



## APPENDIX II

### GUIDELINES FOR COMPLETING ECONOMIC EVALUATIONS

#### ECONOMIC BENEFITS

##### I. Introduction

Economic benefits are the measurement, in economic terms, of well-being resulting from an activity. Economic benefits are usually estimated using a cost-benefit analysis, which compares the costs of the activity directly to the benefits produced by it. Non-quantifiable benefits are also considered when the measurable benefits (e.g. direct revenues) are not sufficient, by themselves, to justify the costs of the event. The non-quantifiable benefits may be enough, in the subjective judgement of decision-makers, to tip the balance in favour of bearing the costs.

The federal government requires a cost-benefit analysis to judge whether the financial support requested is justified in terms of the benefits which will accrue to Canada as a result.

##### II. Overview of Cost-Benefit Analysis

A cost-benefit analysis examines all the costs which must be borne to host an event. This means those costs specified in the detailed budget outlining anticipated expenditures, as called for by the Policy, and the hidden or indirect costs (e.g. infrastructure that must be built by the local community).

It also examines all the benefits, quantifiable or not, derived from the event. This includes the direct benefits that will accrue to organizers (e.g., revenues from admission, television rights, corporate sponsorships, concession fees, licencing fees, etc., details of which are also required by the Policy), as well as the sport development, social and cultural benefits.

The cost-benefit analysis ends with a comparison of the cost to the benefits, which enables decision-makers to determine an appropriate level of subsidy.

##### III. Major Steps in a Cost-Benefit Analysis

- a) **Identify and measure all the costs which must be undertaken to host the event**

This step ensures that all costs are considered. Any costs that are going to be written off against the projected revenues should be included, as well as any indirect costs borne by third parties (e.g. municipalities) which constitute hidden subsidies. Costs to be considered can include:

  - 1) development, presentation and promotion of the proposal
  - 2) planning the event

- 3) operation of the event
- 4) investment in direct infrastructure (e.g., facilities for the games) and indirect infrastructure (e.g., roadways, increased sewage facilities). Costs for related private investments (e.g. hotels) should not be included, since those costs are not being written off against projected event revenues, but rather will be written off against revenues of their own.
- 5) post-event cost (e.g., to readapt facilities, to dismantle facilities)

Costs may be reduced by the net value of capital assets which will remain in use after the event. This residual value should not simply be the nominal or book value used for accounting purposes, but should reflect the true utility or market value of the assets.

b) **Identify the sources and amounts of funding**

This step determines how the benefits should be attributed to the various sources of funding, or contributors. The basic categories of funders include private investors, corporate sponsors and different levels of government, including those which provide infrastructure development or “in-kind” contributions.

c) **Identify, document, and measure (to the extent possible) the benefits**

This step ensures that all relevant benefits are taken into account.

1) **Direct Benefits**

The first benefit to be taken into account is direct revenue from admissions, television rights, corporate sponsorships, concession fees, licencing logos and use of names, etc. This revenue will help defray costs and will reduce the need for subsidies from government. A comparison of direct revenue and costs will show clearly the shortfall that must be offset with subsidies and other benefits.

Direct revenue from admissions is estimated from visitor projections (see Overview of Economic Impact Assessment, Step Three). Other direct revenues will be estimated based on expectations from negotiations between the bid group and the various sources of revenue (e.g., television networks, corporate sponsors, private entrepreneurs).

2) **Sport, Social and Cultural Benefits**

Sport, social and cultural benefits are described in the Assessment Guide, which requires bid groups to describe the activities that will produce such benefits. This cost-benefit analysis further requires that the bid group demonstrate the effect of their activities and the amount of benefit arising from them.

For easier comparison to costs, these benefits should be measured, where possible, in dollar terms. Where this is not possible, measures such as the target population, the number of recipients, or the duration of the benefit can be used to give some idea of the extent of the benefit.

### *Identifying Net Benefits from Tourism and Taxes*

Increased economic activity stimulated by the games generates net increases in tourism spending that would not otherwise have occurred and, thus, net increases in taxes. This net increase in taxes may be claimed as a benefit to the federal government, if the distinction is made between the spending (and resultant taxes) made by local residents in the normal course of events and new spending by visitors who would have spent their money outside Canada, if not for the event. (See Economic Impact, Steps Three and Five).

### *Warning: Economic Impacts are Not Benefits*

Increased jobs and economic activity resulting from spending done to host an event constitute an economic impact but, for purposes of the cost-benefit analysis, are not considered a benefit. This type of economic impact may benefit the local community or region which, without the event, would not have had such a level of jobs or economic activity but with respect to the whole Canadian economy, it is only a redistribution of spending from some other part of Canada. An equivalent expenditure anywhere in the economy would also have had the effect of increasing jobs and economic activity (see Economic Impact Assessment, Introduction). However, benefits associated with the increase in economic activity or jobs, such as the reduction of regional disparity. Or the creation of opportunities to gain experience for the unemployed in a region of chronic unemployment, can be cited in the cost-benefit analysis (see Economic Impact Assessment, Step Five).

### *Attributing Tax Increases to Subsidy Givers*

When estimating the net amount of taxes to be gained because of net new spending, it is important to recognize that not all increases to federal taxes are attributable to federal government spending. Private investment and subsidies by other levels of government are also responsible for increases spending which helps fill federal coffers. It is important to attribute to the federal subsidy only those tax revenues that it genuinely generated.

d)

### **Compare the costs and benefits**

This step summarizes the costs and benefits described above so that the benefits can be easily compared to the costs being borne by each contributor, and so that the federal government can know what benefits Canadians are receiving in return for its subsidy.

The benefits of an event will be produced by combined efforts of many contributors. It is important to attribute the amount of benefit to the contributors in proportion to their level of contribution to the total cost.

## **ECONOMIC IMPACT**

### **I. Introduction**

Economic impact is the increase in economic activity which is generated by the spending to host the event and by visitor spending related to the event. Impact takes the form of increased sales, employment, income and company revenue for third parties (e.g., local residents). The extent of the impact depends on how many times the initial spending is re-spent in the economy before it leaks away. Economic impact is usually estimated using an economic impact assessment.

The Hosting Policy requires an economic impact assessment to ensure that benefits associated with the impact are recognized and properly integrated into the cost-benefit analysis. In addition, the assessment will help the federal government to ensure that the local community receives the maximum benefit from the impact.

### **II Economic Impact Versus Economic Benefit**

While economic benefits are always good, economic impacts can be good or bad depending on one's perspective. The creation of jobs may be regarded as good by residents in an area of high unemployment because they bring needed income, but bad by residents in an area of full employment because they bring inflation. An influx of new jobs, along with the tourists that create them, may destroy traditional lifestyles, and leave residents far worse off than before.

Economic benefits are a net addition to well-being. Economic impacts mainly redistribute well-being. Spending by the federal government in one area to create jobs requires a reduction of spending in some other area, which reduces jobs. There is no net benefit to Canada as a whole, unless the jobs created in one area can be shown to be more valuable than the jobs lost in the other area.

For these reasons, impacts to be evaluated carefully to determine if and to what extent they represent benefits.

### **III. Overview of Economic Impact Assessment**

Economic impact assessment starts with an inventory of all the expenditures related to an event. Often included at this stage is a visitor forecast to allow estimates to be made of spending by visitors. Coefficients (often called multipliers) are then applied to the expenditures to calculate the total amount of re-spending, jobs, gross domestic product, and direct and indirect taxes produced by the initial expenditures.

Finally, the impact is re-evaluated to determine the extent to which they are beneficial or harmful, and to suggest ways to maximize the benefits and mitigate the harm.

### **IV. Major Steps in an Economic Impact Assessment**

- a. **Choose the study area or areas**  
This step establishes the geographical area for which the impact is to be estimated.

The choice of a study area is determined by the benefits to be demonstrated and the interests of the audience to be convinced. If the objective is to convince the federal government that regional economic disparity will be lessened, the study area should include the whole region or province in question.

In general, the federal government is interested in the impacts in regions and in provinces, since it generally has both regional and provincial priorities for such things as job creation, regional economic development, increased tourism or promotion of small- and medium-sized business. In addition, it is interested in overall benefit for Canada.

The choice of study area is based on a judgement about that will produce the most convincing and appropriate estimates, given federal government objectives. For major events, where many overlapping objectives are involved, it may be necessary to identify multiple study areas: the region, the province, and the whole of Canada.

*Note:* Any goods and services that cannot be supplied in the immediate area of the event will have to be purchased from farther afield, perhaps even outside Canada. If the study area for which impacts are to be estimated is the immediate area around the event venue, those expenditures that are made outside it cannot be considered by the study. Money spent outside the study area (called leakage), is no longer available for re-spending and subsequent rounds of impact within the study area.

For a given event venue, the larger the study area, the greater the impact, since an expenditure that is a leakage in a small area will remain to be counted as an impact in a broader area. The choice of study area is therefore important.

**b) Identify the expenditures (direct impact) to be analyzed**

This step ensures that all relevant expenditures are considered. An important part of the expenditures to be included is, of course, already identified in the detailed budget to be provided by the bid group.

Other expenditures should also include:

- 0) associated spending by government authorities for the development of infrastructure or activities which would not have taken place otherwise;
- 0) spending by visitors who will be attracted by the event and spend money on transportation, accommodation, food, etc.; and
- 0) private investment (e.g., in tourism infrastructure) directly occasioned by the hosting of the event.

Expenditures should be examined to determine if they can be made in the study area, or whether they represent immediate leakages. This is particularly important in the case of direct expenditures for hosting the

games, since specialized goods and services needed for the event often cannot be obtained or obtained at competitive prices, in the study area. The policy (or lack of policy) of buying locally should be examined to help determine the likelihood of an expenditure being made within the study area.

Tourism expenditures for admission tickets, and to purchase goods and services licensed by the bid group (e.g., souvenirs) should be excluded, since these are used to offset the cost of hosting the games. Including these expenditures as an impact is double counting.

c) **Forecast visitor volumes and expenditures**

This step ensures that the spending by visitors is correctly included in the impact estimations.

A variety of non-controversial forecast techniques exists. The availability of data and finances will determine the most cost-effective means to use. To forecast the benefits arising from the visitor spending impact, it is important to differentiate between visitors from outside the study area who would not have come to the area without the event, and local or regional residents. Outside visitors bring new money into it because of the event. Local or regional residents would have spent their money in the study area anyway, so the event is a substitute for other spending and does not create new benefits.

The same distinction should be made if tax revenues arising from visitor spending are to be claimed as a benefit. Increase federal tax payments from Canadian or foreign visitors from outside the study area, who would have come to the study area anyway, are merely redistributions, and not net increases attributable to the event. Only those taxes generated from spending by visitors who would not have spent in the study area otherwise can be counted as a benefit.

To differentiate between visitors who would have spent their money in the study area anyway and those who represent a net increase, extra information must be obtained from tourists on their motivation, or estimates that are based on other studies which contain such information must be used. If any visitor spending or taxes are going to be claimed as benefits, redistribution should be differentiated from net gain.

**d) Develop multipliers and calculate the impacts**

This step estimates the total economic impact generated by the direct spending to host the games and by visitors, and the subsequent rounds of re-spending.

There are three kinds of impact identified by economists: direct, indirect and induced.

- 1) Direct impact is the increased economic activity which comes to businesses in the study area that are called on by the event organizers to supply goods and services for the event, and to individuals who are hired specifically to work on hosting the event.
- 2) Indirect impact is the economic activity which comes to businesses that supply intermediate products to those supplying intermediate products to those supplying goods and services directly to the event.
- 3) Induced impact is the increased economic activity generated by employees who spend income gained from the firms that create direct and indirect impact.

Multipliers can be obtained in three ways:

- 1) They can be obtained inexpensively from Statistics Canada which uses its provincial input/output model to determine the multiplier for any expenditure type described in terms of Canada's standard industrial category codes. However, Statistics Canada multipliers are only of the indirect type. Induced impact multipliers should, therefore, be calculated, although this is optional.
- 2) Multipliers can be developed directly from business and household surveys which determine how businesses and households re-spend any revenue they receive. This is an expensive and time-consuming way to obtain multipliers, but they are completely representative of the study area, and can be both of the indirect or induced type.
- 3) Multipliers can also be "borrowed" from other studies, provided conditions in the other study areas resemble those in your study area. Unfortunately, because of the expense of developing them, many other studies, and so their multipliers, are treated as private property. The easiest way to borrow may be to hire one of the many consultants who have an impact estimation model of their own, which can be adapted to your situation.

Multipliers should be used to calculate the amount of income (GDP) which will be sustained in the economy by the original spending, the number of jobs created, and amount of direct and indirect taxes which will accrue to the federal government because of the original spending.

e) **Evaluate the impacts to determine benefits**

This step ensures that any benefits produced by impacts are included in the cost-benefit analysis.

The spending to create income and jobs has already been included in the cost-benefit analysis as a cost. To include it as a benefit would, therefore, be double counting.

To be able to claim an impact produces a benefit, it is necessary to show how it will contribute to such government priorities as job creation in disadvantaged areas, regional economic development which contributes to mitigating regional disparities, increased tourism in the overall economy, or promotion of small-and medium-sized business.

1. **Job Creation**

A job resulting from an impact is not a benefit in itself. Since a job created by spending a tax dollar in one study area is a job lost elsewhere, because taxpayers have less discretionary income to spend. To claim job creation as a benefit, it is necessary to show either that the job or increased salary came from money that was not previously in the economy (e.g. was spent by visitors from outside the country who would not have come without the event), or that the job creation supports a government objective of creating jobs particularly in the study area, in spite of it being at the expense of the economy elsewhere (e.g., perhaps because the study area is particularly disadvantaged, or is experiencing social problems resulting from the unemployment).

2. **Regional Economic Development**

Like the situation of job creation, development in one region comes at the expense of another. To claim this as a benefit, it will be necessary to demonstrate that it supports a government objective to promote development in this particular study area (e.g., because it is particularly disadvantaged or because the development will seed some sustained economic growth after the event).

3. **Increased Tourism**

The event will, of course, divert tourism from other areas. Only the tourism impact that is a net gain to a given study area can be claimed as a benefit. The federal government is particularly interested in spending by foreign visitors who would not have come to Canada if it were not for the event, and spending by Canadians who would have gone outside the country if it were not for the event.

An additional tourism impact that can be claimed as a benefit is the future tourism that is generated by the publicity associated with the event.



4. **Development of Small- and Medium-Sized Business**  
The creation of the conditions which allow small - and medium-sized businesses to get their start in an area may be claimed as a benefit. Those businesses have been shown to be more productive and innovative in many respects than large businesses. If it can be shown that the impact of the event caused small - and medium-sized businesses to become sustainable in the long run, where they would not have otherwise, then this may be claimed as a benefit.