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 now 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
State and local revenues will shrink. Any state and local revenue. Gameday television rights that produce little if any revenue, will be tied up in the sport’s quirky parochial traditions. More revenues will be tied up in the sport’s homogenization as antithetical to the sport’s grassroots appeal. Alumni and hardcore 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 revenues and state and local revenues will shrink.

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.

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.

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Justin Marlowe is a research professor at the University of Chicago, Harris School of Public Policy, and a fellow of the National Academy of Public Administration.