



Global Insight

The Delaware Tourism Satellite Account

*A Comprehensive Understanding of the Economic Contribution
of Travel & Tourism in the State of Delaware*

Prepared for:

THE DELAWARE TOURISM ALLIANCE
Delaware Tourism Alliance
PMB 116, 251 N. Dupont Highway
Dover, DE 19901

Prepared by:

Global Insight
Travel & Tourism
800 Baldwin Tower
Eddystone, PA 19022

Adam Sacks
Senior Principal
Tel: 610.490.2784
Fax: 610.490.2770
adam.sacks@globalinsight.com



Spring, 2003

TABLE OF CONTENTS

I.	EXECUTIVE SUMMARY	3
II.	WHAT IS A TOURISM SATELLITE ACCOUNT?	4
III.	TOTAL TOURISM SALES	6
IV.	TOTAL ECONOMIC CONTRIBUTION	7
V.	THE CORE TOURISM INDUSTRY	8
VI.	THE CORE TOURISM INDUSTRY'S COMPOSITION	9
VII.	OTHER INDUSTRIES THAT BENEFIT FROM TOURISM	10
VIII.	TAXES GENERATED BY TOURISM	11
IX.	REGIONAL DISTRIBUTION OF TOURISM	12

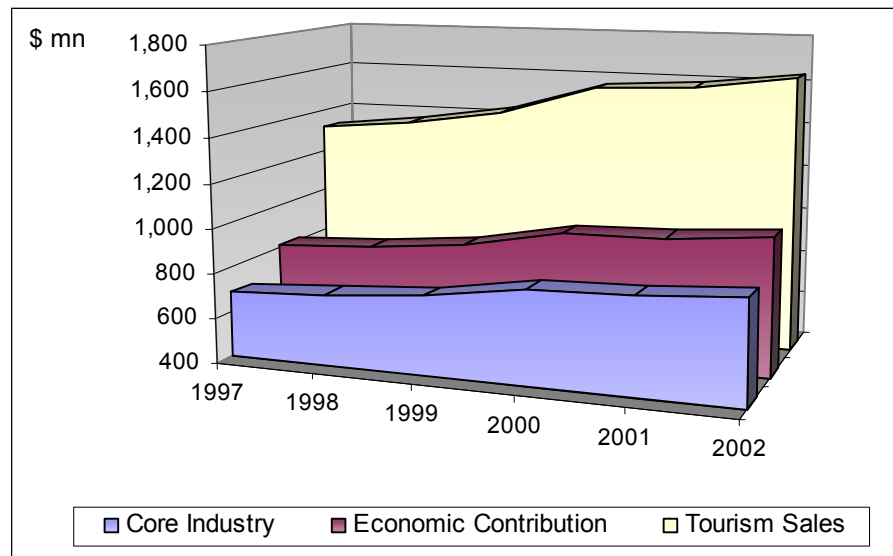
I. EXECUTIVE SUMMARY

Tourism has historically posed challenges to accurate measurement. The primary reason for this is that tourism is not designated as an “industry” in standard economic accounts. The Tourism Satellite Account (TSA) standard was developed by the World Tourism Organization and ratified by the United Nations as the benchmark for measuring tourism in a way that is consistent with the rest of the economic accounts.

Using the TSA approach, travel & tourism in the state of Delaware has been proven to be a significant generator of economic production, employment and state revenue. The tourism industry is examined on three levels: total sales, total economic contribution and core industry. *Sales* represents all expenditures; *Economic Contribution* factors out those goods and services coming from outside the state (import leakages); and *Core Industry* considers only the direct impact of those sectors touching the visitor. The latter measure is important because this narrow definition allows for inter-industry comparisons. Below are the key findings of the analysis.

- ◆ Tourism has been an *engine of growth* in the Delaware economy, expanding 25% from 1997 through 2002.
- ◆ Tourism *Sales* – total expenditures – tallied \$1.6 billion in 2002.
- ◆ Tourism’s *Economic Contribution* reached \$968 million last year. This amount contributed 2.5% to Delaware Gross State Product (GSP). Direct and indirect effects of all tourism expenditures are included, but induced (multiplier) effects are *not* included.
- ◆ Tourism’s *Core Industry* – that is, only the direct impact of end-providers of good and services to travelers – generated \$696 million in local value added in 2002.

Breaking Down Tourism’s Impact Based on \$1.6 Billion in Sales



- ◆ Using the most narrow *Core Industry* definition, Tourism is the 5th largest employer in the state with 22,235 direct full-time equivalency jobs in 2002.
- ◆ Tourism generated 6.6% of total employment in 2002 on a total *Economic Contribution* basis. The *Core Industry* generated 5.2% of employment.

- ◆ Tourism-generated jobs provided \$690 million in *labor income* (benefits and salaries) in 2002.
- ◆ Tourism is a significant source of state government revenues and was responsible for \$110 million or *4.7% of state tax revenues* in 2002.

II. WHAT IS A TOURISM SATELLITE ACCOUNT?

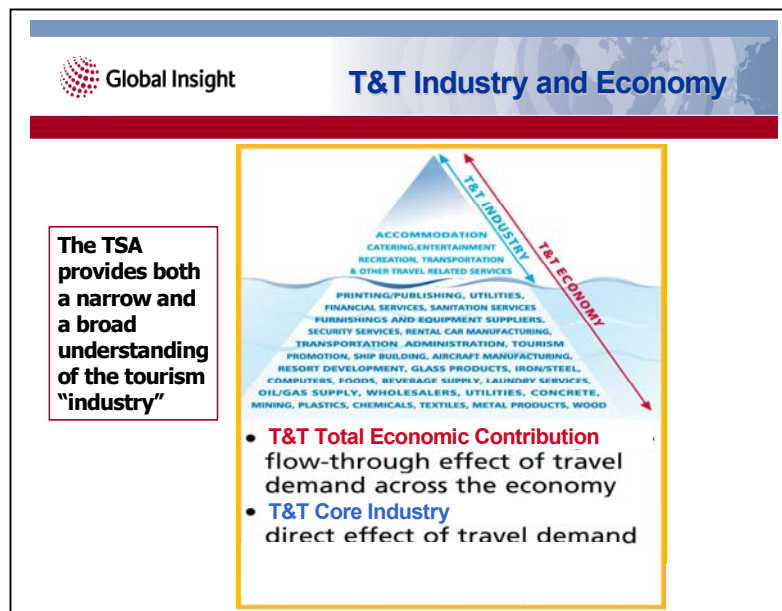
An Overview

The Tourism Satellite Account (TSA) is a unique approach to quantifying the effects of travel & tourism on an economy. It is more detailed, more accurate and more comprehensive than traditional economic impact approaches. The TSA was developed by the World Tourism Organization under the auspices of the United Nations to overcome challenges to measuring a service sector that is historically underrepresented.

The challenge of measuring travel & tourism is two-fold. Firstly, tourism is part of many different industries but comprises 100% of no one industry. Secondly, tourism is traditionally measured and understood from the demand side (i.e. what are visitors spending?) while industries are properly measured from the supply side (i.e. what is being produced?).

The TSA overcomes these challenges by connecting all aspects of travel & tourism demand (spending) with the goods and services being produced to meet that demand. Therefore, the TSA gives us an approach that is consistent with the way all other industries are measured in state economic accounts. In addition, the TSA illustrates in detail the effects of travel & tourism on other industries in the state. It is called a “Satellite Account” because while the TSA is consistent with the state economic accounts, it resides as a separate set of industry information.

The final result is a set of “accounts” for tourism that represent a complete and accurate assessment of the contribution of the “tourism industry” in a way that is comparable to other industries at a fine level of detail. This core industry can be thought of as the tip of the iceberg, or what is visible to the visitor. However, the TSA also enables us to look at how other “non-tourism” industries benefit from visitor activities. This approach encompasses the entire iceberg.



The Benefits

Countries and states around the world have adopted the TSA or are in the process of implementing the standard as a means to better understand the size and the make-up of tourism in their jurisdiction.

The fundamental reason behind this increased interest is that the TSA enables policy-makers as well as strategic planners to quantify and track the effects of tourism on various sectors of the economy. The TSA is a powerful tool as it shows the economic effects of tourism in a way that is comparable to other sectors. It also reveals strengths and weaknesses of the tourism economy by answering questions such as:

- 1) How much of each tourism dollar is retained in the state?
- 2) What state government revenues are generated by tourism?
- 3) Has tourism been a source of economic growth?
- 4) What are the effects of tourism on other industry sectors?
- 5) How does tourism rank compared with other industries?

Beyond these strategic benefits, the TSA provides a credible basis for communicating the significance of the tourism sector to the media, legislators and the public. The detail and the credibility of the accounts help to position tourism within economic development priorities.

The Tourism Satellite Account is rapidly becoming the standard for measuring the economic value of travel & tourism in the United States. The US Department of Commerce Bureau of Economic Analysis is now completing a second round of TSA research for the United States and a growing number of states have already developed or are in the process of developing TSA's. This will allow for accurate comparisons of states to the nation across a consistent set of concepts and a homogenous methodology.

III. TOTAL TOURISM SALES

The starting point of the TSA is expenditures or the demand side. Spending by visitors and on behalf of visitors is treated at as high a level of detail as possible. The categories included are:

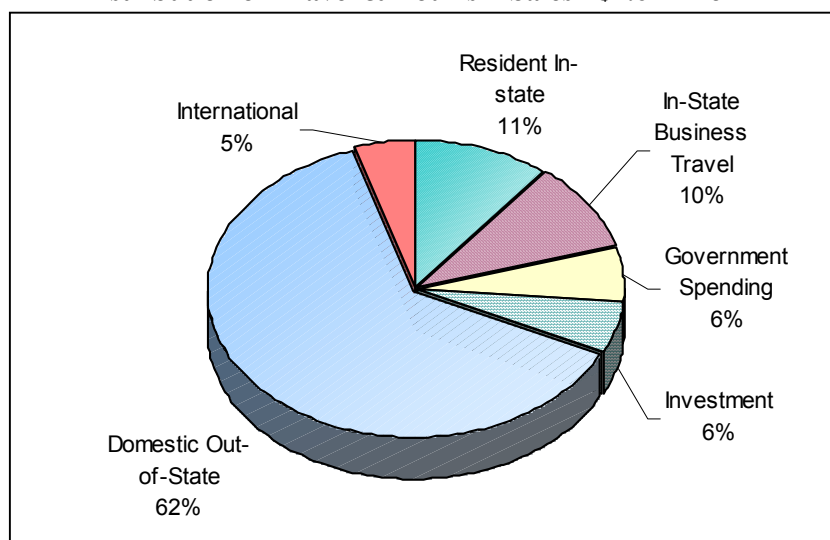
- ◆ Resident In-State – In-state travel expenditures of Delaware residents.
- ◆ In-state Business Travel – This includes Delaware businesses’ spending *within the state economy* on travel.
- ◆ Government Spending – The budgets of the Delaware Tourism Office, transportation functions related to tourism, publicly funded attractions and funding for security in tourism-intensive areas are included.
- ◆ Investment – Construction of hotels, attractions, tourism infrastructure, operating and transportation equipment are included.
- ◆ Domestic Out-of-State – This key category includes the spending of all visitors to Delaware coming from other parts of the country.
- ◆ International – Spending of international visitors to Delaware.

The key data source for the visitor spending categories is the Travel Industry Association’s TravelScope. Delaware state accounts for sales, employment, and taxation form the foundation of data with which to conduct comparative analysis and to extract other tourism-specific data. Capital investment data come from S&P FW Dodge construction accounts. Government spending data are taken from state budget accounts.

This approach gives us all spending in the Delaware economy related to tourism. It is important to understand that not everything purchased in Delaware by visitors is produced in the state. Therefore, the *economic contribution* to Delaware is somewhat less than total spending.

Total tourism spending in Delaware tallied \$1.6 billion in 2002. Of this, the largest portion—62%—was generated by out-of-state domestic visitors. In-state spending by traveling Delaware residents is also important with 11% of the total.

Distribution of Travel & Tourism Sales - \$1.6 Billion



The TSA model includes all travel expenditures made in the state economy – whether or not the destination was ultimately within the state. So for example, the activities of travel agencies based in the state, or Delaware-based aviation-related spending are included. This is proper as these industries are supported by and are a part of the “tourism industry” as defined by the TSA.

2002 Tourism Sales, \$ Million	
Domestic Out-of-State	1,030.56
Resident In-state	172.54
In-State Business Travel	162.58
Government Spending	97.97
Investment	93.32
International	77.72
Total	1,634.68

IV. TOTAL ECONOMIC CONTRIBUTION

The total Economic Contribution of tourism takes into account imports into the state. In measuring economic contribution it is important to count only the value of goods and services generated in the state. For example, the retail margin on shopping by visitors is included but not the wholesale value of the t-shirt made outside of the state. Or in another example, a restaurant meal will likely be a combination of local and non-local value added, assuming some of the food was produced outside of the state.

The total economic contribution includes both the *direct* and *indirect* economic impact of all tourism spending. No “multiplier effect” or income effect is included in the analysis. When considering what portion of Gross State Product is generated by tourism, this is the best measure to use.

Global Insight used the Delaware IMPLAN input-output table to connect all tourism sales with the associated industries in Delaware that produce travel-related goods and services. Using this approach, we are able to see how on an industry-by-industry level of detail, travel & tourism contributes to the Delaware economy.

In 2002, travel & tourism sales produced **\$968 million in economic contribution**. This accounts for **2.5% of Gross State Product**.

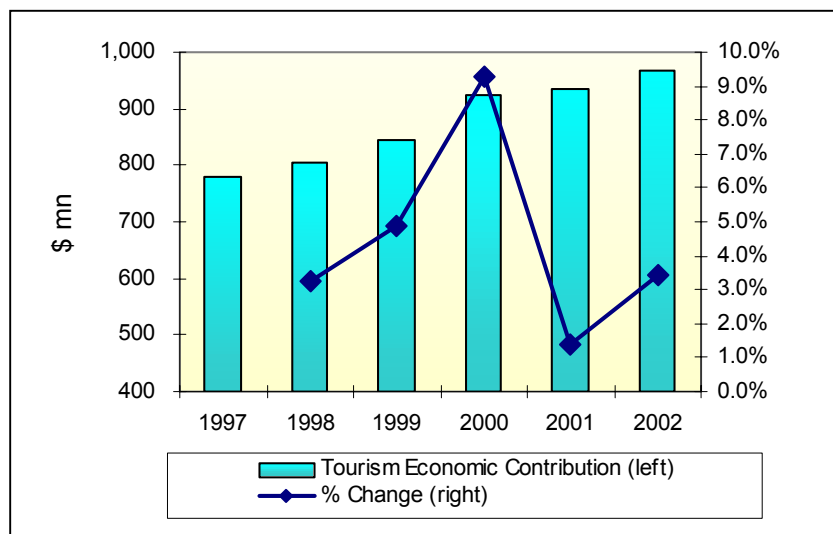
The ratio of the total economic contribution to total sales reveals that **61% of each tourism dollar** spent in Delaware is retained in the state. Imports of goods for sale or services from outside the state comprise the other 39%. The high value added portion of services pushes this figure up significantly higher than retail sectors.

Over **28,000 jobs** – direct and indirect – were created by travel & tourism economic activity. This accounts for **6.6% of total employment** in the state. This comparison shows travel & tourism in Delaware to be an effective means of job creation.

Over **\$690 million in labor income** was generated by travel & tourism in 2002.

Tourism’s economic contribution has **increased 25% since 1997** from \$780 million to its current contribution of \$968 million. The entire Delaware economy (gross state product) grew 23% over this time period.

Tourism is a Growth Sector in the Delaware Economy



V. THE CORE TOURISM INDUSTRY

One of the key questions asked in attempting to understand the value of travel & tourism is “How does it compare with other industries?” The Core Tourism Industry measure of tourism allows us to make such comparisons with the assurance of a fair comparison. The Core Tourism Industry measure includes only the direct value added of the sectors touching the visitor.

Therefore, all indirect effects are excluded (these are part of other industries) and the effects of investment and most government spending are also excluded. This keeps us from double-counting and ensures that we measure tourism in the same way that any other industry in the Delaware economy is measured.

Tourism’s Core Industry generated **\$696 million in value added production** in 2002. This ranks tourism as the 9th largest industry in the state in terms of value added.¹

In terms of employment, the significance of travel & tourism is much greater. The Core Tourism Industry represented **22,235 jobs** in 2002. This ranks tourism as the **5th largest employer** in the state. Also of significance to note, tourism has overtaken Chemicals and Allied Products manufacturing since 2001 and has increased its share of total employment from 4.95% in 1997 to 5.20% in 2002.

Top Industry Employers in Delaware		1997	1998	1999	2000	2001	2002
1	Total Government	53.15	54.39	55.10	56.63	56.87	55.79
2	Finance	36.45	37.38	37.73	38.75	40.45	40.12
3	Health Services	27.93	28.91	29.48	30.43	31.61	32.19
4	Construction	23.80	24.00	24.50	24.39	24.03	24.24
5	TOURISM	19.73	20.17	20.96	21.52	21.76	22.24
6	Chemicals and Allied Products	22.48	22.48	22.32	21.35	20.58	19.48
7	Eating and Drinking Places (non-tourism share)	18.07	18.32	18.59	19.03	19.31	19.11
8	Other Business Services	15.72	17.46	18.77	19.24	18.95	18.08
9	Transportation and Public Utilities	15.73	16.23	17.14	17.43	17.24	16.71
10	Furniture and Miscellaneous Retail Stores	14.28	14.54	15.29	15.62	15.35	15.46
Total Employment		398,450.0	410,777.0	422,191.0	429,639.0	430,216.0	427,392.0
Tourism Share		4.95%	4.91%	4.97%	5.01%	5.06%	5.20%

Comparative Data: Bureau of Labor Statistics

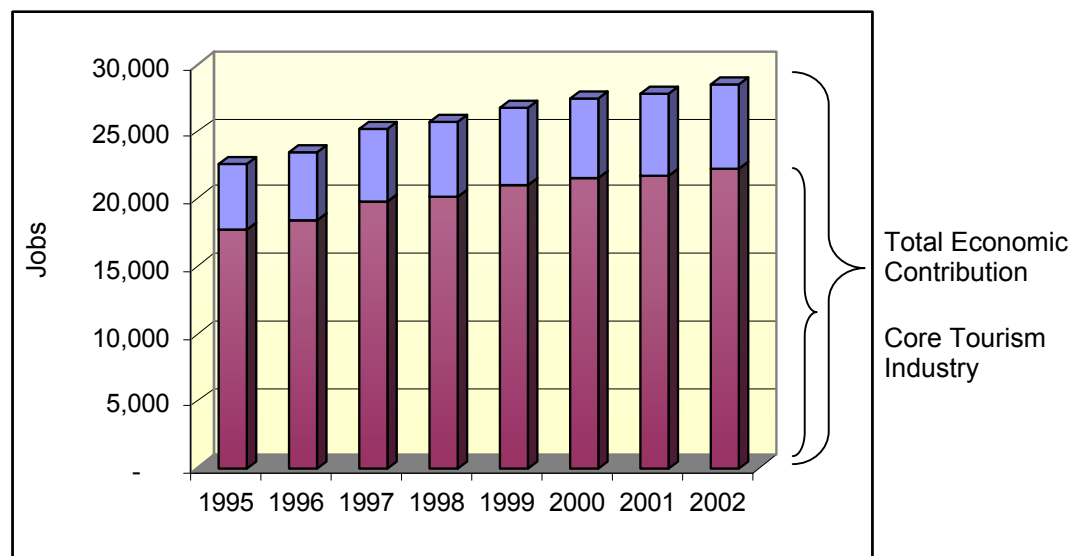
¹ All inter-industry comparisons conducted on a 2-digit basis

Delaware Value Added (GSP) Ranking²	
1	Finance 10,026
2	Government 3,336
3	Real estate 3,282
4	Chemicals 2,210
5	Health services 1,754
6	Construction 1,578
7	Motor vehicles (Manuf) 891
8	Electric, gas, & sanitary 733
9	Tourism 696
10	Insurance 690
	Total 36,336

Comparative Data: Bureau of Economic Analysis, U.S. Department of Commerce

The employment contribution of the core tourism industry has grown steadily over time. The chart below shows the ongoing expansion of travel & tourism employment at both the core tourism industry and total economic contribution levels. Also highlighted by this chart is the strength of the core industry as a proportion of total economic contribution. Core Tourism Industry jobs comprise 78% of total tourism-generated employment.

Tourism is a Growth Sector in the Delaware Economy



² Gross State Product comparisons based year 2000 which is the latest data available from the Bureau of Economic Analysis, U.S. Department of Commerce

VI. THE CORE TOURISM INDUSTRY'S COMPOSITION

As mentioned earlier, tourism is not an “industry” in the classical sense. The reason for this is that tourism is part of a variety of sectors while no sector is exclusively *tourism*. The TSA model enables us to see how spending of visitors touches these diverse sectors to create the aggregate Core Tourism Industry. Recall, that we are only looking at the direct value added in this definition and that this narrow definition is required for cross-industry comparisons.

The table below breaks down the composition of the Core Tourism Industry in 2002. This list shows the ranking of local value added generated by visitor spending. The ranking has a lot to do with the economic structure of certain sectors. For example, the reason local value added in eating and drinking places and hotels is relatively high is because a relatively large percentage of their total sales translates into value added. Conversely, this is not true of retail, where the margin tends to average approximately 30% of total sales. So although shopping is an important part of the visitor expenditure pattern, the relative economic impact is higher for other types of spending. Real estate represents the significant rental home market in the state.

Composition of Travel & Tourism Gross State Product, 2002

		\$	% Distribution
1	Eating & Drinking	178,353,209	26%
2	Hotels and Lodging Places	115,811,351	17%
3	Real Estate	96,285,794	14%
4	Racing and Track Operation	66,591,540	10%
5	Amusement and Recreation Svcs (includes gaming)	59,655,436	9%
6	Railroads and Related Services	37,217,950	5%
7	Air Transportation	26,846,481	4%
8	Transportation Services	22,379,193	3%
9	Automobile Rental and Leasing	14,018,663	2%
10	Local Interurban Passenger Transit	13,186,784	2%
11	Automotive Dealers & Service Stations	10,224,247	1%
12	Apparel & Accessory Stores	8,408,039	1%
13	Food Stores	7,633,790	1%
14	Furniture & Home Furnishings Stores	5,905,736	1%
15	General Merchandise Stores	5,724,808	1%
	All Other	27,999,541	4%
	Total	696,242,561	100%

VII. OTHER SECTORS BENEFITING FROM TOURISM

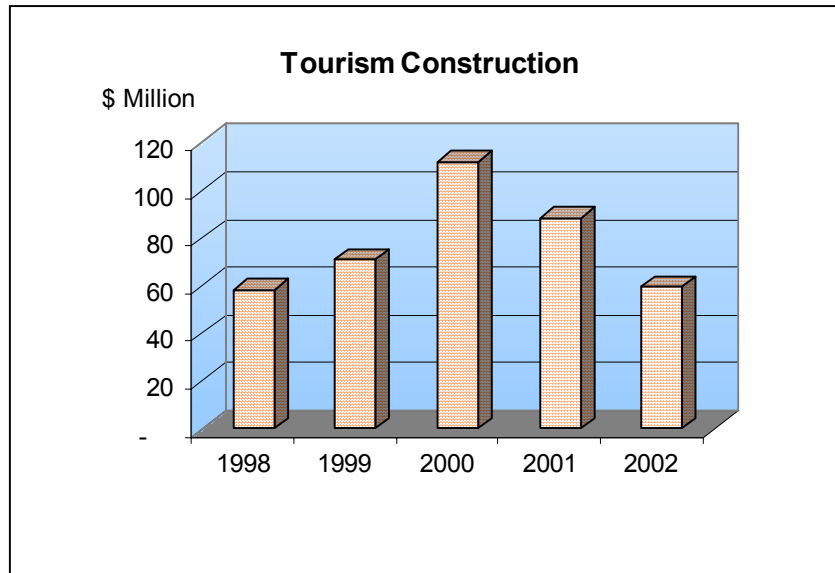
One of the powerful results of the TSA analysis is the ability to examine how industries seemingly unrelated to tourism benefit from it. These industries are the suppliers to the tourism sector. Certainly, they are suppliers to many industries but this analysis shows *the degree* to which tourism activity supports their businesses. Maintenance and repair services make up the largest part of tourism’s indirect benefits with \$33 million of indirect impact last year.

Indirect Benefits Realized by “Non-tourism” Industries – Value Added by Industry, 2002

	Industry	Tourism \$
1	Maintenance and Repair of Facilities	33,061,858
2	Real Estate	22,797,302
3	Wholesale Trade	15,206,161
4	Electric Services	11,579,683
5	Computer and Data Processing Services	11,302,393
6	Banking	9,836,696
7	Petroleum Refining	7,687,923
8	Personnel Supply Services	6,550,792
9	Motor Freight Transport and Warehousing	5,462,018
10	Accounting- Auditing and Bookkeeping	5,201,892
11	Management and Consulting Services	4,883,345
12	Arrangement Of Passenger Transportation	4,650,751
13	Other Business Services	4,634,768
14	Communications- Except Radio and TV	4,350,744
15	Legal Services	3,530,071
	All Other	72,920,733
	Total	\$223,657,129

Note, that the above table measures only the indirect effects of *ongoing* tourism operations – not *capital* investment. Tourism-related capital investment also plays a key role in the economic contribution of the sector. This capital investment includes construction of hotels, beach preservation, transportation equipment and other tourism infrastructure.

New tourism-related construction (on hotels, tourism infrastructure, race tracks, museums, etc.) tallied expenditures of an additional \$60 million in 2002 and \$88 million in 2001. The chart below shows construction expenditures related to tourism over the last five years – showing the value of the tourism industry to the construction sector.



An analysis of tourism-related construction can provide a picture of the future of travel & tourism in the state of Delaware. For example, a consistent decline in capital investment can lead to under-capacity and/or a deteriorating state tourism product. On the other hand, large capital investments over time can outpace demand and lead to over-capacity, putting downward pressure on prices.

Neither of these issues seem to be the case for Delaware. Declines in tourism investment in 2001 and 2002 follow a national pattern of a tourism investment slowdown which has followed soft travel demand over the past 18 months. In addition, capital investment in tourism typically follows the economic cycle. This cycle peaked in 2000 for Delaware and for the nation. Therefore, it seems that Delaware's private tourism industry is well-attuned to market conditions in its investment decisions.

VIII. STATE GOVERNMENT REVENUE GENERATED BY TOURISM

As a significant economic contributor, tourism is a valuable source of revenues for the state government. Last year, \$137 million in state revenue was generated by the travel & tourism sector in Delaware. Video Lottery proceeds and personal income tax are the two highest contributors.

Two interesting observations can be made from looking at the data from 1998 to 2002. First, travel & tourism contributes disproportionately to state revenue vis-à-vis its economic value. Tourism was responsible for 4.7% of all state revenue in 2002. Recall that tourism generated 2.5% of gross state product. The reason for this is that several key state revenue sources have a concentrated dependence on the tourism industry.

Second, tourism-generated state government revenues have grown even faster than tourism itself. Tourism revenues have increased 34% since 1998. This compares with overall growth of the industry of 24% since 1997.

State Government Revenue Generated by Tourism – By Revenue Category, \$ million

Revenue Category	1998	1999	2000	2001	2002
Video Lottery	42.98	56.66	59.43	64.51	69.32
Individual Income Tax	22.84	23.12	21.98	21.55	21.98
Franchise Tax	9.90	10.64	11.79	13.34	14.25
Accommodations Tax	8.77	10.09	11.22	11.85	12.82
Tolls	4.96	5.46	6.80	7.39	7.65
Bus & Occup Gross Rec	3.19	3.27	3.38	3.49	3.56
Cigarette Taxes	1.17	1.24	1.33	1.37	1.38
Corporate Income Tax	2.12	2.34	2.65	1.55	1.29
Corporation Fees	0.91	0.98	1.19	1.13	1.05
Insurance Taxes	0.78	0.89	0.94	1.01	1.03
Realty Transfer Tax	0.94	0.99	0.96	0.98	1.03
Public Utility	0.54	0.57	0.66	0.76	0.77
Alcoholic Beverage Tax	0.49	0.56	0.55	0.58	0.58
Total	99.57	116.80	122.85	129.49	136.69

Tourism's strong contribution to the Delaware state budget is based on several revenue sources that are particularly linked to the tourism sector. These revenue sources are,

- ◆ Accommodations Tax
- ◆ Tolls
- ◆ Video Lottery

The accommodations tax is virtually exclusively paid by visitors. In addition, visitors are substantially represented in revenues from tolls and video lottery. It is conservatively estimated that 5% of tolls and 35% of video lottery proceeds are attributable to visitors. Only tolls paid by out-of-usual-environment travelers (this does not include tolls of freight or regular passenger transit) are included.

Incomes generated by tourism employment generated almost \$22 million in taxes in 2002. The franchise tax generated \$14 million in state revenue and the state portion of the accommodations tax tallied nearly \$13 million in 2002.

Recall that the state government spent approximately \$98 million in 2002 in supporting the tourism industry in the broadest sense – including security in tourism locations, transportation services and tourism promotion. This implies an annual return on investment of 40% to the state budget bottom line.

IX. REGIONAL DISTRIBUTION OF TOURISM IN DELAWARE

As review, Global Insight has implemented the Tourism Satellite Account (TSA) standard for the state of Delaware as ratified by the United Nations as the basis for measuring tourism in a way that is consistent with the rest of the economic accounts.

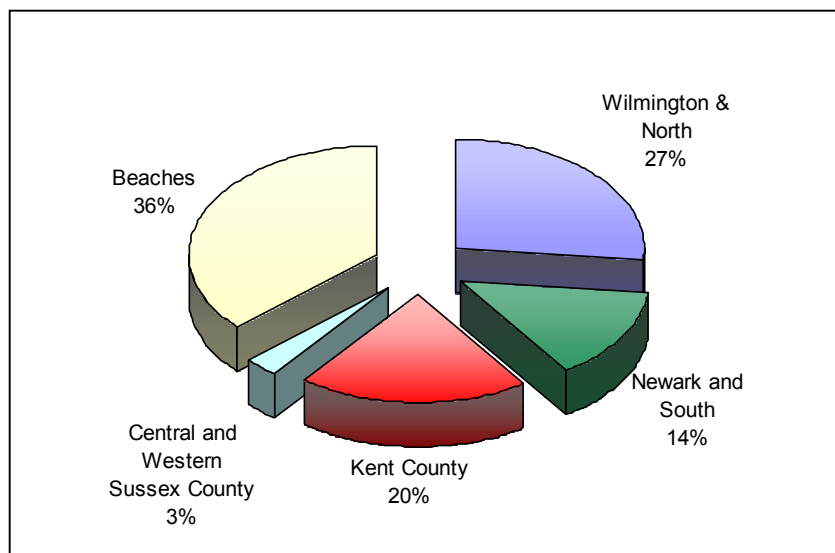
Using the TSA approach, travel & tourism is examined on three levels: total sales, total economic contribution and core industry. *Sales* represents all expenditures; *Economic Contribution* factors out those goods and services coming from outside the state (import leakages); and *Core Industry* considers only the direct impact of those sectors touching the visitor. The latter measure is important because this narrow definition allows for inter-industry comparisons. To better understand the regional differences in travel & tourism in the state, Global Insight conducted sales and employment analysis at the zip code level. This was then used to allocate the impact of the industry across five separate regions.

These regions are listed below with key sectors generating travel & tourism activity:

1. **Wilmington & North** – Strong hotel sector for business travel, regional airport, Delaware Park
2. **Newark and South** – Visitors to University of Delaware (students excluded)
3. **Kent County** – Dover Downs, Harrington, hotel sector
4. **Central and Western Sussex County** – Minimal tourism activity
5. **Beaches** – Rental properties, retail, marinas, hotels/B&B's, recreation

The distribution of impact is distributed primarily among three of these regions. The Beaches area comprises 36% of the state's tourism industry. Meanwhile Wilmington & North and Kent County represent 27% and 20%, respectively.

Regional Distribution of Tourism Economic Impact in Delaware, %



Delaware is not overly dependent on any one region. In fact, the only region without significant travel and tourism activity is central and Western Sussex County.

Regional Distribution of Tourism Economic Contribution in Delaware, \$

2002 Regional Tourism Impact	% of Total Regional Sales	Tourism Sales	Economic Contribution	Core Industry
Wilmington & North	1.6%	428,471,894	259,225,496	186,385,274
Newark and South	0.8%	219,397,037	132,735,207	95,437,711
Kent County	2.9%	315,357,695	190,791,405	137,180,597
Central and Western Sussex County	0.8%	48,428,967	29,299,525	21,066,601
Beaches	17.9%	588,344,407	355,948,366	255,929,817
Total		1,600,000,000	968,000,000	696,000,000

The area most dependent on tourism is certainly the Beaches region with 18% of its economy and 34% of employment reliant on travel & tourism. Kent County is next in terms of tourism intensity with 3% of output and 7% of employment.

	Core Tourism Employment*	Core Tourism Employment, % of Total Employment
Wilmington & North	6,230	3.6%
Newark and South	3,072	2.1%
Kent County	5,207	7.0%
Central and Western Sussex County	563	1.4%
Beaches	7,174	35.9%
Total	22,244	5.2%

*Full-time equivalent basis