5 million in property taxes projected to be generated by the stadium, sixty percent would be invested by the city to improve public spaces around the ballpark. The other forty percent would be invested in education and low-income housing. While this \$6 million in tax increment financing from the Redevelopment Agency was clearly public funding, the Giants argued that the tax revenues were inextricably linked to the new stadium.

Many of the financial details between the Giants and the city remained to be worked out. The Port of San Francisco would purchase the portion of the property owned by the California Department of Transportation, and negotiate lease terms with the Giants. Once again, opponents pointed to indirect costs: purchase and preparation of the land, toxic cleanup, relocation of tenants, and increased security and transit improvements.

Many observers were skeptical that the Giants could undertake the private financing successfully. Personal seat licenses had never been used for baseball before, and the originator of the concept, Max Muhleman, expressed doubt that the Giants could raise significant funds in this way. Others noted that sports franchises had not had much success in issuing private bonds.³¹ If the \$140 million were successfully raised, debt service would require the team to attract 2.6 million fans per year, an increase of approximately 1 million over recent years.³²

Nevertheless, the support from the entire political establishment, leaders of business, labor, education, the gay community, and many planning and environmental groups (together with assurances that a stadium would *not* be built unless privately financed) combined finally to provide

³¹ Edward Epstein, "Giants Need a Lot More Than Voter OK For Ballpark," San Francisco Chronicle, February 12, 1996.

³² McGraw, Dan and Richard Bierck, "Playing the Stadium Game," U.S. News and World Report, June 3, 1996.

the Giants with a victory. On May 26, 1996, Proposition B passed in every district but one. Two thirds of the voters were recorded in favor of the zoning changes and the statement of principle.

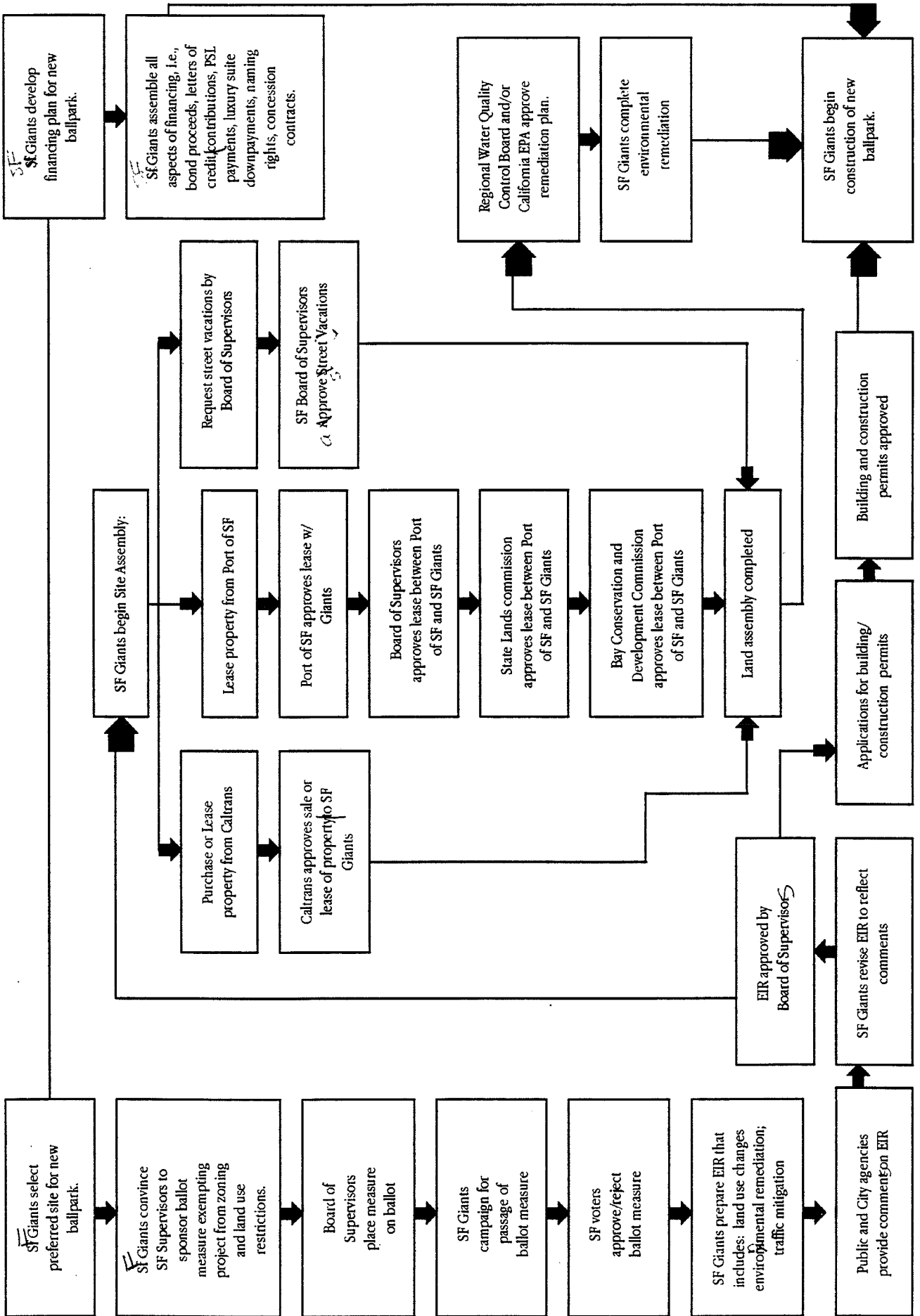
The history of the past forty years can be summarized as a long convoluted struggle to fix a mistake. Study after study, plan after plan, and repeated efforts by the City's power structure and its political elite could not get a new stadium approved until a credible case could be made that the Giants would *not* receive a substantial direct subsidy.

IV. The Lesson of History

One logical inference from this narrative is that it is acceptable to the voters for the City to provide infrastructure support and assistance with land assembly, but not to provide a direct subsidy to a private firm. A cash subsidy is just one benefit a city can provide to a sports franchise, and other support may be of equal importance. In San Francisco, it is simply inconceivable that the Giants or their fans could have a new ballpark without the City managing the process.

Imagine a private firm setting out to build a ballpark in China Basin on its own. Starting in the upper left hand corner, Figure 1 describes the steps the firm would confront in simply acquiring a site. Initially, a tract of land, large by any measure, would have to be assembled. As the figure indicates, once a site had been selected, elected government officials would be required to act. The colossal height of a major stadium requires a zoning variance by the Zoning Board, by the Board of Supervisors, or by an initiative. Because stadiums are controversial, local politicians prefer an initiative. So site assembly, at least in San Francisco, is going to involve an initiative

Figure 1. Steps toward private construction of China Basin Ballpark.



whether a subsidy is involved or not. Approval of the city's political elite is not sufficient condition for approval of an initiative, as we have seen, but it is probably necessary.

If the ballot measure were approved, as Figure 1 indicates, a host of further approvals would be required from the city to meet environmental remediation and traffic mitigation requirements, culminating once again with a vote of the Board of Supervisors.

If that hurdle were passed, Figure 1 imagines what would have to happen next -- if this very large site were to be acquired from the city. Many agencies would have to sign off, and once again the Board of Supervisors would have to give its assent. Getting environmental, safety, and traffic approvals as well as acquiring city land would be easier if an organ of government, say the Port of San Francisco, were the applying agency. Government agencies have credibility before other public agencies -- and probably before the press and the public, too -- that private firms do not have. It is hard to imagine a private firm working through the 28 steps indicated in Figure 1 without the prior agreement of the Mayor and a majority of the Board of Supervisors, even if no cash subsidy to the firm were contemplated. The 47 to 66 percent of the voters who want major league baseball in the city need the commitment of the city government if they are to be able to get a commodity that they must consume collectively.

Such a commitment from the city is necessary to help manage the process of complying with law, tradition, and local political expectations.

In addition to site selection and preparation, financing is another area in which the city must play a key role, whether a stadium is to be privately or publicly developed. This is a consequence of the huge federal subsidy available for finance using tax-exempt bonds. "A \$225

million stadium built today and financed 100 percent with tax-exempt bonds might receive a lifetime federal tax subsidy as high as \$75 million, 34 percent of construction costs.”³³

So, if a sizable minority (recall that the smallest vote a stadium received in the three initiatives in San Francisco was 47 percent) want a baseball stadium, how are they to get it? San Francisco’s history suggests a two-step procedure that economists should applaud:

1. Supporters of the stadium first demonstrate that they are willing to pay for it privately or are willing to finance some portion publicly.
2. They then convince the median voter that it would be desirable for the city to:
 - a. Arrange to assemble the land and make it ready for construction.
 - b. Arrange access to the federal subsidy.
 - c. Provide a local subsidy.

Many economists would be happier if the local subsidy provided by 2c were zero. Almost all economists would be happier if the subsidy provided by 2b were zero. But the local subsidy, at least, is a matter of local tastes for a local consumption good.

V. Quantifying the Costs and Benefits of a China Basin Ballpark

As noted above, during the past decade, San Franciscans have had three opportunities to register their opinions on the replacement of Candlestick Park: Proposition W (which lost, 47 to 53 percent, in 1987); Proposition P (which lost, 49 to 51 percent, in 1989); and Proposition B (which passed, 66 to 34 percent, in 1996). Of these, Proposition P underwent the most intense scrutiny. It was the subject of three fiscal analyses: one produced by then Mayor Agnos’ Office; an independent review of that report produced by the San Francisco Board of Supervisors’

³³ Dennis Zimmerman, *Tax-Exempt Bonds and the Economics of Professional Sports Stadiums*, Congressional Research Service, The Library of Congress, May 29, 1996, Summary.

Budget Analyst, Harvey Rose; and a third, authored by an economics professor for San Franciscans for Planning Priorities (SFPP). In contrast, Proposition B received somewhat less financial scrutiny, perhaps because public funds were less of an issue.³⁴ Proposition W received even less in the way of systematic analysis.

Proposition P generated significant analytical attention, and that attention arguably clarified the debate over the financial benefits of a new ballpark. The Mayor's Office, as well as the campaign apparatus in support of Proposition P, argued that the investment "would generate net benefits of \$31.5 million" and that "even in the worst case, if the intangible benefits often associated with major league sports are considered, along with the quantifiable benefits estimated..., it would appear that this investment is worth undertaking."³⁵

The Budget Analyst disagreed with this contention, arguing that "the estimated net cost benefit of the downtown ballpark proposal is significantly less than the Mayor's report has projected."³⁶ The analysis prepared for SFPP also took issue with the Mayor's Office report, arguing that there would be no net benefits associated with this investment.³⁷ In the end, the three analyses rendered inconclusive the public debate over the extent of financial benefits to a new ballpark. In the aftermath of the Loma Prieta earthquake in October 1989, this debate became largely irrelevant.

³⁴ *Review of the Projected Costs and Economic Benefits Associated with the San Francisco Giants' Proposed Ballpark at China Basin* prepared for the Board of Supervisors, City and County of San Francisco, Board of Supervisors - Budget Analyst, March 1996.

³⁵ Carol Wilkins and Stephen J. Agostini, *Building a New Home for the San Francisco Giants: A Cost-Benefit Analysis of the Proposed China Basin Ballpark*, October 2, 1989, page 13.

³⁶ Letter from Board of Supervisors - Budget Analyst to Supervisors Hongisto, Hsieh, and Nelder, October 6, 1989, page 4.

³⁷ Jim Balderston, "Say it ain't so, Art," The San Francisco Bay Guardian, October 18, 1989 pp. 15-17.

While the voters considering Proposition B in 1996 were not subjected to dueling analyses, the financial review conducted by the Budget Analyst was, by its own admission, “unable to make a definitive calculation of the total costs and benefits to the City.”³⁸ In spite of this, the San Francisco Giants, in a letter to the Budget Analyst, hailed the report, stating that “we agree with your overall findings that *the benefits of the new ballpark far exceed any potential costs* associated with the new China Basin Ballpark.”³⁹ Mayor Willie Brown concurred with the Giants’ assessment, stating that “In fact, [the Budget Analyst] shows that the city stands to gain more than \$1.5 million annually in additional tax revenues from the presence of the Giants in a new downtown ballpark,” an assessment the Budget Analyst took pains to refute.⁴⁰ Curiously, the Giants went on to report (in the very next sentence of their letter) that they “also agree that *no definitive cost estimate can be made at this time* given the current information available.”⁴¹ A voter considering these seemingly contradictory assessments of the same report could be forgiven being somewhat confused. Did the benefits of Proposition B indeed “far exceed” the potential costs, as the Giants believed? Or was the existing information insufficient to reach a definitive conclusion, as the Budget Analyst originally stated? Confused or not about the financial implications of a new ballpark, San Franciscans approved Proposition B by a huge margin in March 1996. The Giants were clearly pleased by the outcome. As “the man who crafted the

³⁸ Budget Analyst, Board of Supervisors, City and County of San Francisco, Review of the Projected Costs and Economic Benefits Associated with the San Francisco Giants’ Proposed Ballpark at China Basin, March, 1996, page 2.

³⁹ Letter from John F. Yee, Vice President and Chief Financial Officer, San Francisco Giants to Mr. Ken Bruce, Budget Analyst’s Office, February 29, 1996.

⁴⁰ Edward Epstein, Giants Tout Tax Benefits of China Basin Ballpark, But Analyst Says Overall Effect Unclear,” The San Francisco Chronicle, March 5, 1996, page A1.

⁴¹ Letter from John F. Yee, Vice President and Chief Financial Officer, San Francisco Giants to Mr. Ken Bruce, Budget Analyst’s Office, February 29, 1996.

financial plan for the Giants' China Basin ballpark [stated], the election victory means 'the hardest part is over. The rest is a cakewalk.'"⁴²

For many of the proponents of Proposition P the choice was simple: the financial returns associated with the proposed ballpark, combined with the prospect of retaining the Giants in San Francisco, provided ample reasons for investing city resources -- directly -- in a new ballpark. For Proposition B's proponents the choice was equally simple: the absence of a direct public subsidy, and the prospect of retaining the Giants, were compelling reasons for voting to exempt the ballpark project from zoning and land use restrictions. To their respective advocates these were two distinctly different approaches -- public subsidy vs. no public subsidy -- to resolving the same problem: retaining major league baseball in San Francisco. And if the votes on the two measures were any indication, voters were very clear about which approach they preferred: a new ballpark without public subsidy.

The financial analysis reported in the Appendix evaluates the claims made by proponents for the two most recent China Basin ballot initiatives -- Propositions B and P -- by quantifying some of the public costs, benefits, and transfers associated with each proposal. This is a somewhat speculative endeavor, since San Francisco has yet to construct a replacement for Candlestick Park. Consequently, hard data about construction costs are simply unavailable for San Francisco. While our estimates do not use ex post financial statements, a wealth of information is available to construct plausible inferences about impacts. Importantly, however, the evaluation reported in the Appendix is based on the data available to voters at the time the decisions were made.

⁴² Eric Brazil, "Ballpark Approval Was the Tough Part; Funding Looks Easy," San Francisco Examiner, March 28, 1996, page A8.

No comprehensive benefit-cost analysis (as described by Noll and Zimbalist in this volume) was ever conducted for any of the San Francisco stadium proposals. Rather, as the Appendix to this paper describes in detail, there were several fiscal impact studies. The political debate about Proposition P, in particular, featured dueling studies and attacks on parts or all of each. Here we summarize what the informed, involved voter could have deduced from the debate swirling around these fiscal impact studies, for the elite informed voters may play the key role in determining whether a complicated initiative passes.⁴³

Table 1 summarizes the key finding for Propositions P and B. Drawn from Appendix tables 4 through 7, the table indicates that the key difference between the propositions was the decline in downside risk to the taxpayer -- particularly the decline in the upper bound estimates of the public subsidy. The major reason for this decline was the elimination of promises of cash by the city. Proposition P offered Spectacor cash in three forms: a contribution for operations and maintenance, a loan, and reimbursement of the costs imposed by other jurisdictions. In eliminating these costs (\$16 million) in the transition from Propositions P to B, the city gave up a share in the ballpark's cash flow and payroll taxes (\$10.5 million). Moreover, the city substantially reduced its net downside risk.

To make these comparisons, the informed voter had to work her way from the flawed data in studies as they first appeared (summarized in Appendix tables 1 and 2) to extract the information presented in Appendix tables 4 through 7. She then had to appraise the remaining uncertainties which are captured in the differences between the upper and lower bound estimates. Importantly, the voter had to shift the focus of the accounting system for benefits and costs from

⁴³ Lupia, Arthur, "Shortcuts versus Encyclopedias: Information and Voting in California Insurance Reform Elections," *American Political Science Review*, Vol. 88, No. 1, March, 1994, pp. 63-76.

the perspective of the city's general fund to the perspective of citizens as federal as well as local taxpayers. Of course, the voter also had to understand the concept of net present value and interest rate sensitivity. The relevant opinion leaders were certainly capable of making these calculations -- in a very rough and ready way, of course.

The gross errors and the more subtly misleading implications that come from evaluating the benefits and costs of a stadium from the perspective of the general fund of the city are clear in the detailed discussion of the Appendix tables. Here we relate one anecdote:

An example of the consequences of accounting for benefits and costs from a city's financial perspective involved reckoning the costs of the site. Initially, the city put the value of the land at nine percent of the original acquisition cost of the land (which the city already owned). This was because city officials expected the remainder to be borne by the federal government. Of course, city residents lose when the federal government loses. Moreover, in this case, the cost used would have been less than the opportunity cost of the land *to the city*. Even valuing the land at acquisition cost would have underestimated the true economic cost (i.e., the current opportunity cost) of the stadium. Undervaluing the site in calculating the costs of the stadium foreclosed any other use of the land that would have had greater economic benefits for the city.

As these important details illustrate, calculating costs and benefits from the perspective of the city's operating budget makes no economic sense. Indeed, there is something terribly peculiar in a perspective that categorizes any increase in taxes collected by the city as a benefit! Yet it is from this peculiar perspective that the economic debate about stadiums has been pursued in San Francisco and, most likely, everywhere else.

Table 1
Estimates of Net Fiscal Impact of Propositions B and P

		Net Fiscal Impact (millions of 1996 dollars)	
	<u>Year</u>	<u>Upper Bound</u>	<u>Lower Bound</u>
Proposition B	1996	\$ -12.1	\$ 2.0
Proposition P	1989	\$ -18.4	\$ 0.9

Source: Appendix Tables 4 through 7. Negative numbers represent net fiscal costs.

VI. The Use of Analysis

It has often been noted that studies analyzing the impact of sports stadiums on the local economy are flawed and self serving. As reported in the Appendix, the analyses of the 1989 proposal are replete with errors and are based on specialized (or peculiar) assumptions. They are, to some extent, political documents meant to influence the political process.

It is crucial to recognize, however, that in San Francisco these analytical studies were inputs in local plebiscites. They were hardly intended to rank public investment projects according to principles of cost benefit analysis so that experts could determine the most socially beneficial investment projects to undertake.

On the contrary, these studies were used by citizens in making judgments in a single issue ballot. The issue to be decided was partly about public investment -- but only partly. It was also about public consumption. The issue was much the same as decisions about the appropriate level of support for the San Francisco opera and symphony, or about the decision to enhance the public park adjoining the municipal art gallery at Yerba Buena.

A careful reckoning of costs and benefits is clearly important to these public choice decisions, but these issues do not turn solely on benefit-cost ratios that fail to take into account the willingness-to-pay of those most intensely interested in keeping or attracting a team.

The decision-making process differs between, say, opera and baseball in San Francisco in that the latter have been made by citizen ballot. Proposition P failed. Why did it fail? Which segments of the population were willing to provide substantial up-front money to build a municipal ballpark in China Basin?

Table 2 provides some evidence. It reports a series of regression results based upon the 1989 ballot initiative. Voting returns by precinct were aggregated to the level of census tracts and matched to 1990 tract data. The regressions report the fraction of the vote favoring the initiative as a function of the demographic composition of the tracts. The six regressions differ in the measures used to represent more sophisticated voters (median income, or the fraction of adults who are college graduates, or the fraction employed in executive or managerial positions).

As the table indicates, the 1989 baseball stadium was a superior good -- an extra thousand dollars in income increased the propensity to vote in favor of the stadium by about one percentage point. College graduates were substantially more likely to favor the stadium proposal, as were those in executive and managerial occupations.

There is some evidence that those living in census tracts with larger male populations (including San Francisco's homosexual community) were more likely to oppose the initiative. Asians were generally in favor of the initiative as were white voters. There is weak evidence of systematic differences between Hispanic and other voters.

Other evidence, not reported, suggests that there was little difference in voting behavior in the 1989 initiative by age group, homeownership, or other demographic considerations.⁴⁴ Overall, the statistical models explain somewhat less than half of the variance in voting behavior.

Table 3 presents the same regressions applied to the 1996 voter initiative. The pattern of the estimated coefficients is strikingly similar. Higher income, better educated San Franciscans were more likely to favor the initiative, as were those in professional and executive jobs. Those

⁴⁴ Our complete analysis included separate estimates of voter turnout and estimates using the fraction of adults (rather than voters) supporting the initiative. In addition, we investigated more elaborate specifications using logit and logarithmic models. The simple models reported in the text adequately capture the results of the more elaborate statistical models.

living in census tracts with higher fractions of males were less likely to favor the ballpark proposal. Asian voters were more likely to favor the initiative, while Hispanics were, perhaps, more likely to oppose it.

The similarity of voting patterns in the two plebiscites suggests that voter preferences for a new ballpark to keep the Giants in San Francisco are stable, but that the price of achieving this varied in the two elections. Table 4 tests this hypothesis more formally. The table reports coefficient estimates when the voting data for the two elections are combined. The same models are estimated, adding a dummy variable for the 1996 election.

As the table indicates, the larger sample improves the precision of the coefficient estimates and the explanatory power of the statistical models. The dummy variable for the 1996 election indicates that, when the public subsidy to the franchise was eliminated (or at least reduced substantially), voter approval increased by roughly fifteen percentage points.

The F tests reported in the table indicate that the coefficients on the demographic variables are, indeed, identical for the two elections.

One further aspect of these results is consistent with the combined investment-and-consumption nature of the public choice. More sophisticated voters -- better educated, higher income voters with higher status jobs -- were consistently more strongly *in favor* of these initiatives than other voters. If the ballpark choice were simply an investment in local economic development, we would expect these voters to be more easily able to discern the fact that a new ballpark was a dubious proposition in purely fiscal terms. That these very voters were more likely to approve the propositions reinforces the consumption aspects of the choice.

Table 2
 Voting on 1989 Stadium Initiative in San Francisco
 Dependent Variable: Percent of Voters Supporting Initiative by Census Tract

<u>Independent Variable</u>	Model					
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>V</u>	<u>VI</u>
Median income (thousands)	0.011 (3.16)			-0.000 (0.84)		
College graduate (fraction)		0.239 (9.86)			0.227 (4.60)	
Executive (fraction)			0.721 (8.92)			0.489 (4.02)
Male (fraction)	-0.072 (1.01)	-0.071 (1.35)	-0.084 (1.54)	-0.192 (3.04)	-0.076 (1.36)	-0.112 (2.04)
Hispanic (fraction)	-0.137 (2.74)	0.060 (1.33)	0.047 (1.01)	-0.080 (1.84)	0.055 (1.10)	0.019 (0.41)
Asian (fraction)	0.029 (1.28)	0.121 (5.96)	0.113 (5.39)	0.120 (5.25)	0.123 (5.77)	0.131 (6.02)
White (fraction)				0.167 (7.24)	0.010 (0.28)	0.071 (2.53)
Constant	0.511 (11.23)	0.429 (13.20)	0.443 (13.23)	0.499 (12.87)	0.430 (13.13)	0.440 (13.36)
R ²	0.194	0.497	0.455	0.421	0.497	0.480

Note: Precinct voting data for 1989 were aggregated to the level of census tracts and merged with the U.S. Census STF3 data for San Francisco for 1990, yielding 140 observations on aggregate voting by census tract.

Table 3
 Voting on the 1996 Stadium Initiative in San Francisco
 Dependent Variable: Percent of Voters Supporting Initiative

<u>Independent Variable</u>	Model					
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>V</u>	<u>VI</u>
Median income (thousands)	0.001 (1.92)			0.001 (1.15)		
College graduate (fraction)		0.087 (3.18)			0.184 (3.34)	
Executive (fraction)			0.316 (3.62)			0.461 (3.47)
Male (fraction)	-0.128 (1.95)	-0.144 (2.40)	-0.143 (2.43)	-0.142 (2.09)	-0.105 (1.68)	-0.126 (2.10)
Hispanic (fraction)	-0.249 (5.43)	-0.183 (3.57)	-0.172 (3.39)	-0.242 (5.18)	-0.139 (2.51)	-0.154 (2.70)
Asian (fraction)	0.016 (0.77)	0.044 (1.91)	0.049 (2.17)	0.027 (1.11)	0.029 (1.22)	0.038 (1.57)
White (fraction)				0.021 (0.83)	-0.082 (2.02)	-0.044 (1.45)
Constant	0.716 (17.20)	0.704 (19.15)	0.698 (19.32)	0.715 (17.13)	0.698 (19.12)	0.700 (19.45)
R ²	0.300	0.331	0.345	0.304	0.351	0.355

Note: Precinct voting data for 1996 were aggregated to the level of census tracts and merged with U.S. Census STF3 data for San Francisco, yielding 140 observations on aggregate voting by census tract.

Table 4
Voting on San Francisco Stadium Initiatives of 1989 and 1996
Dependent Variable: Percent of Voters Supporting Initiatives

<u>Independent Variable</u>	Model					
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>V</u>	<u>VI</u>
Median income (thousands)	0.009 (3.63)			0.000 (0.25)		
College graduate (fraction)		0.163 (8.65)			0.205 (5.38)	
Executive (fraction)			0.519 (8.56)			0.475 (5.11)
Male (fraction)	-0.100 (2.07)	-0.108 (2.62)	-0.114 (2.77)	-0.167 (3.49)	-0.090 (2.01)	-0.119 (2.83)
Hispanic (fraction)	-0.193 (5.70)	-0.061 (1.74)	-0.062 (1.76)	-0.161 (4.89)	-0.042 (1.09)	-0.067 (1.86)
Asian (fraction)	0.022 (1.47)	0.082 (5.24)	0.082 (5.24)	0.074 (4.25)	0.076 (4.61)	0.085 (5.06)
White (fraction)				0.094 (5.37)	0.036 (1.28)	0.013 (0.62)
1996 Election (dummy)	0.151 (29.42)	0.151 (32.43)	0.151 (32.35)	0.151 (30.88)	0.151 (32.47)	0.151 (32.32)
Constant	0.538 (17.41)	0.491 (19.37)	0.495 (19.64)	0.532 (18.03)	0.488 (19.21)	0.495 (19.56)
R ²	0.766	0.816	0.815	0.798	0.817	0.815
F-ratio	0.311	1.291	0.979	1.380	1.469	1.424

Note: Regressions are based on 140 observations on aggregate census tract votes for 1989 as well as 140 observations on aggregate voting patterns in 1996.

The critical value of F (6,267) exceeds 2.10 at the .05 level.

A new ballpark to keep the Giants in San Francisco is a normal economic good, and higher income households are more likely to support it. If the price is lower, as it was in 1996, citizens are more likely to approve the package.

VII. Conclusion

In most cities, major changes to the infrastructure are commonly proposed and discussed. Citizens almost always have some ways, formal and informal, to influence these decisions. Rarely, however, is the process as open as it was in the recent history of baseball stadiums in San Francisco. Even in San Francisco, major expenditures for the Opera and Symphony, and large changes in the allocation of retail space, are made without the systematic involvement of all citizens.

It is also rarely the case that analysis plays as prominent a role in decision making. As we have shown, the analyses presented were deeply flawed. Sometimes assumptions were unrealistic. Perhaps in some cases, the analyses were simply dishonest. But, criticisms and counter-criticisms of all the studies were given considerable coverage by the media. Perhaps, most important, those who were supporters and those who were opposed were well-known. Political analyses of other initiative elections in California suggests that “uninformed” voters often emulate the behavior of “informed” voters when the right cues are available. The cues of particular relevance are the identities of public figures who support and oppose the initiative.⁴⁵ This suggests that the key to final passage of a stadium initiative was the shift of well-known political figures from opposing to

⁴⁵ Lupia, Arthur, “Shortcuts versus Encyclopedias: Information and Voting Behavior in California Insurance Reform Elections,” *American Political Science Review*, Vol. 88, No. 1, March, 1994, pp. 63-76.

supporting the stadium. If these politicians made the switch based on the elimination of any direct subsidy to the Giants, as they claimed, the process appears to have worked well.

The defects of analysis and public choice that remain should be compared against specific real world alternatives. Is the analytical support for the B-1 Bomber superior? Are the projected consequences of a fifteen percent tax reduction, by any of the disputants, more credible?

Appendix

In this appendix, the critical financial elements of Propositions P and B are briefly described, along with the prior financial analyses provided to the public during the debates over each. We also present our own estimates (lower and upper bounds) of the “net fiscal impacts” of the two proposals.

A. Proposition P (1989): The Financial Analysis

On July 27, 1989 San Francisco Mayor Art Agnos, San Francisco Giants owner Bob Lurie, and Spectacor Management Group (SMG) Vice President Don Webb announced that they had signed Memoranda of Agreement to build a new downtown ballpark for the Giants for \$95.8 million (1989 dollars), a facility the Giants would call home for the next forty years.

The new ballpark, to be located in an area known as China Basin, was to be constructed and operated by a public-private partnership between SMG and the City. This public-private partnership (a precursor to similar arrangements that would soon become common), was designed to limit the City’s financial exposure for constructing Candlestick Park’s replacement.

SMG’s responsibilities in this arrangement⁴⁶ were significant: assemble the financing necessary for construction through pre-sales of luxury suites and premium seating, sale of naming and scoreboard rights, manage construction of the facility to ensure availability for opening day, and operate the facility with the Giants as tenants over the next forty years. In exchange, SMG would keep 80 percent of the “net cash flow” from operation of the ballpark, along with the exclusive right to develop a sports and entertainment arena in the City, a potentially lucrative option for SMG.⁴⁷

The City’s responsibilities in the partnership were equally significant:

- to issue \$50 million in tax-exempt bonds for the new ballpark under City authority (retained in the transition rules to the Federal Tax Reform Act of 1986⁴⁸);
- to acquire and assemble the land for the ballpark;
- to prepare the site for construction;
- to contribute up to \$10 million, if necessary, for construction cost overruns (above the original \$96.8 million estimate);⁴⁹ and

⁴⁶ These terms were originally laid out by SMG in its original proposal, *Downtown Baseball Stadium and Sports/Entertainment Arena, A Proposal to the City and County of San Francisco* by Spectacor Management Group, January 11, 1989. SMG’s responsibilities did not materially change during the negotiations.

⁴⁷ At the time, SMG was part of a group that, among other business interests, owned and operated the Spectrum in Philadelphia, home to the NBA’s 76ers and the NHL’s Flyers, who were also owned by SMG’s parent company. Many observers, including members of the Mayor’s staff, believed that SMG offered their ballpark proposal as a means to ensure control of an arena project in San Francisco, especially given the possibility that the NBA’s Golden State Warriors would relocate to San Francisco.

⁴⁸ The transition rules regarding tax-exempt financing for stadiums are discussed by Dennis Zimmerman in *Tax-Exempt Bonds and the Economics of Professional Sports Stadiums*, CRS Report for Congress, Congressional Research Service, The Library of Congress, May 29, 1996, page 5.

⁴⁹ This critical cost element was, in essence, conceded to SMG early in the negotiations by City representatives.

- to disburse \$3 million a year for the first ten years of the ballpark's operations, \$2 million as an investment in the ballpark, and \$1 million as a market rate loan to the ballpark's operators.

For the City, these expenditures would not only ensure that the Giants remained in San Francisco, but they would also secure for the City the remaining twenty percent of the net cash flow of the ballpark's operations over SMG's forty year lease (in exchange for the \$2 million investment); and provide title to the entire facility to the city at the end of SMG's initial lease, as "repayment" for the \$10 million loan.

The City's financial contributions were not trivial. Land assembly, expected to be completed in 1991, would require pulling together Port of San Francisco property at Pier 46B and property owned by the State of California's Department of Transportation (Caltrans) "which was originally intended as part of the uncompleted Interstate 280 freeway."⁵⁰ The Port's property would require payment for the opportunity costs that would be incurred by the Port, estimated by the Mayor's Office at between \$4.2 million (1989 dollars) and \$7.1 million. This would be financed from the proceeds of the sale of municipal bus yards. The Caltrans property would require the City to pay \$1.3 million, an amount reflecting the actual cost for site acquisition by Caltrans. Since the property was originally acquired with a 91 percent match from the Federal government, a waiver of the requirement to reimburse the Federal government for the property would mean that Caltrans could be paid only nine percent of the total value of the property (\$12.94 million). At the time, the Mayor's Office was confident that the Federal government would waive its reimbursement requirement for properties purchased for the federal highway system. The waiver would therefore have saved Caltrans, and the ballpark project, an \$11.78 million payment that would otherwise have been required by the Federal government.⁵¹

Site preparation, scheduled for 1992, would require: relocation of the Port's central maintenance facility, which was contemplated as part of a city Redevelopment Agency project; partial or complete demolition of the deck on Pier 46B, estimated between \$1.8 million and \$7 million; environmental remediation of the site, estimated at \$2 million; and \$1 million for infrastructure improvements, exclusive of transit improvements, which had already been contemplated for the area by the Municipal Railway. A contingency of \$2 million, principally for environmental remediation, was also budgeted.

The City also agreed to waive property or possessory interest taxes on the new facility. In effect, this meant that the City would make payments in lieu of taxes to other governmental jurisdictions on behalf of the ballpark and SMG over the life of the lease.

As calculated by the Mayor's Office, the nominal costs totaled \$62.9 million (1989 dollars) or about \$26.5 million in net present value (NPV). Yet, the Mayor's Office argued that there were sizable financial benefits associated with retaining the team, although it qualified its estimate of these benefits in an entirely overlooked passage regarding "substitution effects."⁵² Direct tax revenues generated by the Giants and indirect tax revenues generated by the ballpark, along with the City's twenty percent share of the ballpark's cash flow, provided net benefits that were greater than the costs that might be incurred, even in the "worst case" scenario envisioned in the report.

⁵⁰ Chester Hartman, The Transformation of San Francisco, (Totowa, New Jersey: Rowan & Allanheld, 1984), page 210.

⁵¹ Waivers like the one pursued by San Francisco are not unique. For example, the City of Milwaukee unsuccessfully pursued a downtown location for a new ballpark for the Milwaukee Brewers in 1995 and 1996. This site would have also required a federal waiver of a reimbursement by the State of Wisconsin's Department of Transportation to the Federal Highway Administration for the decommission and tear down of a highway spur in downtown Milwaukee.

⁵² Wilkins and Agostini, footnote 8, page 7.

The City's share of the ballpark's cash flow was estimated at \$6.1 million in present value terms.⁵³

Direct city revenues, estimated to be \$34.7 million in the expected case, were revenues from taxes directly imposed on the Giants or the operation of the ballpark. These taxes were limited to: payroll taxes paid on the players' salaries and other personnel of the Giants; payroll taxes on concessionaire personnel; and sales taxes on concessions.⁵⁴ Indirect City revenues, estimated at \$17.2 million (NPV 1989 dollars), assumed that the Giants payroll and the expenditures on the ballpark and its operations, generated a multiplier impact, calculated at 1.44, which created wealth throughout San Francisco's economy and additional revenues for the City's treasury.

Within days of the release of the Mayor's Office analysis, the Budget Analyst employed by the Board of Supervisors released a detailed critique, substantially revising the estimates of the potential costs and benefits of the ballpark proposal. The Budget Analyst pointed out that the Mayor's Office: had neglected to include the opportunity costs incurred by the Port of San Francisco for surrendering its land for the project; was overly optimistic regarding the Caltrans waiver, and; had neglected the potential costs for providing security within the new ballpark (a cost accepted by the City in the Memorandum of Agreement with SMG). The Budget Analyst also questioned the value of the benefits calculated by the Mayor's Office, arguing (correctly) that the salaries of non-players had been inflated at the rate projected for players. According to the Budget Analyst, if Proposition P were approved, the City risked incurring a "negative benefit of \$21.3 million"⁵⁵ in the worst case, insuring that "the City would lose money over the long term."⁵⁶

The costs and benefits described in the Mayor's analysis are summarized in Appendix Table 1. The Board of Supervisors - Budget Analyst's revisions to these estimates are summarized in Appendix Table 2.

The SFPP analysis was a third assessment of the new ballpark's potential costs and benefits, coming on the heels of the Budget Analyst's revision. It also called into question many of the assumptions underlying the Mayor's Office report. It also focused on two issues in particular. First, it called the failure to account for the Port's opportunity costs "an egregious oversight," since "the stock of city assets has been reduced to build the new stadium."⁵⁷ Second, the report challenged

"the entire notion of using a standard measure of spin-off benefits to estimate the impact of a ballpark on city finances. The money that Giants fans will spend at the new stadium may be largely money they would have spent in the city, he argues, and simply shifts that spending from one type of business to another or from one ballpark site to another won't lead to any net economic benefits."⁵⁸

⁵³ This estimate (figures in 1989 dollars) assumed: average game day attendance of 24,000 for 79 dates for each of the forty years; an average ticket price of \$11; average per capita concession income of \$9.50; average per capita novelty item income of \$1; seven non-baseball events per year with attendance of 17,900; average rentals for the 120 luxury suites of \$40,000, increased every ten years by a factor equal to five percent per year for the preceding nine years; naming rights of \$40 million; scoreboard revenues of \$2 million in the first year, increased annually by five percent; and revenues from electronic marquees equal to \$500,000 in the first year, increased annually by five percent.

⁵⁴ The estimates assumed that player salaries would increase by 14 percent per year over the succeeding 40 years.

⁵⁵ Letter to Supervisors, page 4.

⁵⁶ Letter to Supervisors, page 30.

⁵⁷ Jim Balderston, "Say it ain't so, Art," The San Francisco Bay Guardian, October 18, 1989 page 16.

⁵⁸ Jim Balderston, "Say it ain't so, Art," The San Francisco Bay Guardian, October 18, 1989 page 17.

Appendix Table 1
Costs and Benefits of Proposition P
as Portrayed By Mayor's Office, 1989
(all figures are in 1989 dollars)

Costs	Nominal Costs		
	Worst Case	Expected Case	Best Case
China Basin Land Assembly	(\$1,300,000)	(\$1,300,000)	(\$1,300,000)
China Basin Site Preparation	(\$6,800,000)	(\$6,800,000)	(\$6,800,000)
City Share of Construction Costs	(\$10,000,000)	(\$10,000,000)	\$0
City Contribution for Ballpark O&M	(\$20,000,000)	(\$20,000,000)	(\$20,000,000)
City Loan to Ballpark Operations	(\$10,000,000)	(\$10,000,000)	(\$10,000,000)
City Payments to Other Jurisdictions	(\$14,745,000)	(\$14,745,000)	(\$12,094,000)
Total Estimated Costs	(\$62,845,000)	(\$62,845,000)	(\$50,194,000)
Revenues			
City Share of Ballpark Cash Flow	\$71,004,000	\$75,203,000	\$75,203,000
Retained Tax Revenue	\$159,253,000	\$495,375,000	\$1,782,160,000
Spectacor Payroll Taxes	\$75,920,000	\$252,393,000	\$925,324,000
Total Estimated Revenues	\$306,177,000	\$822,971,000	\$2,782,687,000
Net Impact	\$243,332,000	\$760,126,000	\$2,732,493,000

Costs	Net Present Values		
	Worst Case	Expected Case	Best Case
China Basin Land Assembly	(\$973,000)	(\$973,000)	(\$973,000)
China Basin Site Preparation	(\$4,737,000)	(\$4,737,000)	(\$4,737,000)
City Share of Construction Costs	(\$6,028,000)	(\$6,028,000)	\$0
City Contribution for Ballpark O&M	(\$8,275,000)	(\$8,275,000)	(\$8,275,000)
City Loan to Ballpark Operations	(\$4,137,000)	(\$4,137,000)	(\$4,137,000)
City Payments to Other Jurisdictions	(\$2,348,000)	(\$2,348,000)	(\$1,926,000)
Total Estimated Costs	(\$26,498,000)	(\$26,498,000)	(\$20,048,000)
Revenues			
City Share of Ballpark Cash Flow	\$5,619,000	\$6,130,000	\$6,130,000
Retained Tax Revenue	\$14,723,000	\$34,665,000	\$102,340,000
Spectacor Payroll Taxes	\$6,730,000	\$17,198,000	\$52,581,000
Total Estimated Revenues	\$27,072,000	\$57,993,000	\$161,051,000
Net Impact	\$574,000	\$31,495,000	\$141,003,000

Source: Carol Wilkins and Stephen J. Agostini, *Building a New Home for the San Francisco Giants: A Cost-Benefit Analysis of the Proposed China Basin Ballpark*, October 2, 1989, Tables 2, 3, and 4.

Appendix Table 2
 Costs and Benefits of Proposition P
 as Portrayed By Board of Supervisors - Budget Analyst, 1989
 (all figures are in 1989 dollars)

Costs	Nominal Costs		
	Worst Case	Expected Case	Best Case
Port of SF Opportunity Costs	(\$7,000,000)	(\$7,000,000)	\$ (4,200,000)
China Basin Land Assembly	(\$11,500,000)	(\$1,300,000)	(\$1,300,000)
China Basin Site Preparation	(\$11,900,000)	(\$6,900,000)	(\$6,800,000)
City Share of Construction Costs	(\$10,000,000)	(\$10,000,000)	(\$2,500,000)
City Contribution for Ballpark O&M	(\$20,000,000)	(\$20,000,000)	(\$20,000,000)
City Loan to Ballpark Operations	(\$10,000,000)	(\$10,000,000)	(\$10,000,000)
City Payments to Other Jurisdictions	(\$18,700,000)	(\$16,880,000)	(\$14,745,000)
SFPD Costs for Security	(\$12,080,000)	(\$12,080,000)	(\$12,080,000)
Total Estimated Costs	(\$101,180,000)	(\$84,160,000)	(\$71,625,000)
Revenues			
City Share of Ballpark Cash Flow	\$71,004,000	\$75,203,000	\$75,203,000
Retained Tax Revenue	\$124,462,000	\$345,417,484	\$1,192,807,000
Spectacor Payroll Taxes	\$75,920,000	\$252,393,000	\$925,324,000
Total Estimated Revenues	\$271,386,000	\$673,013,484	\$2,193,334,000
Net Impact	\$170,206,000	\$588,853,484	\$2,121,709,000

Costs	Net Present Values		
	Worst Case	Expected Case	Best Case
Port of SF Opportunity Costs	(\$5,240,000)	(\$5,240,000)	\$ (3,145,000)
China Basin Land Assembly	(\$8,600,000)	(\$973,000)	(\$973,000)
China Basin Site Preparation	(\$8,290,000)	(\$4,737,000)	(\$4,737,000)
City Share of Construction Costs	(\$6,028,000)	(\$6,028,000)	(\$1,500,000)
City Contribution for Ballpark O&M	(\$8,275,000)	(\$8,275,000)	(\$8,275,000)
City Loan to Ballpark Operations	(\$4,137,000)	(\$4,137,000)	(\$4,137,000)
City Payments to Other Jurisdictions	(\$2,980,000)	(\$2,687,622)	(\$2,348,000)
SFPD Costs for Security	(\$2,270,000)	(\$2,270,000)	(\$2,270,000)
Total Estimated Costs	(\$45,820,000)	(\$34,347,622)	(\$27,385,000)
Revenues			
City Share of Ballpark Cash Flow	\$5,619,000	\$6,130,000	\$6,130,000
Retained Tax Revenue	\$12,157,000	\$25,266,546	\$69,807,000
Spectacor Payroll Taxes	\$6,730,000	\$17,198,000	\$52,581,000
Total Estimated Revenues	\$24,506,000	\$48,594,546	\$128,518,000
Net Impact	(\$21,314,000)	\$14,246,924	\$101,133,000

Source: Letter to Supervisors Hongisto, Hsieh, and Nelder, Board of Supervisors - Budget Analyst, October 6, 1989, pp. 31-33

The three separate analyses contributed to a heated, if inconclusive, debate about the proposed ballpark. The debate, the stadium proposal itself, the earthquake, and a variety of other factors affected the vote. The proposal lost by 49 to 50 percent. If 1,055 additional voters had been convinced of the virtues of the China Basin ballpark, the initiative would have passed.

B. Proposition B (1996): Financial Analysis

On December 21, 1995 Peter Magowan, the President and General Managing Partner of the San Francisco Giants, announced plans for a \$255 million, 42,000 seat ballpark, the “first privately financed major league ballpark to open in three decades” at a familiar downtown location: the same China Basin site proposed in 1989.⁵⁹ The new stadium plan called for:

- \$50 million in naming rights from Pacific Bell, to be paid over 24 years;⁶⁰
- between \$35 million and \$45 million from the sale of premium seat licenses;⁶¹
- \$145 million in private financing “through a consortium of banks and other investors;”⁶² and
- \$10 million to \$15 million in tax increment financing from the SF Redevelopment Agency.⁶³

Many were pleased with this latest proposal, particularly given Magowan’s adamant insistence on privately financing the facility: “If the Giants are successful here, the days of [sports franchise] owners putting a gun to the heads of a city and saying ‘Build a stadium or I’ll move,’ are over,” Magowan said.⁶⁴ State Senator Quentin Kopp, a vociferous opponent of Proposition P, supported the plan principally because it did not require public financing: “It looks feasible, and it looks desirable and in the public interest ... I have not supported previous plans because those plans utilized taxpayer’ money for the cost. The forthcoming plan does not.”⁶⁵

Outside observers, however, questioned the feasibility of privately financing the new ballpark. Jerry Reinsdorf, owner of the Chicago White Sox and Chicago Bulls, argued “(t)he best they will be able to do is cover their debt service. So what’s the point of building it?”⁶⁶ John H. McHale, Jr., president of the Detroit Tigers, observed: “Obviously they want to stay in San Francisco very badly.....People don’t commit economic suicide on purpose. It is possible, but it is a thin deal financially.”⁶⁷

To buttress their claims that the privately financed ballpark would be a boon to San Francisco, on February 26, 1996 the Giants released an economic impact report, prepared by Economic Research Associates (ERA), that stated the ballpark would have “a first year impact of \$124.8 million” on the City

⁵⁹ Katherine Seligman and Eric Brazil, “Giants Take Wraps Off Design For New Ballpark,” San Francisco Examiner, December 21, 1995, page A1.

⁶⁰ Edward Epstein, “Name’s a Big Deal for Giants, Pac Bell,” San Francisco Chronicle, April 4, 1996, page A13.

⁶¹ Edward Epstein, “Giants Brass Poised to Move Quickly, Seat Licenses Go on Sale This Summer,” San Francisco Chronicle, March 27, 1996, page A1.

⁶² Dan McGraw, “Team owners will earn plenty from new ballparks,” U.S. News and World Report, June 3, 1996.

⁶³ Glen Dickey, “New Giants Ballpark Right on Track,” San Francisco Chronicle, page B3; Seligman and Brazil, “Giants Take Wraps Off Design For New Ballpark.”

⁶⁴ Seligman and Brazil, “Giants Take Wraps Off Design For New Ballpark.”

⁶⁵ Rachel Gordon and Eric Brazil, “Giants Want New Ballpark on Ballot, Seek Supervisor’s Support For Site in China Basin,” San Francisco Examiner, December 19, 1995, page A1.

⁶⁶ Edward Epstein, “Experts debate wisdom of Giants’ ballpark plan,” San Francisco Chronicle, February 2, 1996, page A17.

⁶⁷ *Ibid.*

and create 6,455 jobs.⁶⁸ This report, an update of an earlier report prepared by ERA for the Giants,⁶⁹ considered as the counter-factual, "the Giants have left the West Coast entirely, and no new major league franchise has moved into San Francisco to replace them."⁷⁰ The report then sought to quantify direct economic impacts by: projecting attendance at the new ballpark; utilizing patron surveys of purchasing habits within and outside recently constructed ballparks around the country; utilizing surveys of spending by fans from outside of San Francisco; and estimating the percentage of the Giants operating expenses spent within San Francisco. Indirect economic impacts were then estimated using the Regional Input-Output Modeling System (RIMS II) developed by the US Department of Commerce, which provided a multiplier between 1.83 and 1.90.

Less than a week later, the Board of Supervisors' Budget Analyst issued his report on the prospective public costs and benefits of the Giants proposed ballpark. According to the Budget Analyst,

"Our review has found that potential costs to the City and County of San Francisco include the areas of Municipal Railway (Muni) transit services, traffic control and security performed by the Police Department and the Department of Parking and Traffic, the Port, and various capital projects. However, sufficient information has not been provided to the Budget Analyst to clearly specify the amount of all such costs to the City. Until such time as the environmental review process has been completed and a long term ground lease between the Giants and the Port has been negotiated and approved, the Budget Analyst is unable to make a definitive calculation of the total costs and benefits to the City."⁷¹

The Budget Analyst stated that the costs for land assembly and site preparation "are ultimately to be paid by the Giants under the long term lease to be negotiated between the Port and the Giants."⁷² These costs would include: \$11 million (if not more) to purchase the Caltrans site at China Basin; as much as \$7 million to relocate the Port's maintenance facility; between \$2 million and \$7 million for demolition of the "deck" and structures on Pier 46B; and, between \$5 million and \$20 million for remediation of toxics on the site.

According to the Budget Analyst, the City would incur costs for: additional Municipal Railway service that would be needed to service the new ballpark, estimated at \$300,000 annually; the loss of lease revenue at Candlestick Park, estimated at between \$1 million and \$1.2 million annually; some indeterminate cost for security and traffic control around the ballpark; debt service costs of \$920,700 a year for twenty years to finance \$10 million in tax increment revenue bonds that would be issued by the SF Redevelopment Agency; an annual set aside of \$184,200 for housing, mandated by State law, to be paid by the SF Redevelopment Agency; and some as yet undetermined amount for transit related capital improvements to meet increased demand for transit services that result from increased attendance at the new ballpark.

The Budget Analyst argued that the possessory interest taxes that would be generated by the construction of the new ballpark, estimated at \$3.5 million, would be more than sufficient to pay the SFRA's costs associated with issuing debt and paying the housing set-aside. In fact, he argued that the

⁶⁸ Eric Brazil, "Giants say SF will score big with ballpark," San Francisco Examiner, February 27, 1996, page A4.

⁶⁹ Economic Research Associates, *Economic and Fiscal Impacts of the Giants Franchise on San Francisco*, January 13, 1994.

⁷⁰ *Ibid.*, page II-3.

⁷¹ *Review of the Projected Costs and Economic Benefits ... Board of Supervisors - Budget Analyst*, March 1996, pp. 1-2.

⁷² *Review of the Projected Costs and Economic Benefits ... Board of Supervisors - Budget Analyst*, March 1996, page 4.

Appendix Table 3
Average Annual Attendance Increases For New Baseball Facilities

<u>Facility</u>	<u>Attendance Time Frame Before New Ballpark</u>	<u>Average Game Attendance Before New Ballpark</u>	<u>Attendance Time Frame After New Ballpark</u>	<u>Average Game Attendance After New Ballpark</u>	<u>Percent Increase</u>
Baltimore	6 yrs. (1986-1991)	27,369	4 yrs. (1992-1995)	44,327	62.0
Chicago	6 yrs. (1985-1990)	17,861	5 yrs. (1991-1995)	31,039	73.8
Cleveland	6 yrs. (1988-1993)	21,532	2 yrs. (1994-1995)	36,649	70.2
Texas	6 yrs. (1988-1993)	26,212	2 yrs. (1994-1995)	34,999	33.5

remaining possessory interest taxes would generate an annual net increase in direct City revenues of approximately \$1.4 million.⁷³

The Budget Analyst also stated that “retention of the Giants in San Francisco will maintain certain direct revenues now being received by the City and County from the Giants.”⁷⁴ These direct revenues, estimated at \$2.7 million for the first year of the new ballpark and \$2.5 million annually thereafter, included payroll taxes, sales taxes, parking taxes, and admission taxes for the school sports program. In addition, the Budget Analyst restated the economic impacts identified by ERA in its February report for the Giants.

The Budget Analyst’s report was accompanied by a letter from Giants Vice President and Chief Financial Officer, John Yee, praising certain aspects of the report while objecting to others. Yee applauded what he believed to be the overall finding of the report, that “the benefits of the ballpark far exceed any potential costs,”⁷⁵ an interpretation that the Budget Analyst disputed: “we did not make such a finding.”⁷⁶ Yet, Yee also took pains to make the following points: “there is no use of General Fund money to support any portion of the ballpark project;”⁷⁷ “no definitive cost estimate can be made at this time given the current information available;”⁷⁸ “the proposed ballpark creates substantial value in a site ... which is of, at best, questionable worth now;”⁷⁹ and, with respect to the estimate of possessory interest taxes, “the actual amount will depend upon the final assessment to be determined once the project is completed.”⁸⁰

On March 26, 1996 the Giants and their numerous political supporters put the disagreements with the Budget Analyst and others, behind them. San Franciscans approved Proposition B 66 percent to 34 percent, and in the process provided the Giants with a margin “sufficient for the Giants to claim a mandate for the nation’s first privately financed major-league baseball stadium in 32 years.”⁸¹

C. The Fiscal Impacts of Propositions P and B.

For reasons discussed above, the analyses provided by the Mayor’s Office and the Budget Analyst regarding Propositions P and B were insufficient for measuring the fiscal impacts of the two proposals on the City. The following tables represent our attempt to measure the “lower” and “upper” bound net fiscal impacts of the two propositions. Wherever possible, and relevant, we have sought to use the most recent information and assumptions to construct these measures.

1. Net Fiscal Impacts for Proposition P.

Appendix Table 4 provides our “lower bound” estimate of the net fiscal impact of Proposition P had it been approved in 1989. All estimates have been converted into 1996 dollars using the GDP Implicit Price Deflator. The City discount rate is assumed to be 7.5 percent (nominal). The time frame for the investment is from 1989 to 2034, the fortieth year of the proposed ballpark and corresponds with the assumed useful life of the stadium.

⁷³ *Review of the Projected Costs and Economic Benefits* ... Board of Supervisors - Budget Analyst, March 1996, pp. 10-11.

⁷⁴ *Review of the Projected Costs and Economic Benefits* ... Board of Supervisors - Budget Analyst, March 1996, page 16.

⁷⁵ Letter from John F. Yee ..., February 29, 1996, page 1.

⁷⁶ Eric Brazil, “Ballpark Debated at City Hearing, Split Decision as They Argue About Financial Impact,” San Francisco Examiner, March 7, 1996, page A4.

⁷⁷ Letter from John F. Yee ..., February 29, 1996, page 3.

⁷⁸ *Ibid.*

⁷⁹ *Ibid.*

⁸⁰ Letter from John F. Yee ..., February 29, 1996, page 4.

⁸¹ Eric Brazil, “Two-decade Effort to Build New SF Stadium Finally Wins Voter Approval on Fifth Try,” San Francisco Examiner, March 27, 1996, page A1.

Appendix Table 4
 "Lower Bound" Net Fiscal Impact
 on SF City and County for Proposition P
 1989 China Basin Ballpark Proposal
 (in 1996 dollars)

Costs	Nominal Value	Net Present Value
Port of SF Opportunity Costs	(\$5,147,059)	(\$3,854,120)
China Basin Land Assembly	(\$1,427,537)	(\$1,068,940)
China Basin Site Preparation	(\$11,127,451)	(\$7,750,922)
City Share of Construction Costs	(\$12,254,902)	(\$7,386,702)
City Contribution for Ballpark O&M	(\$24,509,804)	(\$10,140,584)
City Loan to Ballpark Operations	(\$12,254,902)	(\$5,070,292)
City Payments to Other Jurisdictions	(\$12,505,876)	(\$1,386,739)
SFRA Annual Housing Set-aside	\$0	\$0
SF MUNI Staffing	(\$22,620,378)	(\$3,291,926)
SFPD Costs for Security	(\$9,240,350)	(\$1,344,741)
Total Estimated Costs	(\$111,088,259)	(\$41,294,967)
Revenues		
City Share of Ballpark Cash Flow	\$108,350,055	\$10,377,340
Retained Tax Revenue	\$237,708,283	\$31,568,663
Spectacor Payroll Taxes	\$1,713,161	\$249,315
Total Estimated Revenues	\$347,771,499	\$42,195,318
Net Fiscal Impact	\$236,683,241	\$900,350

Assumptions regarding costs listed in Appendix Table 4 are as follows: the Port of SF would incur opportunity cost corresponding to the low estimate (\$4.2 million) calculated in 1989. With the passage of Proposition H in 1990, which restricted development on Port property, it is unlikely that the Port would have realized its higher income projection for the property, which assumed lucrative development adjacent to Pier 46B. China Basin land assembly assumes that the Federal government would have granted Caltrans a waiver of the reimbursement requirement. The City's cost for the property would have been nine percent of the value of the property. China Basin site preparation assumes \$2 million for demolition costs, \$1 million for infrastructure improvements, and \$2 million for relocation costs (these 1989 estimates have been adjusted to reflect 1996 dollars) and a recent estimate, \$5 million (1996 dollars), for environmental remediation. The City's share of construction costs assume that final construction costs would have reached \$116.5 million, which was the experience for new ballparks that opened between 1991 and 1994. For example, final construction costs for Camden Yards exceeded \$140 million according to published reports. The City contribution for ballpark operation and maintenance and its loan to ballpark operations assume the City proceeded with its \$3 million "investment" in the ballpark. City payments to other jurisdictions assumes an "income based" approach to the assessment value of the ballpark and utilizes 1995 SF property tax rates.⁸² There are no SF Redevelopment Agency costs for housing set-asides, since tax-increment financing was not contemplated for the project. SF Municipal Railway costs are included.⁸³ SF Police Department costs for security inside the ballpark assume an additional annual cost of \$100,000, beginning in 1995, which is inflated annually by three percent.

Assumptions regarding revenues listed in Appendix Table 4 are as follows: The City's share of ballpark revenues represents twenty percent of the ballpark's "cash flow" and utilizes the same assumptions included in the Mayor's Office 1989 analysis with one exception: average attendance in the new ballpark is assumed to be 40,300 per game in 1995 and 34,400 per game in 1996 and beyond, based on actual experience for new stadiums in Baltimore, Chicago (AL), Cleveland, and Texas.⁸⁴ (See Table 3A.) Retained tax revenue follows the original assumptions of the Mayor's Office 1989 analysis with three exceptions: Giants player salaries are assumed to grow by ten percent a year, which is lower than the average annual increase of thirteen percent experienced between 1988 and 1996; parking tax revenue, which was omitted from the 1989 analysis, is included here and is based on 3.1 patrons per car, paying \$8.00 per car for parking, 25 percent of which is collected as taxes; the admission tax, which was imposed

⁸² Municipal assessors typically utilize an "income approach" to value property when the property in question is publicly owned or otherwise exempt, yet some form of profit-making activity takes place on that property. The income approach has been utilized here, since the property in question is owned by at least one governmental unit (the State of California, leased to the Port of San Francisco) and a lease is contemplated to a for-profit concern, the Giants. As for the methodology of calculating the income approach please see (cite to be provided).

⁸³ No SF Municipal Railway operating or capital costs were included in the original 1989 proposal because capital improvements in the ballpark area were to be funded principally (if not entirely) by the Federal government and it was unclear what impact the ballpark would have on service. An argument could be made that Muni patrons who were disadvantaged by longer travel times caused by ballpark induced Muni congestion would simply "absorb" these costs and be worse off. While this would not have entered the analysis from the perspective of the city treasury, an accurate cost-benefit analysis would have captured this cost to Muni patrons. More recent discussions have acknowledged the need to add additional busses to the fleet if the China Basin stadium is built.

⁸⁴ According to Mitchell Zeits, Senior Managing Consultant, Public Financial Management, Inc., the assumptions regarding per capita ticket prices and concession and novelties revenues included in the 1989 Mayor's Office analysis remain reasonable today, even after adjusting for 1996 dollars. Assumptions regarding luxury suite revenues (an average of \$49,000 per suite, 1996 dollars) are lower than prices recently advertised by the Giants: \$65,000 to \$95,000 per suite, depending on location.

after 1989, is also included and assumes 5,270 tickets per game will be sold at an average ticket price above \$25.01, \$0.50 of which is collected as taxes; all other tickets sold include \$0.25 in an admission tax. Spectator payroll taxes follows original assumption of 1989 analysis.

Appendix Table 5 provides our “upper bound” estimate of the net fiscal impact of Proposition P had it been approved in 1989. The same assumptions utilized in Appendix Table 4 are employed with three exceptions: land assembly costs assume that the Federal government would not have waived its reimbursement requirement for Caltrans and that the City would have paid for the full value of the parcel; site preparation assumes \$7 million for demolition costs and \$7 million for relocation costs, along with \$1 million for infrastructure and \$5 million for environmental remediation; and the SF Municipal Railway incurs additional costs for providing additional service to the ballpark.

2. Net Fiscal Impacts of Proposition B

Appendix Table 6 provides our “lower bound” estimate of the net fiscal impact of Proposition B. The City discount rate is again assumed to be 7.5 percent (nominal). The time frame for the investment is from 1996 to 2039, the fortieth year of the proposed ballpark and corresponds with the assumed useful life of the stadium. Land assembly assumes Caltrans will not waive reimbursement and that the Port of SF will pay the entire cost of the property to Caltrans (\$12.94 million, 1989 estimate, converted to 1996 dollars). Site preparation includes: \$2 million for demolition costs, \$1 million for infrastructure improvements, and \$2 million for relocation costs; as in Appendix Table 3, these 1989 estimates have been adjusted to reflect 1996 dollars; and a recent estimate, \$5 million for environmental remediation. We have assumed that the Port of San Francisco will pay all of these costs. SFRA funding of ballpark construction assumes debt service on \$10 million for thirty years at 8.4 percent. SFRA annual housing set-aside assumes twenty percent of annual debt service cost for thirty years. SF Municipal Railway staffing costs assume \$300,000 in new annual costs, inflated by three percent per year. Retained tax revenue follow the same assumptions listed in Appendix Tables 3 and 4.

Appendix Table 7 provides our “upper bound” estimate of the net fiscal impact of Proposition B. The same assumptions utilized in Appendix Table 5 are operative for Appendix Table 6 with three exceptions: site preparation assumes \$7 million for demolition costs and \$7 million for relocation costs, along with \$1 million for infrastructure and \$5 million for environmental remediation; SF Redevelopment Agency funding of ballpark construction assumes debt service on \$15 million of tax-increment bonds; and the SF Redevelopment Agency annual housing set-aside of twenty percent increases accordingly.

There are two important assumptions underlying the costs listed in Appendix Tables 6 and 7 that merit discussion. The first regards the Giants’ ability to compensate the Port of San Francisco for any costs it would incur for land assembly and site preparation, including opportunity costs. We estimate that these costs were likely to range between \$32 million and \$44 million. This would represent a significant additional cost to the Giants for the ballpark project (an increase of between 12.5 percent and 17.2 percent of the project’s \$255 million price tag). Given the increasing possibility that additional SF Redevelopment Agency funding will be needed for the project (no doubt the result of shortfalls in private financing), we doubt that the Giants will have the financial wherewithal to pay the Port for the costs of land assembly and site preparation. The options for addressing this issue are limited: either the Port will have to absorb these costs, or the City will have to dedicate other resources to assemble the land and prepare the site in order make this “financially thin” proposal reality. Or the ballpark will not be built.

The second assumption is with respect to possessory interest taxes to be paid by the Giants on the new facility. The Budget Analyst estimated that new possessory interest taxes of approximately \$3.5 million annually would be available to the City’s treasury once the new facility was completed. These taxes would then be available to pay the costs associated with debt service on the tax-increment financing, the annual housing set-aside, and, presumably, other costs that might be incurred for additional Municipal Railway service.

Appendix Table 5
 "Upper Bound" Net Fiscal Impact
 on SF City and County for Proposition P
 1989 China Basin Ballpark Proposal
 (in 1996 dollars)

Costs	Nominal Value	Net Present Value
Port of SF Opportunity Costs	(\$5,147,059)	(\$3,854,120)
China Basin Land Assembly	(\$15,861,520)	(\$11,877,114)
China Basin Site Preparation	(\$23,382,353)	(\$16,287,180)
City Share of Construction Costs	(\$12,254,902)	(\$7,386,702)
City Contribution for Ballpark O&M	(\$24,509,804)	(\$10,140,584)
City Loan to Ballpark Operations	(\$12,254,902)	(\$5,070,292)
City Payments to Other Jurisdictions	(\$12,505,876)	(\$1,386,739)
SFRA Annual Housing Set-aside	\$0	\$0
SF MUNI Staffing	(\$22,620,378)	(\$3,291,926)
SFPD Costs for Security	(\$9,240,350)	(\$1,344,741)
Total Estimated Costs	(\$137,777,143)	(\$60,639,399)
Revenues		
City Share of Ballpark Cash Flow	\$108,350,055	\$10,377,340
Retained Tax Revenue	\$237,708,283	\$31,568,663
Spectacor Payroll Taxes	\$1,713,161	\$249,315
Total Estimated Revenues	\$347,771,499	\$42,195,318
Net Fiscal Impact	\$209,994,356	(\$18,444,081)

Appendix Table 6
 "Lower Bound" Net Fiscal Impact
 on SF City and County for Proposition B
 1996 China Basin Ballpark Proposal
 (in 1996 dollars)

Costs	Nominal Value	Net Present Value
Port of SF Opportunity Costs	(\$5,147,059)	(\$4,143,179)
China Basin Land Assembly	(\$15,861,520)	(\$12,767,898)
China Basin Site Preparation	(\$11,127,451)	(\$8,332,241)
City Share of Construction Costs	(\$27,622,066)	(\$8,142,638)
City Contribution for Ballpark O&M	\$0	\$0
City Loan to Ballpark Operations	\$0	\$0
City Payment to Other Jurisdictions	\$0	\$0
SFRA Annual Housing Set-aside	(\$5,524,413)	(\$1,628,528)
SF MUNI Staffing	(\$22,620,378)	(\$3,804,232)
SFPD Costs for Security	\$0	\$0
Total Estimated Costs	(\$87,902,886)	(\$38,818,716)
Revenues		
City Share of Ballpark Cash Flow	\$0	\$0
Retained Tax Revenue	\$288,178,402	\$40,802,572
Spectacor Payroll Taxes	\$0	\$0
Total Estimated Revenues	\$288,178,402	\$40,802,572
Net Fiscal Impact	\$200,275,516	\$1,983,856

Appendix Table 7
 "Upper Bound" Net Fiscal Impact
 on SF City and County for Proposition B
 1996 China Basin Ballpark Proposal
 (in 1996 dollars)

Costs	Nominal Value	Net Present Value
Port of SF Opportunity Costs	(\$5,147,059)	(\$4,143,179)
China Basin Land Assembly	(\$15,861,520)	(\$12,767,898)
China Basin Site Preparation	(\$23,382,353)	(\$17,508,718)
City Share of Construction Costs	(\$41,433,098)	(\$12,213,957)
City Contribution for Ballpark O&M	\$0	\$0
City Loan to Ballpark Operations	\$0	\$0
City Payment to Other Jurisdictions	\$0	\$0
SFRA Annual Housing Set-aside	(\$8,286,620)	(\$2,442,791)
SF MUNI Staffing	(\$22,620,378)	(\$3,804,232)
SFPD Costs for Security	\$0	\$0
Total Estimated Costs	(\$116,731,027)	(\$52,880,776)
Revenues		
City Share of Ballpark Cash Flow	\$0	\$0
Retained Tax Revenue	\$288,178,402	\$40,802,572
Spectacor Payroll Taxes	\$0	\$0
Total Estimated Revenues	\$288,178,402	\$40,802,572
Net Fiscal Impact	\$171,447,375	(\$12,078,204)

We are very skeptical that the Giants will pay any possessory income taxes for two reasons. The Giants will no doubt expect their property assessment to be based on an income approach, since an income approach would ensure that the Giants, who reportedly lost \$10.3 million in 1994⁸⁵ and \$1.9 million in 1995,⁸⁶ would have lower tax liabilities. Secondly, the private financing underpinning this “financially thin” deal will require that the Giants pledge every available revenue stream to repay this private debt. This will leave very little revenue for paying a new, and very sizable, tax they currently avoid; an additional tax will only make completion of the ballpark project difficult. This will again place the City on the horns of a dilemma: will it pursue the imposition of a sizable possessory interest tax to pay for the costs that it will incur, and risk stalling (if not dooming) the ballpark project; or will the City simply absorb the costs that the possessory interest taxes were projected to pay?

For purposes of this analysis, we have assumed that the City will absorb the costs of land assembly and site preparation, as well as the costs for servicing debt for the tax increment financing, the costs of the housing set-aside, and the costs of additional Municipal Railway services.

D. Conclusions

As the preceding section has described, several analyses of the purported financial and economic impacts have accompanied the various proposals to build a ballpark in San Francisco. In general, the accounting for costs and benefits was done from the perspective of the city government’s treasury. Thus, for example, taxes collected were invariably defined as “benefits” (as opposed to transfers). There have been no benefit-cost analyses of stadiums in San Francisco.

As calculated here, the net fiscal impacts vary from slightly positive to significantly negative. To believe the net fiscal impact will be neutral, the most positive estimate has to be four times as likely to be realized as the most pessimistic estimate.

As has been discussed, San Franciscans overwhelmingly approved Proposition B, the first initiative on a ballpark in San Francisco to pass in recent memory. Apparently, the impacts on city finances were an important factor in the affirmative vote: i.e., the absence of a significant city subsidy to the ballpark project, underscored by Proposition B’s proponents, swayed many voters to support the initiative. This outcome has caused many to conclude that a replacement for Candlestick will finally be built.

Yet, given the magnitude of the task and the potential difficulties the Giants are likely to face assembling the financing for the new stadium, it seems a reasonable likelihood that the city’s financial contribution to the new ballpark will grow, if only to assure site assembly and preparation. If such financial support is not forthcoming from the city, it will place the completion of the new China Basin ballpark at risk. At that juncture, San Franciscans may have to contemplate yet again the extent of their financial commitment to retaining the San Francisco Giants.

⁸⁵ Michael K. Ozanian, et. al., “Suite Deals,” Financial World, May 9, 1995, page 46.

⁸⁶ Tushar Atre, et. al., “Sports, the High Stakes Game of Team Ownership,” Financial World, May 20, 1996, page 56.

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