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Can Sports Drive Economic Development?

Sports in the United States generate significant revenues. For example, one source estimates the combined value of all franchises in the National Football League (NFL) at \$163 billion in 2023, while also reporting that league revenue was \$11.9 billion in 2022, a new high and a 7% increase from 2021. That followed news that Major League Baseball (MLB) franchises also set a revenue record in 2022, earning \$10.8 billion that year.

The large followings and substantial amounts of money generated by sports—primarily at the professional but also at the collegiate level—have sometimes led federal, state, and local policymakers to consider the potential economic effects that sports can have on a particular region. For example, following the December 2023 announcement that the ownership group of the National Basketball Association’s Washington Wizards and the National Hockey League’s (NHL’s) Washington Capitals had reached a preliminary agreement to relocate both teams’ home venue from downtown Washington, DC, to suburban Alexandria, VA, Governor Glenn Youngkin stated a new arena and the redevelopment of the surrounding area would “generate a combined \$12 billion in economic impact for the Commonwealth and City of Alexandria and create approximately 30,000 jobs over the next several decades.”

Congress and the federal government have expressed interest in the potential connection between sports and economic development. For example, in the 118th Congress, the Senate Committee on Commerce, Science, and Transportation’s Subcommittee on Tourism, Trade, and Export Promotion held an August 2023 hearing on the “economic impacts of the U.S. sports and entertainment economy,” specifically focusing on Las Vegas. One of the four strategies to increase international tourism to the United States identified in the National Travel and Tourism Strategy, published by the Department of Commerce in June 2022, was to “leverage large-scale events, such as the 2026 FIFA World Cup ... and the 2028 Olympics in Los Angeles ... to promote the United States as a travel destination.” The document noted that coordinating international marketing campaigns with professional sports leagues was one tool to try to accomplish that goal.

The federal government also subsidizes the cost of building new stadiums (and of stadium renovations) by allowing tax-exempt municipal bonds to be used to finance those activities. Congress has examined this issue periodically and introduced legislation—including in the 118th Congress—to ensure that interest earned on such bonds is subject to federal taxation. This In Focus summarizes some of the research on the economic impact of sports and presents considerations for Congress.

Assessing the Economic Evidence

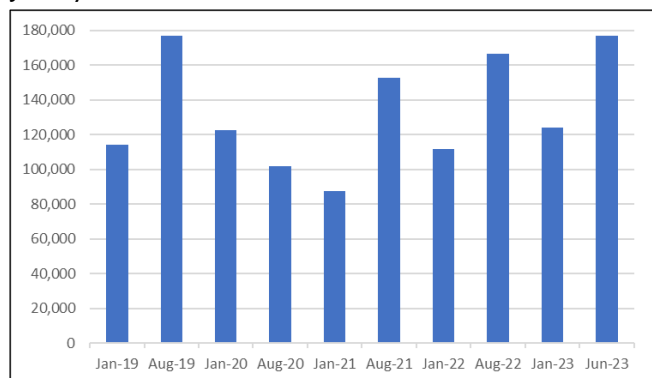
Economists have studied the connection between sports and economic development for decades. Much of this work has examined whether public funding for new or renovated stadiums (either in the form of tax-exempt bonds or funds provided directly for the project) generate worthwhile returns on investment. One influential 1997 study from the Brookings Institution summarized the arguments usually made in favor of providing such financing:

- building or renovating a stadium will create construction jobs;
- increased game attendance will generate new spending in the area, thus boosting local employment and wages;
- tourists (and companies) will be attracted by the new venue, bringing in out-of-town revenue and further adding to the local economy; and
- the additional spending generated by the new or renovated stadium will have a multiplier effect, creating further spending and jobs.

Research has mostly found that public funding for stadiums has minor economic impacts. As the Federal Reserve Bank of St. Louis explained, the arguments described above generally do not materialize in real world examples. For example, any jobs created by a new or renovated stadium usually poach workers from other area businesses and do not result in a net increase in jobs. Further, many stadium jobs are low-paying and part-time. **Figure 1** shows the cyclical nature of some sports-related jobs.

Figure 1. Jobs in U.S. Spectator Sports

Number of jobs typically peaks in August, reaches nadir in January



Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, Employment and Wages Data Viewer, https://data.bls.gov/cew/apps/data_views/data_views.htm#tab=Tables.

Notes: Only includes jobs directly related to spectator sports. Data available only through June 2023.

One consistent research finding is that “new” spending created by a stadium is not necessarily new net spending if the spending would have occurred elsewhere in the area. This finding is likely the case because most attendees at sporting events tend to be local residents, rather than tourists bringing outside dollars and expanding the local economy. Additional research supports the finding that public spending on sports actually has only a small multiplier effect in a prescribed local area. This may be because much of team revenue goes to labor costs, including to players who may not live primarily in the local market, and therefore may not further circulate their earnings in the region.

The opportunity cost of public funding of stadiums or other sports-focused economic development strategies is another consideration. When state or local governments opt to, for example, issue bonds to finance stadium construction, they are also making a choice not to use those funds for other purposes. Those could include building or improving infrastructure, which some research suggests may have greater economic development potential than a stadium.

A Potential Counterexample: Las Vegas

In recent years, Las Vegas has made a concerted effort to become a sports destination. Prior to 2017, the city had no major professional sports franchises. Las Vegas has since attracted an NFL, NHL, and Women’s National Basketball Association team. In November 2023 the ownership group of MLB’s Oakland Athletics announced its intention to move the team to the city in coming years.

While Las Vegas’s attempt to grow its economy with sports is subject to the same considerations noted earlier (construction of the NFL stadium included \$750 million in public funding), the city’s existing status as a travel destination may alleviate some of those concerns. As discussed above, one factor that can hamper the economic development potential of sports is when sports-related spending comes primarily from local residents, who research suggests are diverting money they would have spent locally in any case. This results in a *reallocation* of total spending, but does not increase net new spending or grow a local economy.

Outsiders coming to an area and spending money on activities such as attending sporting events does have the potential to increase net spending. Some evidence suggests this may be occurring in Las Vegas. For example, the Las Vegas Convention and Visitors Authority found that 6% of visitors to Las Vegas attended a sporting event in 2022, up from 2% in 2018. Those visitors spent an average of \$15.81 on sporting events in 2022. While this was far below the average spending on items such as food and drink (\$519.23), it was an increase from \$7.03 in 2019. A May 2023 study from the University of Nevada, Las Vegas found that sporting events generated \$1.85 billion in direct output from out-of-town visitors in FY2022. Of note, Las

Vegas’s nascent sports economy has largely not yet been subject to the same type of long-term analysis as sports-focused economic development strategies in other places.

Considerations for Congress

The federal government is most involved with sports and economic development through tax relief measures, namely the provision that exempts the interest earned from the purchase of municipal bonds—including those used to finance stadium construction or improvements—from federal income tax (26 U.S.C. §103). According to a 2020 study from researchers at the University of Arizona and the Brookings Institution, 43 of 57 stadiums built between 2000 and early 2020 were paid for, at least in part, with tax-exempt municipal bonds. The study found that the federal government’s total revenue loss from allowing tax-exempt bonds to finance the stadiums was \$4.3 billion.

Congress and the federal government have previously considered revoking the tax-exempt status for bonds used to finance stadium construction or improvements. The Obama Administration’s FY2016 budget proposal included a provision to “repeal tax-exempt bond financing of professional sports facilities.” In the 118th Congress, the No Tax Subsidies for Stadiums Act of 2023, introduced in both the House (H.R. 993) and Senate (S. 392), would add bonds used to finance capital expenditures for professional sports stadiums to the list of bonds ineligible for tax-exempt status. Similar legislation was introduced in the 117th (H.R. 6806) and 116th (H.R. 2446 and S. 1242) Congresses. In the 115th Congress, the House-passed version of the legislation that became commonly known as the Tax Cuts and Jobs Act (P.L. 115-97) stipulated that interest on municipal bonds used to finance capital expenditures for professional sports stadiums would not be tax-exempt. The provision was not included in the enacted version of the bill.

As aforementioned, the June 2022 National Travel and Tourism Strategy identified sports as a potential tool to increase foreign tourism to the United States. The document set a goal of increasing annual foreign visitors to the United States to 90 million by 2027 (up from 51 million in 2022). Congress could consider whether to provide support in helping to develop and market sporting events to foreign tourists, as that may be an effective (albeit possibly temporary) way to stimulate economic development. To facilitate this, Congress could, for example, direct federal tourism promotion agencies (including the Department of Commerce’s National Travel and Tourism Office and the public-private entity Brand USA, which promotes foreign travel to the United States) to coordinate efforts with state tourism agencies. Conversely, Congress could determine that the federal government’s role is to promote general tourism to and economic development within the United States, and not become involved with more specific plans or with state entities.

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