



LEGISLATIVE ANALYST REPORT

To: Supervisor Gerardo Sandoval
From: Andrew Murray, Office of the Legislative Analyst
Date: July 26, 2006
Re: **Costs, Benefits, and Considerations of Hosting the Olympic Games**
(OLA No. 068-06)

SUMMARY OF REQUESTED ACTION

Summarize research findings regarding the general costs and benefits of hosting the Olympic Games.

EXECUTIVE SUMMARY

Simply by virtue of its size, a "mega-event"¹ such as the Olympic Games broadly impacts the host community. However, there is considerable disagreement and uncertainty regarding the breadth and magnitude of related economic and social costs and benefits.

Each host city and their implementation of the Games is unique, and there has been significant variation in the characteristics and investments of host cities for past events. Therefore, although some trends are recognizable and generally hold true, it is important to note that the experience of past hosts will not necessarily apply to future hosts. This is amplified by the fact that the International Olympic Committee updates requirements over time. As different cities are endowed with different assets and the International Olympic Committee provides latitude so that the host city can craft a customized implementation plan, host cities have the opportunity to leverage their unique resources, target their investments, and manage implementation in ways that maximize the likelihood of a successful experience.

Because San Francisco has not yet prepared its bid package for the 2016 Summer Games, it is not possible to analyze the proposal to determine the specific costs and benefits that hosting the Games is likely to create for the City. Rather, based on a review of existing literature and discussions with academic experts, this report is an overview of key issues of cost and benefit, considerations for cities bidding for the Olympics, and strategies for successfully hosting the Games. The extent to which they apply to San Francisco will only fully be known when the details of the City's bid are revealed.

¹ A term borrowed from economic impact literature, also referred to as hallmark or special events, mega-events include the World's Fairs, Olympic Games, World Cup, Super Bowl, etc.

Economic and Social Benefits

- Mega-events, such as the Olympics, attract a large number of tourists to host cities;
- Mega-events can also provide focus and help secure external resources to move infrastructure projects, which might have significant long-term economic impacts, forward on an accelerated timeline;
- Local residents can access event offerings;
- Many prospective (*ex ante*) analyses of economic impact, often prepared or supported by event boosters, dramatically overstate the economic benefits of mega-events;
- Prospective analyses are often inflated because they ignore crowding out, spending substitution, and other effects that offset spending by event organizers, participants, and tourists;
- The impact of Olympic media exposure on the host city's future tourism will depend on the city's existing tourism profile;
- Some potential benefits, such as civic pride and cultural exchange, are difficult to monetize and include in calculations; and
- Some of the incremental revenue generated by the event will accrue to businesses based outside of the host community, and will therefore have a limited local economic multiplier impact.

Economic and Social Costs

- The major direct costs - including constructing venues and housing, increased local government services (security, public health, transportation, public works, etc.), and ongoing facility maintenance costs - are usually substantial;
- Opportunity costs of expenditures are often not fully considered in analyses;
- Most social costs, such as degradation of quality of life and displacement, are difficult to monetize and include in calculations;
- Full accounting of costs can be difficult as many organizations, public and private, make associated expenditures and there are disincentives to accurately report costs;
- Considerable uncertainty and risk exists regarding costs, which can make them difficult to predict and manage; and
- The cost of participating in a lengthy bid process can itself be substantial.

Considerations for Bidding City

- Potential net benefits depend on the characteristics of the host city;
- Without full and accurate information on the costs and benefits, which is difficult to develop, it is challenging for a community to determine, *ex ante*, whether hosting might provide net benefits;
- The opportunity cost of expenditures for mega-events should be considered, as other expenditures might have greater returns;
- The distribution and equity of the costs and benefits, which are often uneven, should be considered; and
- The Olympic Games offer a rare opportunity for international exposure, which could be accompanied by positive or negative effects.

Strategies for Success

- Make decisions based on accurate forecasting of the full costs and benefits;
- Limit public investment and adhere to a rigid budget, particularly on infrastructure projects;
- Attract resources with limited opportunity cost from a broad range of supporters;
- Make provisions to minimize or offset social costs for residents;
- Address distributive/equity issues of costs and benefits in the host community; and
- Target expenditures towards investments that leverage existing assets and will have strong long-term economic impact.

FINDINGS

Economic and Social Benefits

The appeal of hosting a mega-event draws in part on the intuition that attracting scores of tourists that inject spending into the local economy will create an economic boost for the host. In addition, hosting an event can provide the impetus and attract resources to expedite infrastructure projects, otherwise on longer timelines, which provide long-term economic impacts and transform the cityscape.² Numerous prospective (*ex ante*) economic impact studies completed in advance of mega-events have concluded that such events do in fact provide substantial economic benefits to the host community. In addition to economic impact studies, which event boosters often enlist consulting organizations to perform, some academic studies have also substantiated claims of gross economic benefits. These calculations of benefits often include direct spending of the event organizers (including construction of infrastructure projects), participants, and attendees; a multiplier effect in the local economy; the long-term effect of boosted tourism; and the use of infrastructure developed for the event to attract future functions.

Beyond tourism and infrastructure, the host community may also enjoy greater success in attracting foreign investment. Residents of the host community themselves may benefit from access to the event offerings, as well as intangibles such as a sense of civic pride from successfully hosting the event and intercultural experiences. It may also create social capital (particularly through skills gained during volunteerism), and the host city may also have the opportunity to promote its values to the international community.

Few after-the-fact studies of benefits have been performed, as they are of little benefit to cities that served as one-time event hosts. However, in light of a number of mega-events that have not appeared to fulfill the promise of their economic impact studies, a number of academic economists have performed after-the-fact (*ex post*) evaluations. Many have concluded that the gross and net economic impacts of mega-events are small, reliably much smaller than the impacts projected *ex ante*. Differences in the *ex ante* and *ex post* findings are usually attributed to investigator bias and methodological shortcomings common to many economic impact studies.

² The federal government provided \$1.4B for infrastructure projects such as highway, transit, and capital improvements to Los Angeles, Atlanta, and Salt Lake City, most of which would have been awarded to the host cities in the absence of the Games, although on a longer timeline.

Although mega-events attract tourists, some researchers theorize that these tourists crowd out other tourists that would otherwise be visiting the host city, but forego the opportunity during the period of the mega-event to avoid crowds and congestion that might ultimately diminish the quality of their experience. Some potential visitors are likely to also assume that crowds will result in inflated prices and reductions in the availability and quality of goods and services. Indeed, researchers have found little or no increase in hotel occupancy rates or airport traffic in cities that hosted Super Bowls and Olympic Games in the U.S. from 1993 - 2002. They did find that room rates increased (by 138% in Atlanta and 123% in Salt Lake City), which would result in substantial hotel tax impacts. Cities that are already major tourist destinations without slack capacity are more likely to experience crowding out, which can negatively impact sectors of the economy not patronized by event tourists. For example, during the Republican National Convention in New York in 2004, despite the tens of thousands of participants, attendance at Broadway shows actually decreased by more than 20% compared to the same period in the previous year. In the case of Atlanta in 1996, Zoo Atlanta, Six Flags Over Georgia, and other attractions suffered during to the Olympic Games, which caused distortions of normal visitation patterns.

Many researchers have also concluded that hosting mega-events does not result in new spending by local residents, but rather a redirection ("substitution") of spending from one sector of the local economy to another.

Economic impact studies often rely on multipliers, which embed certain assumptions, including what share of event spending recirculates in the local economy. To the extent that event expenditures accrue to businesses based outside of the host community, the economic multiplier impact will be reduced.

Infrastructure projects associated with mega-events clearly create new employment opportunities. In addition, an influx of tourists would create short-term employment opportunities in the hospitality industry. However, among those economists that have identified economic benefits (such as employment or income growth among area residents), some have concluded that the benefits are transitory, not long-term. In one case researchers estimated that the Olympic Games created 5,043 jobs in Los Angeles in 1984, but none in 1985 or beyond.

Economic and Social Costs

The major direct costs to host mega-events - constructing venues and housing, increased public services (security, public health, transportation, public works, etc.), and ongoing facility maintenance costs - are usually substantial. Some host cities have experienced well-publicized deficits as a result of cost overruns or inaccurately forecasting offsetting revenues. The foundation of the economic success of the Los Angeles Olympics in 1984 was the local organizers' ability to limit infrastructure spending³. San Francisco might be in a favorable position to minimize new infrastructure investment, which has been a

³ Los Angeles was the only city that bid to host the 1984 Summer Games (likely due in part to the financial losses that Montreal and Moscow experienced for the 1976 and 1980 Summer Games), and therefore had unprecedented leverage to gain IOC approval for limited infrastructure investments.

major source of costs and budget overruns of other Olympic Games.⁴ It is important to note that if significant crowding out does occur, and net increases in tourism are anticipated to be small, the corresponding increase in public service spending might also be small.

In addition to direct costs, it is important to consider the opportunity cost of mega-event expenditures, the value of the foregone opportunity to program those resources into other items. Depending on the circumstances, expenditure of local government resources on human capital will return higher dividends than on event-specific facilities and infrastructure. Some capital investments for mega-events may provide ongoing uses, such as housing and recreation facilities. However, if in fact the ultimate aim of a host city is to create new housing or sports facilities, it might be less expensive to do so apart from hosting the Olympics, as the additional requirements imposed by the IOC add costs. Precisely because some mega-event facilities are built to handle peak demand, they are not likely to be fully utilized under other circumstances, and therefore do not represent a very productive investment unless demand for the facilities grows over time. Opportunity costs are often not explicitly factored into decision making.

Mega-events also have social costs, which might go undiscussed during the planning process. Researchers have documented that mega-events, including the Olympics, have led to housing displacement, evictions, and speculative price increases. Many Olympic host cities have viewed the event as an opportunity to engage in redevelopment, which often results in displacement. In addition, owners of residential hotels and rooming houses have evicted tenants to upgrade facilities to serve tourists. Accelerated gentrification has also occurred near newly developed facilities. Other common social costs include heightened traffic congestion, crime, environmental degradation, and disruption of residents' schedules. In Sydney, the need to fast track Olympic-related development resulted in suspending normal environmental review procedures. Social costs are difficult to monetize and include in calculations.

As noted above among the considerations for the bidding city, it is important for the full set of costs and benefits to be accounted for in order for the host city to determine whether an event will likely result in net benefits. Unfortunately, a full accounting of the costs is difficult, as many organizations, public and private, make associated expenditures. Those endeavoring to capture disproportionate benefits might be motivated to inaccurately project or report costs, particularly if costs escalate beyond original estimates and/or exceed publicized benefits. Additionally, the IOC has in the past imposed additional requirements as the negotiations with the host city proceeded, introducing unanticipated liabilities. And, the cost of participating in a lengthy bid process can itself be substantial, although recent changes in IOC requirements may have reduced the costs that can be born by public agencies.⁵

⁴ According to Jesse Blout, Director of the Mayor's Office of Economic and Workforce Development, the Bay Area already has 27 of 30 venues required for the Games, as well as more transit infrastructure than Athens or Sydney had when the Games opened in those cities.

⁵ According to Jesse Blout, Director of the Mayor's Office of Economic and Workforce Development, the IOC recently adopted requirements limiting the amount of public funds that can be used to support the preparation of a city's bid.

Considerations for Bidding City

As discussed, cities have different risk and reward profiles relative to hosting the games, related to their unique assets. Accurately identifying assets that can be leveraged is key to determining appropriate investments and resulting benefits from hosting the games. *Ex ante* projections of mega-events often overstate the economic benefits and understate the costs. This undermines the ability of a bidding city to accurately determine what it is willing to invest to secure the event. A discussion open to a broad range of stakeholders can help identify the full range of economic and social benefits and costs. Updating the methodology historically used in economic impact studies can counteract this to some degree, and a rigorous and open process to review impact studies can help identify and repair shortcomings.

Once costs and benefits are projected to the best degree possible, specific deliberation should focus on the opportunity costs, and whether the benefits of hosting justify the foregone opportunities. Modeling the economic impact of alternative investments is one approach to assessing tradeoffs. To the extent that the investments necessary for the Olympic Games do not mesh well with established business patterns and opportunities, directing resources towards them rather than to a higher growth path could actually contribute negatively to job or other economic growth. Although investment in infrastructure can be productive, investment in human capital can be even more productive. Attracting outside investment with limited opportunity cost is one avenue towards reducing overall opportunity cost. For example, the federal government provided almost \$2B of funding support to the Los Angeles, Atlanta, and Salt Lake City Olympic Games, about \$513M of which was provided for planning or staging the games. These planning and staging funds would not have been provided to the host cities in the absence of the Games, and therefore represent little opportunity cost to the host cities.

Economic benefits of the Olympics primarily accrue to providers of complementary goods and services, in addition to local residents that attend events or gain other non-economic benefits. The costs, however, have historically been more widely spread, particularly if funding is provided by local government sources. The distribution of the costs and benefits should be concretely considered, with the possibility of compensating offsets for individuals that disproportionately bear negative consequences.

The Olympic Games offer a rare opportunity for international exposure. Many host cities aspire to and have succeeded in capitalizing on this opportunity by increasing awareness among potential tourists or investors. However, this exposure involves risks, and opens the host city to the danger that it will not receive positive media coverage, which Atlanta experienced relative to congestion, administrative problems, and security breaches. Also, there are many political stakeholders in the Olympics, and it has been the experience of local organizers and decisions makers that they have lost autonomy in planning and implementation to state and national leaders.

Strategies for Success

Based on the opinions of practitioners and the opinions and research of academic experts regarding experiences of Olympic and mega-event host cities, the following is a list of strategies that host cities should consider pursuing to maximize the likelihood of a successful experience:

- Make decisions based on accurate forecasting of the full costs and benefits;
- Limit public investment and adhere to a rigid budget, particularly on infrastructure projects;
- Attract resources with limited opportunity cost from a broad range of supporters;
- Make provisions to minimize or offset social costs for residents;
- Address distributive/equity issues of costs and benefits in the host community; and
- Target expenditures towards investments that leverage existing assets and will have strong long-term economic impact.

CONCLUSION

The Olympic Games present an opportunity for the host city to attract the spending of organizers, participants, and tourists, as well as an unequalled opportunity for international media exposure. In addition, mega-events can also provide focus and help secure external resources to move infrastructure projects, which might have significant long-term economic impacts, forward on an accelerated timeline. However, the promises of many *ex ante* economic impact studies have not borne out, and subsequent *ex post* research has raised questions about whether mega-events provide any significant net benefits. This, and unrecognized social costs, raise particular concern regarding substantial public investment that has commonly underwritten the events in the past. It also raises questions regarding the distributional effects and opportunity cost of public resources. As such, there is considerable uncertainty regarding the net benefits of future Games to host cities. There are a number of strategies that host communities can employ to help ensure local resource investments are commensurate with the anticipated benefits and to maximize the likelihood of a successful experience.

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