

Olympic Bid Perspectives

A local organizing committee (of private citizens) is working hard on winning the right to host the Olympic Winter Games. Much discussion and some debate have taken place on the funding strategies and on local economic impacts. Although the mayor has received many questions about the bid, he has deferred direct answers in hopes of obtaining more information. To date, he has collected three documents that address different perspectives of the Olympic bid.

In hopes of developing a public position, the mayor has asked you (his economic advisor) to review the documents and provide an assessment of the impact to the local economy. He has specifically requested that you provide a discussion of long-term impacts created by the new facilities.

These documents are summarized individually. The first document is the official bid book to the International Olympic Committee. It emphasizes the plans for putting on a successful Olympics—technical, economic, etc. The second document was commissioned by the local organizing committee to demonstrate the positive impact of holding the Olympics. The third document is a “critical” series of questions posed in a lead editorial of the local newspaper.

Organizing Committee Bid

The Local Organizing Committee (LOC) has the responsibility to assure that quality venue sites are provided and to administer a safe and efficient Olympic Games. The proposed budget for this is shown in Table 40-1.

Table 40-1 Organizing Committee Budget (\$ millions)

Capital Construction		
Olympic Village	45	
Main stadium	35	
Ski jump	15	
Bobsled/luge	16	
Municipal projects	15	
<u>Other capital</u>	<u>9</u>	
Total capital construction		135
Operating Cost		
Communications	55	
Administration	46	
Security/housing/transportation	35	
<u>Other expenses</u>	<u>23</u>	
Total operation cost		159
Contingency		<u>10</u>
<u>Total cost</u>		<u>304</u>
Revenues		
Television	180	
Sponsorships	40	
Local government	40	
Ticket sales	28	
<u>Other revenues</u>	<u>16</u>	
<u>Total revenues</u>		<u>304</u>

Existing facilities will be supplemented by substantial new construction. New student housing will be built at the local university for accommodating athletes and team officials.

This Olympic Village is funded \$40 million by the state government and \$5 million by the LOC. A 20,000-seat capacity indoor stadium, expected to cost \$35 million, would be the largest in the state. The budget also includes \$15 million for municipal road, parking, and airport upgrades. The remaining \$40 million would be spent for miscellaneous construction at other venue sites.

The operating costs are fairly evenly divided between communications, administration, and general support. Communications include publications, staff communication, advertising, and general equipment rentals. Administration includes personnel payroll, data processing, general supplies, and other support items. The remaining \$58 million is budgeted for security, housing, food, transportation, venue preparation, and ticketing.

If the contingency funds are not needed, they could be used as seed money for a long-term facility maintenance fund. Current plans are to donate leftover funds to the international committee.

The total costs are offset by expected revenues. Exclusive television rights and corporate sponsorships are the largest and most uncertain revenue sources. As noted previously, the state is expected to fund \$40 million to build the Olympic Village. Overall, the revenue estimates have been approached conservatively. Therefore, it is planned that the Olympics will be funded primarily with external monies.

Economic Impact Study

The impact of the Olympics to the local economy will begin a few years before the games and extend for decades afterward. The total impact can be subdivided into the following:

1. Pre-Olympic activities
2. Facility construction
3. Operation of the games
4. General expenditures
5. Tourism impacts

Pre-Olympic activities include trial athletic events at each venue. Eight events (each for four days) at 450 visitors result in 14,400 visitor-days. Likewise, the media and security personnel will begin their stay up to 10 months before the Games, for a total of 456,000 visitor-days (valued at \$45 million locally).

The LOC budget includes \$135 million for facility construction and \$159 million for operating costs. The construction projects will provide local jobs, but some of the materials will be purchased from other areas; thus, the local factor is lower than for the operating costs.

General expenditures by attendees and participants will boost the local service sector. Even though many tickets will be sold to residents, 50,000 non-local spectators are expected to generate nearly 250,000 visitor-days. In addition, over 190,000 visitor-days will result from the 2-week stay of athletes, team officials, sponsors, and VIPs. Overall, \$56 million will likely be spent by these people for housing, food transportation, souvenirs, and entertainment.

After studying the current tourism growth rate and annual expenditures, it is clear that any positive impact in this category could provide very significant local benefits. The current tourism business injects almost \$300 million into the area, with growth rates over the last 7 years of 5% per year. The media exposure from hosting the Games is expected to boost tourism the first year by an extra 5% and the following year by an extra 2.5% (returning to the current rate of 5% per year thereafter). The net present value of this impact is approximately \$500 million.

The total impact is based on the fraction of these gross expenditures that will initially be directed locally. In Table 40-2 this local factor is applied to each segment, and then the added impact of each dollar circulating around the local economy is calculated using a multiplier of 2.6.¹ The local economic impact is projected to exceed \$2 billion.

Table 40-2 Economic Impact (\$ millions)

Segment	Gross	Local Factor	Local Value	Total Impact
Pre-Olympic activities	45	.9	40.5	105.3
Facility construction	135	.8	108.0	280.8
Olympic Games operations	159	.9	143.1	372.1
General expenditures	56	.9	50.4	131.0
Tourism impacts	<u>500</u>	.9	<u>450.0</u>	<u>1170.0</u>
	895		792.0	2059.2

¹ For the Los Angeles Olympics a multiplier of 3.5 was used, but LA is a much larger, much more self-sufficient area.

Editorial Comments

As the business editor for the local newspaper, I believe it is my responsibility to seek more information on the Winter Olympic bid. I would like to ask our mayor and the Organizing Committee the following four questions:

1. What long-term maintenance costs do the new facilities impose on the community?
After all, our current convention center and sports arena operate at a loss.
2. Who pays for any revenue shortfalls or facility cost overruns?
3. How do you justify the estimates taking credit for an economic impact created by money that would have been spent here anyway (e.g., student housing costs or spending by local residents for tickets sales)?
4. What would be the tourism impact of negative publicity caused by poor weather conditions or terrorist acts?

Suggestions to the Student

1. There have been some inconsistencies in the treatment of the time value of money. For example, only the tourism impacts specifically are stated in terms of present worth (and year zero is unclear for that). Which costs and impacts should be adjusted up or down? Is this error significant? How should it be estimated?
2. A public facility might show a loss because only part of its benefits can be determined through ticket sales and other direct charges. How does this relate to the editor's first question, or why else is it important?
3. There are no figures included for long-term maintenance and operation of the venues. How could these be guesstimated, do they matter, and are they positive or negative? Are they balanced by other omitted figures?
4. How would you adjust the final impact table to summarize your results to the mayor? The template below (Table 40-3) might be helpful.

Table 40-3 Economic Impact (\$ millions)

Segment	Gross	Local Factor	Local Value	Total Impact
Pre-Olympic activities				
Facility construction				
Olympic Games operations				
General expenditures				
Tourism impacts				
Other				
