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NFL Governance and the Fate of the New Orleans Saints: Some Observations

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Abstract

Prior to 2005, New Orleans had struggled to retain its NFL franchise. The Saints remained in the city, despite an outdated stadium and small media market, only through generous direct public subsidies to the team. Paradoxically, the devastation wrought by Hurricane Katrina in September 2005 actually improved the short-term viability of the franchise by spurring an outpouring of local support for the team and by making relocation of the Saints politically untenable for the league. The long-term outlook for the team, however, appears grim. Already a small market, New Orleans' population and business community has declined considerably due to Katrina. The NFL's G-3 loan program for stadium construction is tapped out. Finally, the financial success of other NFL franchises has both raised the cost of fielding a competitive team and increased the value of the Saints as a target of relocation.

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Introduction

The National Football League (NFL) Saints have experienced a remarkable resurgence in New Orleans following Hurricane Katrina, which devastated the City on August 29, 2005. Tom Benson, the owner of the Saints, appeared determined to move the team to another city prior to the storm for financial reasons. Attendance at Saints' games had been decreasing, the Superdome was economically obsolete, funds in the NFL's G-3 program were being rapidly depleted, and the financial condition of the City of New Orleans and the State of Louisiana placed the inducement payments to the Saints and National Basketball Association (NBA) Hornets in substantial jeopardy. The Saints appeared headed west to either San Antonio, Texas or Los Angeles, California. Katrina, in ways that could not have been easily anticipated, set in motion forces that at least stalled the much anticipated move westward.

One purpose of this paper is to identify and analyze the factors responsible for at least delaying the Saints' move to another city. The NFL's strong support for keeping the Saints in New Orleans immediately following the Hurricane represents one powerful reason why the Saints remained in the Crescent City. Long term, however, the NFL position with regard to a host city for the Saints is less clear, and that ambiguous stance can be explained by League developments and initiatives as they relate to finances. The prospects for League financial support for New Orleans in their quest to retain the Saints appear dim as the NFL strives to develop a more comprehensive revenue sharing arrangement and the City struggles to rebuild. The Saints on-field success for the 2006 season, the fact New Orleans is a small market, and the determination of the City to rebuild despite the odds, in a strange way, have conspired to diminish the prospects for additional NFL financial support through a program such as G-3 if past League practice is any guide.

The paper is organized as follows. Part one identifies and offers an explanation for the NFL's response to Katrina. The second section of the paper discusses the NFL position regarding stadium construction to include a description of the G-3 program that was so vital to funding stadium construction following the elimination of tax-exempt bonds for stadiums after December 31, 1999. Part three discusses developments relating to the G-3 program and the difficulties involved in reinstituting the program in part as a consequence of the $300 million contribution for the construction of a new stadium for the New York Giants and the New York Jets. The fourth section of the paper compares the economy of New Orleans prior to and following the Hurricane. Part five analyzes the various funding sources that can be tapped to keep the Saints in New Orleans. Conclusions and policy implications are discussed in the paper's final section.

The NFL Response to Hurricane Katrina

The NFL announced in December 2005, approximately four months after Hurricane Katrina made landfall on August 29, that the New Orleans Saints would remain in Louisiana for the 2006 season. Games would be played at both a renovated Superdome and at Louisiana State University's stadium in Baton Rouge. The NFL announcement followed some contentious, if not confrontational, times between Saints owner Tom Benson and the citizens and fans of New Orleans and Louisiana as Benson sought to move the team from New Orleans before and after Katrina. According to a report issued days before the NFL announcement to keep the Saints in Louisiana for the 2006 season, Benson had threatened to sue the NFL if it demanded that the Saints play their games in New Orleans in 2006 (Santora, 2005).

Prior to Katrina Benson had reportedly rejected the state's final offer to keep the Saints in New Orleans in late April of 2005. The state's offer included not only public financing of over 75 percent of a proposed $174 million Superdome renovation, but also direct cash payments to the Saints totaling $64 million through 2008 and $9.5 million per year after the completion of the renovations to the Superdome in 2008 (USA Today, 2005). The state's offer to the Saints, including the annual cash subsidy, would have placed the team in the top half of the financial standings in the NFL.

The fact that Benson would reject such an offer, which included a direct cash subsidy to the team, speaks volumes about the financial realities of the NFL and the inordinate transfer of business risk from teams to their host cities. While the state struggled to meet its contractual cash payments to the team in the wake of reduced tax revenues following the terrorist attacks of September 11, 2001, the only significant financial risk facing Tom Benson was the $81 million he would have been required to pay (representing the subsidies that the Saints have received since 2001), if he had broken his Superdome contract, which he could have done following the 2006 season (Konigsmark, 2005). That risk pales in comparison to the $1 billion written offer Benson claims to have received for the team in 2005, a 1,400 percent increase over the $70 million price Benson paid for the Saints in 1985 (Robinson, 2005). The lucrative offer Benson received for the team reflects at least in part the money-making potential of NFL teams, which is explained in large part by the subsidies cities extend to attract a supply of teams that is limited by the NFL and its owners.

Benson's behavior provided an opportunity for the NFL to play the "good-cop" role, and Paul Tagliabue, the NFL Commissioner, seized the opportunity. Roger Goodell, who replaced Tagliabue as Commissioner during the summer of 2006, described the NFL's role in helping New Orleans and Louisiana recover in colorful football language.

> …the NFL threw a "Hail Mary pass" when it committed late last December to return to the storm-ravaged city, "and the people of this region caught it" (NFL.com, 2006).

Goodell has stated that the NFL contributed about $20 million to the reconstruction of the Superdome (NFL.com, 2006). The NFL's stance and financial contribution stood in stark contrast to Benson's less sympathetic position to the City of New Orleans and its fans. Had the NFL done and said nothing, they would have been at the very least guilty by association. Tagliabue and the NFL received a significant amount of positive publicity, particularly on that autumn day in September when Monday Night Football returned to New Orleans. The NFL did what any savvy marketing entity would have done, and the League deserves some credit for recognizing an opportunity and extending a helping hand to New Orleans and its citizens.

Tagliabue's efforts to keep the Saints in New Orleans enhanced his image and that of the NFL. Regarding the Saints triumphant return to New Orleans on a Monday night in September 2006, Jeff Duncan observed:

> Tagliabue's handling of the crisis will rank as one of the biggest accomplishments of his 17-year tenure as commissioner of the most powerful league in sports (Duncan, 2006).

Tagliabue not only added luster to his legacy as Commissioner, but he, perhaps more impressively, salvaged at least some of Tom Benson's tarnished image through giving much of the credit for keeping the Saints in New Orleans to him. NFL vice president of communications Joe Browne made the following observation in explaining Benson's designs to move the team.

> I think Tom was truly torn between his love for the city of New Orleans and also wanting to have a winning team last year. He was being advised there was nowhere for the players to live in New Orleans, that the team's training facility had been taken over by the National Guard. He knew none of that was conductive to winning. I think he was saying let's get through this season as best we can and see where we go from there (Duncan, 2006).

Browne's representation of Benson's motives coupled with a remarkable change in Benson's behavior as it related to Saints fans and an apparent tempering of his nomadic urges correlated with NFL financial support for Benson and the Saints. It has been well publicized that the League provided $20 million to help repair the Superdome as previously noted. What is less well known is the role the NFL played in securing local business support. To wit:

> The League agreed to kick in $20 million toward the renovation of the Dome, targeting their dollars on several improvements that would enhance the Saints' bottom line. It hired former Saints and Miami Dolphins executive Eddie Jones to serve as a liaison between the NFL and the local business community and marketing executive Frank Vuono to market the team to national and international sponsors. The NFL also helped organize the Saints Business Council, an affiliation of 27 local business leaders who pledged to support the Saints by buying suites, tickets and sponsorships (Duncan, 2006).

Rumors have circulated as well that the League passed the hat and owners provided $1 million each to help the Saints. That rumored off-the-books $30 million may well have provided funds that enabled the signing of Drew Brees and Reggie Bush, two players that contributed substantially to reversing Saints fortunes on the field. NFL officials have not publicly acknowledged or commented on any monetary support for the Saints aside from $20 million. Regardless of the amount of financial support, the NFL played a key role in keeping the Saints in New Orleans and calming the relationship between Benson and Saints fans and citizens of New Orleans and Louisiana. Nationally, and in a public relations vein, the NFL's behavior in New Orleans following Katrina contributed to its reputation as a community partner, an image that the League sought to advance through its G-3 program. The next section of the paper is devoted to a discussion of the NFL's G-3 resolution and stadium construction.

NFL Stadium Construction and the NFL's G-3 Program

Prior to December 31, 1999, funding for stadiums could be accomplished through the issuance of tax-exempt bonds. Such an exemption transfers some of the stadium funding burden from taxpayers in a city that subsidizes stadium construction to federal taxpayers (Zimmerman, 1997). The inequities in such an arrangement are obvious, and the federal government effectively eliminated tax exempt status for sports facilities projects at the end of 1999. The NFL recognized that the costs of constructing facilities increased significantly as a consequence of increased debt service, and the League provided financing at what are arguably tax-exempt rates through their "G-3 program." Prior to evaluating the implications of G-3, it is worth discussing the history and certain financial aspects of the NFL's stadium loan plan.

The current value of NFL teams is inextricably linked to stadiums. Information recorded in Table 1 below identifies franchise values and selected stadium information.

TABLE 1
NFL Franchise Values, and
Selected Stadium Information*

Rank Team Franchise Value/Selected Statistics	Year Stadium Opened	Stadium Construction Cost $ Millions	Operating Income $ Millions	Revenue $ Millions	Franchise Value $ Billions	Percent of Value Attributable to Stadium
1 Washington Redskins	1997	251	108.4	303	1.423	25
2 New England Patriots	2002	397	43.6	250	1.2	21
3 Dallas Cowboys	1971	35	37.1	235	1.2	17
4 Houston Texans	2002	449	57.6	222	1	19
5 Philadelphia Eagles	2003	512	54.2	218	1	18
6 Denver Broncos	2001	401	26.9	207	.975	17
7 Cleveland Browns	1999	300	47.1	206	.970	15
8 Tampa Bay Buccaneers	1998	169	56.9	203	.955	17
9 Baltimore Ravens	1998	220	27.8	201	.946	17
10 Chicago Bears	2003	660	51.5	201	.945	14
11 Carolina Panthers	1996	248	20.7	199	.936	16
12 Miami Dolphins	1987	125	33.4	194	.912	16
13 Green Bay Packers	2001	295	22.3	194	.911	13
14 Kansas City Chiefs	1972	43	28.2	186	.894	15
15 New York Giants	1976	78	26.9	182	.890	10
16 Seattle Seahawks	2002	430	5.0	189	.888	15
17 Tennessee Titans	1999	292	48.3	189	.886	15
18 Pittsburgh Steelers	2001	281	25.5	187	.880	14
19 New York Jets	1976	78	33.1	179	.876	10
20 St. Louis Rams	1995	280	33.2	179	.841	11
21 Detroit Lions	2002	500	16.1	178	.839	13
22 Indianapolis Colts	1984	95	25.0	167	.837	9
23 Cincinnati Bengals	2000	458	20.9	175	.825	12

24 Arizona Cardinals	2006	455	16.6	158	.789	7
25 Buffalo Bills	1973	22	31.2	176	.756	13
26 Jacksonville Jaguars	1995	145	22.5	173	.744	11
27 **New Orleans Saints**	**1975**	**134**	**-4.1**	**160**	**.738**	**7**
28 Oakland Raiders	1966	100	9.1	171	.736	11
29 San Francisco 49ers	1971	25	11.8	171	.734	9
30 San Diego Chargers	1967	27	24.8	170	.731	10
31 Atlanta Falcons	1989	214	56.6	170	.730	9
32 Minnesota Vikings	1982	55	16.3	167	.720	7

Source: *Forbes*, "NFL Team Valuations,"
http://www.forbes.com/lists/2006/30/06nfl_NFL-Team-Valuations_land.html
Site accessed on April 10, 2007
* Information following the 2005 season

There are several things worth noting from the information recorded in Table 1. First, for the five franchises with the highest values, the stadiums account for between 17 and 25 percent of their values. The five franchises exhibiting the lowest values derive between 7 and 11 percent of their values from stadiums. Excluding the Dallas Cowboys, of the five most valuable franchises, no stadium is older than 10 years. The Dallas Cowboys stadium has undergone renovations under Jerry Jones's guidance, which has allowed them to generate revenues from luxury seating and amenities that have enabled them to maintain rough financial parity with those teams with newer facilities. Excluding the Atlanta Falcons, none of the five lowest valued franchises play in a stadium that is less than 25 years old. If the Miami Dolphins Stadium, Pro Player Park, represents the financial watershed for modern sports stadiums, of the five lowest valued clubs, only the Falcons play in a stadium that is less than 20 years of age. Simply put, the lowest valued clubs play in facilities that are generally old and economically obsolete.

Second, revenues, as would be expected, correlate almost perfectly with the value of the franchise. The thirteen highest valued teams exhibit a Spearman rank-order correlation coefficient of one between franchise value and revenue. Stadiums account for much of the revenue differences since a significant portion of the luxury seating is not pooled, i.e. "local stadium revenues." Local stadium revenues are not divided 60-40 percent between the home and visiting teams as are the revenues for the seats sold to the general public in the NFL. Forbes does account for the nature of the stadium deals between host cities and teams as measured by stadium debt service expenses in establishing franchise value estimates.

Third, it is significant that the biggest media markets do not necessarily correspond with the highest valued teams. The New York Giants and Jets rank fifteenth and nineteenth, respectively, in franchise values, and that is due to the fact that both teams play in a facility that is more than thirty years old. It has been estimated that the new $1.2 billion stadium the Giants and Jets are planning to build and share will increase annual revenues and profits for each club by $100 million and $22 million, respectively (Maske, 2006). Another $100 million would put elevate the Giants and Jets to second and third place in the NFL revenue standings, and increase the value of the franchises to something in the neighborhood of 1.3 billion in 2006 dollars, an increase of approximately 45 percent.

Fourth, the New Orleans Saints play in the sixth oldest facility in the NFL. The Saints financial performance was distinctive among NFL teams; they were the only team to show an operating loss in 2005. The Saints, in fact, trailed the next worst financial performer by $13.2 million in the operating-income standings, and they were $112.5

million behind the operating-income leader, the Washington Redskins. The median operating income performers, the New Giants and the Denver Broncos generated $31 million more in profit than did the Saints.

Fifth, the information recorded in Table 1 clearly indicates that financial interests have motivated new stadium construction in the NFL. Fifteen new stadiums (this includes the significant renovation of Green Bay's Lambeau Field) have been built in the last decade. Perhaps more telling is the fact that 20 stadiums have been constructed since Joe Robbie parlayed the up-front money he received from the sale and lease of luxury seating into the financing he needed to build what is now Pro Player Park. Robbie redesigned the financial blueprint for stadium construction for all professional sports leagues in the United States.

Stadium construction would have occurred at a more modest pace absent tax-exempt financing up until December 31, 1999 and G-3 loans thereafter. The NFL's G-3 resolution, stipulated that the NFL would match up to $150 million of an owner's private contribution for a new stadium. The owner's "contribution" did not involve the type of risk that we ordinarily associate with business capital investments. Enhanced or altogether new revenue streams from the new facility often represented the owner's private contribution. A team, for example, could dedicate a portion of personal seat license revenue, stadium naming rights revenue, or luxury loge revenue to the stadium venture. Had the new stadium not been built, these funds, of course, would not materialize. The G-3 program was funded similarly with "new money." Josh Peter succinctly summarized how the loans were "repaid" in a recent article. Peter observed:

> The money used to repay the loan comes from the visiting team's share of club-seat money at the new stadium. If that proves insufficient, money will be taken from the leagues $18 billion TV contract (Peter, 2002).

Income for owners and players were reduced as a consequence of the G-3 resolution, but the owners and players willing agreed since they anticipated that their share of revenues from the new facility would more than compensate for the 34 percent of revenue they sacrificed to fund the new facility. The older the stadium the more likely this would be true since the older facilities had less luxury seating and were otherwise less adaptable to modern stadium revenue generators.

Summarizing, the timing of the NFL G-3 program appeared designed to replace stadium tax exempt financing. The NFL turned down a $20 million loan request in 1995 by Al Davis, owner of the then Los Angeles Raiders, to help in building a stadium to keep the team in Los Angeles. Paul Tagliabue reportedly remarked in response to Davis's request that, "We are a football league, not a bank" (Peter, 2002). The NFL has been in the banking business since 1999, and individual teams, players, and owners have benefited.

G-3 Developments and the Prospects for a New NFL Loan Program

The NFL exhausted its G-3 stadium funding through loans it made to help finance the construction of a new $1.2 billion stadium for the Giants and Jets, a $300 million loan, and a renovation of Arrowhead Stadium in Kansas City for the Chiefs, a $42.5 million loan (Ratto and Gay). The chances that the G-3 program will be replaced soon appear dim for several reasons. First, new stadiums provide "local revenue" or revenue that is not shared, and the increased revenues drive up labor costs given that the current

Collective Bargaining Agreement (CBA) stipulates 67 percent of all revenues go to the players. The importance of local revenues in determining overall revenues, operating income, and franchise values was previously discussed. The disparity between revenues generated in large and small markets is beginning to resemble such well publicized disparities in Major League Baseball (MLB). Mike Brown, the owner of the Cleveland Browns, was one of two owners that voted against providing a subsidy for the Giants and Jets facility. Brown's dissenting vote was explained in a recent newspaper article.

> Brown said the Bengals knew even when they went into Paul Brown Stadium in 2000 that their standing in league revenue would dip as the years went on. But when the NFL decided all teams should contribute to subsidize stadiums being built in large markets like Dallas, Chicago, New York and Philadelphia with its G-3 program, the gap between small and big markets mushroomed quickly…
>
> The most subsidized teams in the league are the large-market teams that have received G-3 grants and have produced a cap cost push on to others (Hobson, 2007).

The increase in stadium generated revenues induces an increase in the salary cap, which in turn affects teams operating incomes disproportionately. Teams such as the Cincinnati Bengals with $175 million in revenues and the salary cap set at $109 million for 2007 would exhaust 62 percent of their revenues on player salaries. The same cap, however, would constitute only 36 percent of the $303 million in revenues garnered by the Washington Redskins for the 2005 season. Small market clubs, despite the fact that the majority of them voted for G-3 funding for the Giants and Jets stadium, are likely to balk at any new G-3 type program without an agreement for a more comprehensive sharing of local stadium revenues. New Orleans is among the small market clubs that would seek more equitable revenue sharing.

The League, individual teams, and players have already demonstrated that they would be willing to fund stadiums through a G-3 type program only if the revenues generated by the new stadium were sufficient to compensate for revenues or income lost through giving up some revenue or income to fund the program. The NFL has balked at making any long term commitment to New Orleans, and it might be based in part on a concern that revenues from a new stadium in New Orleans would not compensate owners and players for the revenues they sacrifice in a G-3 type program. This perception, if it exists, is based on the condition of the New Orleans economy as well as the atypical performance on the field and financially of the Saints in 2006 and for 2007. When asked if the NFL had any responsibility in rebuilding New Orleans Commissioner Goodell replied:

> Tom Benson, Paul Tagliabue and the NFL took a leadership position here about not turning their back on a community that needed us, and the NFL was there, and they brought the team back. And they are playing there. They are operating there. They have been there since January. We are not talking about coming back. We are back. We did it at a time when we didn't know whether we could get the dome completed. We went to the state. They determined that the rehabilitation of the dome was a critical component in the rebuilding of the community. They believe that it was a huge economic driver and a huge symbolic effort to be able to get that dome reopened and be operating. So we found a creative way to be able to get that done in the shortest possible timetable and contribute a significant amount of money, up to $20 million to get that done, and the 25th will be a celebration of the collective effort to get that stadium completed, not just for the New Orleans Saints, but for the community and economic driving that will mean and all of the events that will combine that. So the NFL is an important partner here and we wanted to play that role and I think we have very effectively, and we're there and we're operating…
>
> …I don't have any crystal ball on what the community of New Orleans is going to be like going forward. Obviously there are lots of questions, but we're going to be there, continue to go try to do our part. And we hope that the New Orleans community will come back even stronger than it was (NFLMedia.com, 2006).

The future of a team in New Orleans may well hinge on whether the City will come back stronger than before, since that will be vital to support for the team. The next section of the paper will compare the New Orleans economy pre- and post-Katrina to determine the prospects for New Orleans achieving the economic strength necessary to support the Saints.

The Economy of New Orleans Pre- and Post-Katrina

While New Orleans hosts major league franchises in both the NFL and NBA, with a pre-Hurricane metropolitan area population of less than 1.5 million residents, the city was already a small market for any of the major sports leagues in the U.S. New Orleans was the 41st largest metropolitan area in the United States by population, and was the 36th largest city out of the 40 hosting a team from one of the five large professional sports leagues in the United States in 2004. Five cities in the country without any major sports franchises, Las Vegas, Virginia Beach/Norfolk, Providence, Greensboro, and Austin, furthermore, are all larger than New Orleans. Fourteen cities without an NFL franchise have larger population bases than New Orleans, including Los Angeles, the nation's 2nd largest market, and football hungry San Antonio, which played host to the New Orleans Saints for three of their "home" games during the 2005 season. Not only is New Orleans small, but it is also relatively poor ranking 36th out of the 40 cities with major professional sports franchises.

Another strike against New Orleans is its business climate, as corporations play a major role in keeping a team financially competitive. It is one thing to provide highly profitable luxury seating; it is another to fill those seats. The city is home to just two

Fortune 500 companies: Entergy , ranked 218th and Freeport McMoRan Copper and Gold, ranked 480th, and there is, therefore, not the market for loges and club seats that can be found in the other NFL and NBA cities with which New Orleans competes (Corbett, 2006). One writer somewhat whimsically stated the NFL financial equation in the following way:

> Instead of fans, the NFL seeks corporations...While the NBA and Major League Baseball have guaranteed contracts for their players, the NFL with its exorbitant TV rights deals and corporate backing has practically given their owners guaranteed dollars…
>
> The way business is done now is the owner convinces his buddies who own the largest businesses in their respective cities to buy majority (sic) of the season tickets and luxury boxes. The result: a term exclusive to the NFL, the guaranteed sellout. Saints owner Tom Benson can't do that in New Orleans because there are no major corporations other than Entergy to back him (Terrebonne Parrish Courier, 2005).

The competition to host a professional sports team is often as fierce as the competition among athletes on game day, and the lack of population base and both personal and corporate wealth placed New Orleans at a considerable disadvantage in supporting and, therefore, retaining the Saints prior to Hurricane Katrina.

While recognizing New Orleans shortcomings as it relates to its ability to host professional sports, on the other side of the coin, the City caters to the tourist trade to an extent that distinguishes New Orleans from almost every other American city. The infrastructure that New Orleans has created arguably provides a comparative advantage in hosting events to include commercial sports over most cities in the United States. The City's performance in attracting outside events supports the idea that it has exercised its comparative advantage. Even though New Orleans is a relatively small city, it ranked fifth in the United States in the number of conventions hosted (Tennessean News

Services, 2005). Prior to the storm New Orleans annually attracted more than 10 million visitors who spent in excess of $5 billion per year according to the New Orleans Metropolitan and Tourism Bureau.

The information recorded in Table 2 below in a general sense indicates the extent to which New Orleans is geared to tourism.

TABLE 2
Aggregate Measures of the Fraction of the Economic Activity for Selected Cities and the United States Represented by the "Accommodation and Food Service Industry" (NAICS 72) for 2004

Geographic Area/Statitic	NAICS 72 Employees as a % of Total Area Employees	NAICS 72 Annual Payroll as a % of Total Area Payroll	NAICS 72 Establishments as a % of Total Area Establishments
United States	9.34	3.46	1.61
New Orleans	**13.46**	**5.83**	**9.47**
Atlanta	9.22	3.15	7.38
Houston	9.05	2.83	7.35
Miami	10.56	4.52	5.95

Source: http://censtats.census.gov/cgi-bin/msanaic/msasect.pl

The fraction of the New Orleans economy that was accounted for by "Accommodation and Food Service" (NAICS 72) in 2004 indicated that New Orleans had a significantly larger tourist component than did the United States overall and three other southern cities in the U.S. that hosted NBA and NFL teams. It is noteworthy that New Orleans tourist sector as measured by employees and payroll in NAICS 72 is more than 25 percent larger than that of Miami, Florida, which among the comparison group is generally regarded as the most tourist based.

Commercial sport, of course, is one important aspect of the tourist/leisure industry, and it could play a role in the economic revitalization of New Orleans. Since opening in 1975, the Superdome has hosted numerous sporting events of national significance including the NFL's Super Bowl in 1978, 1981, 1986, 1990, 1997, and 2002, the National Intercollegiate Athletic Association Men's Basketball Final Four in 1982, 1987, 1993, and 2003. Furthermore, the Superdome annually hosts the Sugar Bowl, one of college football's top post-season matches and a game which has determined college football's national champion nine times since 1975.

Analyzing the tourism business for New Orleans is important because it bears on the capacity for continuing to offer inducement payments to retain the Saints. Inducement payments were generated from hotel and motel taxes to a significant degree. Paul Tagliabue opposed inducement payments at least in part because of the cyclical nature of tourism.

Data do exist for New Orleans for the number of establishments, annual payroll, and number of employees for a variety of entertainment related industries defined according to the North American Industrial Classification System (NAICS) and these data are recorded in Table 3 below.

TABLE 3
Aggregate Measures of the Fraction of New Orleans Economic Activity in Total Represented by Spectator Sports for 1997[a]

Ratio/NAICS Number	NAICS 71: Arts, Entertainment, and Recreation (U.S.)[b]	NAICS 711: Performing Arts, Spectator Sports, and Related Industries	NAICS 7112: Spectator Sports
Industry Employees/New Orleans Total	4.07% (1.61%)	1.16%	0.62%
Annual Industry Payroll/New Orleans Total	3.48% (1.19%)	1.39%	0.34%
Industry Establishments/New Orleans Total	1.74% (1.57%)	0.94%	0.20%

Source: *County Business Patterns.*

[a]Specific data for New Orleans for two-digit NAICS 71 data and above for 1998 and beyond from the County Business Patterns website is not available. Archived data for NAICS and SIC data were used to calculate the percentages in the table. These percentages correspond to the higher end of the ranges identified in http://censtats.census.gov/cgi-bin/msanaic/msasect.pl If an average of the value ranges identified were used, it would reduce the percentages and strengthen the arguments offered in the paper's text.

.[b]Comparable Statistics for the United States are from the most recent *County Business Patterns* data for 2004. Source: http://censtats.census.gov/cgi-bin/msanaic/msasect.pl

All data point to the fact that the economic activity accounted for through the "Arts, Entertainment, and Recreation" industry (NAICS 71) for New Orleans is absolutely small, but large when compared to the United States overall. Census data, thus, supports the idea that New Orleans exhibits an arts-entertainment-recreation industry that is larger than that characterizing the United States as a whole.

The contribution of "Spectator Sports" (NAICS 7112), however, is less than 1 percent by any of the measures identified in Table 3. Despite the high salaries paid professional athletes, the spectator sports industry typically accounts for less than 1 percent of a city's payroll, and, by that measure, the industry is not economically vital to cities in the United States in general to include New Orleans.

The absolute size of the entertainment and spectator sports industry might not adequately represent the impact the industry has on the local economy due to the fact the industries attract outside dollars and substitute for imports, thus retaining dollars that would leak from the economy in their absence. An increase in net exports generates a stream of funds that can be used for inducement payments or to build sports infrastructure, all else equal. Numerous studies of both professional sports franchises and stadiums as well as of mega-events, however, lend support to the notion that sports have little impact on local economies. Analyses of the Super Bowl (Baade and Matheson, 2006; Porter, 1999), NCAA Final Four (Baade and Matheson, 2004), and mega-events in general (Coates and Humphreys, 2002; Baade, Baumann, and Matheson, 2007), for example, have all concluded that these big sporting events have no statistically significant impact on any number of economic variables such as employment, per capita income, metropolitan area-wide gross domestic product, or taxable sales. Most recently Coates and Depken (2006) indicated ambivalence about the economic contribution of sports mega-events. Coates and Depken concluded: "The upshot is, therefore, that these mega-events are not necessarily the economic windfall that their proponents portray them to be." Stadiums and professional franchises (Baade and Dye, 1990; Coates and Humphreys, 1999; Baade, Baumann, and Matheson, 2007) similarly show little in the way of economic benefits for host cities.

The New Orleans economy not only serves the nation as a tourist center but it is also a hub for water transportation, and any economic redevelopment effort should focus on those industries. This is an opinion endorsed by members of an *ad hoc* committee of urban experts assembled under the auspices of the Urban Land Institute. The information in Table 4 below, to be specific, indicates that in July 2005, 32.9 percent of the labor force in New Orleans was employed in the "Trade and Transportation" and "Leisure and Hospitality" sectors. Table 4, in general, provides statistics that enable a quick comparison of the New Orleans economy prior to and after Katrina.

TABLE 4
Comparing the Pre- and Post-Katrina Economies for the New Orleans MSA

Statistic/Date	July 2005	July 2006	December 2006
MSA Population	1,292,774	914,745[a]	
Unemployment Rate	[Louisiana = 5.6%] New Orleans = 5.3% (United States = 4.9%)	[Louisiana = 2.9%] New Orleans = 4.2% (United States = 4.8%)	[Louisiana = 4.3%] New Orleans = 4.4% (United States = 4.5%)
Labor Force Size	637,952	440,521 (Down 30.9% from July 2005)	432,494 (Down 32.2% from July 2005)
Population Employed in the Transportation and Trade Sector	123,200	89,700 (Down 27.2% from July 2005)	92,100 (Down 25.2% from July 2005)
Population Employed in the Hospitality and Leisure Sector	86,500	58,500 (Down 32.4% from July 2005)	59,000(Down 31.8% from July 2005)
Public Transportation: % of the System Operational	100%	17%	17%
Number of Workers Employed by Government	103,000 or 16.3% of the labor force for government at all levels; 15,600 for the federal government or 2.0%	90,500 or 20.7% of the labor force for government at all levels; 13,700 for the federal government or 3.1%	91,300 or 20.4% of the labor force for government at all levels; 12,100 for the federal government or 2.7%
Number of Open Hotels	142	116 (Down 18% from July 2005)	127 (Down 11% from Jul 2005)
Open Retail Food Establishments	100%	44%	Not Available
Number of Passengers Arriving at the New Orleans Airport	441,356	281,015 (Down 36% from July 2005)	286,018 (Down 35% from July 2005)

Source: Greater New Orleans Community Data Center, *The Katrina Index*, February 15, 2007, www.gnocdc.org. Accessed on March 3, 2007.
[a]January 2006 statistic. Note the metropolitan population for New Orleans fell by 29.2 percent from July 2005 to January 2006.

The numbers recorded in Table 4 indicate several things worthy of note. First, the transportation/trade and leisure/hospitality industries, the cornerstones of the New Orleans economy, are recovering, albeit slowly. The numbers employed in trade and leisure as of December 2006 remain down by 25.2 and 31.8 percent, respectively, but are up from the July 2006 employment figures by modest amounts.

Second, the unemployment rate in New Orleans as of December 2006 is below that for the United States. Prior to Katrina, the unemployment rate in New Orleans was above the rate for the country. The smaller labor force in New Orleans following Katrina, of course, obscures developments with respect to the unemployment rate, but the workers who remained in or returned to New Orleans are able to find work.

Third, all relevant statistics in Table 4 point to a contraction of the leisure industry following Hurricane Katrina. There continues to be fewer people flying into New Orleans in comparison to pre-Katrina levels and a smaller number of establishments to accommodate them. Nearly one year after Katrina, the number of retail food establishments was 44 percent of the level prior to the storm, and the number of hotels open remains below the pre-Katrina level.

Fourth, the government sector has expanded relative to the private sector, and the federal government's presence, while absolutely and relatively small, is approximately one-third larger as measured in terms of the percentage-of-labor-force employed by the federal government in December 2006 than it was pre-Katrina.

It cannot be predicted at this juncture if and when New Orleans will return to those population and economic-activity levels that existed prior to the storm. There is compelling scholarship by Davis and Weinstein (2002) to suggest that population and economic activity across cities and regions within a country are not random occurrences, but rather reflect “locational fundamentals,” e.g., location on a coast or significant river (physical geography), and economies of scale emanating from “economic clustering.” The Davis and Weinstein study is based on 8,000 years of data on Japanese regions, and Japan’s population is far more homogenous than that characterizing the United States. The population of New Orleans is particularly diverse.

Other scholarship supports the importance of locational fundamentals in explaining developments relating to population movements following catastrophic events. Evidence following the Chicago Fire of 1871, indicates that the City’s recovery from that event depended on location fundamentals specific to neighborhoods (Macaulay, 2005). More recently, economic recovery from the 1992 Rodney King riots in Los Angeles was notably slow as compared to Miami’s experience following the devastation of Hurricane Andrew in the same year (Baade and Matheson, 2004; Baade, Baumann, and Matheson, 2007). Taken together, these findings suggest that heterogeneity as it relates in part to ethnicity, shared values and culture, income and wealth, and education can retard redevelopment and efforts to resettle. Many New Orleans neighborhoods, where redevelopment has been slow to occur, exhibit marked variation in these characteristics and relatively low rates of home ownership as previously mentioned.

The extent of the devastation caused by Katrina coupled with the demographic character of New Orleans prior to the storm bears on the prospects that residents of the City will resettle. The likelihood that New Orleans will return to its pre-Katrina state, in turn, will affect the probability that professional sports teams will remain in the City. If the chances increase that pro-sport teams will eventually leave due to a lack of fan support that has implications for the efficacy of substantial public investments to replace or repair the professional sports infrastructure.

Paradoxically, the extent of the devastation and the significant pressure exerted on the public sector to demonstrate its resolve and ability to help the City recover enhances the prospects that those edifices most representative of the City to the outside world will be restored. Delaney and Eckstein (2003) identified the strength of "local growth coalitions" as vital to understanding public choices regarding the construction of sports infrastructure. The public choice theory detailed by Delaney and Eckstein helps explain decision making in New Orleans with regard to the rapid reconstruction of the Superdome, and the successful floating of the $294-million bond issue that financed the repair. Not only was there a strong local growth coalition following Katrina, but that local effort was bolstered by a strong national sentiment for helping New Orleans get back on its feet. Ironically, the ineptitude that government displayed arguably at all levels immediately following the storm increased the pressure on government to correct the negative perceptions about its performance. Louisiana Governor Kathleen Babineaux Blanco in announcing the bond sale remarked that, "Rebuilding and reopening the Superdome were critical steps in Louisiana's recovery from hurricanes Katrina and Rita and this bond sale made them possible." (New Orleans City Business, 2006) The Superdome as a symbol of the City's ability to survive and its struggle to recover achieved particular significance as Katrina's impact played out.

The demand for the Saints, the primary tenant of the Superdome, has been given a boost by the increase in the political demand for the Superdome. The political resistance for public subsidies to keep the Saints from marching elsewhere has eased, and the successful sale of the bonds to repair and renovate the Superdome corroborates that assertion. All in all, in a peculiar way, financial transfers to Tom Benson have been made easier as a consequence of the storm.

Once again the efficacy of those transfers depends on the prospects for redevelopment in New Orleans and that depends on the City's ability to restore its place as a leading transportation and leisure center. Much of the tourism industry in New Orleans is "high-ground" based in the French Quarter, the Central Business District (CBD), and the Garden District. The Urban Land Institute committee, which met on November 18, 2005 opined:

> New Orleans should concentrate its rebuilding efforts on the sections of the city that occupy the high ground, while securing lower-lying areas for potential long-term rebirth…it's not practical to redevelop every acre of New Orleans in the short term, considering that 300,000 residents and 160,000 jobs have been lost. It's also not socially equitable to allow residents back into neighborhoods that do not have adequate levee protection and may be toxic… (Carr, 2005).

The report of the Bring Back New Orleans Commission recommended that all of New Orleans not necessarily be rebuilt. If that recommendation is followed, the post-Katrina New Orleans will be smaller than the it was before the storm, and that has implications for the ability (or willingness) of sports to serve as a catalyst for economic redevelopment. Even if the metropolitan area shrinks by as few as 250,000 residents, still suggesting that over 80% of the population would return to the area, New Orleans would become the second smallest "major-league" city in the country behind only Green Bay, Wisconsin, and would be smaller than such distinctly "non-major league" cities such as Albany, Richmond, Birmingham, and Grand Rapids, Michigan.

Tourists will not likely return to a city that cannot provide essential services, and in the absence of tourists, the New Orleans economy will struggle at least for a time. One part of the blueprint for restoration of the New Orleans economy will require restoration of housing and essential services for its middle class who provide the labor and entrepreneurial talent for the tourism industry, followed by a revitalization of those businesses that cater to tourists. Despite the slow recovery and the evidence to suggest that New Orleans will be smaller following Katrina than before, the likelihood that the Saints will remain in the City ultimately depends on the financial support and prospects for the team. The next section of the paper analyzes that issue

Financial Prospects for the Saints

The Saints' future in New Orleans by virtually all accounts was tenuous prior to Katrina as previously discussed. Following the storm, theoretically, the ability of the community to support the team has eroded, and logic would argue that if the City had difficulty supporting the team prior to the storm, this support seemed destined to diminish following Katrina. Ben Hales, the vice president of marketing for the team summarized the Saints plight in a recent newspaper article. Hales commented: "We're nowhere where we need to be, given the state of the community. The problems that we had before Katrina have been exacerbated" (Sandomir, 2007).

The Saints currently depend on three sources for income: fans and other private interests, government through inducement payments, and the League. The status of financial support from each of these groups will be analyzed in turn in the remainder of this section.

Despite tepid support prior to Katrina, fans and businesses have rallied behind the Saints, and their financial support has helped forge an agreement between state officials and the team to keep them in New Orleans through the 2010 season. Saints owner Tom Benson would not commit to anything beyond 2010, and both Benson and the League are likely trying to determine if the current financial support can be sustained beyond 2010 before committing to the City beyond that year (Duncan, 2007).

The concern may be that the current support stems from the Saints rousing success during the 2006 season, which ended in a loss in the NFC championship game in Chicago on January 21, 2007, coupled with a determined effort to demonstrate that the City of New Orleans remains vital and will rebuild following Katrina. State officials announced in mid-March of 2007 that not only had Saints fans purchased all the tickets available for the upcoming season, a repeat of their first-ever such performance in 2006, but all available Superdome suites were purchased as well. Additionally, it has been reported by *The Times-Picayune* that there is a season ticket wait list of 25,000 people (saintsdoggle, 2007). This substantial vote of private dollars to retain the Saints apparently has involved not only fans in New Orleans but fans/citizens of Louisiana and Gulf Coast. There are increasing references to the Saints being Louisiana's and the Gulf Coast's team both by the NFL and to state officials. To wit:

> At the same time, many of the suburban areas west and north of New Orleans, which were much better off economically even before Katrina, were spared the worst flooding and have recovered quickly or are even booming from the displacement of many residents to those areas.
>
> The metro area population is around 1.2 million now, and the Saints have been marketing with success within a three-hour driving radius from the Superdome, which includes midsize cities such as Baton Rouge and Lafayette in Louisiana, Jackson, Miss. and Mobile, Ala. (NFL.com, 2006).

It is important to note that the record Saints ticket sales in 2006 and 2007 were induced, at least in part, through discounting. The price of 20,000 seats were reduced to less than $35 with a number of those going for the very un-NFL-like price of only $14 (Isidore, 2006). The fact that the Saints averaged only 42,897 fans for their three games in Baton Rouge supports the hypothesis that the combination of recent Saints' success, more focused and effective marketing efforts, and reduced ticket prices is responsible for the surge in attendance in 2006 and 2007 (Sportstraveler, 2005).

Government support beyond the 2010 season is questionable. It is not rational for government to continue to subsidize a business that is not committed long term particularly in light of the demand on scarce government funds. Despite the recent success with private support, long-term promises from the team and the League to stay in New Orleans have proved elusive. The Saints have come to depend on subsidies from Louisiana. The risk involved in continuing to invest in the Saints coupled with depleted government coffers, has jeopardizes the inducement payments and the construction of a new stadium in the longer term. A March 2007 Bureau of Government Research (BGR) Report concluded:

> New Orleans has certainly seen better financial days. The property tax base is down 15% from its pre-Katrina level. Revenues from total taxes and other locally generated sources are down 28%. The City's 2007 budget is heavily dependent on federal and state grants and is "balanced" by borrowings. At the same time, the needs remain great. Restoring and improving the infrastructure, already in deteriorated condition before the levee breaks will require substantial local investment.
>
> Against this backdrop, the Industrial Development Board of the City of New Orleans, Louisiana (IBD), an economic development entity created decades ago by the City Council, is receiving requests from developers for significant tax breaks (Bureau of Government Research, 2007).

New Orleans and the State of Louisiana has what amounts to a “scissors crisis” that is to say state and local budgetary health has been adversely affected by both reduced revenues and escalating costs and demands. It may well be that Katrina will force the State and the City to admit that they cannot afford the Saints at the price defined by past agreements. Louisiana bought time through the 2010 season by agreeing to provide $70.5 million dollars in inducement payments through that year. Had the State elected to forego those payments, the Saints would have had the option to terminate their lease and relocate. The State is gambling that the economy will recover enough to afford the Saints, and that high-stakes wager could be undermined by anyone of a number of adverse global, national, regional, or local economic developments to include another catastrophic storm.

The risk state and local government has assumed in financing the renovation of the Superdome is at least in part psychologically motivated. The Superdome was a symbol around which residents of New Orleans rallied to demonstrate their resolve to rebuild their community. Gary Roberts, a sports law professor had Tulane observed:

> One could make the argument that the city will never be able to keep a viable major sports franchise and it’s throwing money down a rat hole to try to keep something…it makes sense both economically and psychologically – to repair the Superdome even if the Saints decide to leave New Orleans (Isidore, 2006).

The federal government, and taxpayers at the national level, has contributed to keeping the Saints in New Orleans. FEMA reportedly contributed $116 million to the first phase of Superdome repairs (Isidore, 2006). It is unlikely that the federal government will be able to provide additional financial assistance to the Saints in light of the trend in legislation away from unjustified national funding of local sports facilities projects.

Meanwhile the NFL has given every indication that it has financially subsidized the Saints as much as it can. G-3 stadium funding has been exhausted, and a replacement program is unlikely to be implemented without salary cap reforms, which must be approved by a super majority vote of team owners. Roger Goodell has expressed concern about the stadium funding situation, but he has made clear that other problems must be addressed before the stadium funding issue. Rotto and Gay articulated Goodell's position as follows:

> Goodell said he is, naturally, concerned about the stadium situation on the West Bay (he didn't mention any concerns about the Raiders' under-attended stadium in the East Bay), and he has kept abreast of the situation. But, he said the league needs to address a lot of problems, and he didn't indicate many solutions – and this stadium-funding problem clearly is one for which he doesn't have a solution right now. In fact, Goodell said it wouldn't be back on the table until the intra-ownership flight over revenue sharing and the ongoing/eternal labor situation are resolved, which is code for "You fellas are on your own" (Ratto and Gay, 2007).

The lack of a G-3 type program does help New Orleans in one way. Los Angeles, along with San Antonio the most often mentioned potential new host cities for the New Orleans franchise, is on its own in funding a new stadium as well. Los Angeles has displayed no particular enthusiasm for generating stadium funds on its own in the past.

A recent statement by Joe Browne, an NFL executive vice president makes the League's position on additional financial support for New Orleans quite clear. Browne, quoted directly said:

> We want the Saints to succeed in New Orleans, but the business community, especially, has to step up and continue to support them. We already have the best revenue-sharing plans in sports, and that helps teams like New Orleans in a small market (UltimateJaguars Newsroom, 2007).

An amended NFL labor agreement, one that recognizes the cost-push pressure on small market clubs such as the Saints, could help alleviate some of the pressure without providing any additional direct financial support. As previously noted, the salary cap for the 2007 season is $109 million, and it is expected to rise 27.5 percent to about $139 in 2008. Absent matching revenue increases the Saints financial position will deteriorate further and make relocation more likely after the 2010 season.

Ben Hales, the Saints vice president of marketing, clearly left the door wide open for a Saints relocation as did former Commissioner Tagliabue who in response to a question about a new location said "It's still an open question," while citing the local economy as pivotal to New Orleans retaining the team (Isidore, 2006). Hales said: "It's a challenge. We're not any different from any other business in the region. There's (sic) lots of unknowns" (Isidore, 2006).

The Saints, of course, could help ameliorate some of the financial pressures by tempering their demands, and exhibiting what amounts to profit-satisficing rather than profit-maximizing behavior. Sandomir wrote that "…some sports marketing experts said it was unlikely the Saints would ever earn enough in New Orleans to satisfy the Benson family, which could earn much more by playing in a larger, more stable and wealthier market" (Sandomir, 2007).

Commenting on the Saints financial viability short and long term, Dennis Lauscha, the team's chief officer observed:

> We're financially viable. We have two big problems, a facility problem and a market problem. If you fix both, you'll have strong viability (Sandomir, 2007).

One does not have to be a cynic to suggest that Lauscha appears to be suggesting that a new stadium and a restoration of the economy are essential to keeping the Saints in New Orleans. Given the City's slow recovery and the lack of funds to support the construction of a new stadium, the price to keep the Saints may well be beyond the grasp of New Orleans without some NFL or some other divine intervention.

Conclusions and Policy Implications

This purpose of this paper was to analyze the prospects for the Saints staying in New Orleans. Financial motives accounted for the nomadic urges expressed by Saints owner Tom Benson prior to Hurricane Katrina, and there is no reason to expect that Benson in any long-term sense will not seek to maximize the return on his Saints' investment. Katrina, however, in unexpected ways, extended the life of the New Orleans Saints through the 2010 season through galvanizing fan and other private support, some of which involved national sponsorships, for the team. Perhaps more important the storm induced a sympathetic response from the NFL and its owners, which translated into real financial support. Retention of the Saints beyond the 2010 season, after the empathetic reaction to Katrina dissipates, will require financial developments that are more typical of standard NFL practices. New Orleans will need a new stadium to retain its NFL franchise in all probability. That will not happen without public money and NFL loans through a G-3 type program. The public money will be available only if New Orleans recovers fully from Katrina. NFL stadium loans will materialize only if a growing divide between small and large market teams emanating from significant differences in local stadium revenues can be resolved. Given the lack of developments on both fronts, it would have been a safer to bet on the Saints appearance in the NFC championship game prior to the 2006 season than to wager that the Saints will stay in New Orleans beyond the 2010 season.

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