



PERSPECTIVE

Keeping State and Local Revenues in the Game

BY JUSTIN MARLOWE



College sports fans were shocked last month to learn that two decidedly not-Midwestern schools—the University of

Southern California and the University of California-Los Angeles—will soon join the Big Ten Conference. Whether this “surf and turf” arrangement is good for college athletics is a debate for another day. What’s without question, albeit less obvious, is that this move highlights some crucial emerging trends in state and local revenues.

There’s no question that professional sports boost state and local revenues. In 2019, pro sports franchises generated around \$100 billion in total revenues, according to figures from their respective leagues. More than a few of those dollars flow to state and

local coffers. Team merchandise and game-day concessions generate sales taxes. Player and coach salaries boost state and local personal income taxes. Home games generate tax revenues from ticket sales, parking, and lodging.

What’s less clear is how much of that revenue is “net new.” In other words, are all those sales, amusement, and other taxes new to a team’s home city, or do fans who attend a game or tune in on TV simply shift their spending and attention away from movies, concerts, and other entertainment? A growing body of academic research and the recent trend toward private rather than public financing of pro sports stadiums suggest the latter.

Meanwhile, much of the growth in pro sports is abroad. The NBA is actively courting an estimated 300

million pro basketball fans in China. NFL teams now play multiple games each year in London, Mexico City, Tokyo, and other international venues in search of new fans there. This bodes well for those franchises, but perhaps not so much for their hometowns' finances.

But when thousands of fans converge on an otherwise sleepy college town for a gameday Saturday, local finance officials can count on an undeniable revenue boost. About 350 universities play big-time football and basketball, and several hundred more host other athletics of all sorts. Localized figures on college sports' direct fiscal impacts are hard to find, but there's no question that they matter.

That's why USC and UCLA moving to the Big Ten is a proverbial "canary in the coalmine" for state and local finances. According to the National College Athletics Association, inflation-adjusted median revenues at the largest schools increased 43 percent from 2005 to 2019. Much of that growth is from television rights. During that same time, median expenses also increased about 47 percent. All of that suggests that schools are spending more than ever to field quality teams and to hold an audience.

Given those economics, college football as we know it will soon be 40 to 50 schools spread across two or three conferences with exclusive control of the right to host big games for a television audience. Many schools will find themselves on the outside looking in. Alumni and hardcore fans will come along for the ride. But casual fans might see this type of television-driven homogenization as antithetical to the sport's quirky parochial traditions. If they do, they'll tune out. That will shrink an already-stagnant fan base. More revenues will be tied up in television rights that produce little if any state and local revenue. Gameday state and local revenues will shrink.

In fact, the future of state and local revenues from gaming is bright. And that future is video games.

At a macro level we see the same sort of stagnation in other state and local revenues tied directly to gaming. According to the U.S. Census, state lottery proceeds, amusement taxes, and parimutuel (pooled betting, primarily on horse racing) taxes have hovered at around five percent of total state and local general revenues from 2005 to 2019. More generally, spending on gambling and sporting in general as a share of personal income has declined more than 30 percent over the past 40 years, according to data from the Bureau of Economic Analysis. Most states have legalized gambling on college sports to reverse this decline. But in the long run, the gambling revenue potential from college sports' stagnant audience is limited.

The numbers paint a bleak picture. But in fact, the future of state and local revenues from gaming is bright. And that future is video games.

The global video game market eclipsed \$200 billion in 2022, according to data from Fortune Magazine's Business Insights research team. Much of that market is in Asia, but the North America portion is roughly 42 percent, or \$84 billion. More importantly, this market is expected to grow to nearly \$550 billion by 2028. At that rate video game revenue will eclipse U.S. professional sports revenue in the next year or two.

Beyond video games there's the burgeoning eSports industry. An eSports is a video game played as a spectator sport. The NFL's 2021 regular

season games generated roughly nine billion hours of viewership. That same year, according to Activate, Inc., eSports outside of China generated roughly four billion hours of viewership, up from two billion just three years ago. Go to any college campus today and you'll likely find an eSports club that's one of the most popular on campus. At current growth rates, eSports viewership will pass professional sports viewership by the end of the decade and generate more than \$4 billion in annual revenue, according to those same figures from Business Insights.

Video gaming and eSports' state and local fiscal impact is also quickly coming into focus. Video game hardware and, to a lesser degree, software and streaming are subject to state and local sales taxes. As one extreme example, the budget director for a municipality adjacent to a major military installation told me she sees a 20 percent surge in monthly local sales tax collections each July, when young soldiers stationed there run out to buy the new edition of "Call of Duty." In-person eSports tournaments have sold out Madison Square Garden and the Staples Center, generating the same gameday revenues as pro basketball. Professional gamers' winnings are subject to state and local income taxes. Betting on eSports is a billion-dollar industry, and growing, and will likely produce its own steady stream of state and local gambling tax revenue.

So state and local finance officials shouldn't fret. Gaming revenues of a different sort are on the way. ■

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