

The Economic Impact of Major Events

By Ben Loftsgaarden

IMPLICATIONS FOR ELECTED OFFICIALS, ECONOMIC DEVELOPERS, AND POLICY MAKERS

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the economic impact

OF MAJOR EVENTS

By Ben Loftsgaarden

The decision to host a major event (such as a large sporting event, concert or festival) or invest public funds in a major tourist-generating project is nearly always preceded with the development of an economic impact study that demonstrates the return on investment to the community. The rationale is simple, for a community and its elected officials to agree to subsidize the event with public funds, there should be a gain or sizeable return on this investment to the citizens of the community.

The outcomes of the economic impact on the community are also straightforward. Government leaders commit funds to attract and host an event that will attract visitors, companies, and other entities. These groups spend money in the local community, injecting “new” money which flows through different sectors of the economy ultimately increasing residents’ income and creating new jobs. The economic impact attempts to demonstrate that the increase in household income generated is over and above the cost to the community of choosing to support the event and/or project, signaling that the effort should be supported. The relative size of the reported economic impact implies a higher return to the community and tends to be viewed favorably (with good reason) by elected officials in the decision making process.

While the rationale and outcomes are generally understood, the mechanisms for conducting the economic impact study can be far more complex. The methodology and assumptions can vary from one analysis to the next, causing very different outcomes, even when multiple analyses are conducted



Austin, TX won the right to host ESPN's X Games™ from 2014-2017 following a highly competitive Olympic-style bid process against dozens of other cities.

on the same event! A better understanding of the approach taken and the assumptions made in an economic impact study can equip decision makers with the knowledge to make better informed decisions. While not an exact science, economic impact analysis remains an important tool to guide policy makers and an effective exercise for event organizers to undertake.

CONDUCTING AN ECONOMIC IMPACT ANALYSIS – THE BASICS

An economic impact study on tourist generating events tries to capture and quantify the dollars that flow into the local economy from sources outside of the local community due exclusively from the staging of the event. This introduction of new money

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Economic impact analysis remains an important and useful mechanism to evaluate the potential benefit to a community from investing public dollars to host a major event or tourism-based project. This article details important considerations for practitioners and provides economic developers and government officials a clearer view of economic impact studies – what to expect, and perhaps more importantly, what to be wary of and which questions to ask. Aside from the quantitative evaluation that an economic impact provides, this article also underscores the importance of taking a strategic view when weighing whether to support a major event or project by examining the fit with the community's greater economic development needs and vision.



Overview of the process of money flow through the economy and the components measured by an economic impact analysis.

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includes local spending by out of town visitors, outside company expenditures in the local area, and any other entities from outside the community that spend money locally due to the event.

These dollars then flow through the economy in a variety of ways, creating additional impacts on regional output (through business sales), higher wages (increasing personal income), new jobs, and government revenue through tax receipts. An economic impact analysis captures this total effect through the use of multipliers – this is based on the concept that one dollar spent by an outside visitor “multiplies” itself in successive rounds of spending within the community. For example, a portion of money spent at a local restaurant flows to other businesses (such as vendors that supply the restaurant), to employees as wages and to government jurisdictions in the form of tax payments. A portion of this money also flows out of the local economy, see note below on “Leakages.” The effect on the economy by the initial visitor expenditure is termed the **Direct Impact**.

The money spent at other local businesses then follows the same pattern and progresses throughout the local economy – these additional rounds are termed the **Indirect Impact**. Finally, local employees experience increases in earnings due to the initial visitor spending and, in turn, spend some of these wages on local goods and services. This is termed the **Induced Impact**.

The total economic impact is then derived from the sum of the direct, indirect and induced impacts.

The resulting outcome which incorporates the multiplier effect described above is typically determined through the use of an input-output modeling software system such as IMPLAN© (or other equivalent modeling systems). The results are commonly expressed in three different economic impacts: output (sales), personal income, and employment. Economic impact based on employment multipliers measures the effect of outside spending in the local economy on the creation of jobs, expressed as full time equivalent jobs (FTEs).

The output and personal income impact results are expressed in monetary terms (typically a dollar amount) and each represents the direct, indirect, and induced impact of new money spent by an outside source. However, each differs in explaining where the economic impact is felt in the community.

Economic impact based on output multipliers determines overall economic activity in the local community, measured by increased sales between local businesses. In contrast, economic impact derived through income multipliers measures the impact of visitor spending on the level of personal income in the local community – i.e. how dollars trickle through the economy and create increased income for local residents. Understanding the difference between these two outcomes is important for policy makers. This is discussed in more detail below.

IMPLICATIONS FOR POLICY MAKERS

Economic impact analysis remains one of the primary methods for determining the relative benefit to a community from hosting a major event or committing public funds toward tourism focused projects. If done correctly, it can provide leaders with the data to make a sound decision to support an event that will provide great benefits to the community.

While the following may read like a list of don'ts, it is rather meant to provide useful information so that decisions are made with “eyes wide open.” Economic impact studies of tourism based major events and projects have become ubiquitous – it has now become rare for any major event to not be accompanied by one or more economic impact analyses. Unfortunately, some of the misapplications elucidated here are equally common in these studies.

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The construction of Circuit of The Americas campus on a 1,500-acre site in southeast Austin, with direct spending over \$400 million and supporting an average of 7,000 jobs during construction. The complex was constructed between 2011-2012 to be in operation in time for the inaugural Formula One U.S. Grand Prix that occurred in November 2012.

It is not the case that a study that may contain one or more of these flaws be discredited completely. In fact, it is more likely that assumptions made in one study (although erroneous) match assumptions made in other similar studies. If the assumptions are transparent and well explained by the analyst, there is still value to the study if used as a comparative tool.

The following are five major areas that are most prone to error or misinterpretation in economic impact studies. These should be understood and held to greater scrutiny by those that commission a study.

Distinguishing between Local Residents and Non Local Visitors – The economic impact of a tourism based event is generated by new money spent in the local community derived from sources that do not reside in the community. Local resident spending associated with the event should not be included in the economic impact analysis. This spending, while it certainly may occur in conjunction with the event, does not represent new money but rather a transfer or circulation between different sectors of the economy.

Certain sectors may benefit and experience increased income from the spending of locals, but those increases are offset by decreases in personal income from those who make the local expenditures. Money is just changing hands from one local individual to another and the overall economic impact on the community remains unchanged. For tourism-based events, the lion's share of the economic impact is driven by attendee spending, so the more individuals who can be included the higher the impact results. Including local residents boosts the number of individuals in the model and can have a large effect on the resulting economic impact, especially when multipliers are applied to this spending.

While it is generally accepted not to include local spending in an economic impact, it is not possible to make this practice an absolute. In certain cases, such as major signature events like the Super Bowl or the Olympic Games, there may be some locals who attend the event and related attractions in lieu of otherwise leaving the area. Others may cancel a planned vacation to another location, deciding to stay at home and attend the event. These locals are spending money locally that would have otherwise been spent elsewhere. In effect, this represents

new money to the community and should be included in the economic impact study.

It should be cautioned, however, that it is often difficult to obtain accurate data on these individuals. Even when identified, it is important that this group be separated in the analysis so that particular spending categories are not applied at the same level as non residents – e.g. local attendees will likely not spend on hotels and should have lower per diem spending on food, transportation, and entertainment.

Defining the Geographic Area – In determining who is a local resident versus a non local visitor, it is important to clearly define the geographic area of study. It may seem simple, but once the geographic area is defined, the impact analysis model and identification of visitors must follow the same definition.

For example, if the geography defined for the economic impact is the metropolitan region, then only visitors who live outside the region should be counted as non local. One error that can occur is for visitors to be surveyed and asked if they live outside the city in which the event is taking place and then be counted as being from out of town, i.e. non local. However, these individuals may indeed reside out of the city but still live within the metropolitan region. Others may simply not know the geographic boundary lines of cities/regions and not answer correctly.

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In general, care should be taken in evaluating and drawing comparisons between economic impact studies. An “apples to apples” comparison of economic impact results is precarious. One study may adhere to accepted academic practices and another may include common errors such as those described in this article.

If geographic lines are unclear or data collection is not precise, then there is an increased risk that some are wrongly treated as non local which artificially inflates the economic impact results.

It is often desirable and perfectly acceptable to conduct the economic impact on a larger geographic area such as the regional level, especially when the event or project is supported by or positioned as regional in scope. Defining the impact over a larger area will provide a larger multiplier effect in the economic impact and will minimize the negative effect of leakages. Leakages are dollars spent in the community but are not fully retained due to spending that flows to businesses located out of the area.

However, whatever the geographic definition, it is critical that visitors be defined based on the same geographic definition.

Use of multipliers and understanding what is reported in an economic impact study – Recall that economic impact can be expressed in terms of output, personal income, and employment. It is common for economic impact results to be reported based on total output. Due to greater linkages in the overall economy, output-based economic impacts are much larger than income based measures (by a factor 2-5x), resulting in a much larger headline economic impact number. Because results are actively promoted and shared with the media, preference is typically given to the bigger number. For that reason, economic impacts are typically reported based on total output and not personal income.

However, some argue that reporting the economic impact of total output through the use of output (using sales multipliers) is inappropriate because it does not provide information that is valuable to the public. As mentioned, the economic impact based on total output measures total economic activity (business transactions) in the community. While there may be value in this for economic developers and others who want to better understand supply chain activities, the argument holds that this does not necessarily provide useful information on how local residents actually benefit.

Rather, the use of income multipliers to determine the economic impact on residents’ personal income provides a more accurate reflection of the true impact on the local community. Income based economic impact translates the effect of outside spending to increases in personal

wealth, thus drawing a direct link between the use of public funds (which derive from residents’ and businesses’ tax payments) and the return on investment for this expenditure (resident receipts in the form of higher income).

That said, due to the prolific use of sales multipliers in most economic impact studies, it is understandable to report economic impact based on total output in order to compare related events. While not as descriptive as an economic impact based on income, it would also be misleading to present an economic impact of an event that is 5x lower than other (nearly identical) events because a completely different analysis was reported. Even though the difference could be explained, in practice the media and public gravitate to the headline impact number that is reported and do not look at the underlying assumptions that are used.

In general, care should be taken in evaluating and drawing comparisons between economic impact studies. An “apples to apples” comparison of economic impact results is precarious. One study may adhere to accepted academic practices and another may include common errors such as those described in this article. In other cases, analysts might make very different, but well defended assumptions that will cause two studies to differ wildly. For public policy makers who wish to conduct a more robust comparison of options involving the investment of public funds, a cost benefit analysis is likely a more rigorous approach to evaluate possible investment scenarios.

Including ancillary projected impacts in the main economic impact study – In some cases, a community may encourage the support of a major event (and/or resulting capital project such as the construction of a new venue) as a catalyst for new development or redevelopment. For example, public funds used to subsidize a new stadium that is built in a blighted or otherwise underutilized area with the hope that it will prime the pump for new development to take place. In essence, supporting the event is viewed strategically as a way to encourage additional local economic development.



More than simply a music and film festival, SXSW Interactive® has welcomed some of the world’s most interesting thought leaders, helping to showcase Austin to decision makers in many of the region’s targeted industries.

While the predictions for future development may actually come to fruition, any forecasted impacts from the potential proximate redeveloped area should not necessarily be included in the economic impact study of the main tourist-attracting project. Unless clearly (and contractually) specified to be part of the development of the main project being studied, proclamations regarding future ancillary corridor development should not be treated as guaranteed.

Redevelopment and revitalization are highly speculative and governed by many factors including market demand, consumer sentiments, city policies, and the popularity (or lack thereof) of the main tourist-attracting project that is being proposed. These factors are difficult, if not impossible, to predict. Clearly, there would be at minimum a large degree of uncertainty regarding the timing or even the occurrence of any future redevelopment. Thus, the “potential” for future development should not be included in the economic impact analysis of the project in question.

That said, by no means does this argument imply that government leaders, stakeholders, and the community at large be precluded from considering the potential for future ancillary projects from a qualitative and strategic perspective. City leaders and experts in planning, economic development, and real estate may have strong convictions (supported by solid due diligence) that the probability of revitalization efforts will both occur and be successful if anchored by a large tourist-attracting project. In addition, the redevelopment of the corridor may be of specific interest and strongly supported by the citizenry. Finally, the community may already have or be prepared to undergo strategic planning and commit to funding additional investment to improve the likelihood for long-term corridor development. These are all important factors for consideration of whether or not to proceed with the project, arguably more central than relying on an overly large economic impact that erroneously included speculative future development.

Accurate reporting of visitation numbers – As mentioned, the large share of the economic impact for tourist-related events is driven by attendance and visitation numbers. Because of the outsized influence, it is often tempting to inflate the number of visitors that are actually directly attributable to the event.

Studies can mistakenly include local residents in visitor counts because robust procedures to accurately identify locals versus non locals are not put in place. Accurate estimates with well supported assumptions are critical to the validity of economic impact results for major projects. The methods of estimating visitor counts should be clearly documented and supported – primary data collection from actual attendees is preferred. Heavy reliance on secondary data such as assumptions based on attendance at similar events in other areas should be omitted in lieu of primary data collected through surveys of actual visitors, ticket sales, and gate counts at the event. Many events are embedding RFID technology in event credentials such as hard tickets, badges, and wristbands in order to more



Circuit of the Americas remains home to the only Formula One Grand Prix held on U.S. soil, attracting large numbers of national and international tourists, and generating a sizeable economic impact to the State of Texas.



precisely determine visitation and not double count attendees.

Many events do attract out of area visitors or travel companions who may not attend the official event. These visitors may come for secondary attractions associated with the main event or, in the case of sporting events, camaraderie with fellow fans. Statistically valid surveying during the event is a preferred method of data collection to quantify the number of non local visitors that may not attend the event. Relying solely on estimations of total crowd size based on crowd photography or traffic counts can be misleading and lead to error. By surveying actual event attendees and non event attendees drawn to the area for related festivities, geographic identity can be more accurately determined. This leads to better assumptions regarding the number of non-event visitors and, more importantly, whether these are local or from out of town.

It is important to note that the group of non official attendees falls into a much more difficult category to account for with absolute certainty. A conservative approach can be achieved by developing assumptions that represent low, medium, and high case scenarios. Then, a scenario analysis can be constructed to create multiple economic impacts based on a low, medium, and high case. This would be an appropriate approach to handle visitor data that is not necessarily collected with a high level of confidence.

Sometimes common sense should be used in evaluating visitation numbers that are presented in an economic impact study. For example, if the number of reported out of town visitors – including a factor that accounts for multiple visitors per room – far outweighs the local lodging accommodation capacity (i.e. total hotel/motel rooms in the area), then the assumption made regarding

the number of visitors is likely skewed too high. There may be exceptions to this that require more scrutiny, including the growth in the sharing economy (AirBnB®, HomeAway®, etc.) to provide additional room capacity. However, this should be able to be documented and evaluated based on survey responses that indicate the visitor's lodging choices.

EXPAND TO FACTORS BEYOND THE ECONOMIC IMPACT STUDY

The deliberation and pursuit of hosting a major event, which invariably requires a substantial investment of public sector money, includes a large emphasis placed on the results of an economic impact study. Given the inexact science of impact analyses and difficulty to achieve consistent results across multiple studies, perhaps it should be treated as just one of many factors in such a complex decision.

Often, too little emphasis is paid to the strategic and qualitative dynamics associated with a large tourism generating event that may provide unique benefits to a particular community. Does the event or project fit the community's economic development vision and help it better reach long term goals? Rather than treating the event as a onetime boost to the economy, taking a longer view may reveal that it aligns with other strategic initiatives and can help the community reach its goals more quickly. Perhaps a signature event will allow the community to reshape or strengthen its brand or boost awareness to national and global audiences that would be difficult to do on its own.

Has a strategy been developed to reap all the rewards possible from hosting the event? More effort should be placed on developing a plan not to just benefit economically at the time of the event, but also to leverage it for growth in other strategically important sectors in the economy. These factors cannot be modeled in an economic impact study, but arguably will have a much greater long run impact on the local economy.

An illustrative example of an event that provides benefits beyond its economic impact is found in South by Southwest® (SXSW®) hosted annually in Austin, TX.

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Case Study:

SXSW® attracts the world's leading creative professionals to Austin for an unparalleled event that includes a conference, trade shows, and festivals. The most recent event was held in March 2017 and included 13 days of industry conferences, a four-day trade show, eight exhibitions, a six-night music festival featuring more than 2,200 bands, and a nine-day film festival with more than 460 screenings.

For the past 30 years, SXSW® has successfully helped creative people achieve their goals while catapulting Austin onto the world stage by transforming the city into a global destination for creative professionals. The breadth of the festival – attracting technologists, financiers, musicians, filmmakers, and more – holds strong connections to both the desired economic development vision and the brand of the Austin region.

The SXSW Interactive® component of the event is, in effect, a technology-focused business conference that attracts professionals from throughout the country and the world. Interactive® includes a strong corporate presence, with many leading companies in technology fields taking part in event sponsorships, exhibits, and learning panels. The conference has quickly become a must attend for professionals in a broad range of industries – from social media, gaming, artificial intelligence to medical/health technologies and consumer products.



Each March for more than three decades, SXSW® transforms Austin into a global mecca for creative professionals and supports the city's reputation as a thriving, innovative metropolis.

Each March, SXSW® showcases Austin to executives and creative professionals in these industries. Regional economic developers and other professionals concerned with economic growth can access these leaders without having to leave home. In fact, local leaders in economic development and higher education have embraced the opportunity and host full-day panels as part of the SXSW® conference programming.

Due to the sheer size and length of the festival, SXSW® does create a substantial economic impact on the Austin economy each year. But, one could argue that the impact has been far greater than the monetary stimulus that the event brings directly. As SXSW® has continued to grow year over year, so too has Austin's burgeoning technology cluster. The region has attracted many of the most influential technology companies in the world, most of which have had an active presence at SXSW® before and after they located in Austin. While difficult to prove an absolute cause and effect relationship, it is clear that SXSW® has been extremely influential in Austin's ability to establish itself as a technology hub.

The inevitability and scale of these positive outcomes was certainly not assured. SXSW® launched 30 years ago as what could be termed a fringe music festival that attracted 700 (mostly local) attendees. Few could predict that from those humble beginnings, the festival would expand and bring together creative disciplines across a multitude of industries attracting hundreds of thousands to Austin each year.

Despite a negligible economic impact in those early years, city leaders and the community at large supported the festival. If the result of an economic impact study

was the deciding factor, support would likely have not materialized. But, they understood that the event captured something more powerful – the spirit and essence of Austin. And they were right.

CONCLUSION





It is not appropriate to narrowly define the returns to the community of hosting such an event by simply measuring the return to taxpayers in the form of new taxes generated. This does not accurately convey the full impact on the economy and does not quantify the return on investment that residents will receive in the form of higher personal incomes. The appropriate application of an economic impact study is the only way to capture these effects.

For that reason, conducting an economic impact analysis will and should continue to be an important tool for decision makers to use to evaluate a major tourism generating event or project. This article attempts to provide information for those who commission these studies to better understand the results and assumptions used in the analysis and to ask tough questions.

It is equally vital that leaders view the economic significance of the event through a strategic and qualitative lens that considers its alignment and significance with the unique economic development goals that the community is trying to achieve. Taking this approach will encourage the community to create a proactive strategy that allows it to reap long-term rewards in the economy that far outweigh the stimulus provided by just the event itself. ☺

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