

The Economic Impact of Travel and Tourism In Durham, North Carolina

Based on a 4-Part Series
for Durham News Service

March, 2010



Executive Summary

Visitors have a considerable impact on Durham's economy. Two nationally-known research firms, IHS Global Insights and D.K. Shifflet & Associates do an analysis every other year of the direct, indirect and induced spending attributed to Durham visitors. For 2008, the most recent data just released they noted that:

Visitors spent \$679.4 million in Durham in 2008

Visitors generated \$40.5 million in tax revenue for local government

**92% of Spending was from Domestic Visitors
8% of spending was from International visitors**

**Leisure Travel accounted for 67% of all spending
Business Travel accounted for 33% of all spending**

Some of the money spent in Durham immediately leaves Durham through something called leakage. When accounting for all types of spending and subtracting the leakage, it is said that:

**The total value-added to the Durham economy from visitors in 2008 is
\$491 million**

In addition to spending and tax revenue, visitors help generate thousands of jobs.

In 2008 visitors to Durham generated 10,179 direct jobs

These jobs generated \$234.4 million in labor income

Global Insights estimates:

**Without visitors each household in Durham would pay
an average of \$770 more in state and local taxes
in order to maintain the current level of services**



February 8, 2010

What's a Visitor Worth These Days?

(In simple terms for those who are not economists – part 1 of a 4-part series)

That's often the first question DCVB is asked by local stakeholders, closely followed by, "How do you know? "

No one stands on the street corner counting visitors, but there are some smart companies out there using impressive ways to quantify the number of visitors to any given community and the amount of spending that is generated each year. The bottom line is:

**In 2008, visitors to Durham
spent \$679.4 million generating
\$40.5 million in tax revenue
for the City and County of Durham**

DCVB does not calculate any of these numbers. It uses two nationally-known research firms, D.K. Shifflet & Associates and IHS Global Insight to do the analysis. See page 2 for an explanation of the methodology.

Some readers know enough about economics to wonder if this figure includes what economists refer to as "multipliers." The answer is no. The \$679.4 million was direct spending primarily in five categories and does not include spending by local Durham residents.

What some may not realize is that when calculating the full economic impact of tourism or any other sector of the economy, it is perfectly acceptable to **add in** indirect and induced spending, as long as the leakage is **subtracted out**. Here are some definitions:

Direct Spending – what the visitor spends at the point of sale in a visitor-related business.

Indirect spending - what hospitality businesses spend with other local businesses such as florists, dry cleaners, construction companies, office suppliers, banks, etc.

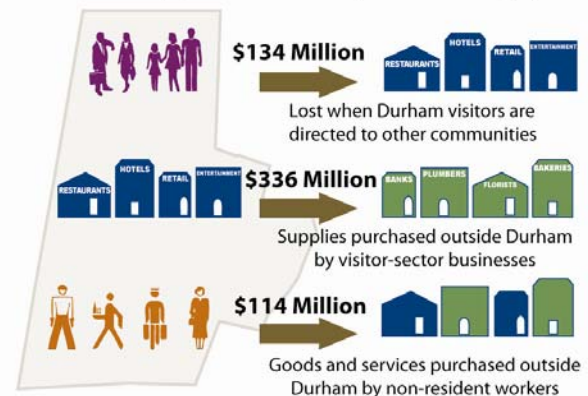
Induced spending - what the employees of hospitality businesses spend by having a job and living in the community.

Leakage - the money that leaves the community.

Some leakage occurs when visitors are directed to other communities for dining, shopping and activities. Another form of leakage occurs when employees don't live in the community where they work, because most of their income and wages are then spent where they live. The biggest form of leakage, however, occurs when businesses purchase their supplies and services outside the community in which their business is located.

So, for example: A visitor goes to a store and buys a t-shirt for \$19.95. The merchant collects \$21.50, which includes \$1.55 in sales tax, most of which goes to the state of North Carolina, but some of which stays in Durham. Approximately \$10 of that sale immediately leaves Durham to pay the manufacturer that produced this t-shirt, most likely outside the U.S. That is leakage.

Lost Opportunities (aka Leakage)



Source: Global Insight, State TEIM, & DCVB, 2009

So the full economic impact of visitors to Durham is considerably LESS than the amount visitors spent here. The total economic impact of visitors to Durham in 2008, sometimes referred to as "value added," was \$490.5 million. That's the direct, indirect and induced spending **minus** the leakage...and that's still a pretty impressive number.



February 15, 2010

What's a Visitor Worth to State and Local Governments?

(In simple terms for those who are not Economists – Part 2 of a 4-Part Series)

In 2008, local governments (City of Durham, Durham County) received \$40.5 million in tax revenues from Durham visitors. The largest percentage of this comes in the form of sales tax revenue.

Durham, NC Tourism: 2008 & prior study years Tax Revenue

Tax	2008 (\$)
Local: Durham	
Hotel Tax	8,607,871
Property Taxes	13,819,361
Excise & Fees	1,143,390
Sales Taxes	16,977,096
Durham Total	40,547,718

Property taxes accounted for the next largest percentage. Keep in mind that unlike traditional supply-side economic development, convention and visitor bureaus are in business to drive demand. Simply put, destination marketing isn't about building things so people will come, it is about enticing people to come so there is support for the things that have already been built.

So, for example, when DCVB opened its doors in 1989 Durham had 3900 hotel rooms, 850 of which have since closed. Now, 20 years later, Durham has 7,600 hotel rooms with another 1,200 under development and an additional 1,200 under consideration. Without additional demand, the private sector would not build additional product.

The State of North Carolina benefited from Durham visitors to the tune of about \$38.7 million, and the lion's share of tax revenue (\$77 million) was sent to the Federal Government.

D.K. Shifflet & Associates is one of the leading U.S. consumer travel research firms. For 25 years they have provided the industry's most complete consumer-based travel data on U.S. Citizens.

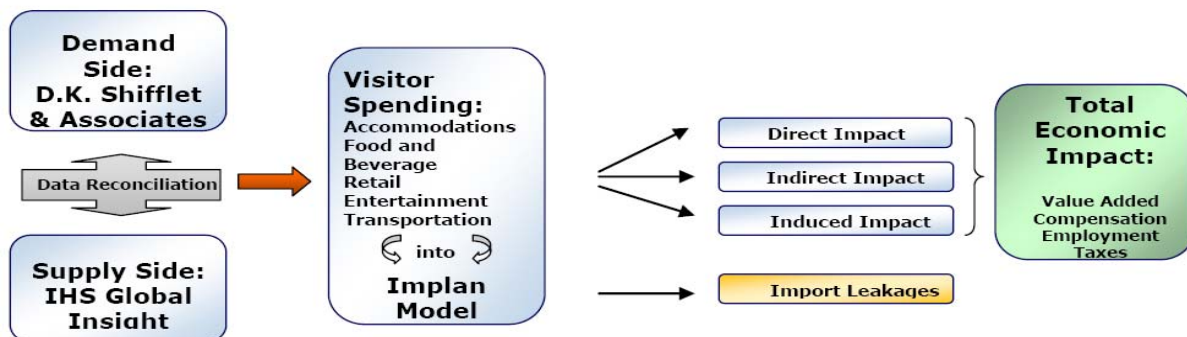
DKSA's PERFORMANCE/Monitor and DIRECTIONS® Travel Intelligence System collect detailed travel data from over 60,000 households each and every month of the year. From this data information from those visiting Durham can be extrapolated and combined with other standard metrics to estimate the overall volume of travelers to Durham.

IHS Global Insights is recognized as the most consistently accurate forecasting company in the World and provides the most comprehensive economic and financial data to its clients utilizing a unique combination of expertise, models, data, and analytical software.

Visitor spending is estimated based on the traveler spending as reported in the D.K. Shifflet travel surveys and U.S. Office of Travel and Tourism data on international visitation.

The data are then cross checked and augmented by Global Insights with its own NAICS database on sales and employment by sector.

The IMPLAN Input-Output economic impact model was used to estimate direct, indirect and induced impacts.



*OTTI: Office of Travel and Tourism Industries, U.S. Department of Commerce



March 1, 2010

How do Visitors to Durham Create more than 10,000 Jobs?

(In simple terms for those who are not Economists – Part 3 of a 4-Part Series)

In 2008, the travel and tourism sector accounted for 5.3% of all jobs in Durham, making it the tenth largest job generator, behind manufacturing, health care, education, professional services, and government.

This is down slightly from the 5.6% of jobs it held in 2006 when it was the eighth largest generator of jobs in Durham, but still accounts for more than 10,000 jobs.

Some assume hospitality jobs are all low wage jobs, but that's like assuming everyone who works in a hospital is an orderly.

There are a variety of full and part-time jobs in hospitality that run the gamut from entry-level to management and executive-level positions in everything from food service and lodging to retail, transportation, and other services.

The primary generator of visitor-related jobs in Durham is the food service industry. But the 4,379 jobs noted here are not all of the food-related jobs in Durham.

Visitors support a little more than one-third of the food service jobs in Durham, a place that has long prided itself on its culinary offerings. Without those six million visitors annually, there would be approximately 185 fewer restaurants in the Bull City.

It's fitting that the U.S. Congress recently passed legislation to create economic growth and thousands of new American jobs by welcoming millions more international travelers to the United States.

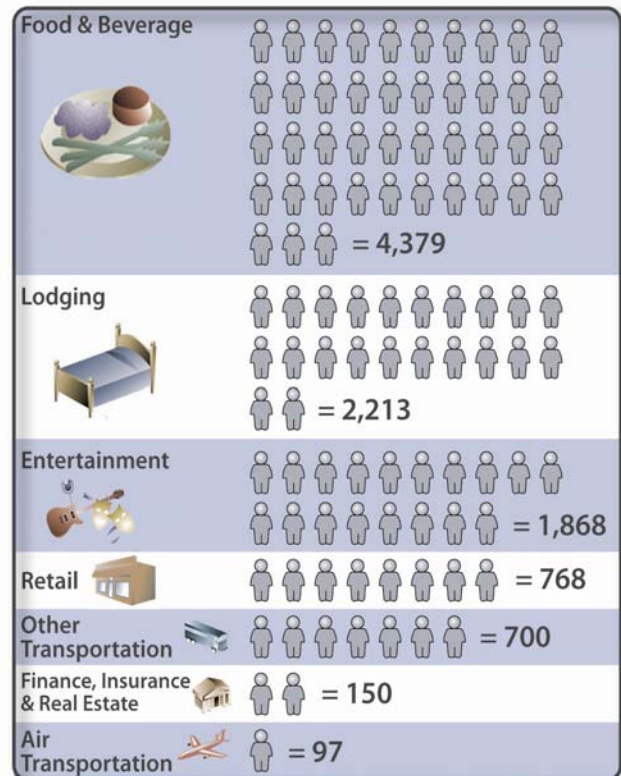
The Travel Promotion Act is estimated to drive \$4 billion in new consumer spending annually and create 40,000 U.S. jobs nationwide. Further, it is expected to reduce

the federal budget deficit by \$425 million over the next 10 years, according to the Congressional Budget Office.

Durham is already benefiting from international travelers to the tune of about \$50 million in spending annually. With a renewed emphasis on international visitors at the federal level, Durham will have the opportunity to increase its share of overseas travelers, which in turn will promote more spending, tax revenue, and jobs for Durham residents.

Durham, NC Travel & Tourism: 2008 Employment

= 100 people



Source: IHS Global Insight & Durham Convention & Visitors Bureau





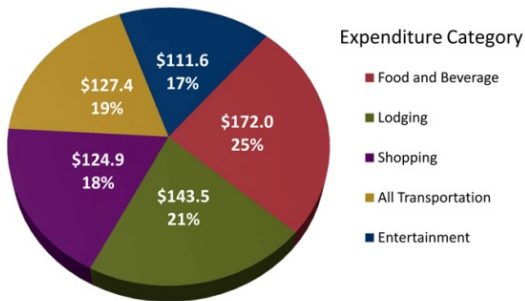
March 8, 2010

In Summary – What a Visitor is Worth to Durham

(The final segment of a 4-part series on the economic impact of visitors to Durham)

There are three primary benefits to attracting and serving visitors to a community. First and foremost is the **spending aspect**: in 2008, visitors spent \$679.4 million in Durham. The largest share of that went toward food and beverage purchases – so without visitors, Durham would have 1/3 fewer restaurants. Entertainment accounted for the smallest piece of the pie, with \$11.6 million in spending.

In 2008 Visitors Spent \$679.4 million in Durham



It is important to note that there is a fairly substantial amount of leakage that occurs from visitor spending because every dollar that is spent in Durham does not stay in the local economy.

A second benefit is that the visitor sector in Durham **creates a substantial number of jobs** – a little more than 5% of all the jobs in Durham (10,179 jobs in 2008). These jobs run the gamut from food service and entertainment to hotel management and staff, transportation, and retail sales. An additional 2,423 jobs are supported by indirect expenditures of the hospitality businesses and the induced spending from workers’ wages. Wages for these employees totaled \$128 million in 2008.

But the remaining overall impact, sometimes referred to as the “value added” to the local Durham economy, is still huge – nearly half a billion dollars in 2008 (\$491 M).

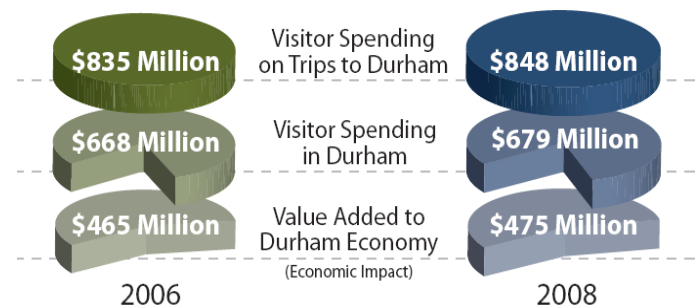
Last but not least is the **tax revenue generated by visitors**. In 2008, Durham visitors paid well over \$100 million in taxes, the lion’s share of which went to the Federal government. However, \$40.5 million in tax revenue stayed right here in Durham, saving residents an average of \$770 per household in state and local taxes.

Without Visitors,
Each household in Durham
Would pay an average of \$770
More in state and local taxes in
order to maintain
The current level of services

When all of these factors are combined, the bottom line is that visitors are a win/win for Durham.

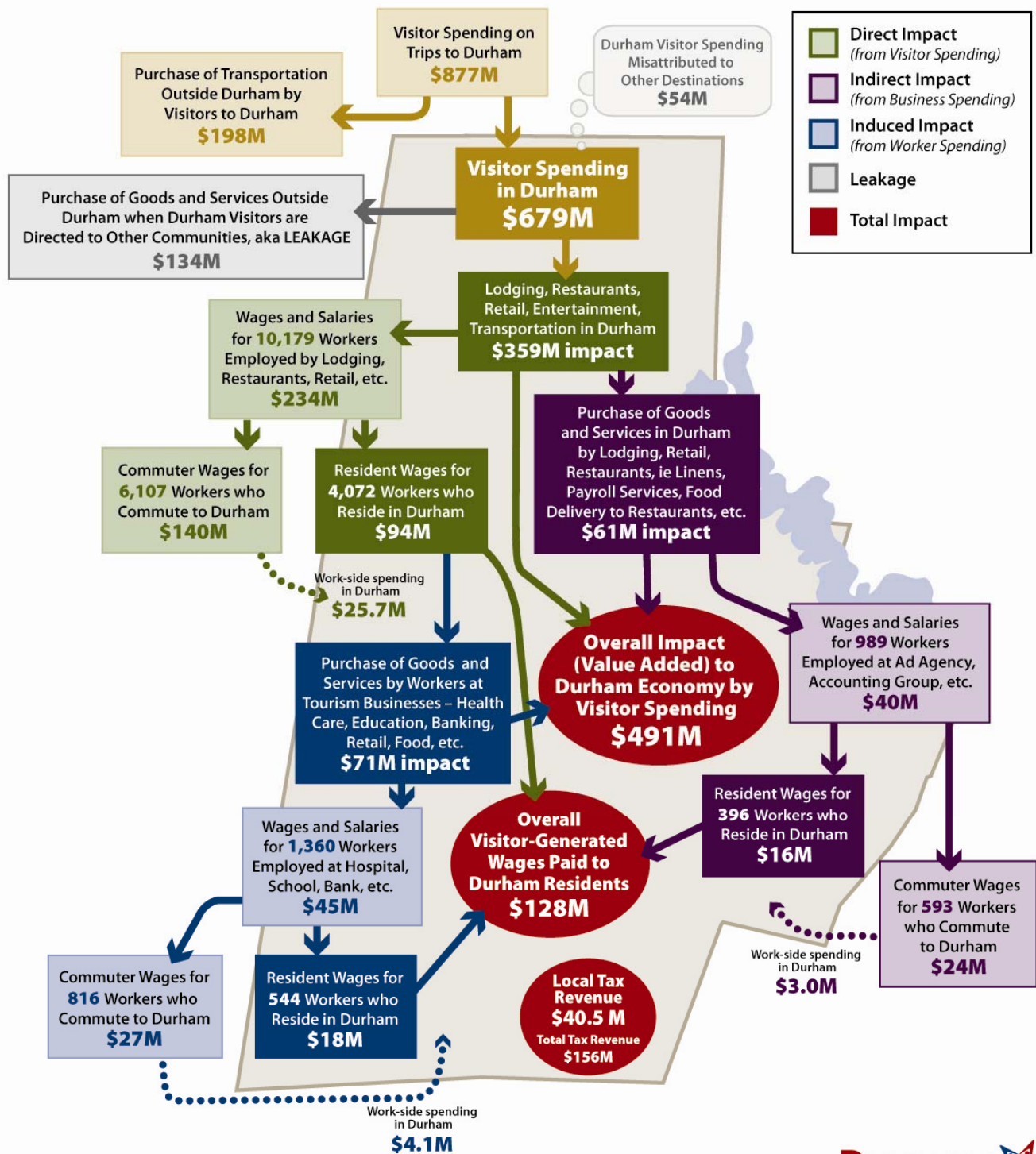
Visitor-Generated “Added Value” to the Durham Economy

44% of visitor spending is lost to “import leakage” when goods and services are purchased outside Durham or Durham visitors are misdirected to other communities for goods/services available in Durham



Economic Impact of Visitors to Durham in 2008

Delineating Direct, Indirect, Induced Impact, Leakage & Misattributed Spending



* Dotted lines estimated based on studies of work-side spending by commuters.

Based on study by



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