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To: Rep. Mary Hooper, Chair, House Committee on Appropriations
Date: 22 February 2021
Re: Commerce Committee budget recommendations

Having read the Commerce Committee's February 19 "Review of Governor's Proposed FY 2022 State Budget," I offer the following comments about a few budget items.

B.1100(a)(5)(A). Dept. of Tourism & Marketing; Supplemental to Rooms & Meals Funding ($1,000,000)

The Committee supports the proposal in the amount specified and ranks funding as a high priority.

This proposal seeks "$1,000,000 [for] the Department of Tourism and Marketing to supplement the budget allocation to be funded by a percentage of the portion of the Rooms and Meals tax generated annually that exceeds revenue targets."

As I pointed out in a report to the Legislature in 2018, "Efforts to measure the impact of Tourism and Marketing spending are hindered by the fact that public marketing expenditures are dwarfed by private sector spending and there is no way to assess the relative impacts of each. The Department's primary performance measure is Rooms and Meals tax revenues, but there is no correlation between public expenditures and state revenues."

These issues have been addressed at least twice by the Legislature's economist. In his most recent memo on the topic (2020), he said that "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."

Our research mirrored that of Mr. Kavet's conclusions. See pages 44 – 47 in the report cited above.

Mr. Kavet also noted that "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%" (emphasis added). A graph on page two of Mr. Kavet's memo makes a compelling case against the proposal.

It does not appear that our report or Mr. Kavet's memo were referenced by the Commerce Committee this year. Both are intended as tools. As I advocated in the 2018 report cited above, resource allocation decisions should be supported by evidence. In this case, the Administration's request does not meet that standard.

B.1100(a)(5)(B). Dept. of Tourism & Marketing; Buy Local Vermont ($1,000,000)

The Committee supports the proposal in the amount specified and ranks funding as a low priority.

As the author of The Leaky Bucket back in 2000 (Phase 6 of the Job Gap Study), I am a strong advocate of buying local goods and services. However, as with all economic development programs, we should attempt to estimate the return on investment (ROI), as well as the cost of administration.

The "pilot" program used $500,000 in federal funds, so the ROI was not critical. Like a number of other CRF efforts, it was intended to put money into circulation quickly to help the economy during the pandemic.

The Department of Economic Development reported that the program "generated about $1.5 million in additional consumer spending at businesses." But that figure is misleading because the actual additional sales were only $654,700. The Department projected that another $811,423 in sales would come from "Additional Return Spending."

Since the current proposal will use state funds, it is important to estimate the ROI. Even if we double the program size from $500,000 to $1 million and accept the other assumptions, additional sales of $3 million would only generate about $180,000 in sales tax (perhaps more from purchases subject to rooms & meals taxes).

Spending $1 million to generate less than $200,000 in tax revenue does not seem to be a wise investment and it's disappointing that the Department did not present such an analysis.

B.1100(a)(5)(E). Dept. of Economic Development; UVM; Technology-Based Economic Development Program ($1,000,000)

The Committee supports the proposal in the amount specified and ranks funding as a high priority.

The DED presentation provided no data on the ROI for existing programs, including SBIR, STTR and EPSCOR. The current proposal may well have merit, but (to the extent possible) a decision to spend $1 million of taxpayer funds should be based on evidence. In addition, any proposal of this nature should quantify the administrative cost of having UVM host the program.

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