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# TOURISM

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## THE ECONOMIC IMPACT OF VISITORS TO YOUR COMMUNITY

Impact studies that examine the economic effects within a community of development projects such as a new hotel are usually confined to a fiscal analysis of local government costs and revenues. But increasing emphasis on the total environment—social, biological, and business—calls for an appraisal of broader impacts within the community for a wholistic perspective. Economic impact studies need to provide information about the effects on jobs, income, or housing, as well as how a project will affect the community's overall environment. The effects a project has on various groups within a community (i.e. its distribution effects) are often more important than its economic efficiency.

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(chapter 1).

## **Regional Tourism Fact Sheets**

- WREP 144 THE ECONOMIC IMPACT OF VISITORS TO YOUR COMMUNITY  
WREP 145 MEASURING VISITOR EXPENDITURES AND THEIR IMPACT ON LOCAL INCOME  
WREP 146 ESTIMATING VISITOR DEMAND AND USAGE  
WREP 147 COST-BENEFIT ANALYSIS OF LOCAL TOURISM DEVELOPMENT

Community leaders, or others involved with tourism-related community development, can use this series of fact sheets to lead a focused discussion on the economic benefits of tourism. Who will benefit from tourism? How many tourists will a new project bring to the community? How much will new tourists spend in your community? This series of fact sheets is designed to address these questions, which must be answered in order to realistically evaluate decisions related to local tourism development.

An economic impact assessment can become a useful tool for a community to use in working out what is most economically effective considering the goals for family income, distribution of benefits and costs, fiscal impacts, benefits over time, etc. The approach to setting up such a study will depend on the situation, the community, and the analyst's judgment. The study is not the final word on whether a particular choice should be made; it simply presents alternatives and their effects. The purpose of an economic study is to put some practical problems in proper perspective for a public decision-making process. Frequently, decisions must be made with less information than any community would desire.

Communities must also combat a number of misconceptions about economic impact studies, including an unrealistic expectation that the analysis can be completely accurate and comprehensive. Every attempt to increase the accuracy of a study, also increases its cost and time required. A balance must be struck between what a community wants to spend and the desired level of accuracy. Errors in assessing economic impacts will affect a decision only if they are so large that the apparent desirability of alternatives is reversed. If the best alternative appears substantially superior to the next best alternative, then it may take only rough computations to confirm that superiority. If the first and second best alternatives are not widely separated, it will take greater accuracy to identify the best choice, but a wrong decision will result in a relatively small loss. It may be relatively easy to estimate total benefits and costs, but much more difficult to estimate the differences in distribution of income and costs within the community. If distribution impacts are important there will be more work to do.

Another misconception is that economic impact analysis is irrelevant because decisions are made on a political basis. Growing constraints on public spending and tax collection make it difficult to decide what programs to fund and what projects to approve. Hard choices have to be made when funding is available for only one of several worthwhile projects which annually compete for scarce revenues. The problem is to decide which project will benefit the community most, given the goals. Despite the fact the economic impact assessment has not been used a great deal, more and more communities find it a valuable tool for understanding the consequences of political decisions.

Local government decisions fall into three general categories: plans, policies, and projects. The effects associated with each category vary somewhat and require different levels of detail in an analysis. It may take some time to understand what local officials and leaders want from an analysis, but care in defining the scope of the study will save time later and make the results more useful to those who must interpret them. In general, plans often provide for broad assumptions and community goal statements while policies and projects become increasingly specific.

Whether a plan, policy, or project is under consideration, the basic method of an economic impact study is to compare alternatives to discover the differences in their economic effects. In some cases, it may seem easier to analyze only the original proposal and not to consider any alternatives, but this will limit the usefulness of the study because it forgoes consideration of variations that might make the proposal better suited to the community. In extreme cases, a decision not to consider alternatives could lead to rejection of a proposal that, with small changes, could have benefited the community.

The number of alternatives that should be considered depends on the number of realistic options available and on other constraints, such as time, information, funding, and political realities. Whatever alternatives are chosen

*Step 1: Define the scope of the study and alternatives to be considered in the analysis.*

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The economic impact of  
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*Step 2: Define exactly what decisions need to be made, what information is being requested, and what questions the study should answer.*

there must be sufficient information to permit analysis of the economic impacts at a level that will aid realistic decision making. It is useful for leadership to limit alternatives to be included in the analysis to a realistic number.

**F**ar too often the consultant or analyst determines what information a community needs and what assumptions are to be made about the community's goals and resources. An analyst must understand precisely what decisions local officials need to make and what information is being requested to conduct a useful economic impact study. Even if staff members have been given the responsibility for choosing alternatives and shaping the study, they may still want to consult those who will use the study to be sure it covers the essential points and contains the most useful information possible. For example, if the staff has been asked to analyze the economic impact of several general plan alternatives, there may be certain areas of particular concern to local government, such as the fiscal effects of different levels of growth or the effects on employment. These decisions are the responsibility of the community, perhaps facilitated by the analyst.

The community should start by listing the types of questions that the study is to answer. Not all questions can be anticipated; the study itself may highlight other areas that need consideration. With an initial list of areas to be included, however, the analyst can move to the next step.

*Step 3: Determine how detailed the analysis should be.*

**T**he scope of the study will depend on several factors:

- What type of proposal is under consideration; a plan, policy, or project.
- Whether the study is part of a continuing process of economic analysis or is a one-time request for analysis of a particular proposal.
- Time and budget constraints.
- Expertise of the available staff within the community.
- The audience for the study; the city council, board of supervisors, or a department chief.
- The geographic area covered and the length of time considered.

The level of detail a study requires will depend primarily on the type of proposal being considered. Comprehensive plans for the entire community obviously will involve extensive analysis of the present economic conditions and the expected effects of the plan's alternatives, while a plan for a particular service in one area of the community could be analyzed with far less work. Policies and projects will involve different levels of detail, depending on their scope or size in relation to the rest of the community.

A second important consideration in determining a study's level of detail is whether it is a one-time analysis or part of a continuing program. The initial economic impact studies will entail more work in gathering the necessary data and information, but if the analysis is continued, each report that follows will be easier to prepare. Beginning the work at the broadest plan level will provide a framework within which to analyze other decisions.

The scope of the study may be partly determined by the individuals or groups who have requested the analysis. The city council or planning commission might want only a short summary of the general impacts of a proposal, while a department chief might need a detailed study of all the important impacts. Other constraints on the level of detail in a study, such as time and budget limitations, will be beyond the control of the staff. A staff's unfamiliarity with methods of economic analysis may also add to these constraints. Local governments may wish to use analysts and others from outside the community to do much of the initial work and training.

Two additional limitations on a study are the area it encompasses and its duration. The area included in an economic impact assessment should be clearly defined, and the reasons for its delineation explained, because the boundaries of political jurisdictions do not necessarily correspond to the boundaries for housing, land, employment, economic impacts, or even fiscal impacts on local government. Some impacts will be zero within certain areas. For example, new hotel construction may have no effect on tourism growth in the region, even though it influences the local area. Or additional hotel rooms in one area may mean less demand for accommodations in the rest of the region. Particularly in a metropolitan region, communities cannot always pinpoint the effects a proposal will have on their own tourist-related employment or land-use. To do so often requires an awareness of regional interactions and of factors outside the local community or government's control.

The availability of data will play an important role in defining the study area. The geographic area is generally that political unit (the city, county, or standard metropolitan statistical area) for which published statistics exist. As a practical matter, the final choice of the geographic area may have to be left open until the details on the various alternatives are clear. This may mean working for a period of time with overlapping geographic areas.

The length of time considered in an impact assessment can also significantly affect the results. The assessment should take into account the period that the economic impacts will be important; the first five years, perhaps, could be covered in detail and a broader look given to the life of the impacts. The longer the period of analysis, the less certain projections become.

Plans usually specify the period for which they apply; the assessment should provide analysis for the same period. Since policies may involve temporary decisions or establishment of guidelines for a community, the analyst needs to provide an estimate of how long the effects of a proposed policy are likely to last. Projects have an initial effect during the construction phase, a continuing effect through their middle age, and often a different effect during their declining years. Thus, the economic impacts should be considered not only during the building period, but for the entire life of the project, as long as reasonable estimates can be made, which may require certain assumptions about things such as future real estate values, property tax rates, inflation rates, and consumer demand.

A study's assumptions may cover a wide range of variables, such as changes in the national economy; the rate of growth in population, employment, or income; or the continuation of or change in trends. Whatever alternatives are chosen, the comparison of impacts will be valid only if the same methods have been used consistently throughout the assessment. For example, if inflation effects are considered in one alternative, they should be considered in all alternatives. The study should clearly state which methods are being used and if, for any reason, one alternative is treated differently, the difference should be explained. It may be necessary to add to the initial list of assumptions during the analysis. There may be opportunities to indicate which assumptions most influence the long-term benefits and costs of the project. This is helpful in evaluating the risks associated with the project.

Limitations in the analysis should be identified. For example, if the time available to prepare the study is limited, and some economic areas cannot be covered as thoroughly as desired, the analyst will want to explain this limitation and how it affects the study. Likewise, any limitations in the method of analysis should be thoroughly discussed to give decision makers an idea of risks inherent in the outcome.

*Step 4: List in the study all fundamental assumptions and limitations.*

*Step 5: List all economic impacts that are considered.*

For a very large project or a major plan, all economic impact areas will probably be affected, while for specialized plans, policies, or projects, certain areas may not be affected. For example, a community's general plan probably will affect everything from population size to the delivery of public services, while a ten-unit housing development will not have significant effects on income levels or government services except for a small community.

*Step 6: Determine what data are needed, what are available, and how they will shape the study.*

In order to evaluate the economic impacts of a change in land use for a large tourism project, it is useful to detail past growth trends and to prepare a current community profile. The analysis of economic impacts may warrant collection of past and current data to help address the following:

- Visitor expenditures and their impact on local revenues.
- Estimate of community visitor days so we know if existing work force and facilities can handle the expected demand. (i.e., measurement of employment, housing, existing land use, etc.)
- Data to determine the dollar cost and benefit of local tourism development will help the community assess who will gain and who will not benefit from the development. (i.e., local property and sales taxes, costs associated with traffic congestion, pollution damage, etc.)

Projections of future growth and change also will be needed. These could be based on historical trends or on a number of assumptions about the probability of certain changes occurring. Projections of population and business activity will be particularly important in evaluating development proposals.

Finding adequate data can be a major obstacle. A vast amount of data has been collected and published by governments and private organizations, but all too often these data do not provide the exact information needed. All data must be evaluated on the basis of how they were collected, what assumptions were made, what items were excluded, why they were collected, and by whom. The decision to collect new data will depend on the cost and time involved, compared to the quality and adaptability of existing data.

The data available and the need to prepare new data can shape the type of analysis. If good data are not available and time does not permit preparation of new information, these limits should be clearly identified. For example, the analyst might explain that certain projections of employment and income are very rough estimates, but they will have to be relied upon for estimating the effects of the proposal on public services and land area requirements.

*Step 7: Analyze the effect of each alternative on the individual economic areas being considered and analyze indirect effects (or cross-impacts) among economic areas.*

A plan, policy, or project which imposes a change in one economic sector of the community may trigger a change in many of the other sectors as well. When these ties are understood, the indirect or secondary impacts of a proposal can also be identified. Figure 1 describes a proposal that a local government might consider and the kinds of direct and indirect consequences—economic, demographic, and environmental—which might result from tourism development.

**Figure 1. New Hotel Development for Tourism, Western City, U.S.A.**

DIRECT IMPACTS		POSSIBLE INDIRECT IMPACTS	
<b>Employment</b>		<b>Employment</b>	<b>Income</b>
construction		multiplier effect	multiplier effect
permanent		creating other jobs	
		shift away from	
		older hotels	
<b>Income</b>	<b>Revenues</b>	<b>Land Use</b>	
wage and salaries of new hotel employees profits	sales	development around new hotel, such as housing and businesses	
	property tax	increased property values	
	business permits, etc.	traffic congestion	
<b>Land Use</b>	<b>Service Costs</b>	<b>Environmental/Social Costs</b>	
changes in land values	sewer	loss of time in traffic congestion near new hotel complex	
	water, etc.	increased air pollution damage and less "room" for additional industrial development because of air quality standards	
	schools		

The aggregate economic impacts include the total effects in one sector, such as the aggregate employment impacts or the aggregate impact on housing. Distributional impacts are those that affect some individuals, groups, institutions, businesses, and communities more than others. For instance, land use restrictions imposed on high density housing may drive up the cost of cheaper housing, thereby directly affecting lower income families.

*Step 8: Present results so alternatives can be compared, identifying the aggregate and distributional impacts of each alternative.*

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# TOURISM

## STEPS FOR GATHERING, ORGANIZING, AND PRESENTING INFORMATION FOR AN ECONOMIC IMPACT STUDY

- 1 Define the scope of the study and the alternatives to be considered in the analysis.
- 2 Define exactly what decisions need to be made, what information is being requested, and what questions the study should answer.
- 3 Determine how detailed the analysis should be, depending on:
  - What is under consideration (a plan, policy, or project).
  - Whether this is part of a continuing process or a one-time request.
  - Time and budget constraints.
  - The expertise of available staff.
  - The audience for the report (e.g., a city council or a department chief).
  - The geographic area covered and the length of time available to conduct the study.
- 4 List all fundamental assumptions and limitations in the study, recognizing that more assumptions may be added during the analysis.
- 5 List all economic impacts that are considered, including all public services that will be affected.
- 6 Determine what data are needed, what's available, and how they will shape the study.
- 7 Analyze the effect of each alternative on the individual economic areas being considered and analyze the indirect effects (or cross-impacts) among the economic areas.
- 8 Present results so that the alternatives can be compared. This involves identifying both the aggregate and the distributional impacts of each alternative.