

## **Economic Impact Study Follow Up: A Conversation with Laura Negron, Research Director, Tourism Arts and Heritage Cabinet**

*With yesterday's release of the 2014 Economic Impact Study by the Tourism Arts and Heritage Cabinet, KTIA thought it would be helpful to the industry if we had a conversation with Laura Negron, the Cabinet's Research Director. In that role she is the liaison to Certec, the firm that conducts the study. She is actively engaged in the economic impact research throughout each year. We wanted to help the industry gain a better understanding of the study's results, methodology and other aspects of the research. We also wanted to learn about Laura's other work for the industry and even a little about Laura, herself.*

**KTIA:** The results of the study were very positive both in terms of percentage increase and dollar amount. What were the factors that contributed to the increase in tourism's economic impact?

**Laura:** We look at trends all year, so we suspected that the numbers would be up. We saw that hotel rates were going up. So definitely, strong hotel growth was a leading factor in the 4.4% increase. All of the sectors, and when I say sectors, I mean hotels, bed & breakfasts, resorts, campgrounds, attractions, and marinas – those are the sectors we look at - all of those groups saw a positive increase with hotels and lodging being the primary leader. And when you have a strong growth with hotels, that's going to lead to a strong economic impact.

**KTIA:** Can you give us some perspective on the magnitude of the increase from 2013 to 2014?

**Laura:** When you are talking about billions of dollars, it is difficult to achieve a large percentage increase over the prior year. However, despite that, the 4.4% is the second largest percentage increase since we have been conducting this study. And in terms of actual dollars, it is the largest increase. So, judged by either percentage or actual dollars, this is a very significant increase.

**KTIA:** Gasoline prices fell during 2014. Did that keep the increase from being even greater?

**Laura:** Maybe, but then you have to consider that the lower gasoline prices may have resulted in more people traveling and having more disposable money to spend on other things during their visit.

**KTIA:** As you know, tourism professionals often have to explain the economic impact methodology to non-tourism professionals, such as their local elected officials. In as basic and succinct language as a researcher can provide, how should they explain the methodology of this study?

**Laura:** The unique thing about this study is that it is based on information that comes directly from each county in the state. So the primary basis and the piece that we start with each year is a series of about 1,500 surveys that go out to tourism related businesses in the sectors that I mentioned. The survey basically asks those businesses what was your business like in 2014, did it grow or did it shrink, did it increase or decrease, how did it change year over year. The survey also asks for some financial information. The survey information, along with things like tax revenue information, airport statistics and other financial statistics are used by Certec as the primary data for the study.

**KTIA:** So you have a sampling of data collected through the surveys and combine it with other statistical information you are able to acquire. But then what's the magic used with that information to convert it into a total statewide number and county-by-county numbers?

**Laura:** I have to be a little bit technical here. Certec uses what called an input-output model. This is a model that Certec has developed. That model is essentially a formula, one that is proprietary to Certec and that has been adapted for use by quite a few states and that is also very well recognized throughout the research industry as a good standard for economic impact. Input-output basically means that you input the primary data and then use an aggregate factor to expand that data out. Another aspect of the

formula is that it is designed very specifically to Kentucky's tax structure and other economic factors unique to Kentucky. Every state is different in how they use tax dollars and in their economic structure. Our formula was developed specifically for that structure in Kentucky.

**KTIA:** To play that back, you collect information from your surveys and factor in other trend and statistical information. And then Certec runs it through a pipeline – a formula specific to Kentucky – and what comes out the other end is an expansion of partial data into a total number.

**Laura:** Yes, and the way that is done is for each county and then the counties' numbers are added together to develop the state's figures.

**KTIA:** So its 120 pipelines?

**Laura:** Correct. I like to think of it as one of those Dr. Suess machines with all the pipes and the number pops out at the end. And that's the reason we have Certec do it. They are the experts in economic impact.

**KTIA:** Two aspects of the study are direct and indirect expenditures. Sometimes folks have questions about that. Tell us how that works.

**Laura:** In the expenditures part of the study you will see two different figures. One is direct expenditures and the other is total expenditures, which is with indirect added in. Direct spending represents how much visitors contribute to the economy directly. Visitors come in from outside the region, they eat at restaurants, they stay in hotels, they stay at attractions, they buy gas. All the money they directly put into the hands of someone in Kentucky, that is the direct expenditure. This is money that is put into our economy that would not be there without that visitor coming to Kentucky.

But there are other benefits to our economy that would not be there without that visitor coming to Kentucky. Things like when a hotel's restaurant purchases Kentucky Proud products from the farmer down the street. That farmer benefits from the money the visitor is spending without the visitor directly handing the farmer the money. Other things like linen services used by hotels to clean their linens, utility payments made by hotels and attractions, and professional services, such as legal and accounting. Those are all indirect expenditures.

**KTIA:** Is it an over simplification to say that the indirect number is when something is bought by a recipient of the visitor's direct spend?

**Laura:** Correct. And another way to say it is that it is the benefit to non-tourism businesses by virtue of visitor spending.

**KTIA:** One of the factors used in arriving at the economic impact numbers is an average daily spend by visitors. How do you arrive at that?

**Laura:** The average daily spend is an important factor. It is basically the first piece of the puzzle. It is determined from other multiple factors and then it is applied to the formula.

**KTIA:** And it is variable from one year's study to the next?

**Laura:** It is. And the way that is arrived at is that data from the surveys is used to arrive at a regional average daily spend and then we break that regional average down into a county daily spend factor. Part of the reason we develop a regional number for daily spend is that there's just not enough data to do a daily spend for each county. Its like the employment numbers, in that if time and money were not factors,

we could go into a county and literally count each person employed in tourism. Also, we could go in and compile enough data to determine a county's visitor daily spend.

**KTIA:** You mentioned employment numbers. Let's shift gears from impact to employment, which is a hugely important aspect of this study. How is the jobs number arrived at?

**Laura:** Employment is such an important part of the impact that tourism has on the economy in Kentucky. The important thing to understand about the employment figures is that they are a representation of the number of persons employed in tourism. A good way to put it is that this is the number of positions supported by tourism due to economic impact. Rather than picture it as actual people, you might picture this more generally, as reflecting the number of people who work in tourism. An example would be people who work at hotels. The number also includes portions of positions. There are some positions, such as a gas station attendant, that are supported in part, but not totally by visitor expenditures. We don't go into businesses in a county and count actual people and that's what I mean by it being a representation. It is a formula driven representation. It's a calculation, not a count.

**KTIA:** And this representation originates at the county level, and the county numbers are added together to get the state number?

**Laura:** Right. And the other thing to understand about the employment figures in this report they are based only on direct expenditures. So, for example, the numbers are going to include the jobs at the hotel, but not at the hotel's linen service company.

**KTIA:** You post counties' economic impact numbers, but not their jobs numbers. Why is that and what can local industry partners do if they want to know their county's tourism employment number?

**Laura:** That is correct and the reason is because we want to have communication with the partner on the jobs information. It is a concept that is not always easily understood since it doesn't represent one number per one person who you can visually see. We find that it is more beneficial to the community if we can talk with them directly, so that they have the information that they need to be able to explain what the employment number represents.

**KTIA:** If a tourism commission does its own local study about employment or daily spend that results in numbers higher than what Certec uses, is there a way the county can provide that information and it be used in your study?

**Laura:** Anyone else other than Certec developing numbers would be using a different methodology and it would not be statistically sound to mix data within a single study that was arrived at through different methodologies. I would also say that if our data is understated in one county, then it would be understated across the board because the same methodology is used across the board. In that way one community is not put at a disadvantage in relation to another.

**KTIA:** If a county wanted to contract with Certec to do a more in-depth study in their county, using the Certec methodology, would the county be able to do that?

**Laura:** Yes. Certec does this exact same type of research for local communities in some other states. I don't think they are doing it for any in Kentucky, but they could.

**KTIA:** Are there ways the industry can help in improving the accuracy of the economic impact study?

**Laura:** Absolutely. One of the things that people hear me say all the time is that this report is only as good as the data that we receive. We have a very good return on surveys. Many of the businesses that

receive the surveys have received them for several years, so they know the process. We do a lot of calling businesses and explaining why this is an important survey and how it benefits them. But even given that, we don't get every survey back and every survey we receive helps us have more accurate information for this report. Sometimes if we have a county that doesn't have a strong return, we will work directly with the county. Many of them have been beneficial to us, because sometimes it's helpful for someone in the local community to call the businesses. So absolutely, having someone in the county who is speaking to their businesses about the importance of returning the surveys is vital to the success of this.

Also, every business in a county doesn't receive a survey and you shouldn't expect every tourism business in your county to get a survey. It's just not physically possible to do so, and we don't need every business' information to have an accurate report. However, that said, sometimes there may be a new business that hasn't gotten on our list and that is increasing the overall base of tourism in the community. So, communicating with us and saying, "Hey, this business is not receiving a survey and I think they should be," is definitely something we would take into consideration. Certec is the ultimate decider with that and they appreciate the input and I appreciate it.

**KTIA:** If I'm the tourism director in a county, do I know before the surveys go out who in my county is receiving a survey?

**Laura:** We do not notify. However, if you are interested in knowing, we can give you that information. We don't have the capacity to contact 120 counties in advance, but we are happy to provide that information.

**KTIA:** What are ways that tourism partners can use the Economic Impact Study to enhance local support for tourism and for their efforts?

**Laura:** Especially for smaller communities, but really for every community, it is so important to be able to go to your local government officials and show them these figures and to be able to tell them that these are dollars that are in our community that would not be there if it were not for visitors who come from outside. I always like to joke that these are dollars that people come in and spend and we don't have to spend money on them. They aren't using our schools. They aren't using our services. So this is free money that wouldn't be here if it weren't for tourism. Visitors leave their money and take their problems home with them. That's the beauty of tourism.

**KTIA:** Besides your work on the Economic Impact Study, which is a year round process, what other services are directly available to the industry from you?

**Laura:** I am available to assist a community with data and advice if, for example, they want to do an economic impact study of a local event. If a community is interested in doing visitor surveys we can assist them with that in terms of guidance and helping them to set up the survey. They would need to supply the manpower since we are an office of one. Also, if someone is developing a RFP to solicit research services, we can help them with that.

**KTIA:** What is your favorite Kentucky travel memory?

**Laura:** I grew up in western Kentucky, and when I was young my parents often took us to Land Between the Lakes. We camped and spent a lot of time there. Those are great memories, but the very best memories are taking my kids there and giving them the very same opportunities and experiences that my parents provided to me. Tourism is sustainable across generations, and having experiences with my children that began with my parents is my favorite memory.