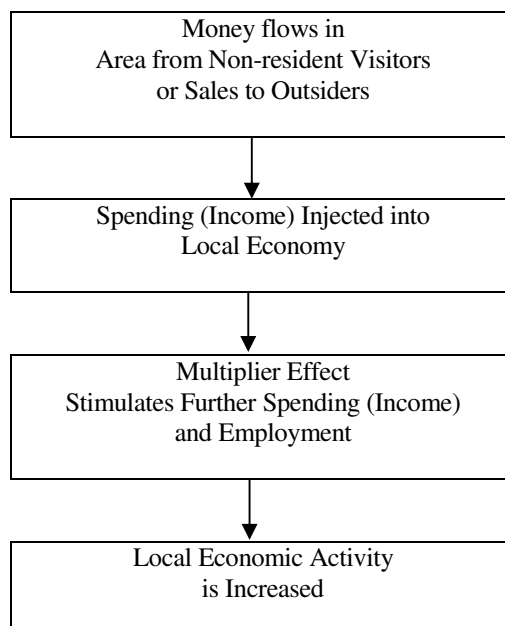


SECTION 1: WHAT IS ECONOMIC IMPACT ANALYSIS?

Economic impact analysis involves estimation of economic activity that results from a specific event, facility, government policy, etc (economic stimulus). The basic premise underlying such analysis involves identifying economic activity in a given area (community/county/province) that can be attributed to a particular economic stimulus, activity that would not take place in absence of this stimulus. In other words, economic impact analysis involves the measurement of incremental economic activity. Such incremental economic activity is most often measured in terms of changes in expenditures (sales), income, employment and tax revenues. Other variables that have been used include population growth, tax rates and property values.

Recreation events held at local facilities attract visitors from outside the area who spend money in the local economy (on food, lodging, souvenirs, etc.) thereby generating (via direct, indirect and induced effects) increased local incomes. Local economic impacts result directly when visitor expenditures are received by local businesses. Indirect impacts occur as business recipients of visitor expenditures spend a portion of these receipts on local goods and services. The induced impacts are produced when employer and employee incomes (profits, wages and salaries)

Figure 1.1 The Impact of Visitors on Regional Economic Activity



generated directly and indirectly from visitor expenditures, are respent in the local economy. The increased income respent in the local area generates greater revenues for local businesses, which in turn generates additional employer and employee incomes and more respending. Indirect and induced impacts are often lumped together and simply referred to as indirect effects. The basic sequence of events relating an injection of funds into a local economy and the resulting impacts is shown in Figure 1.1.

A key concept in economic impact analysis relates to the establishment of the geographical/political/economic boundaries used to delineate the area (region) that will be studied. Impact study areas can range from individual (or groups of) communities, counties, provinces or countries. Impact regions are most often defined by geopolitical boundaries because that is how governments collect and organize relevant (socio-economic, demographic and political) data. Definitions of the impact area may be influenced by economic criteria in terms of identifying businesses/industries and households that will be impacted, or aggregating communities or counties that together represent a distinct economic region (often referred to as “functional economic unit”). However defined, the study region will most likely be transformed into one of political delineation (based on community/county, etc. boundaries) for the purposes of data collection and identification in the minds of consumers, businesses and governments.

From the broadest of perspectives, net economic benefits occur only through improvements in economic efficiency (more effective use of the resources available to society at a given point in time). Conceptually, increased expenditures by visitors to one region must be offset by reductions in spending in the region(s) where these visitors previously spent this money. For example, suppose by hosting some event, Community A captures an additional \$1 million in expenditures from visitors who previously spent their money in Community B. Community A is impacted positively by capturing additional expenditures, while Community B is impacted negatively by losing the same volume of spending. If we define Community A as the study region (and ignore any impacts occurring beyond the region of study), the impact on expenditures is plus \$1 million. If we define Community B as the study area, (and similarly ignore impacts outside of Area B) then the impact is negative \$1 million. However, if we define the impact area as Community A and B taken together, then there is no economic impact because there has been no change in total spending in the study area. Incremental expenditures in the study area are zero, there has simply been a transfer of spending from Community B to Community A and the total level of spending in

Area A and B combined is unchanged. Money originating outside the study area (for example visitor expenditures) is new money in a local economy and has the ability to increase area sales, income and employment. Money originating from within the local economy (for example resident expenditures at a local event) does not represent an impact because it is simply a reallocation of spending that would have occurred in the local economy even in absence of the event.

Impacts versus transfers are therefore dependent on the definition of the study area as it relates to economic activity originating from within this region versus that originating from outside of this region. The reality of course, is that every province/county/community is most concerned with increasing economic prosperity in their particular jurisdiction. Indeed each of these levels of government compete with corresponding levels of government from other locations in term of attracting new industries, tourists or government spending. This is their mandate and they are responsible to the taxpayers of their constituency. There is often little concern for those in other competing jurisdictions when it relates to attracting industries, visitors or government spending. It is therefore a perfectly legitimate exercise to analyse the economic impacts on area of any size, just as long as that area is clearly defined. For most economic impact studies, calculating the economic impact on the local economy (however defined) is the only concern. The geographical distribution of visitors and the economic impact on the region(s) of origin of these visitors is of little concern.