The Economic Impact of Sport

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Recommended Citation  

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Abstract
In lieu of an abstract, below is the first paragraph of the paper.

Imagine being a tax payer whose hard earned tax dollars are supporting the construction of a multimillion dollar sports facility, under the impression that these dollars will supposedly benefit the local economy. Then, after a few years of the team's presence in the community, there is no major capital return after being told numerous times by local officials that there would be. On top of seeing no economic increase, all the employment opportunity that was also promised only appears to be minimal. Although the introduction of a sports team in your community may seem like a good idea, many studies have proven otherwise. Sports franchises are not always economically beneficial to a community.
Imagine being a tax payer whose hard earned tax dollars are supporting the construction of a multimillion dollar sports facility, under the impression that these dollars will supposedly benefiting the local economy. Then, after a few years of the team’s presence in the community, there is no major capital return after being told numerous times by local officials that there would be. On top of seeing no economic increase, all the employment opportunity that was also promised only appears to be minimal. Although the introduction of a sports team in your community may seem like a good idea, many studies have proven otherwise. Sports franchises are not always economically beneficial to a community.

The average taxpayer would be thrilled at the idea of bringing economic development to their community. One can only imagine the benefits of having additional funds to cover an increasing tax base; relieving the taxpayers of additional costs. Of course, one would also have high hopes of increased employment, improved roadways, and any improvement a positive economic development would have for the local community. Thus what of adding a sport facility to a community? Would such an addition be a positive economic benefit and prove worth the public spending?

At a time when sports continue to grow in popularity, evidenced by professional athletes being paid exuberant salaries, it is only natural that people would assume that a sport facility/franchise would be profitable for the community. Those in support of the development of a sport facility, such as a large fan base, marketing executives, and owners of sport facilities/franchises would clearly point out the economic benefits while ignoring the potential costs. Those who are more objective, such as independent researchers, will point out the economic costs. Either way, those who decide on whether to introduce a sport facility/franchise into an area need to be prepared and educated.

Those in the position to make these vital decisions must acquire greater understanding on whether or not the economic development of a sports facility has economic benefit. They must understand all the true costs and funding involved in constructing and maintaining a sport facility. Without a clear picture of the results, decision makers could potentially spend large amounts of money beyond the designated budget. Thus, economic impact studies must be done to ensure the taxpayer and community members that the investment of a sport facility will not be a misuse of public funds, but will provide economic benefits to the area. Will these studies show a positive economic benefit of introducing a sport facility or franchise to a community? If not, why do proponents still support the building of such facilities?

The economic impact of sport can be defined as the net change in an area’s economy resulting from a sport event. The net change will encourage or discourage a sport franchise to build a complex in a designated area. This change is caused by activity involving the acquisition, operation, development, and use of sport facilities and services. This in turn generates visitor spending, public spending, employment opportunities, and tax revenue. The impact displayed in an economic study shows the direct, indirect, and induced effects of expenditures. The direct effects refer to the purchases necessary to meet the needs of visitors for goods and services. "The indirect effects include the recirculation of public and visitor spending for the sporting event. Induced effects are the increase in employment and household income resulting from introduction of a sport franchise" (Lee 2). However, due to the subjective nature of sport, these studies have to be taken into context of the environment and culture of the designated area.

Several problems arise when studying the economic impact of sport. In addition, a danger exists when the decision makers use different and conflicting concepts (Howard 1995). Often the multiplier itself will propose deceptive information aimed purposely to show positive benefits of the sport franchise (Howard 1995). Generally, economic impact studies are commissioned by those who will benefit from a...
sport facility/franchise such as the owner of a team or the promoters of a team (Coakley 2004).

An additional problem is the inclusion of local spectators, time-switchers, and casuals in the study (Coakley 2004). Economic impact studies should only show new visitor spending to truly demonstrate the value of a proposed sport event (Johnson 370). The time-switcher and casual expenditures would have been spent without the event, so the impact of their expenditures should be excluded from the study (Lee 2). Thus, the economic impact of a sport facility/franchise should only be measured by using the impact on businesses outside the facility (Lee 2). These businesses could include banks that provide funds, as well as marketing and community investors (Lee 2).

Another potential problem arises when an economic impact study, done by those who benefit politically, tend to estimate only the positive benefits (Lee 2). They will not measure substantial economic costs and problems caused socially in the community (Lee 2). The economic impact study of sport is highly controversial due to its subjective nature (Johnson 371). According to Soohhwan Lee, “Even if some models and formulas for economic impact studies were developed and utilized, the results and their interpretations could be changed based on the intent of the researchers and the unrealistic expectation of proponents” (Lee 2).

Many experts are concerned with the outcome of these economic impact studies because the studies tend to exaggerate the benefits a sport facility or franchise will bring to an area (Hunter 1998). Dr. W. Hunter, professor at The Heartland Institute expresses two issues that arise when determining the economic impact of a sport facility/franchise on an area from an economic impact study. He refers to one problem as the “local production fallacy.” This concept suggests that the local economy is assumed to receive all the economic benefits that come of the development of a new sport facility. A second issue he identifies is the “Taj Mahal Syndrome”. This concept centers around the thinking that as the costs of the project or development of a sport project increases, the local economy will benefit because it provides employment and supplies.

Dr. Hunter also expresses his concern that these studies do not reflect the loss of money that could be spent elsewhere. Instead of spending money on a sport facility, the community could improve its economy by using the funds toward new roads, community projects, lowering taxes, and hopefully creating public spending (Hunter 1998).

In the end, when a question arises as to whether or not the public should spend money toward developing a sports facility and welcoming a sport franchise into the area, the decision makers must do an economic impact study. Despite the debate over validity, costs and employment needs must be assessed. In addition, an incomplete understanding of the total costs of developing a sport facility can cause public outcry as hidden or new expenditures arise far above any budget that was ever intended for the development. Thus, a study will create some understanding of the economic benefit and/or negative outcome of introducing a new facility/franchise into any given area.

Economically speaking, it is a common belief that sports and the building of new sports stadiums, arenas or complexes in an area have a positive impact on the local community. The majority of misinformed sports fans and non-sport fans think that tax revenues and job opportunity will increase, but in minimal cases this is actually true. Americans stay under the impression that these sport projects are beneficial though, because people like Pat Calhoon, sports facilities manager for the city of Sarasota, bluntly lie to the public in an attempt to win their support. According to Kathleen McLaughlin (A1), Calhoon openly admits that the inflated figures he gives to the public, regarding the economic impact of his proposal to build a new spring training complex for the Cincinnati Reds, are just another sales tool. Calhoon quotes, “You gotta know what your audience’s hot buttons are” (McLaughlin A1). Due to Calhoon’s manipulation, the Sarasota City Commission put $9 million toward the new stadium. “But if the experts who have studied the actual impacts of pro sports on cities around the country are correct, whether the Reds stay or go won’t make any difference to the local economy” (McLaughlin A1). The big question
now is, why does sport not have as much of an impact on local communities as people, like Pat Calhoon, say they do?

The answer to this question is actually quite obvious. John Siegfried and Andrew Zimbalist (361) believe that many consumers have inflexible leisure budgets. This means the more time and money that is spent on a local sports team, the less money goes toward other activities such as golf, bowling, skiing or concerts. This assessment is also supported by Stanford’s Roger Noll, who claims that “the vast majority of those attending games – more than 90 percent – are local residents. They are merely diverting their spending from other leisure activities. Money might shift a bit within a region – from suburbs to city or from outer to inner suburbs. But, as economists have consistently found, the amount of new economic growth is minimal” (Bandow B01). What this suggests, is that if a sport franchise was never brought to a local community, consumers would just end up spending their money on a different leisure activity. A perfect example of this took place, according to Siegfried and Zimbalist (361), when one of their colleagues spent a Sunday in Pittsburgh:

He took in a Pirates game. The net expenditure in Pittsburgh because of his visit to the newly opened PNC stadium was only $25- the cost of a field box ticket. (That is correct: no concession expenditures and he walked from his hotel to the game.) The other money he would have spent in Pittsburgh would have been spent there or without PNC Park and the Pirates. Moreover, if he had not gone to the Pirates-Houston game, he would have done something else in Pittsburgh on Sunday afternoon. To the extent that he would have spent more than $25 on the alternative, PNC Park and the Pirates actually reduced new expenditures in Pittsburgh (Siegfried 361).

As shown above, sometimes people, end up spending less at a sporting event than they would have had they participated in something else. So, in some cases, but not all, sport franchises may actually reduce the amount of revenue that a local community could potentially bring in. Now one may be wondering if these publicly funded sport stadium projects are not financially benefiting the taxpayers, then whom are they benefiting?

As unfair as it is, the profit that is made off of sport in an area goes to people that least deserve it. Top executives, owners, players and coaches of sport franchises are the recipients of the money that is made. “Businessman John Imlay Jr. recently parlayed his $6 million investment in the Atlanta Falcons into $35 million, explaining to The Post’s Thomas Heath: ‘In ten years, I made five times my money and had a heck of a good time. The taxpayers are not so lucky” (Bandow B01). Public finance experts Roger Noll and Andrew Zimbalist have also found in a recent study that “no recent facility appears to have earned anything approaching a reasonable return on investment and no recent facility has been self-financing in terms of its impact on net tax revenues” (Bandow B01). However, Noll and Zimbalist (1997) do believe that although community members do not see financial benefits, the extrinsic values, from sport in their community, they do benefit intrinsically. Dennis Zimmerman feels that:

The public consumption benefits provided by stadiums arise from the satisfaction people get from living in a “big league” town, from having another topic of conversation that is common to most citizens, from reading about its successes and failures in the newspaper, and the like. These benefits have the potential to be large in the aggregate because no citizen can be excluded from their consumption, and one citizen’s consumption does not reduce the consumption available to other citizens (Noll 1997).

Although tax is a major issue when talking about the economic impact of sport on an area, employment is also a topic of great concern that must not be forgotten.

Similar to the misconception that a sport franchise will dramatically increase tax revenue,
the issue of job creation is viewed in the same way. Many people think that the coming of a new sport franchise will produce high quality jobs. Although this is untrue, although tons of jobs are not produced, job creation does still take place. According to Jordan Rappaport and Chad Wilkerson in order to estimate the number of jobs produced from hosting a professional sports team, it is necessary to distinguish between gross and net job creations. Gross jobs are the number of jobs that can be observably connected to the presence of a sports team. Whereas net jobs are the actual number of jobs created because of a sport franchise after subtracting jobs created from jobs lost. Many times jobs are created within the facility. “Gross jobs created at a sports stadium include the players and other team employees; stadium management, management, maintenance, and support staff; and the various vendors selling goods at stadium events” (Rappaport 56). Other types of job creation due to the introduction of a sports team include hotels, nightclubs, restaurants, souvenir shops, personally owned businesses, and parking lots. These jobs are produced because fans, locals and tourists, spend their money at these businesses before and after the game. Many fans, depending on age, might eat at a local restaurant and after the game they might spend some time at a night club. Tourists may do these same types of things, but they are also likely to stay at a hotel. In addition, players and coaches are also likely to spend their money at surrounding restaurants, nightclubs and retail stores. However, the existence of a sports organization within a community also creates job losses (Rappaport 56).

Job losses occur many times because people who invest their money attending sporting events have less to spend at other businesses that are located within the host community. It is the belief of Rappaport and Wilkerson (56) that “less spending results in job losses”. Many times less spending is the result of spending on other things. For example, “if fans spend more time and money at restaurants before the game, the less money they will spend at a movie theater after the game, thus, creating a job loss at the movie theater” (Rappaport 56). “Similarly, the more money that is spent at restaurants in the host city of sporting event, the less money that is spent at restaurants that are located outside the sporting event” (Rappaport 56). The fact of the matter is job creation, because of sport franchises, is much less than officials will announce to the public. In fact, Rappaport and Wilkerson (58) suggest that:

Estimates of total job creation in the stadium impact studies use local multipliers as high as 2.5. In other words, these studies assume that 2.5 total jobs are created for each initial observable job created from hosting a sports team. In contrast, the independent economic studies suggest that the appropriate local multiplier to apply to the gross jobs created from hosting a sports team is probably no more than 1.25 (Siegfried 361).

Something else to consider is that local residents of a sports franchise, that already have high paying jobs, really benefit in no way at all from an increase in jobs. It seems to be apparent that employment opportunities are much less than assumed, and job loss and job gain are about equal, which makes the addition of a sports team to a community economically questionable (Rappaport 58).

The big question is, can a city prosper and benefit from having a sports franchise in its own backyard? Proponents will say yes. When the city of Buffalo comes up in a conversation a few words come to mind: cold, snow, Sabres, Bills and rowdy fans. Buffalo is known for having sport facilities stationed throughout the city including HSBC Arena, Dunn Tire Park, and Ralph Wilson Stadium. With these facilities comes the aspect of entertainment. Sports facilities have so much to offer, everything from a hotdog to a team baseball hat. The fan comes to the game with the single purchase of their ticket. Possible expenditures at the game include: concessions, memorabilia, fund raising events for donations, and the consumption of alcohol, which all contribute to the circulation of money. By the end of the night, the consumer may realize that they have spent more money than intended.

Proponents such as sport franchise owners will point out that the Buffalo Sabres have
contributed to the economic impact within its city. In a typical season, the Buffalo Sabres accumulate $65 million per year towards the local economy. The attendance rate within the past two seasons grew dramatically for each game with an average total of 17,500. Gate receipts alone totaled $31 million per year and concessions accumulated $8.6 million per year. The Sabres also help bring in revenues through the sale of television rights and advertising, totaling about $4 million in direct income per year. The Buffalo Sabres alone provide a total of $43.6 million per year with direct team revenue (Financing Options 2). This total is just for one local Buffalo team. The city also has the Buffalo Bills, and the Buffalo Bisons, and the Buffalo Bandits. These teams accumulate a lot of profitable revenue which helps contribute to Buffalo’s reputation and wealth.

Although the sport activity brings in a lot of revenue there are other opinions as to how the economic impact affects a city with sports. Some say that the Sabres, for example, do not have as big of an effect on the economic aspect of the city. An article in the Buffalo News in March 2003 states that if there were no sport activity in the city of Buffalo, and then people would spend their money elsewhere, profiting a different industry (Robinson B13). “Yes, the direct revenue that a sport team brings in is outrageously high; however, there are other ways of spending and different forms of entertainment” (Robinson B13).

The economic impact of sport is difficult to predict due to its subjective nature. The team’s success and the media coverage help to determine the fan base that the facility will have for that season. Player injury also contributes to the subjectivity and unpredictable aspects of the economic impact.

The studies done that give different opinions still remain on whether a sporting event or facility benefits the host community. Public spending on sport facilities/franchises seem to be wasted when clear evidence shows that these expenditures are usually not an economic benefit to a community nor a wise public investment. Economic impact studies of sport facilities tend to conclude that although the public may be excited at the promise of a sport development in its area, money would be better spend elsewhere. In conclusion, an economic impact study should be commissioned by decision makers to fully comprehend the true costs/benefits of introducing a sport facility/franchise into a designated area.

References

Conway et al.: The Economic Impact of Sport
