



NORTH CAROLINA CENTER FOR  
PUBLIC POLICY RESEARCH INC.

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**News Release**

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**CENTER SAYS SPORTS DEVELOPMENT CAN BE A PLUS, BUT BUYER BEWARE**

The North Carolina Center for Public Policy Research says sports development can be a boon for a local community, but the big benefit is often entertainment value -- not earthshaking economic impact. Decision-makers should consider carefully the pros and cons before making a decision to invest public funds, the Center says.

"A sports franchise can be an important addition to a city's entertainment arsenal, but it's important not to overestimate the potential benefits -- and a lot of boosters do exactly that," says Mike McLaughlin, editor of North Carolina Insight, the Center's quarterly magazine.

With Charlotte poised to receive a possible National Football League franchise, and the rising popularity of minor league sports, the Center decided it was a good time to examine the pros and cons of sports as an economic development tool. The Center published its research in an article in the September edition of Insight. The article was co-authored by McLaughlin and Raleigh City Councilman Barlow Herget.

Among the developments the authors discuss are the emergence of Charlotte as a major league market, and the minor league sports franchises, particularly in baseball and hockey, that are popping up across North Carolina. The Center also discusses the potential impact of events ranging from professional golf tournaments and Olympic-qualifying trials to fishing tournaments. Even state government has gotten into the act by establishing a Sports Development Office in the Department of Economic and Community Development in 1990.

Unless there is an existing sports facility, however, some commitment of public funds may be required in order to attract a team. Because franchise operators often seek public participation in stadium financing as a condition for bringing a team to an area, the potential impact of a franchise properly becomes the subject of spirited public debate. In its research, the Center sought to sort through the pluses and minuses that emerge in these debates.

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## Pros & Cons

Among the pluses for sports development are increased business for restaurants, service stations, and others; a higher profile for a community, which may help in recruiting industry, attracting conventions, and nurturing new businesses; a stronger sense of community if a team wins; another alternative for use of leisure time; and the fact that more dollars stay in the community than for some other forms of entertainment, such as movie theaters.

Among the minuses are: the cost of taxpayers' money in stadiums and other infrastructure, which could result in a higher property tax rate; the threat of a team folding or leaving town and leaving the public holding an expensive facility; the opportunity cost of spending public money that could be used for other purposes; the perception that public funds may be spent to enrich a private individual; and the fact that minor league teams may have a minor economic impact because they bring in few dollars from outside the community.

Jim Goodman, president of Capitol Broadcasting Co. in Raleigh and owner of the Durham Bulls, discovered firsthand the good and bad of such intangibles. Goodman and his broadcasting company played a big role in the 1987 Olympic Festival, and the event left him a big believer in sports development.

"Communities really need to take a look at those things that complete the leisure time activities if those communities expect to get the economic development they want," says Goodman. "In the big picture, the art museum, amphitheater, and sports are part of the total quality of life. When we were talking to Sears about coming here, they wanted to know what their employees would do once they got here. That is now a very important part of bringing business to the Triangle. Sports are becoming a bigger and bigger part of everybody's life, and amateur sports in particular."

John Connaughton, an economist at the University of North Carolina at Charlotte, says he sometimes sees projections of economic impacts of \$6 and \$7 for every dollar spent on sports teams and events. These estimates, he says, are vastly inflated. Such studies typically are commissioned by supporters of a franchise or event. They often include rosy assumptions about how much money will be spent on concessions, meals at off-site restaurants, gasoline or other transportation, motel rooms, retail shopping, and so on.

For example, the Asheville Tourists, a minor league baseball team that drew 117,000 fans in 1991, claimed an eye-popping economic impact in excess of \$5.4 million. Here's how the figures added up: The Tourists claimed a player and staff payroll of more than \$500,000, plus another \$122,000 in so-called "outside" spending. Then came the new math. A multiplier of seven was applied to the outside dollars, bringing the total to \$4,354,000. The Tourists then tallied an additional \$295,000 in "local" spending and multiplied that times four to get \$1.18 million. Outside and local spending were combined to arrive at the grand total.

Connaughton says a more realistic rule of thumb is to figure roughly \$2 in economic impact for every \$1 in actual spending. "You've got to be real careful about whether you're recycling dollars that already exist or bringing new dollars in," he says.

### The Special Case of Charlotte

Still, a number of North Carolina towns and cities are turning to professional sports both to boost the local economy and to round out entertainment offerings. Charlotte has emerged as a clear leader in this area, with the National Basketball Association's Charlotte Hornets; a premier NASCAR racetrack, the Charlotte Motor Speedway; a AAA minor league baseball franchise beginning in 1993; and the city's current attempt to land a National Football League franchise.

Max Muhleman of Muhleman Marketing, a Charlotte sports consulting firm, says there is still plenty of potential for more sports development in North Carolina. "In our opinion, the Carolinas -- even with the advent of the Charlotte Hornets NBA team -- remain the most underdeveloped major league sports area in the nation," says Muhleman. "This is due to both the extraordinary population concentration along the I-85 corridor between Greenville [S.C.] and Raleigh and an equally extraordinary history in the Carolinas of sports enthusiasm, participation, and production of professional stars who leave the area but take their passionate Carolinas following with them."

The Hornets led the NBA in attendance in three of their first four seasons of play, lending credence to Muhleman's claim of a sports-starved market. "According to the NBA, we've reached 100 consecutive sellouts faster than any other sports franchise ever -- football, baseball, or basketball," says Spencer Stolpen, president of Shinn Enterprises, which owns the Hornets.

Still, even in Charlotte, sports development has its critics. Charlotte City Council Member Don Reid decries the city's decision to spend \$35 million for site acquisition and preparation for a stadium for a possible NFL franchise without a public vote, noting that the city is having revenue problems.

North Carolina taxpayers also pitch in \$100,000 annually for traffic control for major events at the Charlotte Motor Speedway. Rep. Coy Privette (R-Cabarrus) questions this use of taxpayer funds for a private sporting event that grosses millions of dollars in revenue. "Charlotte Motor Speedway is the only one that gets it," says Privette. "We can't find resources for good causes, but we can find resources to control traffic at a sporting event."

### Minor League Teams

The Center found that a major league team can have a major impact, boosting the local economy and enhancing the city's image. The impact of a minor league franchise on a local economy, on the other hand, is likely to



be minor -- about as important as a typical small business.

Reasons for the relatively low economic impact of minor league teams include: much of the employment created by a franchise is seasonal; workers in concession stands and vendors may be part-time or volunteers; and profits of a team with out-of-town owners likely will be invested elsewhere. Except for the so-called "bonus babies," players often receive minimal salaries and a low per diem when traveling. And few fans are likely to follow a team on a road trip, so the impact on local hotels and restaurants is likely to be small.

Among 10 minor league baseball franchises, the attendance leaders in 1991 were the Charlotte Knights, with 313,791 fans, and the Durham Bulls, with 301,240 fans. The Center cautions that none of the attendance figures provided by the teams are based on actual turnstile counts. The Center sought financial information from North Carolina's 10 minor league baseball teams, but only the Class A Fayetteville Generals chose to reveal net revenue figures.

### Pro Sports Team Casualties

Despite the apparent popularity of professional sports, there also have been a few casualties in recent years. The Raleigh Skyhawks of the World League of American Football went defunct in 1991 after a single season. The former Winston-Salem Thunderbirds have moved their Eastern Hockey League franchise to Charleston, W. Va., and two entries in the fledgling Global Basketball Association -- the Raleigh Bullfrogs and the Greensboro Gators -- have folded. The Charlotte Heat, a professional team tennis franchise, sat out the 1992 season and may or may not return.

### One-Time Sporting Events

Another opportunity for sports development is the one-time event, which can help fill hotels and restaurants and bring dollars into a community. Examples are the national volleyball championships, which attracted 1,500 players to Raleigh for a nine-day tournament and convention, and the United States Canoe/Kayak Olympic Trials, conducted at Raleigh's Lake Wheeler in April 1992.

Paul McGuire, director of the North Carolina Sports Development Office, says that with the Olympics to be held in Atlanta in 1996, there may be more opportunities for communities to attract these kinds of events. McGuire says an even larger plum is the U.S. Open golf tournament, which Pinehurst is hoping to attract in 1997. "It's second only to the Super Bowl," says McGuire. "It's the second best sporting event people could attract."

Events such as these typically use existing facilities, so there is little public debate about financing stadiums or infrastructure.

## Advice to Cities

"The safest bet is to ask the public to vote on whether to issue bonds to finance a stadium or other facility," says the Center's McLaughlin. "That way, if the vote is 'yes,' you have a public mandate to proceed."

The International City Management Association of Washington, D.C., offers further advice for municipalities negotiating minor league baseball contracts. City officials should: attempt to deal with more than one prospective owner and "avoid those who relocate frequently or have little experience in the entertainment industry or otherwise are not known for being successful operators;" reject an owner's demand to finance the facility purely with public funds; plan the stadium with broader community events in mind and have these events clearly spelled out in the contract; and have the lease in hand, preferably a long-term lease, before investing any public funds.

Geraldine Sumter, a Charlotte lawyer and a member of the Charlotte Coliseum, Auditorium, and Convention Center Authority, says she has questions about who benefits from dollars generated through sports ventures, although she does not oppose them if supported by voters. "Other than the 'quality of life,' what does the average taxpayer get from this?" she asks. "Can any person employed in the area expect to be able to send children to college, increase savings for retirement, or even buy a house?" In a nutshell, Sumter asks, "can average citizens expect to improve their individual economic situations because of that activity?"

The N.C. Center for Public Policy Research is an independent, nonpartisan, nonprofit corporation created to study public policy issues facing North Carolina and to evaluate state government programs. The Center receives general operating support from the Z. Smith Reynolds and Mary Reynolds Babcock Foundations, 120 corporate contributors, and about 750 individual and organizational members. In addition to publishing North Carolina Insight magazine, the Center has conducted studies on disparities in funding between rich and poor school districts in North Carolina, ways to increase voter participation, and problem nursing homes. It also publishes a citizen's guide to the legislature and rankings of the most influential lobbyists.

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Copies of the issue of Insight magazine containing the research on professional sports as an economic development tool can be obtained from the Center for \$6.36 plus \$1.50 for postage and handling. To order, call (919) 832-2839, or write the N.C. Center, P.O. Box 430, Raleigh, N.C. 27602.

For more information, call Insight editor Mike McLaughlin at the Center at (919) 832-2839.

## **A Pocket Guide to Pros and Cons of Sports Development**

### **Advantages of Sports as an Economic Development Tool**

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- 1) Increased business for restaurants, hotels, service stations and others.
- 2) Increases an area's profile, which may help recruit industry, attract conventions, or otherwise boost economic development.
- 3) Builds sense of community/regionalism if team wins.
- 4) Another alternative for use of leisure time.
- 5) More dollars stay in the community than for some other forms of entertainment.
- 6) More fun than investing in widget-making factory.

### **Disadvantages of Sports as an Economic Development Tool**

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- 1) Cost of taxpayers' money in stadiums and other infrastructure; could result in higher property tax rate.
- 2) Teams can lose money, fold, or leave town.
- 3) Opportunity cost of other uses of public money for more important needs in the community.
- 4) Public dollars may be used to enrich private individuals.
- 5) Unlike major league teams, minor league teams bring in few dollars from outside the community, thus lessening their economic impact.
- 6) Is sports a public purpose?

**Table 2. Pro Sports Franchises Operating in North Carolina**

| Team or Facility                 | Sport          | Estimated<br>1991 attendance* |
|----------------------------------|----------------|-------------------------------|
| Asheville Tourists               | baseball**     | 117,625                       |
| Burlington Indians               | baseball       | 57,613                        |
| Carolina Mudcats (Zebulon)       | baseball       | 218,054                       |
| Charlotte Heat                   | team tennis    | 20,000                        |
| Charlotte Hornets                | basketball***  | 971,618                       |
| Charlotte Knights                | baseball       | 313,791                       |
| Charlotte Motor Speedway         | auto racing    | 891,200                       |
| Charlotte Rage                   | arena football | 66,000****                    |
| Durham Bulls                     | baseball       | 301,240                       |
| Fayetteville Flyers              | basketball     | 57,600                        |
| Fayetteville Generals            | baseball       | 88,380                        |
| Gastonia Rangers                 | baseball       | 44,060                        |
| Greensboro Hornets               | baseball       | 191,048                       |
| Greensboro Monarchs              | hockey         | 206,893                       |
| Kinston Indians                  | baseball       | 100,857                       |
| N.C. Motor Speedway (Rockingham) | auto racing    | 120,000                       |
| North Wilkesboro Speedway        | auto racing    | 105,000                       |
| Raleigh Bullfrogs                | basketball     | 38,400****                    |
| Raleigh Edge                     | team tennis    | 19,600                        |
| Raleigh Ice Caps                 | hockey         | 155,000                       |
| Winston-Salem Spirits            | baseball       | 111,333                       |

\* 1991-92 for teams with seasons that fall in two calendar years.

\*\* All baseball teams are class A with the exception of the Carolina Mudcats and the Charlotte Knights, which are class AA. The Knights move to AAA in 1993, the highest level of minor league baseball.

\*\*\* The NBA's Charlotte Hornets are the only major league franchise operating in North Carolina.

\*\*\*\* The Rage began inaugural season in 1992. The Bullfrogs are now defunct.

*Source:* N.C. Sports Development Office, N.C. Department of Economic and Community Development, 430 N. Salisbury St., Raleigh, N.C., 27603 (919) 733-4171. NC. Center intern Richard Harrill also conducted research for this table.