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Memorandum

To: Steve Klein, JFO; House Commerce & Economic Development Committee
From: Tom Kavet
CC: Graham Campbell, JFO
Date: January 29, 2020
Re: H.705 Commentary

Per your request, I have reviewed H.705, as of 1/28/2020.¹ The proposed legislation claims the State has lost “visitor spending market share” and needs to spend more in State tourism marketing to remedy this.

There are problems, however, with both of these assertions. First, there is no clear evidence the State has lost market share in any significant way during almost any multi-year period over the past 20 years. And, second, there is no credible evidence that increasing State tourism marketing spending as proposed would have any meaningful impact on the State’s market share of the region or nation.

Section 1, (4) of the proposed legislation findings, states: “According to the U.S. Travel Association, Vermont is the only New England state to lose visitor spending market share between 2012 and 2017.” This statement is not supported by the USTA data cited, nor other more credible data on tourism visitation and spending. Because the USTA data are only available to members, with no publicly-available methodological information on its derivation, we asked ACCD to provide us with the statistics underlying this finding of “fact.” The data provided, however, did not validate the above finding. It showed slight purported declines in market share not only in Vermont (from 5.5% to 5.4%) during this selected time period, but also in two other New England states: New Hampshire (from 9.5% to 8.8%) and Rhode Island (from 4.6% to 4.5%). Meanwhile, it showed slight increases in Massachusetts (from 47.2% to 47.9%), Connecticut (from 24.6% to 24.7%) and Maine (from 8.5% to 8.7%).

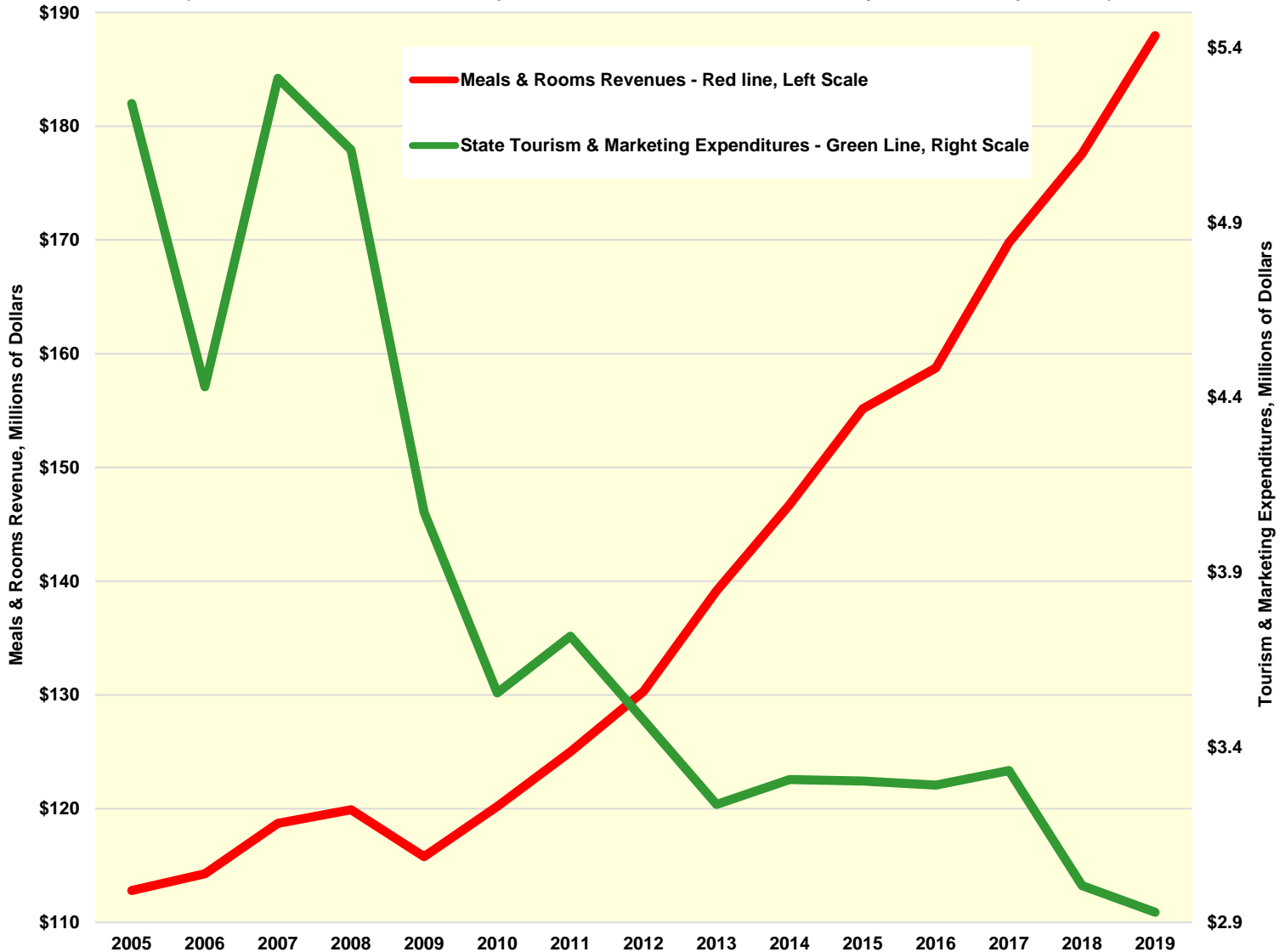
Section 1, (2) of the proposed legislation states that according to the Vermont Department of Tourism and Marketing Benchmark Study: “domestic tourism in the United States has been increasing at a rate of about two percent per year since the recovery from the Great Recession.” Vermont Meals & Rooms revenues over this same period, however, have been growing at more than twice this rate – 5.0% per year at compound average annual rates from 2009 to 2019. Vermont’s share of the U.S. market could not be declining while outpacing U.S. growth by a factor of 2.5. Growth in New Hampshire’s Meals & Rentals revenues over a comparable period (but on a fiscal year basis), were about 4% - well below Vermont’s comparable growth rate. Vermont could not be the “only New

¹ See: <https://legislature.vermont.gov/Documents/2020/Docs/BILLS/H-0705/H-0705%20As%20Introduced.pdf>

England state to lose visitor spending market share” and exceed tourism-related revenue growth in NH by a factor of 1.13 per year. Since Vermont does not compete solely with New England for tourism visitation, the purported “loss of share” in New England would not be particularly significant even if true. Market shares as measured by any of the several unbiased, but imperfect, measures of tourism activity can vary within a percentage point or more from year to year for purely statistical reasons. For example BEA data on accommodations and food service output in New England states show variations of a percentage point or more from year to year, but few discernable trends over the last 20 years, except that Connecticut has lost a little share and Massachusetts has gained a little. Larger year-to-year national market share variations can be dramatic, based solely on weather events, as evident in the charts on skier visitation on pages 5 and 6.

Cause and Effect? State Tourism Expenditures vs. Meals & Rooms Revenues

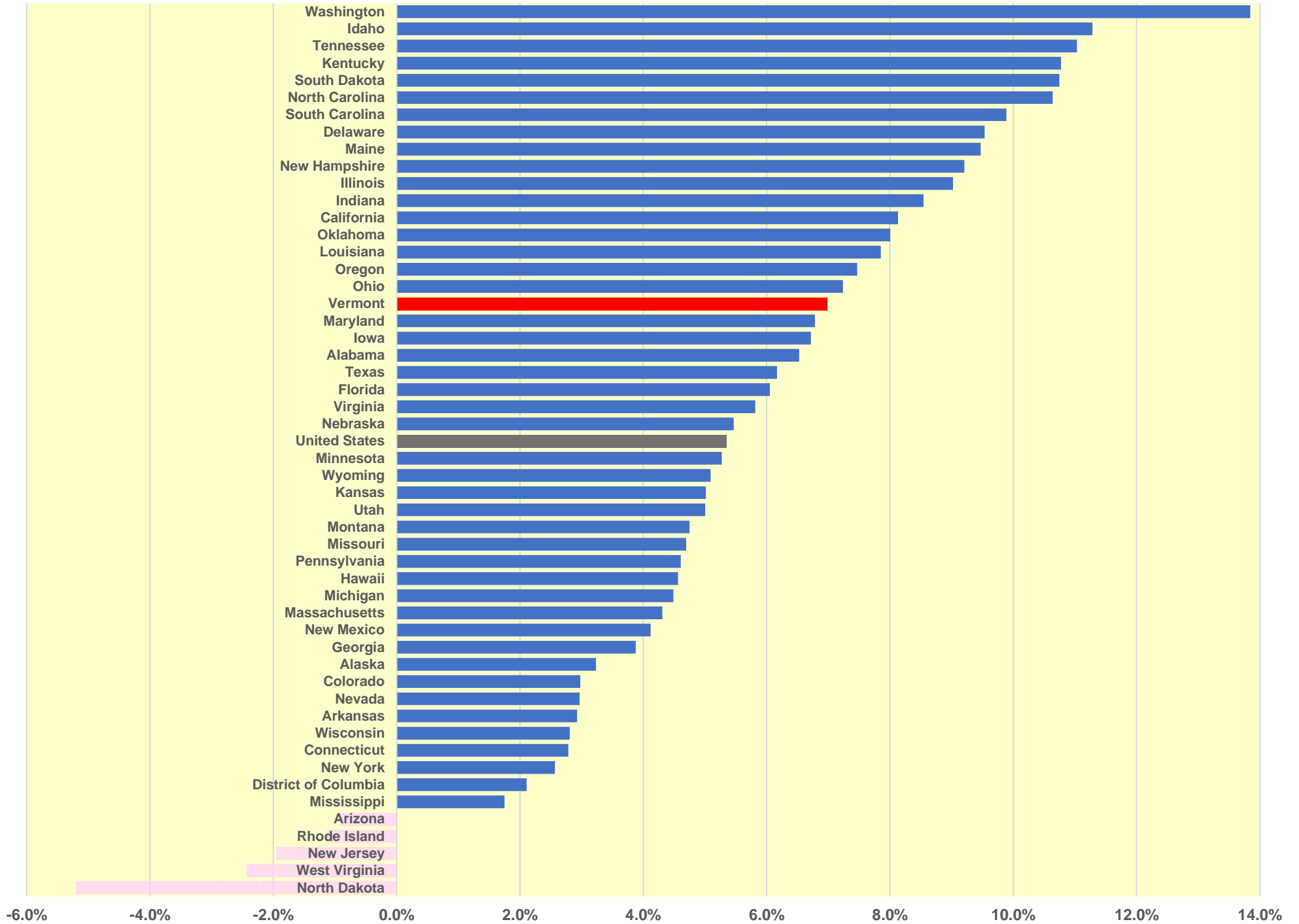
(Fiscal Year Basis, Sources: Tax Dept and JFO for M&R revenues, VT VISION system data for expenditures)



As illustrated in the above chart, there is no positive correlation between State tourism marketing expenditure levels and State revenues from Meals & Rooms. Since 2005, M&R revenues have increased 67%, while Taxpayer-funded Tourism & Marketing expenditures have declined 44%. One

Average Annual Growth in Accommodations from 2012 to 2017

(Source: U.S. Bureau of Economic Analysis, State GDP Accounts, Compound Average Annual Rates)



reason there is no positive correlation, is that publicly funded tourism expenditures represent only about 3% of total tourism advertising expenditures (based on 2007 Economic Census data) and are dwarfed by private sector expenditures. Whether the State spends \$2 million a year or \$5 million a year is relatively small compared to aggregate private sector tourism advertising and marketing.

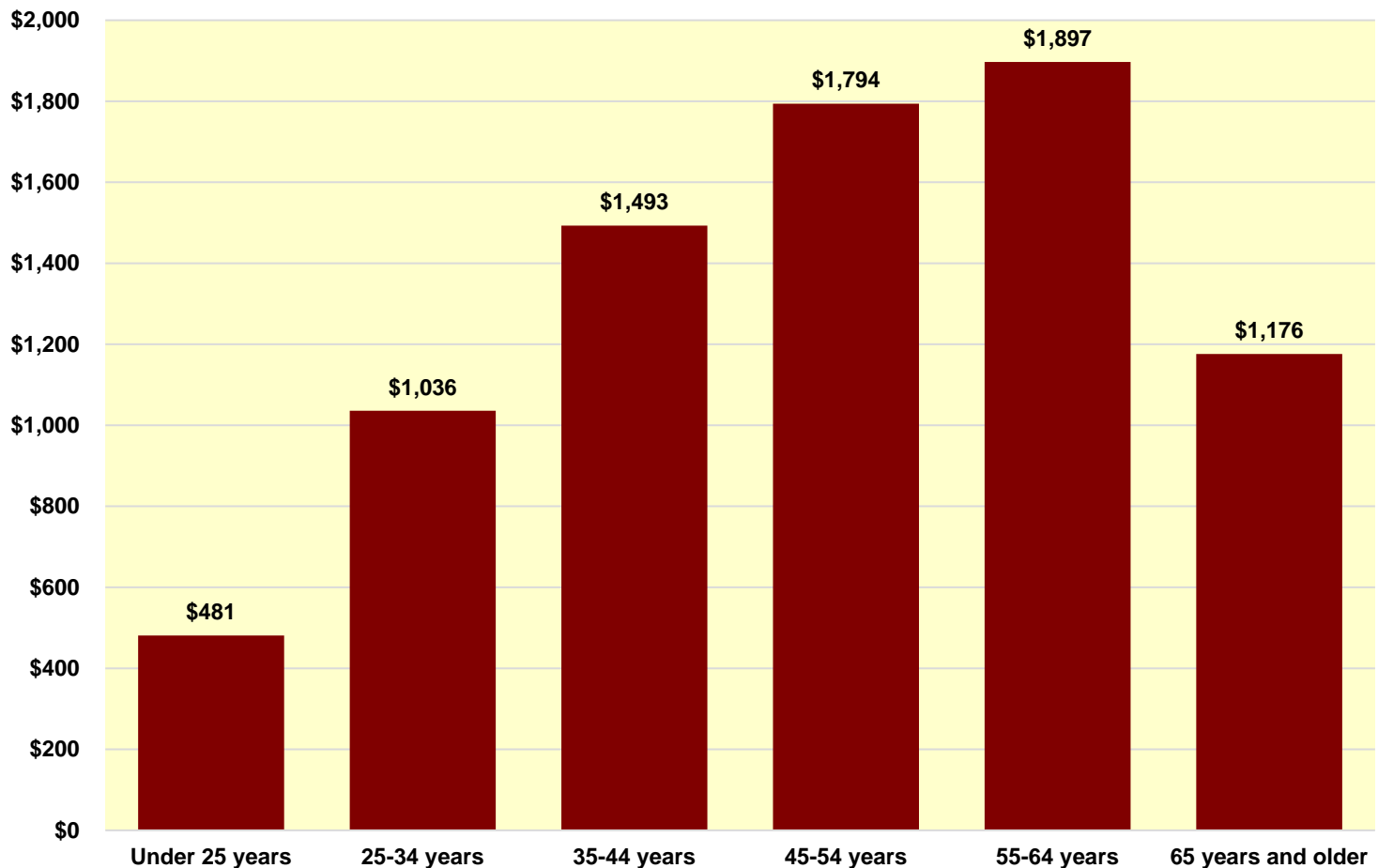
In fact, as shown in the chart on page 3, the state with the strongest growth in accommodations during the 2012 to 2017 period (as cited in the proposed legislation), was the State of Washington. Of note, *Washington is the only state in the nation with no taxpayer funded tourism marketing expenditures* – which were eliminated effective in 2011. Since then, by several measures, the state has experienced among the strongest growth in economic activity associated with tourism.

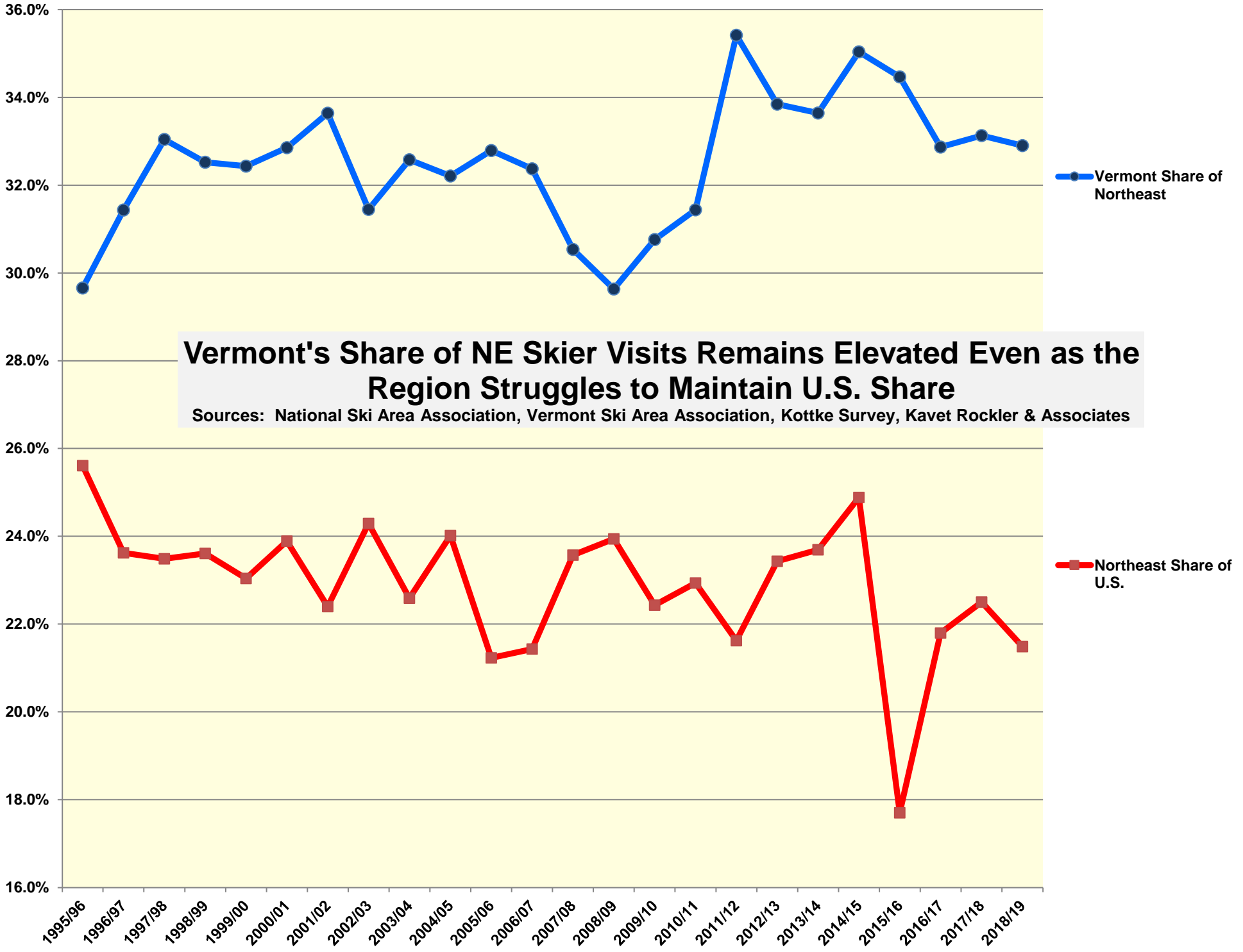
The absence of any causal relationship (or meaningful impact) between public tourism advertising and State revenues, is the reason that in none of the last 52 official Vermont State economic and revenue forecasts has State tourism spending ever been considered or relied upon as a model variable or add-factor affecting our forecast of Meals & Rooms (or any other) revenues. There are many variables that affect M&R revenues, such as income, phase of business cycle, weather and demographics – but public advertising expenditures are simply not statistically significant.

Meals & Rooms Revenues Benefit from Aging Regional Population

Average annual travel expenditures by age of head of household, 2008 Dollars

Source: BLS Consumer Expenditure Program

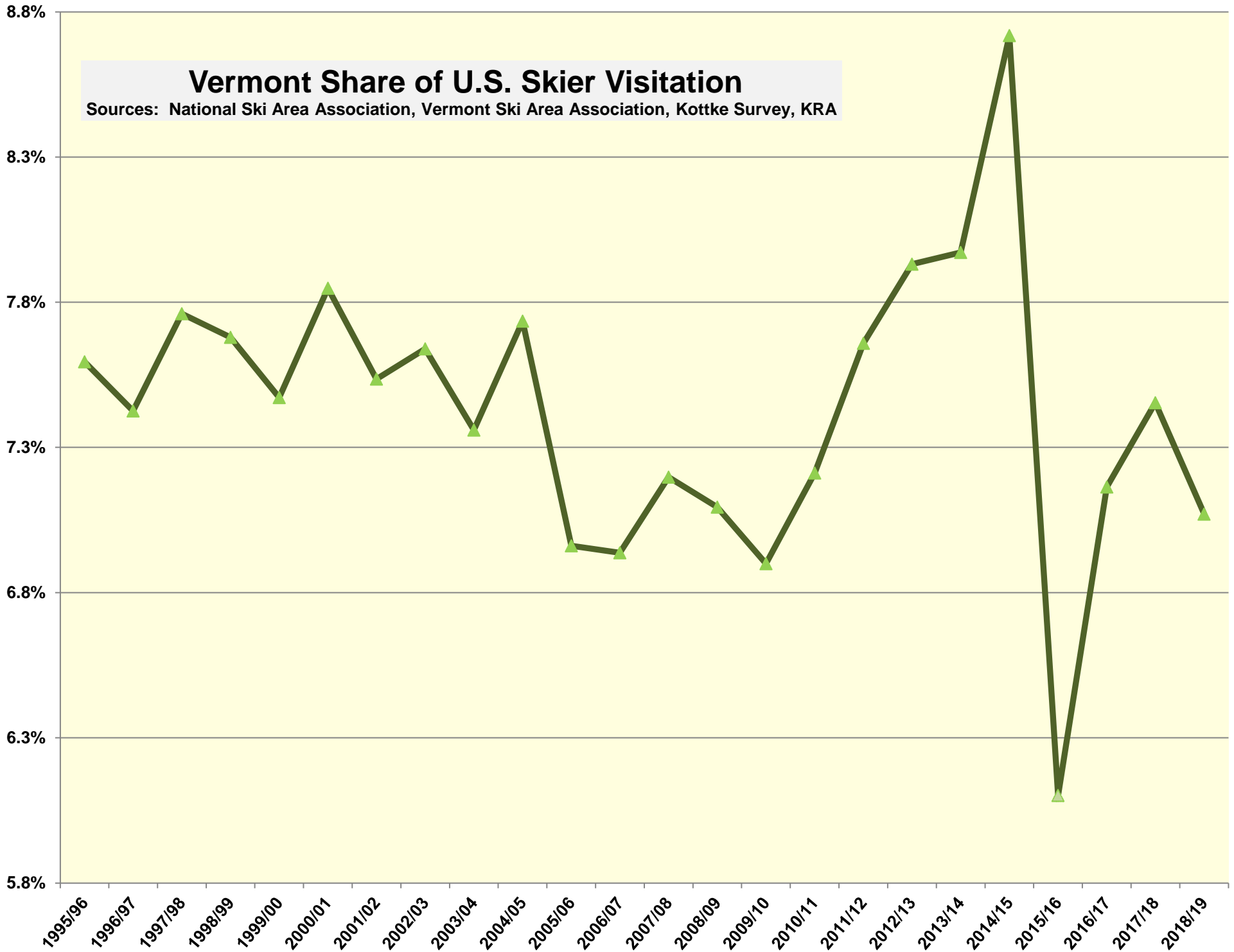




Vermont Share of U.S. Skier Visitation

Sources: National Ski Area Association, Vermont Ski Area Association, Kottke Survey, KRA

Percent of Total U.S. Skier Visitation



All this, however, raises a more fundamental question: Why should taxpayers supplement advertising spending for one part of the private sector economy? If tourism, why not other important Vermont industries, such as semiconductor manufacturing? Or private healthcare services? Private colleges and universities? No matter what private industry sector, it is likely that the benefitting companies will be appreciative of free public advertising - and show it by lobbying for more, along with public employees with related jobs. Tourism is the only private industry sector so treated.

Although there were no claims in the proposed legislation as to exactly what return on investment may be expected by additional public outlays for tourism marketing, we have evaluated many claims in the past from a plethora of self-promoting industry interest groups who tout exaggerated fiscal returns on advertising expenditures. Prior analyses performed by JFO and the Tax Department have debunked assertions of returns of as much as 13x, while anything even close to net fiscal break-even is highly unlikely. Public tourism spending acts as a subsidy to private companies in this important sector of the Vermont economy, improving their profitability by supplementing and/or replacing marketing expenditures, but provides little obvious public benefit.