

## **Music Festivals at Sunrise Ranch Economic Impact Analysis**

### **Background**

**Music festivals at Sunrise Ranch** have contributed a great deal to Larimer County. Over the years these events have drawn thousands of visitors to Sunrise Ranch in Loveland, Colorado and offers economic, social, and cultural growth for the Northern Front Range.

### **Music Festivals in the Modern Local Economy**

Music and cultural festivals draw large amounts of fans, tourists, and locals to celebrate music, togetherness and common interests. Music festivals serve economic interests both in downtown, metropolitan areas like the Taste of Fort Collins festival, and more rural areas, such as the Telluride Bluegrass Festival. This has led to modern reports showing that the music and arts economy is a significant portion of the modern American economy, driving everything from the tourism economy to job creation in localities that embrace the music industry (Wilson 2015). Music festivals now sit as a cornerstone for the modern music world, with Colorado serving as a platform for many festivals.

More specifically, the music industry has had massive impacts on the modern Colorado economy. A recent study found that the music industry is responsible for \$1.4 billion in annual revenue for the state, with live events like the ones that took place at the Sunrise Ranch (over seven years from 2013-2019) generating an estimated \$489.8 million in economic activity (Seman 2018).

The concentration of consumers for extended periods of time that music and cultural festivals provide allows the opportunity for local economies to receive direct impacts through acute injections of revenue via outside tourism, local spending on lodging and the festival's use of local small businesses to serve festival attendees. Music festivals are a strong investment for local economies considering the low overhead compared to that of permanent music establishments. [1]

The benefit of music festivals can largely be attributed to outside tourism, wherein travelers are coming exclusively for the festival and provide less strain on local infrastructure than local attendees. Research shows that by primarily attracting outsiders, local economies receive a more 'pure' economic boost than when locals attend events; this phenomenon rises largely from the lack of substitution effects on entertainment spending.[2] Substitution effects occur when an event causes local consumers to shift their spending from elsewhere in the local economy to this new event. When substitution happens, an event can claim a net economic benefit, but the actual boon to the local economy is net neutral because there is no new spending. A consumer is simply substituting their spending in one location for another, meaning that any spending will benefit the local economy regardless of the presence of an event.[3] By avoiding this phenomenon, music festivals provide a direct boost to the local economy. Attendees are drawn to music festivals in a dichotomous fashion. Particularly when attendees come from outside of the state, the decision about whether to spend money in a local economy is a simple yes or no (1/0).[4] This is economic growth, not just economic change.

Music festivals can also have indirect impacts through positive externalities tied directly to local cultural identity. Researchers have argued that festivals can create authentic tourist experiences when events create and support a local identity. Authentic tourist experiences spur intra- and interpersonal connections, both of which can cause tourists to identify with the local community. [5] The indirect results of an authentic experience can be continued economic participation beyond the event and an increased likelihood of returning for future events. Moreover, indirect economic externalities from acute events like music festivals show modest but consistent growth to the local economy through job growth and off-season tourism.[6]

To estimate what effect a music festival at the Sunrise Ranch has on their local economies, we can look at other music festivals in Colorado. The Telluride Bluegrass Festival is a strong comparison to music festivals at Sunrise Ranch, for it draws nearly 12,000 people to the Telluride area annually, similar to previous festivals at the Sunrise Ranch.

According to the Telluride Tourism Board, that 12,000 person influx equates to about \$12.6 million in annual revenue. This equates to a \$1,050 economic growth impact per person.[7]

## **FESTIVALS AT SUNRISE RANCH**

Festivals at Sunrise Ranch have drawn over 45,000 people to Northern Colorado since 2013. Not only do these visitors contribute to local economic growth, but these festivals have hired more than 100 small businesses from Larimer County in that same time.

Festivals at Sunrise Ranch are drawing much of its attendance from outside of the county, making most of the economic participation new to the county. Importantly, though, the Festivals at Sunrise Ranch Festival is not adversely contributing to the recent trend of rapid population influx from outside of the State by drawing over 3/4 of its attendance from Colorado. Put simply, Festivals at Sunrise Ranch are for Coloradans from which Larimer County is drawing nearly all of the benefits.

### **Input/Output Economic Analysis of Festivals at Sunrise Ranch**

The economic impact of Festivals at Sunrise Ranch can be measured in direct, indirect, and induced impacts.

#### **Direct Impact**

To measure the direct impact of the Festivals at Sunrise Ranch, we review the money that previous events directly injected into the local economy. By example one previous festivals at Sunrise Ranch spent 33% of their budget on Larimer County small businesses. Internal projections show that injected more than \$2 million into the local economy by hiring local businesses. It is expected this impact will continue with future Festivals at Sunrise Ranch.

## **Indirect Impact**

Given many of the attendees are out-of-area tourists, their impact is increased relative to the overall impact of the economy. Studies have estimated that outdoor camping-based music festivals on a grander scale spend approximately \$35 per person per day. By adjusting for inflation and compensating for the substitution effect, by example the ARISE Music Festival, through 2018, would have indirectly injected \$1,993,778.95 into the Larimer County economy that would not have been present without the event.

## **Induced Impacts**

More theoretical impacts can be estimated through induced impacts. These impacts are tangentially related to the presence of a Music Festival at Sunrise Ranch. The primary induced impact is the contribution to the Music Festival Economy in Colorado. Using a theoretical projection model based on Frey's (1994) Music Festival Demand Model, the music festival economy can benefit from two population assumptions: increased disposable income and increased cultural value of festivals. By unpacking these assumptions, Music Festivals at Sunrise Ranch can have a cyclical induced impact.

Given an increase in disposable income, the following cycle can occur. Larimer County has an average median household income of \$10,000 above the national average. Add that income to the injection of more than \$2,000,000 to Larimer County small businesses, the theoretical cycle of growth can occur.

Because of connections made to the local economy, travel experts suggest that visitors who make those connections are more likely to return to the area over time at about a 1:4 rate. Music Festivals at Sunrise Ranch are fun, well-loved, and create a culture that continues to draw more visitors to Larimer County over time. Given these conditions, the theoretical projection of growth means that 20% of festival goers are likely to return to the area for the festival again.

## **Conclusion**

Music festivals at Sunrise Ranch have a positive impact on the local economy. They have a sizeable direct, indirect, and induced positive economic impact on Larimer County.

Colorado has a strong Music and Cultural Festival economy, with Telluride, Aspen, Buena Vista and Salida serving as the hub for nationally-recognized music and film festivals. There is proof that this economy has generated socio-political power; in 2015, then-Governor John Hickenlooper lobbied for a new festival in Salida based on a proposal by Madison House Presents, LLC. The festival would draw an estimated 35,000 to the area.[12] When signing an executive order, Hickenlooper said of outdoor festivals, that they, "foste[r] a greater connection among people, especially young people..." and that they put, "more meat on the bone of Colorado the Beautiful." [13]

Music festivals at Sunrise Ranch have had a net-positive effect for Larimer County's economy and will continue to have positive direct, indirect, and induced impacts for Larimer County and the whole of Colorado's Music Festival economy.

## **Appendix**

### *Calculations*

The base-year (*b*) for attendance projections was 2014, an average of 2017/2018 for revenue projections, and a cumulative of 2014-2018 for vendor payments. For the attendance and expenditure projections, the following formula was used.

$$\text{Attendance Projection} = b + (\text{average rate of change from 2014-2018} \times \text{years past 2014})$$

To calculate the direct impact, I used internal numbers that previous Music Festivals at Sunrise Ranch spent. 33% of its budget on Larimer County small businesses. With a cumulative budget of \$2,076,030.70 since 2014, I simply divided that total by 5 and then by 3 to get the annual per year direct spending.

To calculate indirect impact, I used similar research on other camping-based music festivals and some internal calculations to make a conservative estimate that the average Sunrise Ranch Festival attendee spends \$15 per day in the local economy. That value over 3 days for the festival times the attendance rate gives a raw estimate for impact. I then compensated for the substitution effect by multiplying that raw estimate by .94 (rate of non-Larimer County attendees) and also accounted for inflation with a Consumer Price Index to June of 2018.

To calculate induced impact, I used a theoretical projection model limited by time and resources. By reviewing Frey's 1994 work on the music festival economy, I generated two conditions under which a festival created a cultural draw for extra tourism: high median income and success of the festival. Given the rapid growth of Festivals at Sunrise Ranch and the relatively high median income of the surrounding area, I concluded that these conditions were met to generate extra tourism. While Frey gave no rates for how this tourism occurred, I used external research that suggested that 20% of the average festival attendees are "hardcore" attendees and would like return. I took 20% of the non-Larimer County attendees, then 20% again the next year to model returners; I then multiplied that times the American Express estimated of \$1,145 for the average summer vacation to calculate an induced impact. While admittedly imperfect, I was severely limited by time and internal attendee polling data. Thus, I used a rough theoretical projection model based on as conservative an estimate I could justify.

- [1] Frey, Bruno S. 1994. "The Economic of Music Festivals." *Journal of Cultural Economics* 18 (1): 29-39. <https://www.jstor.org/stable/41810500>.
- [2] Burgan, Barry and Trevor Mules. 2001. "Reconciling Cost – Benefit and Economic Impact Assessment for Event Tourism." *Tourism Economics*.  
<https://doi.org/10.5367/000000001101297892>.
- [3] Matheson, Victor. 2018. "Is there a Case for Subsidizing Sports Stadiums?" *Journal of Policy Analysis and Management* 38 (1). <https://doi.org/10.1002/pam.22096>.
- [4] Consider the alternative, wherein spending in the local economy is  $1^a$  or  $1^b$ . The funds are simply shifting from A to B and is not economic growth.
- [5] Wang, Ning. 1999. "Rethinking Authenticity in Tourism Experience." *Annals of Tourism Research* 26 (2): 349-370. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.470.7142&rep=rep1&type=pdf>.
- [6] Felsenstein, Daniel and Aliza Fleischer. 2003. "Local Festivals and Tourism Promotion: The Role of Public Assistance and Visitor Expenditure." *Journal of Travel Research*.  
<https://doi.org/10.1177/0047287503041004007>.
- [7] Wold, Stephanie. 2018. "Nothing says summer like Telluride's Bluegrass-fueled 'Running of the Tarps.'" *Colorado Public Radio*. Accessed online. <https://www.cpr.org/news/story/nothing-says-summer-like-telluride-s-bluegrass-fueled-running-of-the-tarps>.
- [8] No Author. 2018. "Partnerships." *Telluride Bluegrass Festival*. Accessed online. <https://www.tellurideblues.com/partnerships>.
- [9] This impact is generous but theoretically and methodologically sound based on the average spending by visitors. This spending is almost always on products eligible for sales tax, including lodging, groceries, and other souvenirs. Citation to Colorado Revised Statutes 39-26-101 through 107.
- [10] This is a conservative estimate because it assumes a stable tax rate over ten years and assumes that the festival will average its 2018 rate over ten years. This value would likely be more because of the growth in festival attendance and a possible increase in sales tax rate.
- [11] This is, again, a conservative estimate because it assumes consistent attendance and out-of-area attendance rate over ten years. This value will likely be higher because of the projected growth of the festival.
- [12] Blevins, Jerry. 2015. "Music Festival planned for Salida: Officials hope to draw 35,000." *The Know: Denver Post*. Accessed online. <https://theknow.denverpost.com/2015/02/27/music-festival-planned-salida-officials-hope-draw-35000-locals-opposed/100913/100913/>.
- [13] Goodland, Marianne. 2018. "Governor Hickenlooper celebrates economic impact of outdoor recreation." *The Colorado Springs Gazette* via *Out There Colorado*. Accessed online. <https://www.outtherecolorado.com/gov-hickenlooper-celebrates-economic-impact-of-outdoor-recreation-in-colorado/>.

Extra Citations: Seman, Michael. 2018. "A Quantitative Analysis of Colorado's Music Economy." *Creative Industries Research and Policy* at University of Colorado - Denver.

Wilson, Mark I. Editor. 2015. "Economic Development Potential of Festivals, Arts, and Culture." *Michigan State University School of Planning, Design, and Construction*.