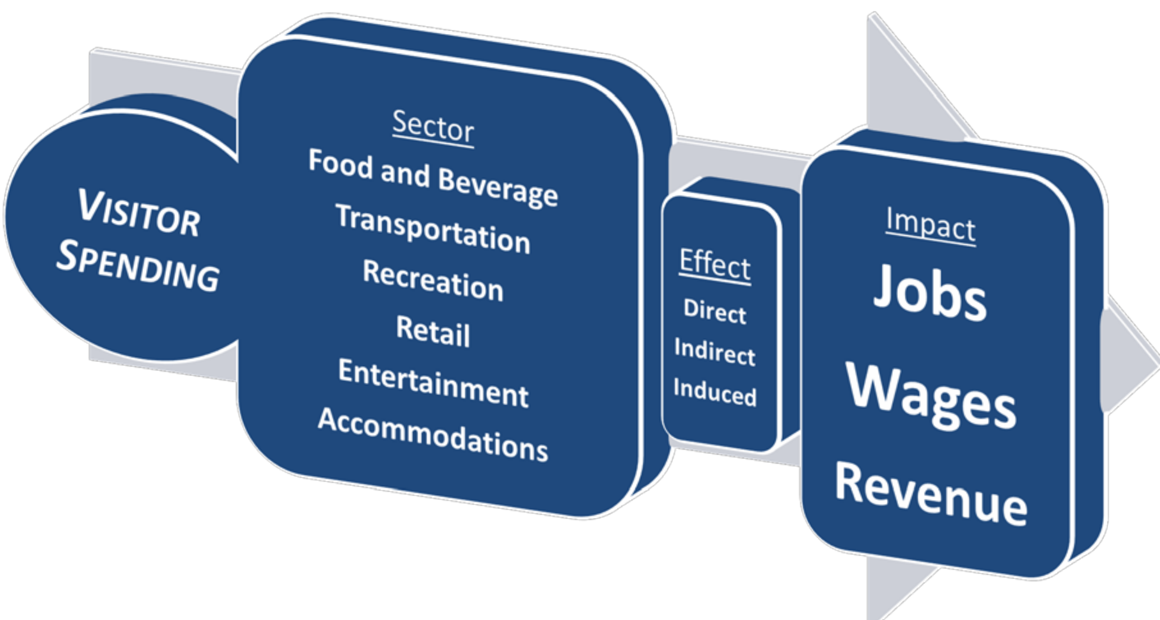
# Maine and Tourism: The State's Largest "Industry"

**Visitors contribute one in five dollars of sales to Maine's economy.**

**Visitors support the equivalent of one in six Maine jobs.**

**Visitors generate 20% of the state's Gross State Product.**




**January, 2010**

## For the Jobs for Maine Campaign of Les Otten

OTTEN'10

Republican *for* Governor

# Executive Summary

Maine's leisure and recreation industry[1] is vital to the health of Maine's economy.

The state's budget for the promotion of the state needs to be increased.

- One fifth of Maine's output and tax revenues depend on tourism.
- Other regional states are competing for visitors.
- The promotion of the leisure and recreation industry by the state will result in increased state commerce, tens of thousands of jobs, and tax revenues that far exceed the investment.

The state's strategy for allocating funds for tourism promotion needs to change.

- The three L's (lobster, lighthouses, LL Bean) have been and will continue to be at the core of Maine's brand.
- The insufficiently tapped offerings of Maine's interior counties also need to be developed with state support.
- The long used "eight region" strategy needs to be replaced with a strategy that recognizes core target markets that often span many of the "regions".
- The businesses that are directly and indirectly supported by visitor spending[2] need to have a formalized relationship with state funding.

[1] The leisure and recreation industry is very broad. It includes lodging, restaurants, indoor and outdoor sports, and shopping. It also includes transportation support and many other direct, indirect, and induced jobs.
[2] Visitor spending includes consumption by visitors both from other states and from Maine.

## Introduction

The state of Maine has a long tradition in manufacturing. 150 years ago the state was a world leader in fishing, ship building, lumbering, paper, textiles, and leather goods manufacturing. But times have changed. Although the pulp and paper and lumber industries remain an important part of Maine's economy and are still the largest manufacturing industries in Maine, the jobs in those sectors have steadily declined. The forest products sector will continue to play an important role in Maine's future and the state should do what it can to make sure that sector remains healthy. But Maine also needs to support its largest industry: tourism.

Pulp and paper contributes about 4.1% ($1.477 billion) to the gross state product[3]. By contrast, the tourism "industry" contributes 20.8% ($10.082 billion) to the gross state product[4].

The leisure and recreation industry also contributes a significant portion of the tax revenues in Maine. In 2006 the state of Maine collected about $946 million in sales tax. About $272 million of that total was derived as a result of visitor spending. Accounting for income taxes and fuel taxes[5] the state government received about $430 million tax dollars as a result of visitor spending.

Using a similar analysis that accounts for the multiplier effects of spending in retail establishments, lodging, restaurants, and other leisure and recreation related businesses, an estimated 140,000 jobs in Maine are sustained by visitor spending. That is almost 17% of all jobs in Maine. That is more than Florida (12.5%).

Since tourism contributes about 21% to the gross state product and generates about 20% of sales tax receipts, spending by visitors is vital to the state's economy. But attracting visitors, particularly when other states are also competing for tourism market share, requires marketing. In an environment in which budget triage includes zero basing departments, programs, and expenditures, what is the best policy for supporting Maine's vital leisure and recreation industry?

This white paper will outline several policy suggestions that will maintain and enhance Maine's competitive advantage.

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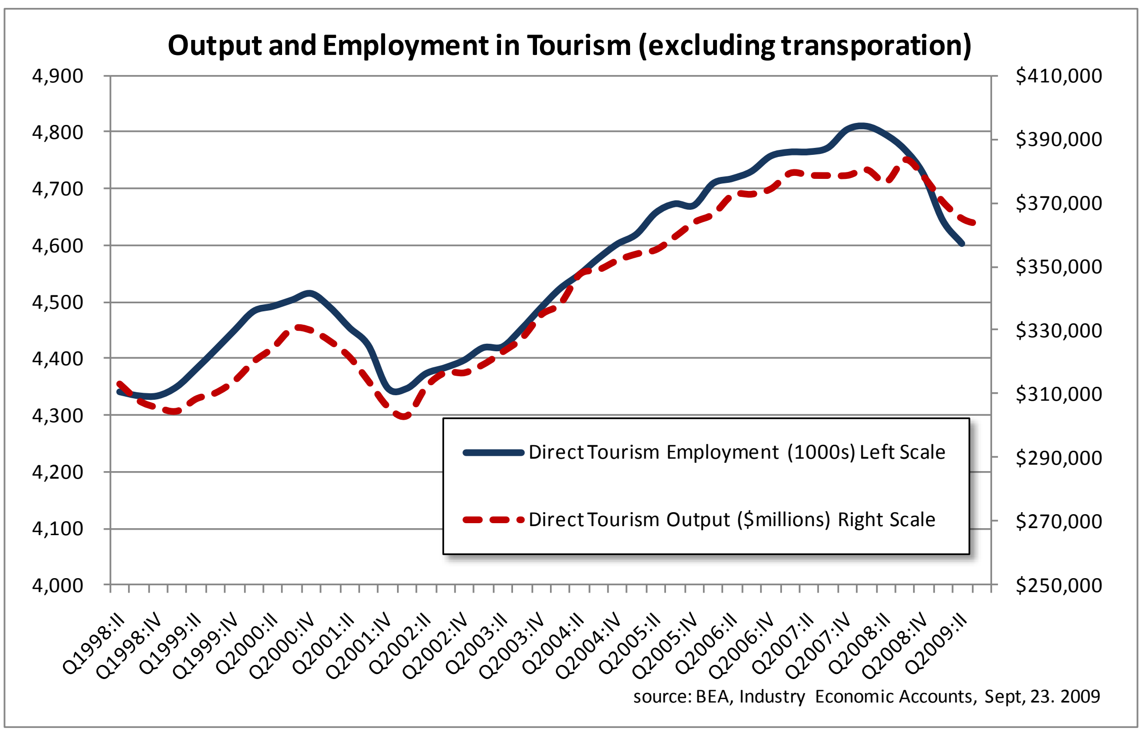
[3] Maine Pulp and Paper Association - http://www.pulpandpaper.org/html/economic_impact.html
[4] Maine State Planning Office - http://www.state.me.us/spo/economics/tourism/tourism.htm
[5] Using data from the 2006 Longwoods International Survey (June, 2007) and using the Bureau of Economic Analysis RIMS II multipliers.

## The Current Situation

Difficult economic times require even more careful analysis then usual when allocating scarce public funds. The return on investment (ROI) should be a critical metric in determining the worth of expenditures for both private and public enterprise. ROI analysis is relatively straight forward in a manufacturing environment in which investment in capital produces goods with prices. Maine's tourism "industry" may not manufacture hard goods but it does create a return to the state in measurable commerce, jobs, and tax revenues. So ROI analysis can be used to understand the relationship between the money the state spends on promoting tourism and the return the state receives directly and indirectly from visitor spending.

Recent research using econometric methods[6] suggest that the benefit to cost ratio of public marketing expenditures to tourism spending are significant; in some cases exceeding 13 to 1. A recent study[7] quantified the impact of changes in state promotional budgets to changes in person-visits. That research provides a foundation for the analysis that follows.

The United States is experiencing a very difficult economic period. The recession has hit the leisure and recreation industry very hard. The chart below shows the recent trend in both employment and direct output for the country for the tourism sector (excluding transportation).

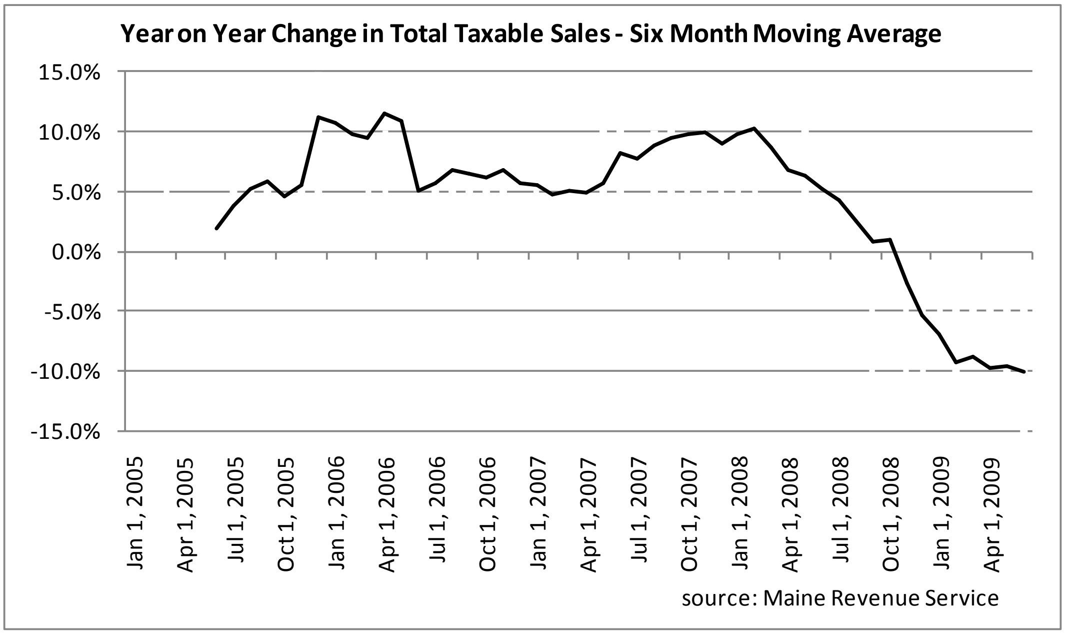


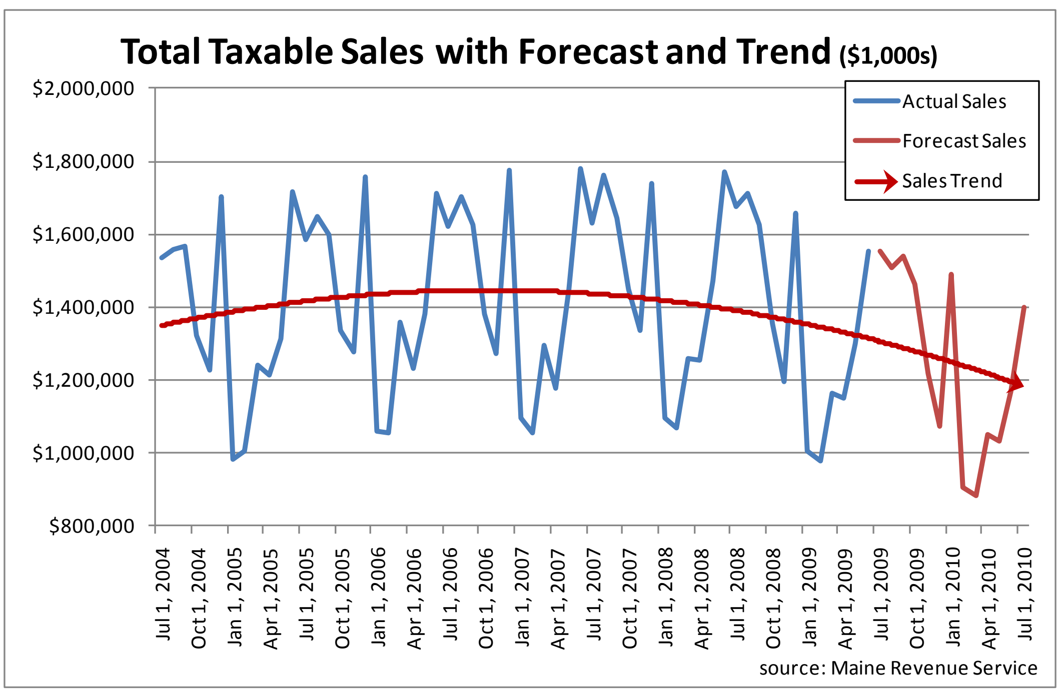

6 Kulendram and Dwyer, "Measuring the Return from Tourism Marketing Expenditure", Journal of Travel Research, 47 (February 2009), pp. 275-284.

7 HIS Global Insight, "Public Tourism Promotion ROI", February, 2009.

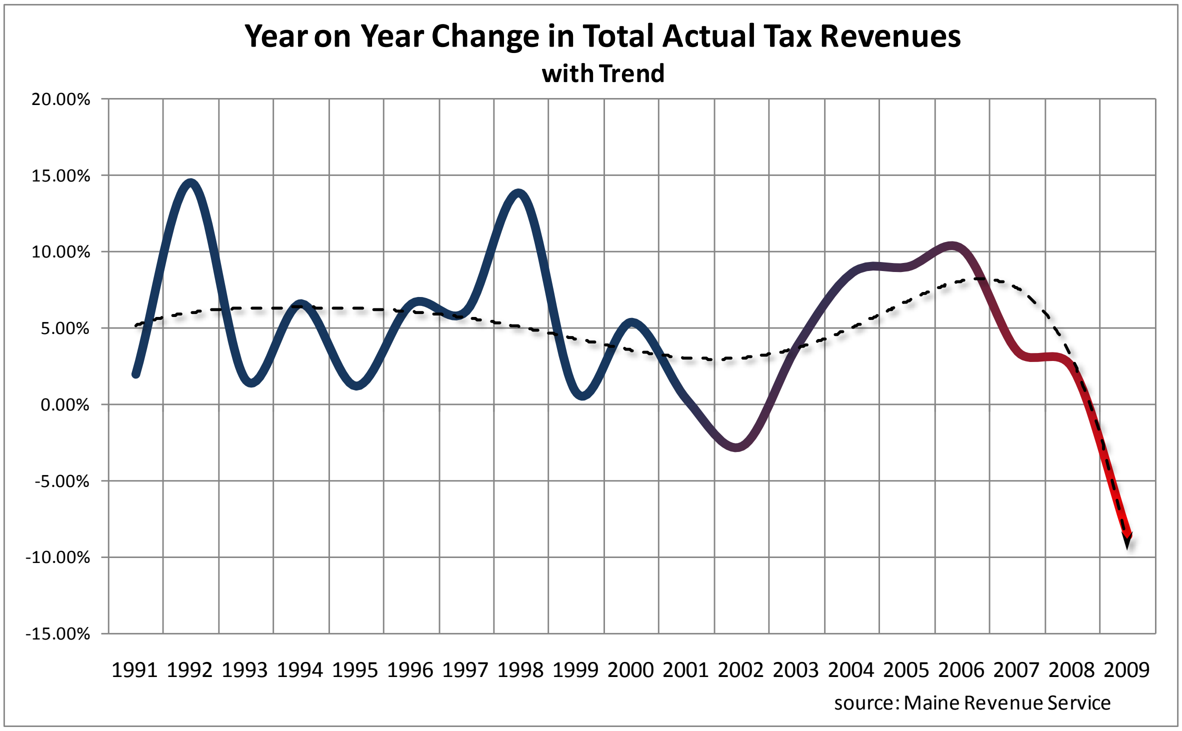
Maine is not immune from the declines in the industry. The negative effects from a decline in visitor spending are magnified in a state in which tourism contributes about 20% of the total sales taxed collected and supports about 17% of the jobs[8].

Maine will experience a significant drop in tax revenues for 2009. Monthly data on taxable sales show a disturbing trend. The charts below show the change in total taxable sales.



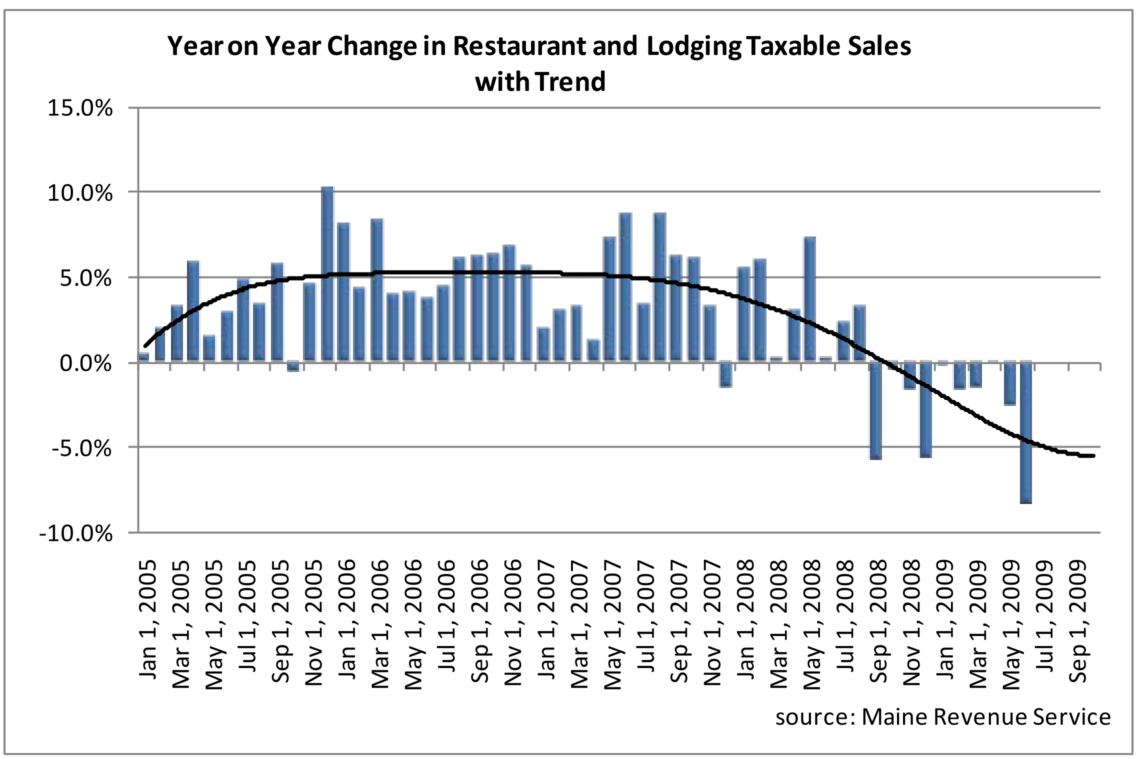




[8] Maine State Planning Office, Feb., 2008.




The data shows that Maine's total tax receipts for fiscal year 2009 have fallen by almost $300,000.000. Within that is a drop in sales and use taxes of about $60 million.

The Lodging and Meals tax, which is the source of income for the state's promotion budget through the Maine Office of Tourism, is also expected to significantly decline. The chart below shows the decline.



A decline in the money that the state spends on promotion will have a significant impact on tourist visits. If the state allows the tourism promotion budget to fall by 6%, the estimated effect on the state's tourism and tax revenues are as follows:

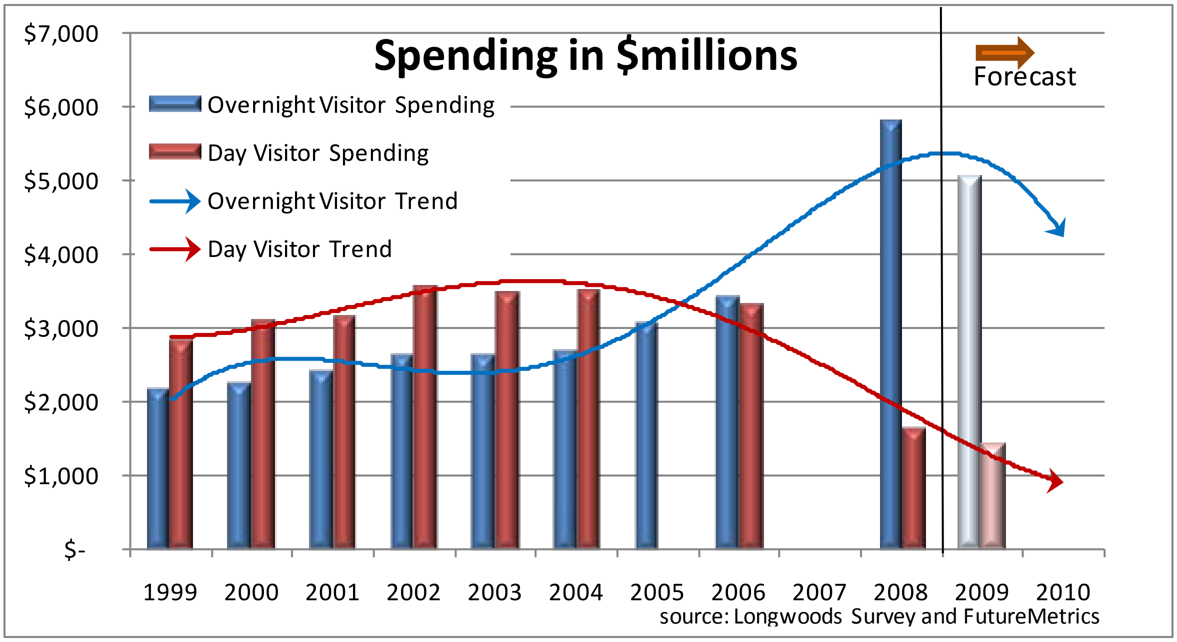
| **2008 Data** | | |
|---|---|---|
| Current State Marketing Budget | $ | 9,400,000 |
| Number of Day Visitors | | 16,500,000 |
| Number of Overnight Visitors | | 15,400,000 |
| Total Visitors | | 31,900,000 |
| Spending by Day Visitors | $ | 1,650,000,000 |
| Spending by Overnight Visitors | $ | 5,800,000,000 |
| Total Visitor Spending | $ | 7,450,000,000 |
| Average Receipt per Visitor | $ | 477 |
| **Analysis of Marketing Budget Decrease** | | |
| Decrease Marketing Budget to ==> | $ | 8,742,000 |
| Decrease in Person-Trips soley due to decline in promotion | | 78,155 |
| Lost Revenue | $ | 37,250,500 |
| Lost Tax | $ | (1,053,500) |
| Net (loss of taxes versus drop on budget) | $ | (395,500) |

A 6% decline in the state's promotion budget is expected to result in a decline in visitors in excess of the declines from the economic downturn. That excess decline will cause an additional loss of tax revenues estimated to be about $1 million. In other words, spending about $600,000 less on marketing will cause the state to lose an additional one million dollars.

Although the net loss of about $400,000 seems small, those declines are on top of the declines expected due to the difficult economic situation that the United States is currently enduring. The research referenced above suggests that for every 1% decline in real incomes, tourist visits decline by 2.54%. The fall in real incomes in the US in the last two years suggest a drop in tourism spending of more than 10%.

The total potential losses to the state are enormous. In addition to the expected loss of nearly a half a billion dollars to the state's economy, almost 20,000 jobs will be lost due to the decline in visitor spending.

The chart below shows the forecast of doing business-as-usual during this economic downturn and allowing the tourism promotion budget to follow the tax revenues (data for 2007 was not available).



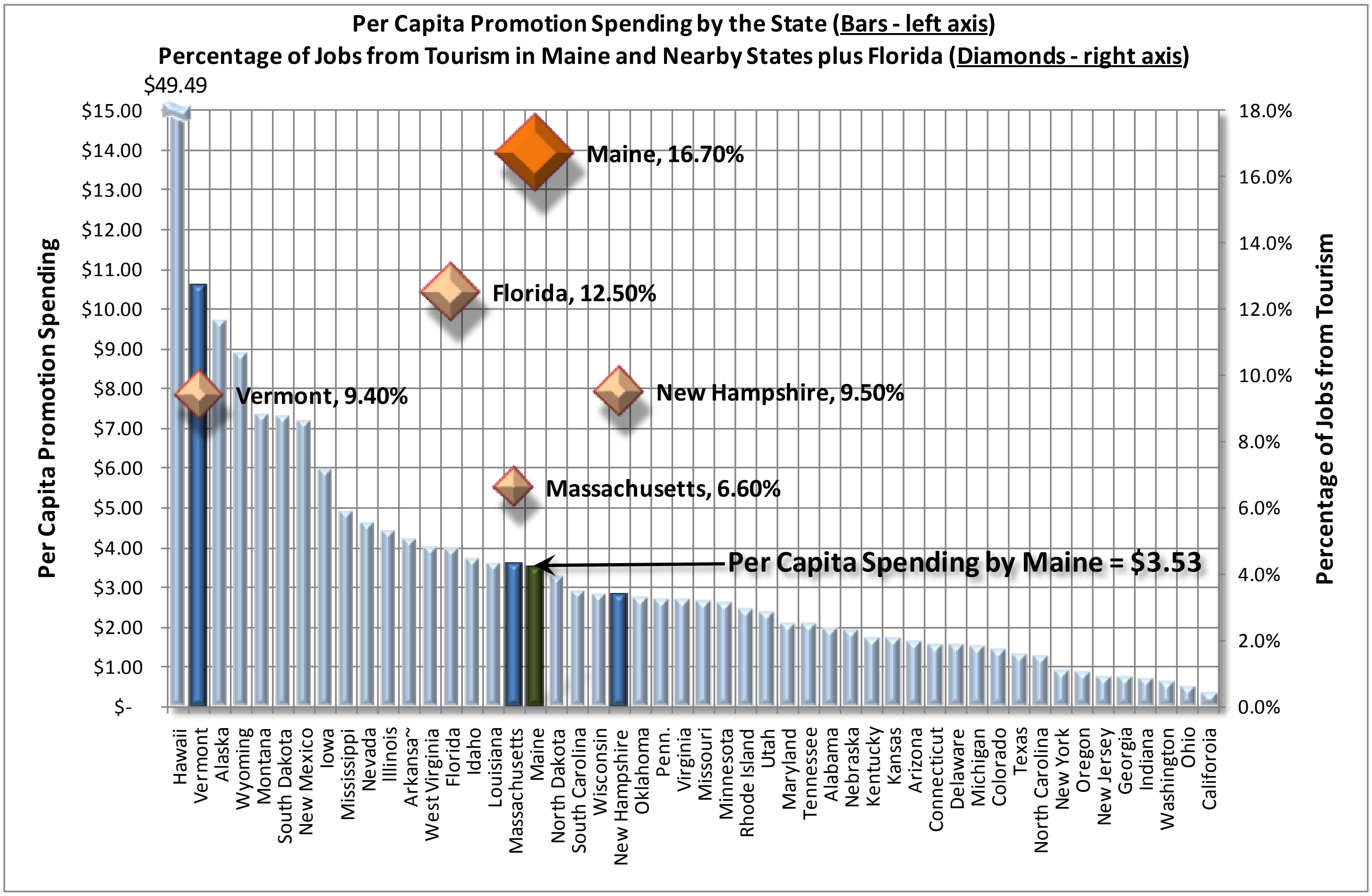

The currently policy which ties the promotion budget to tax revenues for the meals and lodging tax is pro-cyclical. That is, it reinforces the negative effects of the down economy. Furthermore, the research has shown that the harm caused from a reduced marketing budget takes 3 to 4 years to recover from.

## Policy for Maine's Future – Support for the Leisure and Recreation Industry

To fight against the down-cycle in tourism, the state should increase its spending on promotion. This is against the natural instinct for any policy maker (which is to cut spending as tax revenues fall). For areas of the budget in which spending does not yield a return on the investment, that may make sense. But the budget that the Maine Office of Tourism has for promotion, as is shown above, has significant multiplier effects that need to be considered that affect sales tax, income tax, and fuel tax revenues.

In determining how much to spend on promotion by the state, the state needs to consider not only the impact that visitor spending has on the state but also what other nearby states are doing to entice visitors to their states. The chart below[9] shows that Maine has by far the biggest dependence upon tourism for jobs than any other state in the region (even larger than Florida which is also shown on the chart). Yet Maine's per capita spending on tourism is nearly the same as Florida's. In the case of Vermont, for which tourism's provides 9.4% of jobs compared to Maine's 16.7%, per capita promotional spending is $10.60; almost three times that of Maine's.

[9] Data from: "The Economic Impact of Travel on Massachusetts Counties in 2004". Massachusetts Office of Travel and Tourism, January 2006. "The Travel and Tourism in Vermont: A Benchmark Study of the Economic Impact of Visitor Spending on the Vermont Economy in 2005." Vermont Department of Tourism and Marketing, 2007. "New Hampshire Fiscal Year 2006 Tourism Satellite Account". New Hampshire Division of Travel and Tourism Development, June 2007. "The Challenge of Public Relations Financial Accountability: the case of the USA", Lisa Fall and Charles Lubbers, in Destination Branding, 2008.



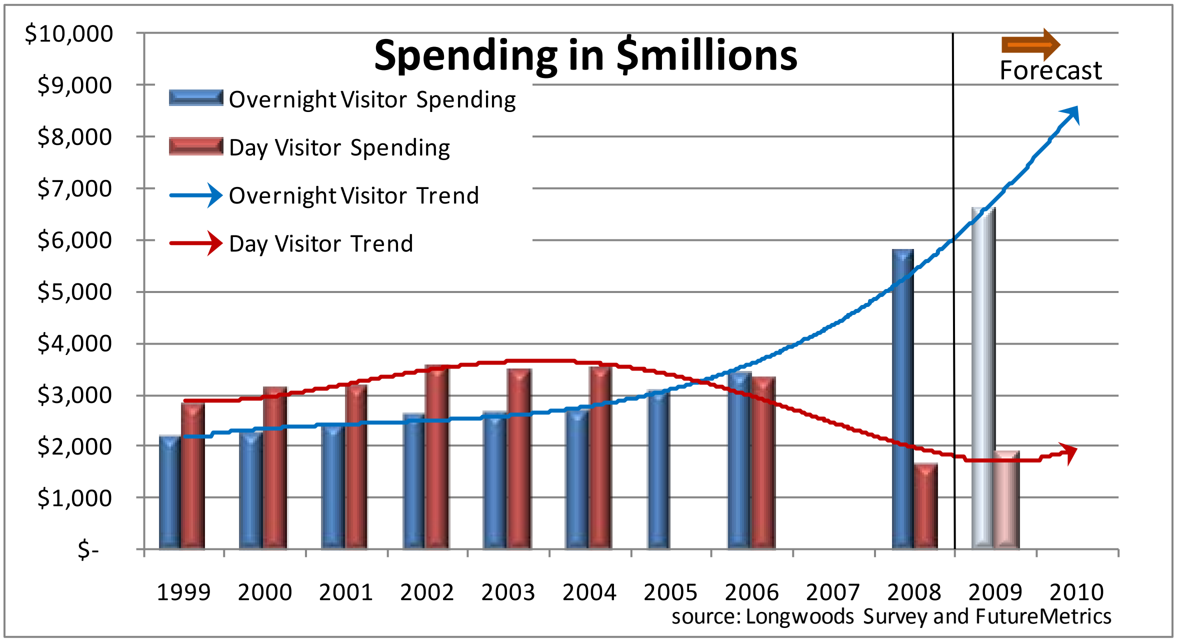

**The per capita spending should reflect the importance of tourism on the Maine economy. A weighted average of spending by Massachusetts, Vermont, and New Hampshire with respect to the impact on the economy suggests that Maine should increase its per capita spending to $7.04 (from its current $3.53).**

The average annual spending by all states in the US is about $18 million. If the Maine Office of Tourism were to receive 10% of the 7% meals and lodging tax instead of the current 5% cut, it could increase the budget for promotion to about the average for the nation and the per capita spending would be nearly on par (at $7.06) with what the state should spend in order to compete with nearby states. It should be noted that this increase does not require any new taxes but is based on a reallocation of the existing Meals and Revenue tax.

The table below shows the expected outcome of that increase.

| Analysis of Marketing Budget Increase | | |
|---|---|---|
| Increase Marketing Budget to ==> | $ | 18,800,000 |
| Increase in Person-Trips | | 2,233,000 |
| New Revenue | $ | 1,064,300,000 |
| Tax Gain | $ | 30,100,000 |
| Net (increase in taxes over cost) | $ | 20,700,000 |

Doubling the money spent on tourism promotion would be expected to increase person-visits by 7% over the baseline (based on the Maine budget in 2008). The increase of $9,400,000 in spending is expected to produce more than one billion dollars in new economic activity and about $30,000,000 in new tax revenues. The state treasury will benefit significantly. It will also add about 20,000 jobs to Maine's payrolls through direct and indirect channels. Most of these jobs are created in small locally owned businesses. The tax and job growth will add an average of about $1535 of new tax revenues to the state for each new job.




The benefit to cost ratio is 2.2 to 1. The full effects of an increased promotion budget will take several years to be realized, but the benefit to cost ratio has been shown to be greater than one from day one.[10] The ranges of benefit to cost ratios (or ROI) in various studies of marketing data reflect the effectiveness of the strategies[11].

The increase in the tourism promotion budget will over time be funded in part by the increased Meals and Lodging tax revenues. However, the increase over the current variable allocation should come from general fund revenues (allocating 10% of the Meals and Lodging revenues rather than 5%). Increasing the meals and lodging taxes on tourists (and Mainers[12]) is not necessary. As the analysis above has shown, the increase in sales and use taxes, income taxes, and fuel taxes as a result of increased visitors will provide general fund revenues more than sufficient for the increased Maine Office of Tourism budget.

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[10] Song, H., Witt, S.F. & Jensen, T.C. (2003). 'Tourism forecasting: accuracy of alternative econometric models, *International Journal of Forecasting*, vol. 19, pp. 123-141.

[11] Morgan, Nigel; Pritchard, Annette; Pride, Roger; Destination Branding, Second Edition: Creating the unique destination proposition, Butterworth-Heinemann; 2 edition, August, 2004.

[12] 70% of the Meals tax is paid by Maine citizens. From the Maine Tourism Association, Sept. 2009.

Of course the positive forecasts from this analysis depend upon an effective strategy. The Maine Office of Tourism has in general done a very good job with the funds it has available. However, the method by which some of those funds are used needs to be changed.

Right now, 10% of the total Meals and Lodging tax revenues are disbursed into 10 budget line items. Eight of those items are determined by the eight geographic areas shown in the map below.

**Aroostook County**
Fort Kent, Houlton, Presque Isle, Fort Fairfield, Madawaska

**Down East & Acadia**
Bar Harbor, Blue Hill, Deer Isle, Eastport, Lubec, Cherryfield, Machias

**Greater Portland & Casco Bay**
Portland, Freeport, Yarmouth, Westbrook, Cape Elizabeth

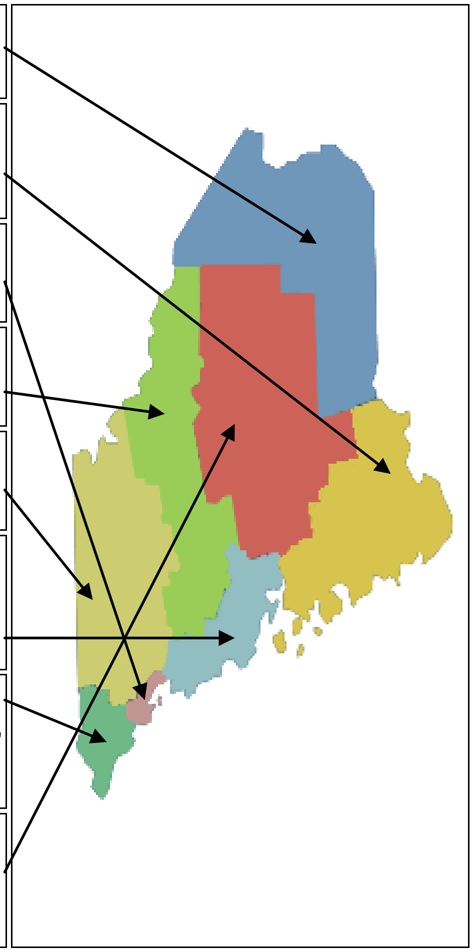
**Kennebec & Moose River Valley**
Augusta, Skowhegan, Waterville, The Forks

**Maine Lakes & Mountains**
Auburn, Lewiston, Norway, Bethel, Farmington, Naples

**Mid-Coast Maine**
Bath, Boothbay Harbor, Camden, Rockland, Brunswick, Belfast, Searsport

**Southern Maine Coast**
Biddeford, Kennebunkport, Kittery, Ogunquit, Old Orchard Beach, Saco, Wells, York

**Katahdin & Moosehead Maine**
Bangor, Brewer, Greenville, Lincoln, Milinocket, Orono, Baxter State Park



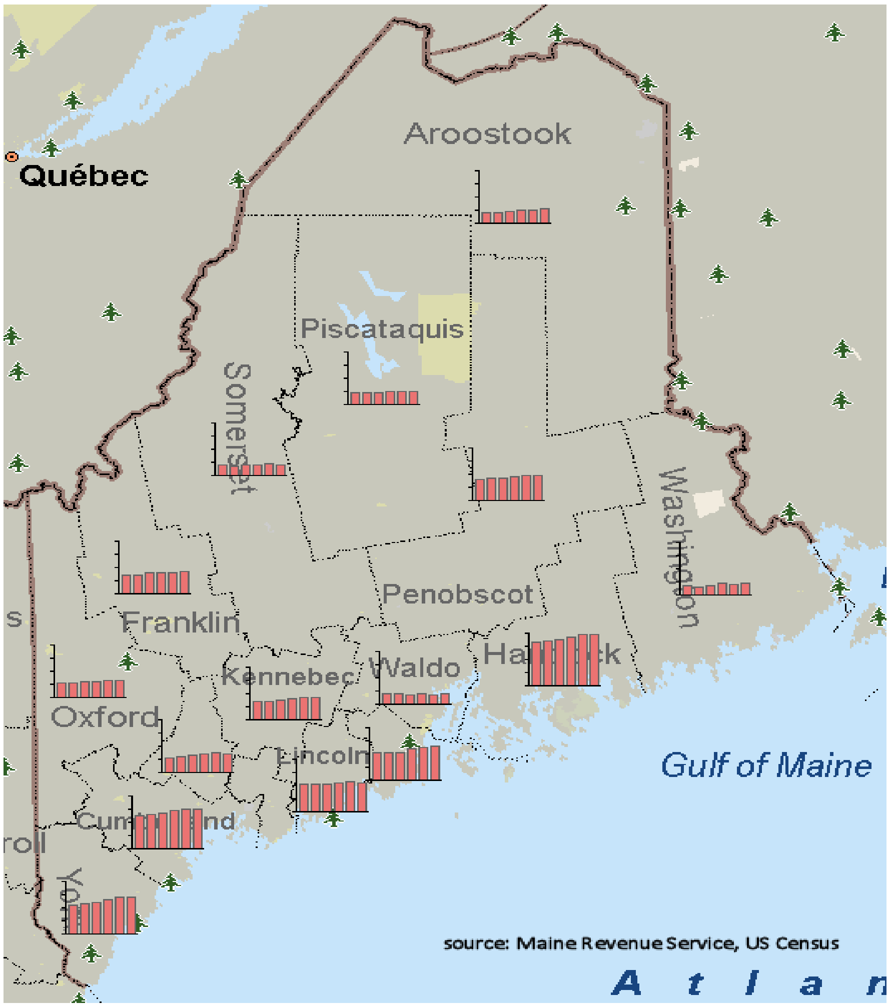
The allocation of funds to regions that in many cases have similar target markets creates a competitive relationship rather than a synergistic relationship amongst different areas of the state. Furthermore, the 1% allocation of 10% of the Meals and Lodging revenue to those eight regions brings only about $100,000 to each of the regions. That amount is not only allocated non-strategically but the total annual amount of about $800,000 is insufficient.

A better use of the budget would be to both increase overall budget (as shown above) for targeted marketing and to allocate the funds differently.

The current Maine Tourism Marketing Partnership Program (MTMPP) should be maintained and expanded. However, the allocation of funds should not be based on the regional model. The first criteria should consider that the primary funding source for the budget is the Meals and Lodging taxes.

Therefore the strategic top level criteria should be that allocations enhance visitor spending at establishments in the regions that produce the highest per capita meals and lodging tax revenues.

The map and table below show the total Meals and Lodging taxes by county divided by population from 2003 to 2008. Higher bars in the chart show those counties that produce the most meals and lodging tax revenue per capita.



This table shows the same data as the chart above but is arranged so that the areas with the highest meals and lodging taxes are at the top. Green represents the highest per capita meals and lodging tax rates and red the lowest.

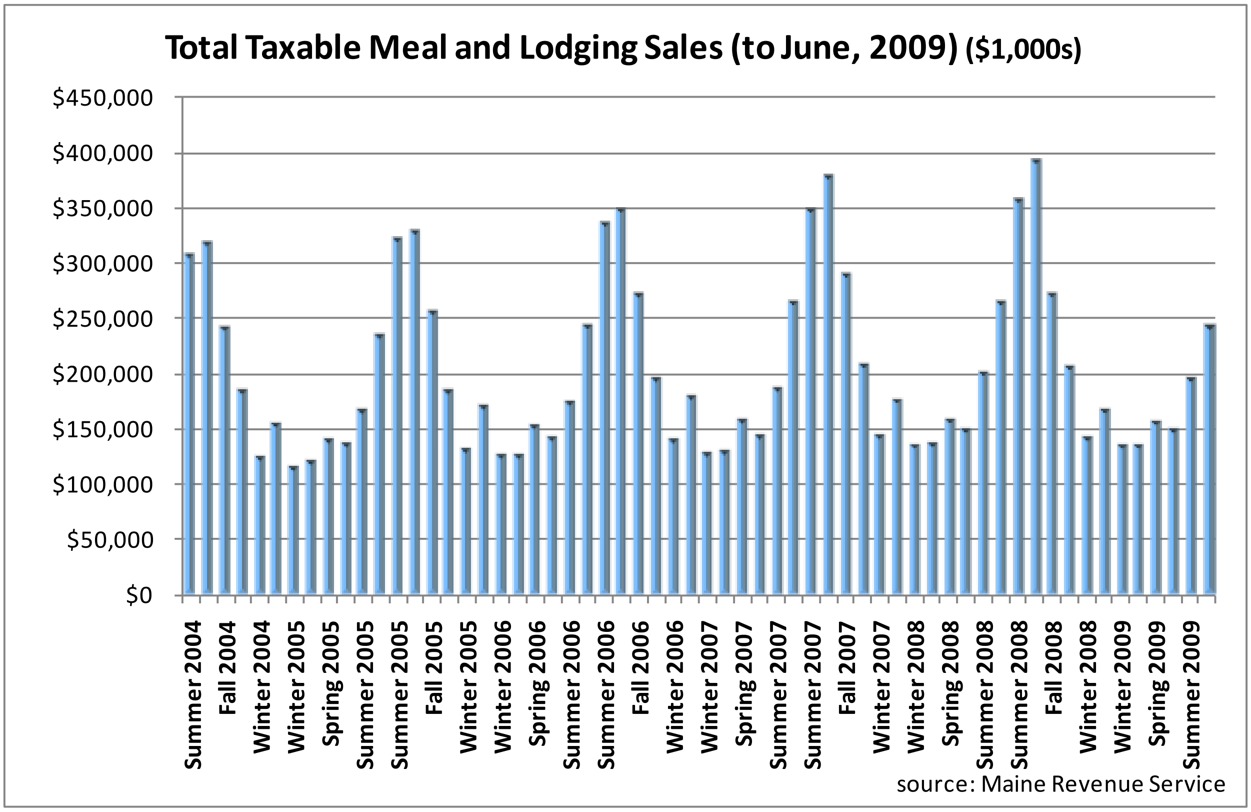
| Meals and Lodging Taxes divided by Population | | | | | | |
|---|---|---|---|---|---|---|
| **County** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** |
| Hancock | $3,010 | $3,070 | $3,180 | $3,330 | $3,570 | $3,550 |
| Cumberland | $2,300 | $2,420 | $2,510 | $2,640 | $2,730 | $2,770 |
| York | $2,050 | $2,100 | $2,250 | $2,360 | $2,540 | $2,550 |
| Knox | $1,920 | $1,950 | $1,980 | $2,160 | $2,340 | $2,350 |
| Lincoln | $1,890 | $1,900 | $1,900 | $1,980 | $2,130 | $2,070 |
| Penobscot | $1,460 | $1,550 | $1,620 | $1,690 | $1,740 | $1,780 |
| Franklin | $1,300 | $1,320 | $1,460 | $1,450 | $1,510 | $1,580 |
| Kennebec | $1,290 | $1,350 | $1,410 | $1,490 | $1,560 | $1,550 |
| Androscoggin | $1,050 | $1,120 | $1,210 | $1,280 | $1,350 | $1,320 |
| Oxford | $1,050 | $1,050 | $1,130 | $1,140 | $1,190 | $1,210 |
| Aroostook | $760 | $780 | $820 | $940 | $950 | $990 |
| Piscataquis | $810 | $850 | $860 | $900 | $940 | $920 |
| Washington | $680 | $610 | $690 | $810 | $810 | $860 |
| Somerset | $750 | $690 | $790 | $770 | $830 | $770 |
| Waldo | $720 | $740 | $710 | $750 | $710 | $730 |

A strategy of enhancing revenues by focusing on the top producers should not ignore the non-coastal counties. The data does not provide for a conclusion as to the degree to which the state's traditional focus on marketing the "three L's" (lobster, lighthouses, LL Bean) has generated a self fulfilling loop. That is, it is not possible to quantify the degree to which less focus on the interior's world class offerings[13] has influenced visitor spending patterns.

But it is clear that Maine has significant untapped potential away from the three L's. There are the 376 miles of Appalachian Trail that terminate at Mount Katahdin, there is the Allagash Wilderness Waterway, Moosehead Lake, and the 12,000 miles of local snowmobile trails and 3,000 miles on the Interconnected Trail Network. There are uncounted lakes and rivers for fishing and whitewater enthusiasts. The Maine hunting experience is legendary. Eco-tourism has barely hit the Maine radar.

Maine not only needs to expand its support of the interior but it also needs to increase winter visitors. The chart below shows that the summer months are the peak months for Meal and Lodging revenues (note the late December spike every winter from skier visits).

[13] See "Tourism Strategy for the Maine Woods: A Big Push to World Class", David Vail, http://denali.asap.um.maine.edu/mcs/?q=node/1173




So the allocation of funds should have two tactical fronts and should be supported by a significantly increased annual marketing budget (to $18.8 million per year). The tactics should enhance the current strong producers and build up the less productive areas.

The first tactic should continue to focus on allocating funds to the traditional MTMPP network. Under the current system, about $800,000 is divided amongst the 8 regions. However, the allocations should not be divided by the old regional guidelines and the amounts that are allocated should be significantly larger. The allocations should be guided by an analysis of the return on investment and awarded to partners that show the greatest likelihood of enhancing the marginal impact of the marketing dollars on the Meals and Tax revenues.

The second tactic should codify a strategic partnering with the current key associations that are focused on Maine's tourist industry. With proper auditing, an annual budget allocation should be provided to those associations that provide key liaisons between public and private interests in the leisure and recreation industry. This partnering should at least include the following groups:

- Maine Tourism Association
- Maine Innkeepers Association
- Maine Restaurant Association
- Ski Maine Association
- Maine Campground Owners Association
- Maine Merchants Association
- Sportsman's Alliance of Maine
- Maine Professional Guides Association

- Maine Snowmobilers Association
- ATV Maine

The Maine Office of Tourism annual budget should increase by $9.4 million. How that added budget money is allocated amongst the MTMPP and the associations should be determined from a detailed analysis of each applicant for the MTMPP and an application that is in essence a strategic business plan for supporting and growing visitor revenue from each of the associations.

## Conclusion

Maine depends on a healthy tourism industry more than any other of its industries. Because the tourism "industry" is actually an aggregation of thousands of small businesses, it requires external associations and advocacy groups to channel information both to and from these businesses. By supporting key target market advocates, the state will have voices advocating for more than the three L's.

But Maine needs to do more than shuffle the deck chairs. It also needs to recognize the competitive environment in which it exists. There are other nearby states that would like to see the tourist dollars come their way. Vermont, with 47% of the population of Maine, spends millions of dollars per year more than Maine on promoting tourism. Massachusetts, with a much larger population than Maine, spends almost 5 times as much as Maine per year to attract those seeking leisure and recreation.

The state has its signature offerings that will continue to provide some competitive advantage. But it cannot allow the other regional states to diminish the attractiveness of Maine's brand by aggressively promoting theirs.

And the ROI from the money budgeted for Maine tourism promotion will increase the health of the economy, will create jobs, and will produce tax revenues that far exceed the investment.

This white paper was produced for the Les Otten for Governor Campaign by:

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