

Creating a Framework for a Defensible Assessment of the Economic Impact of a Sports Franchise

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Regional and Economic Planning Services

- Data Dissemination & Analysis
- Economic Impact Studies
- Economic & Workforce Development Strategy
- Talent Assessment
- Urban & Regional Planning

Project Goals

- Determine economic impact of Major League Baseball Franchise
- Study areas
 - City of Cleveland, Ohio
 - Cuyahoga County, Ohio
- Provide a detailed analysis of 2010
- Provide a backcast of prior years' activities

What is an economic impact analysis?

- **Economic impact analysis (EIA)** examines the effect of a policy, program, project, *activity, or event* on the economy of a given area. The area can range from a neighborhood to the entire globe. Economic impact is usually measured in terms of changes in economic growth (output or value added) and associated changes in jobs (employment) and income (wages).
- The analysis typically measures or estimates the level of economic activity occurring at a given time *with the project or policy occurring*, and calculating the difference from what would otherwise be expected *if the project or policy did not occur* (which is referred to as the counterfactual case). This analysis can be done either before or after the fact (ex ante or ex post). The term economic impact can be applied to analysis of the economic contribution of a given activity or industry to the existing local economy.

http://en.wikipedia.org/wiki/Economic_impact_analysis

- This also assumes that the impact is created by new dollars flowing into the study region.

The VERY first step from my grad school days

- A Priori: Operationalize
 - The model
 - The measures
 - The outcomes
- Collect the data and run the model
- Then it becomes a real estate model using cost benefit if
 - Benefits > costs: Do the deal
 - Benefits = costs: Toss up
 - Benefits < costs: Normative economics takes over

What are the primary inputs?

- Data from the organization on revenues and expenses
- Data from fans on spending outside of the venue
- Data on where fans are from:
 - Fans drive part of the team's revenue
 - Those fans (and their spending) from inside the study area are excluded from the analysis due to the **substitution effect**
 - Local fans spending among choices doesn't have an economic impact: It doesn't change the aggregate wealth or spending in a region
 - Fans from outside the region bring in new money, positively affect the multipliers, and increase the region's aggregate wealth

What are the primary measures?

- Most public entities, whether elected officials or professional staff use these measures of economic impact:
 - **Employment** – Full- and part-time jobs that occur due to the economic activity within the study area
 - **Earnings** – Wages earned by paid employees, employer contributions to employee pensions and insurance, contributions for government insurance, and earnings from those self-employed and those in partnerships and sole proprietorships
 - **Public Sector Revenues** – Taxes on wages (where applicable), sales and use taxes, and specific (where applicable) excise taxes on goods and services, such as hotel and motel use, admissions, and parking taxes
 - **Output** – The retail or economic change in the economy due to the activities of the sports franchise that includes spending for goods and services consumed directly by the sports franchise and goods and services necessary for visitors to be in the City of Cleveland and Cuyahoga County

Working with the Client

- The Economic Impact (EI) is driven by two components:
 - Operations
 - Visitor spending
- Both are driven by where the dollars come from—literally

Working with the Client

- It is likely that a VERY strong NDA will be in place (thus the lack of specificity in this PPT)
- You must have a point person (on both sides)
- There will be significant data reduction
- Need full access to trial balances/natural accounts
 - For both revenues and expenses
 - Allowable revenues drive allowable expenditures

A Slight Left Turn

- A similar set of assumptions can be applied to understanding attraction and retention projects and their returns
- Is there a “build” component?
- Is there a staged operations component?
- What is the timing of each?
- How far out are you willing to roll the dice?
 - Decide a priori on your decision rules

Still Turning

- Some of this is philosophy
 - Must meet “but for” at the investor level
 - State
 - Region
 - County
 - City
 - What gets counted?
 - Tax
 - User fees
 - Multipliers

Addressing the Local Issues

- Different geographies will have different types of tax incidence
 - They may also have different rates for the same type of tax
- Custom tables VERY helpful here—ability to estimate taxes that aren't reported by the client

Addressing the Local Issues

- Custom tables drive:
 - Income/wage tax
 - Sales tax (state/county/local)
 - Bed tax
 - Parking tax (a little less reliable)
 - Beverage tax
 - Commercial Activities Tax (CAT)
- Some rates/shares based on 2005 REMI study for ODOD/Ohio Department of Taxation

Finally

- The REMI modeling is the easy part
- Getting the data ready, getting client understanding and clarity to their data is hard
- When you put out the results:
 - The client will always suffer from a “size” issue
 - The pundits (if the study hits the press) will always assume that you are “bought and paid for”
- So in the end, no good deed goes unpunished

Summary

- This model can be (and has been) applied to:
 - Other sports activities and tourism-related activities
 - Higher education (like community colleges)
 - Company attraction and retention activities
- For a sample of how this methodology was applied:
 - http://www.cleveland.com/cuyahoga-county/index.ssf/2014/04/cleveland_indians_offer_their_own_study_to_support_sin_tax_request.html

Questions/Comments?

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