Dollars and "Sense" About Local Economic Impact of Major Sports Events

By Carolyn Schuk

Santa Clara residents should hope that next year's College Football Playoff (CFP) championship game, which will be played at Levi's Stadium, is between large schools far away from Santa Clara, says sports economist Dan Funk.

Professor and Washburn Research Fellow at the Temple University School of Sport, Tourism and Hospitality Management, Funk studies the economic impact of sports events.

Funk's analysis of Super Bowl 50 shows the 2016 event generated $240 million in regional economic impact. A study by Arizona State's Carey School of Business reports that the 2016 CFP game in Glendale, AZ generated $273.6 million in regional economic impact.

But where do these numbers come from?

Sports events create three ripples of economic impact, Funk explained, and it's important to differentiate between economic "activity" and economic "impact." 'Impact' is new dollars coming into a local economy, while 'activity' is all the spending around an event.

"Local dollars should never count in economic impact analysis," Funk said. "People are still going to spend money. It's just a change in how they spend it." For example, restaurant advertising related to the event just changes how the advertising money is spent, but it doesn't necessarily create new ad buys from local agencies.

"The important question is," said Funk, "how will this event create new spending for food and beverage, hotels and local attractions? If I fly from Philadelphia, that's all new money. If travelers spend a dollar, that's a new dollar in the economy and that's going to have an impact and ripple effect, like throwing a rock in a pond."

The businesses that support the event are also a source of economic impact, said Funk. "A production company that brings new people into the area, the teams and bands. It all goes toward capturing new dollars from someone who doesn't live there."

The second "ripple" is indirect spending, which is additional expenditures driven by new dollars; for example, restaurants buying additional food locally or hotels paying additional overtime or hiring additional local employees.

The third metric in calculating economic impact is induced spending—changes in household income that can be linked to the new dollars.

For different regions the impact of each dollar in new spending varies—called the 'impact coefficient.' "For example," said Funk, "a new dollar spent in an event in Reno has a higher likely impact on that municipality than one spent at an event in San José."

These impacts can be calculated based on a variety of factors, said Funk. One tool that's used is surveying people on registration lists about spending and overnight stays, explained Funk. "Tracking lodging and restaurant taxes, rental cars, hotel nights—all can be indicators. The economic impact of a stadium is harder than an event to estimate because it's not an isolated point."

One of the controversies in calculating economic impacts is "leakage"—new spending in the region that isn't in the municipality where the event is held, said Funk. "Calculation of impacts is straightforward if you're talking about an isolated economy. But when you have interconnected economies, there's a lot of leakage.

"There are also displacement costs and opportunity costs," he continued. "That has to be factored in. Some of these reports [of economic impact] don't include these because it's hard to calculate."

So why do people keep promoting sports as an economic benefit generator when, in fact, it's difficult to calculate?

It's the psychic dividend, Funk said. "There's something about sports that makes you feel good about yourself and your community. What's the value of feeling better about ourselves? People are likely to volunteer, more likely to get involved in the community, and be healthier. It has social impact."

Funk calls this the "WD-40" effect. "Sports are a social lubricant. You can talk to a stranger about sports. There's an instant sense of community where there wasn't one before.

"There might be a new McDonalds that generates as much money," he added, "but do people rally around a McDonalds or a WalMart?"