Naming Rights as a State Revenue Generator

by Ronald C. Fisher and Robert W. Wassmer


Ronald C. Fisher


Robert W. Wassmer

Ronald C. Fisher is a professor of economics at Michigan State University, and Robert W. Wassmer is a professor of public policy and administration at California State University, Sacramento.

In this edition of State Fiscal Affairs, Fisher and Wassmer explore issues related to private sponsorship of public events, parks, and other locations. They conclude that although there are potential negative consequences from such sponsorships, governments should consider them as a way to raise needed revenue.

State and local government spending has been recovering since the Great Recession and with it there has been a focus on increasing sources of revenue. According to the National Association of Budget Officers, overall state general fund spending is expected to increase for fiscal 2016 based on enacted budgets, the sixth consecutive year since the recession. Yet many forms of state and local government services are underfunded, with special attention recently on physical capital, including state parks, roads, and bridges; K-12 public school buildings and equipment, and higher education facilities. Erosion of property and sales tax bases, as well as reluctance to rely further on property as a tax base, has contributed to the increasing reliance on sales taxes, income taxes, and user fees. However, many believe that reliance on these non-property tax revenue bases in many states is near the maximum. There may be a viable alternative for raising revenue, especially to fund highly visible infrastructure. Perhaps it is time to consider the sale of naming rights for funding maintenance, repair, and replacement of public physical capital.

Professional sports provide a clear example of the revenue potential for such a strategy. Most professional sports arenas, stadiums, fields, tracks, and pitches in the United States — many owned by subnational governments — have sold naming rights, typically to a private corporation. For instance, Citibank NA and AT&T Inc. are paying $20 million a year for their names to grace the stadiums used by the New York Mets and the Dallas Cowboys, respectively. MetLife Inc. ponies up $16 million a year for the naming right to the home of the New York Giants and Jets, and Philips Inc., Barclays PLC, Levi Strauss & Co., and Reliant Energy pay about $10 million so their names are associated with the respective playing venues of the Atlanta Hawks, Brooklyn Nets, San Francisco 49ers, and Houston Texans.[1] These are significant amounts. Certainly this is attributable to the fever that Americans have for professional sports and the visibility the sponsors receive from those in attendance and television viewers. However, considering that nearly 75 million people visited California's state parks in 2014-2015, and there were 58 million park goers in New York, there seems to be some potential here as well.[2]

In the past, local governments have experimented with this option more than state governments, using their provision of services or facilities as opportunities for private marketing. An older example is advertising billboards on the inside of buses and subway trains. More recent examples include the naming rights to city transportation facilities. In New York City, you can take the subway to the Barclay's Center station in Brooklyn, which is the station that is closest to Barclay's Center, the home of the Brooklyn Nets. Barclays, an international banking firm, not only bought naming rights to the arena but also bought naming rights to the subway station from the New York Metropolitan Transit Authority. The Southeastern Pennsylvania Transportation Authority (SEPTA) entered into a five-year deal with AT&T in 2010 to name AT&T station for about $5 million (AT&T also provides the wireless service on this SEPTA line). The Regional Transportation Authority in Cleveland renamed its bus rapid transit system to Healthline under contract with the Cleveland Clinic.

Government revenue options from private marketing generally fall into three categories: (1) private advertising on

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[1] Nitin Bhandari, "Top 10 Biggest Stadium Naming Rights Deals," TheRichest.com, Nov. 20, 2013.

[2] California State Park System, "Statistical Report 2015/15 Fiscal Year," *available at* http://www.parks.ca.gov/?page_id=23308; and New York State Office for Parks, Recreation and Historic Preservation, "State Park Annual Attendance Figures by Facility: Beginning 2003," *available at* http://on.ny.gov/1CJF1bh.

public facilities, (2) exclusive contracts between governments and private firms, and (3) the selling of naming rights for public facilities.[3] General Motors Corp. contracted with the Port Authority of New York and New Jersey to put images on the walls of a subway tunnel that runs under the Hudson River, which gives riders the impression that they are watching a video as they ride by. San Diego entered into an exclusive contract with the Pepsi Bottling Group Inc. in 1999 through which Pepsi vending machines were located on city property, the company was granted the designation "Proud Sponsor of the City of San Diego," and the city received a marketing fee, commissions, and merchandise for city programs. Finally, Las Vegas sold the name of a key station in its new monorail system to Nextel Communications Inc. (reportedly for $50 million).

In most instances, the revenue from such public-private marketing arrangements appears to be relatively minor. Nevertheless, one can only speculate about the revenue potential for the private naming of New York's Niagara Falls State Park or Nevada's Lake Tahoe State Park. These possibilities are not just theoretical. Following the budget woes faced by California during and after the Great Recession, it developed its Proud Partners program to "allow corporations and businesses to reach out to the more than 70 million people that visit California's 280 state parks each year. Partners may align themselves with an individual park, or with the entire State Park System."[4] However, at the present, the state is only willing to partner with corporations "with a particular emphasis on programs promoting environmental, historical and cultural awareness, healthful living, education, and high-quality outdoor recreation."[5] The state of Washington has taken a similar approach, and the nonprofit Municipal Research and Services Center (MSRC) offers a web page[6] with general information on corporate sponsorship for governments, Washington and other states' policies, and examples of marketing promotions occurring in Washington state.

If at least two states have ventured down this funding path for state parks, why not more? What about expanding corporate sponsorship to state-owned roads and bridges in need of repair or replacement? Further, is it rational for the state to cede all advertising potential to billboards on private land along state roads? A number of concerns may limit states' interest in pursuing revenue from private advertising.

A main concern about public-private marketing arrangements relates to the contract or negotiation process. States and localities need to correctly identify the market value of these opportunities, which is often not easy because there may be few comparable markets. If a company wanted to purchase naming rights for California's Julia Pfeifer Burns State Park in Big Sur, for instance, how would the state determine the value to name such a unique asset?

Competitiveness in the bidding or negotiation process is important, as it usually provides maximum revenue and helps people perceive the process as fair. As a result, some cities have hired marketing professionals to coordinate this process. The City of San Diego has an official Corporate Partnership Program, with a separate office and page on the city's website. In 2014 San Diego had partnerships with eight private entities — Toyota Motor Sales USA, Sprint Co., Canteen Vending, Cardiac Science Inc., Qualcomm Technologies Inc., San Diego Metropolitan Credit Union, Decobike LLC, and Service Line Warranties of America.[7] For instance, Sprint is the "Official Wireless Partner of the City of San Diego."

Governments should exercise caution when considering sponsorship deals with private firms. Citizens may see marketing revenue as a desirable alternative to taxes or user charges, partly because they do not directly pay for that revenue, which comes indirectly from the private firms' consumers, workers, and investors. Citizens may also see marketing revenue as a way to export public sector costs to nonresidents. On the other hand, citizens may worry whether the contract or advertising is affecting the quality of the service. For instance, locating soft drink machines in public schools has become controversial, with concerns about the potential effects on students and learning. Some may worry that governments may accept inferior products because of marketing arrangements. Issues of image, taste, and morality are even more problematical. According to Swope, Dallas rejected a naming offer from the parent company of Jose Cuervo tequila for a performance hall at a new Latino Cultural Center.[8]

Joseph Blocher raises the First Amendment concerns related to the ability of a state government to deny "bad name" sponsorship, such as when the KKK tried to sponsor a Missouri public radio station and a stretch of highway for cleanup.[9] Others have expressed concerns about a possible "demeaning" of education when the facility that offers it shares a name with a corporation. Yet public universities have long accepted donations in exchange for naming buildings, facilities, or professorships.

A major public finance concern is that private financing of public facilities or services, especially through advertising, might induce taxpayers to believe that the traditional civic

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[3]Christopher Swope, "Brought to You by . . .," *Governing*, Oct. 2004, p. 46-48.

[4]California Department of Parks and Recreation, Proud Partners and Financial Support Programs, http://www.parks.ca.gov/?page_id=24417.

[5]California Department of Parks and Recreation, Corporate Sponsorship Criteria, http://www.parks.ca.gov/?page_id=25417.

[6]MRSC, Corporate Sponsorship and Naming Rights, *available at* http://bit.ly/1UVTZ50 (last modified Jan. 8, 2016).

[7]The City of San Diego, Corporate Partnerships and Development, *available at* http://bit.ly/24OacMt.

[8]*Supra* note 3.

[9]Joseph Blocher, "School Naming Rights and the First Amendment's Perfect Storm," 96 *Geo. L.J.* 1 (2007).

responsibility of public funding of parks, roads, bridges, or schools through taxation or fees is no longer necessary or appropriate. Based on research in behavioral economics, Dan Ariely describes a separation by most people of their lives into activities governed by social or market norms.[10] Ariely would likely be concerned that replacing the social norm of paying for state parks through traditional public financing with a market norm that park sponsorship can be bought diminishes the social norm. Will citizens understand that advertising revenue will be a marginal supplement to traditional public funding rather than a substitute? Of course, user fee funding has long been used to substantially support state public facilities and services (except public school facilities).

Revenue from advertising and naming rights is not going to replace general state taxes and user fees. Nor should it. The use of corporate advertising and sponsorship is hardly the best way, or the most feasible way, to generate sufficient funds to maintain, repair, and replace the parks, roads, bridges, and public school facilities in America. But at least it seems possible to generate a not insignificant amount of revenue at the margin and thus deserves further consideration. If a Detroit city-owned football stadium is named Ford Field, with funding from Ford Motor Co., then why can't a city-owned public transit system be named GM Transit, with funding from General Motors? Or if a soon-to-be-completed, State-of-Michigan-funded, and Detroit-city-owned hockey arena is to be named Little Caesars Arena, with funding from the pizza company, then why can't the state park located in the same city be named Quicken Park at Belle Isle, with funding from the Quicken Loans Corp.? This is an issue that deserves further consideration. ■

[10]Ariely. *Predictably Irrational, Revised and Expanded Edition: The Hidden Forces that Shape Our Decisions.* Revised edition, Harper Perennial (2010).