

**THE CONTRIBUTION OF SPENDING
AT LODGINGS AND RESTAURANTS
ON NEW HAMPSHIRE'S ECONOMY
DURING THE FISCAL YEAR 2012**

Prepared for

The New Hampshire Lodging and Restaurant Association

by

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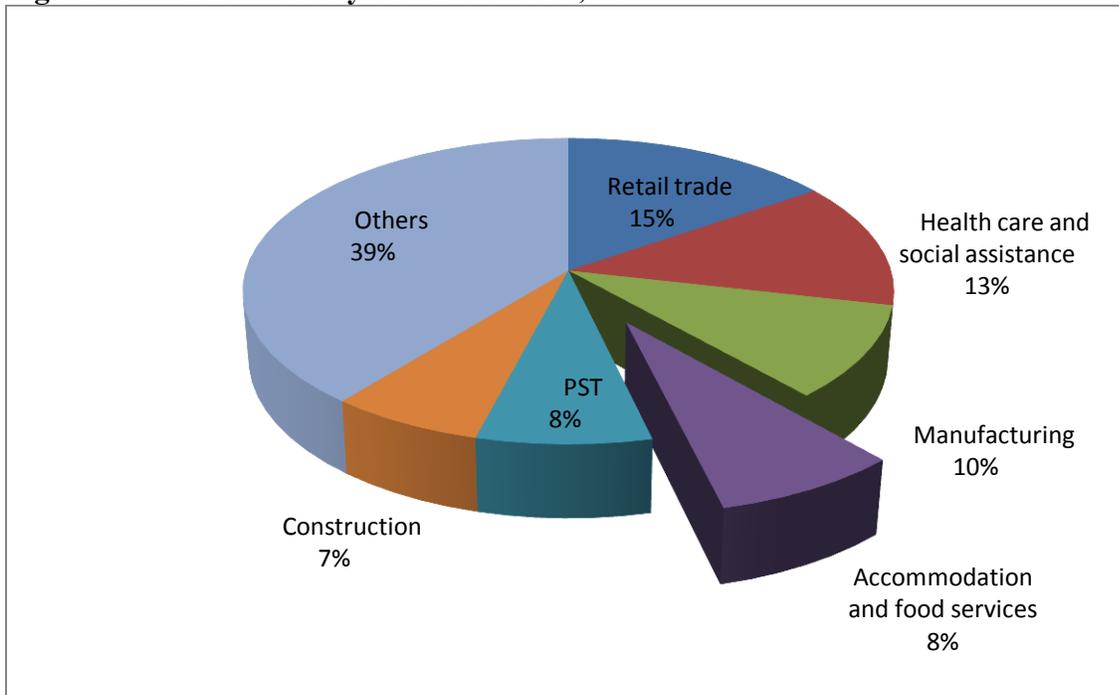
Executive Summary

Direct spending at lodgings and restaurants within New Hampshire was approximately \$3.09 billion during fiscal year 2012. Direct and indirect spending was approximately \$4.58 billion. The total spending (direct, indirect and induced) was approximately \$10.6 billion. Nearly 68 percent of this total spending was directly and indirectly spent at lodgings and restaurants in the state. Direct spending was 4.8 percent of the gross state product in fiscal year 2012.

According to the U.S. Bureau of Economic Analysis, the lodging and restaurant industry provides about 8 percent of the state's full time and part time jobs (including self-employed sole proprietors) in calendar year 2012, which ranks the industry as the fourth largest private employer in New Hampshire after retail trade (15 percent), health care and social assistance (13 percent), and manufacturing (10 percent). In terms of gross state product, the lodging and restaurant industry contributes about 4 percent of the state total, the ninth largest during calendar year 2012. The difference in its rankings between employment and gross state product reflects the fact that a greater portion of the jobs in the industry is part-time jobs.

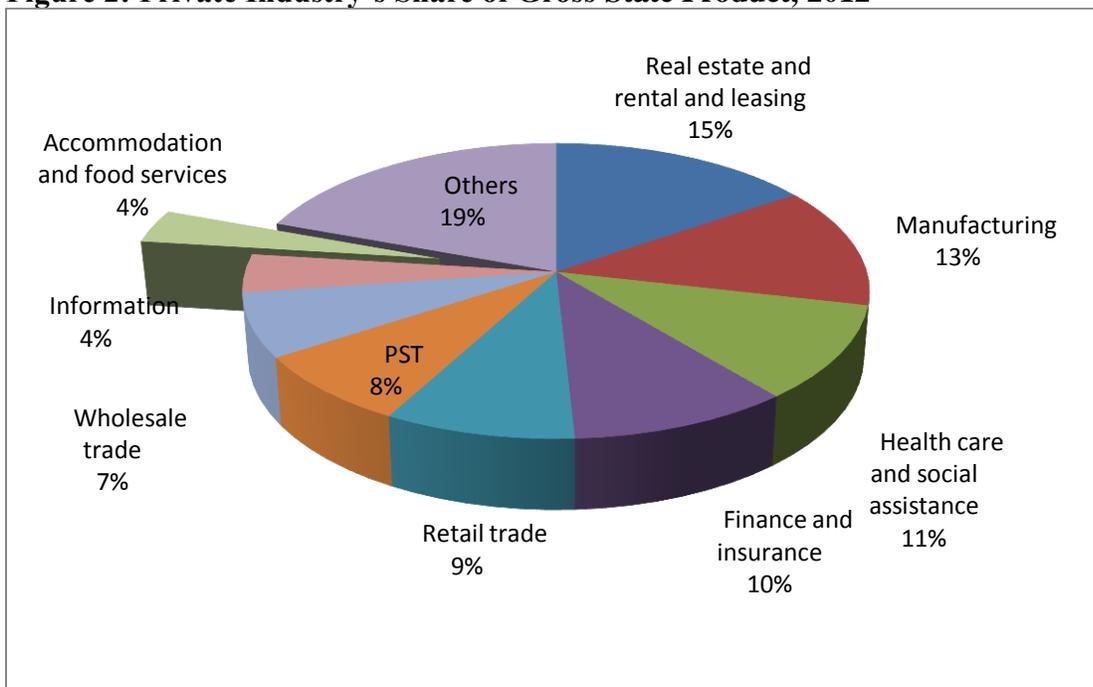
Despite its relatively lower standing in gross state product, this study reveals that the lodging and restaurant industry's contribution to the state is much larger. First and foremost, the industry's contribution to the state government finances is much greater than its share of the state's gross state product. State government receipts as a result of lodging and restaurant spending makes up more than 15 percent of the state's total general and educational funds in fiscal year 2012. More than 72 percent of these state government tax receipts were collected from rooms and meals taxes. Secondly, spending at lodgings and restaurants has a greater multiplier effect than the rest of the state's economy. This is largely because a greater portion of lodging and restaurant spending gets to stay within the state as payments for its workers and materials it buys from supply industries within the state. As an example, a larger portion of spending at retailers for products such as flat-screen TVs would leave the state to pay for its production, unless these products were produced within the state. As a result, total spending (direct, indirect and induced) was estimated to be more than \$10 billion, which is nearly 6 percent of the state's total sales.

Figure 1: Private Industry's Share of Jobs, 2012



Source: U.S. Bureau of Economic Analysis

Figure 2: Private Industry's Share of Gross State Product, 2012



Source: U.S. Bureau of Economic Analysis

Estimating Total Direct Spending

The New Hampshire Department of Revenue Administration (NHDR) collects rooms and meals taxes. Based on the NHDR tax data, spending at lodgings and restaurants that is subject to the state's rooms and meals tax was estimated to be a total of \$3.09 billion. This is a nearly 6 percent rise from a year ago when \$2.92 billion was spent, and represents a more than 10 percent increase from fiscal year 2010, when New Hampshire hit the bottom of the Great Recession. Spending at lodgings and restaurants is broken down into four categories – 1) restaurants, 2) lodging, 3) meals at lodging and 4) other food services.

Restaurants represent spending at restaurants with waited tables; lodging includes spending at all paid accommodations, except for campgrounds; 3) meals at lodging represent paid meals at hotels and resorts; and 4) other food services are all other prepared meals that are subject to rooms and meals taxes, such as fast food stores like Burger King and McDonalds, but do not include prepared meals sold at retailers such as Walmart. Table 1 shows direct spending, including not only spending for meals (or lodging) but also tips and taxes, for these four categories. A 9 percent tax rate is applied equally to all four categories, but varying rates of tips were multiplied across different categories. A conservative 10 percent tip is assumed for meals at restaurants and lodging; a 2 percent tip for lodging; and no tip for other food services.

The total spending equaled \$3.09 billion. This is about 1.6 percent of total sales in the state in fiscal year 2012. However, it should be noted that this study doesn't include the value of other contributions that the industry makes such as facilitating other travel and tourism activities; also, not included was spending at retail shops at hotels and resorts. This study only measures sales made at restaurants and lodging that are subject to the state's rooms and meals taxes, and thus the estimated contribution of the lodging and restaurant industry to New Hampshire's economy should be viewed as conservative.

Table 1

DIRECT SPENDING – FISCAL YEAR 2012

| | Direct | % of Total |
|----------------------------|---------------|-------------------|
| Restaurants | 1,989 | 64.4% |
| Lodging | 499 | 16.2% |
| Meals at Lodging | 110 | 3.6% |
| Other Food Services | 492 | 15.9% |
| Total | 3,090 | 100.0% |

In millions of dollars

Employment and Payrolls

The \$3.09 billion in total lodging and restaurant spending for fiscal year 2012 supported 67,554 direct full and part-time jobs on an annual basis, with payrolls and other earnings of \$1.42 billion. The \$1.5 billion in indirect spending by lodging and restaurant businesses sustained an additional 32,622 full and part-time jobs on an annual basis, with a total payroll and earnings of \$528 million. The direct and indirect jobs were 12.1 percent of all employment in the state during fiscal year 2012. The direct and indirect payroll was 3.52 percent of the total state-wide payroll on an annual basis.

Payroll and earnings for employees directly supported by lodging and restaurant spending was nearly 46 percent of total sales in the state. This was higher than the 29 percent found for state-wide payroll and sales ratio during fiscal year 2012. This difference reflects the fact that a greater portion of lodging and restaurant spending goes to payrolls than in other industries.

Table 2 shows the employment on an annual basis using the same breakout of spending that is displayed in Table 1. The resulting number of jobs is equal to 67,554, more than 8 percent of all employment in the state during fiscal year 2012.

Table 2

JOBS FROM DIRECT SPENDING – FISCAL YEAR 2012

| | Number | % of Total |
|----------------------------|---------------|-------------------|
| Restaurants | 43,485 | 64.4% |
| Lodging | 10,917 | 16.2% |
| Meals at Lodging | 2,404 | 3.6% |
| Other Food Services | 10,747 | 15.9% |
| Total | 67,554 | 100.0% |

Table 3 summarizes, then compares the spending and contributions of lodging and restaurant spending in New Hampshire with state totals during the July 2011 to June 2012 period. What stands out most in Table 3 is that the industry's share of state government receipts is more than nine times larger than its share in direct spending. This highlights the magnitude of the contribution the industry makes to the state government finances, and reflects the industry-specific 9 percent rooms and meals tax on top of the general business profit/enterprise taxes in a state where neither general sales tax nor income tax (on wages and salaries) are collected. The percentage for direct employment is also much larger in comparison with spending, reflecting a greater portion of part time jobs in the industry. Finally, the higher percentage share of payroll and payments to local governments than the industry's share in total sales is due primarily to a greater portion of spending paid to labor than in other industries. It also means a greater value added portion of sales occurring in the state and thus greater multiplier effect for the state.

Table 3

LODGING AND RESTARANT SPENDING CONTRIBUTION SUMMARY

| | FY 2012 | State Total | % Share |
|----------------------------|----------------|--------------------|----------------|
| Direct Spending | \$3,090 | \$190,351 | 1.6% |
| Direct Payroll | \$1,419 | \$55,286 | 2.6% |
| Direct Employment | 67,554 | 829,808 | 8.1% |
| State Gov. Receipts | \$330 | \$2,180 | 15.1% |
| Local Gov. Receipts | \$179 | \$3,707 | 4.8% |

Dollar amounts shown in millions

Government receipts were estimated from total spending, including direct, indirect and induced spending. State government receipts represent general and education funds, while local government receipts mean general revenue, excluding transfer payments from the federal and state government. Local government receipts are estimated based on State and Local Government Finances, FY11.

The Multiplier Effect

Table 4 shows how direct spending at lodgings and restaurants spreads across all eight industrial sectors through the indirect multiplier. Indirect spending comprises monetary transactions among businesses, organizations and government agencies that supply those businesses where the original spending has taken place. The indirect multiplier for this initial spending is \$1.48 - which means that for each dollar spent, an additional 48 cents soon will have circulated through the state's economy. This is slightly higher than the multiplier of 1.44 found for the state's economy during fiscal year 2012.

Table 5 shows how direct spending at lodgings and restaurants spreads across all eight industrial sectors and households through the indirect and induced multiplier. The induced multiplier includes the income of employees and owners and their spending within New Hampshire, for all of those businesses, organizations and government agencies where the direct and indirect monetary transactions occurred. The sum of the indirect and induced multipliers is \$3.43. This means, for each original dollar spent at lodgings and restaurants, an additional \$2.43 was generated within the economy due to the sales, earnings and purchases of industries and households that grow out of the original purchase. This multiplier (3.43) is higher than the 2.98 multiplier found for the state's economy during fiscal year 2012. This is largely because a greater portion of sales accrues to earnings of workers and proprietors in terms of payroll and profits, and thus gets spent within the state.

Table 4

DIRECT AND INDIRECT LODGING AND RESTARANT SPENDING
– FISCAL YEAR 2012

| Sector | Direct Sales | Indirect | Total | Percent |
|---------------------------|---------------------|-----------------|--------------|----------------|
| Const/Ag/Mn/For | - | 107.8 | 107.8 | 2.4% |
| Manufacturing | - | 43.5 | 43.5 | 0.9% |
| Hosp & Leisure | 3,089.6 | 10.9 | 3100.5 | 67.7% |
| Retail Trade | - | 34.2 | 34.2 | 0.7% |
| Tans/Ut/WhTd/Inf | - | 463.7 | 463.7 | 10.1% |
| FIRE | - | 145.5 | 145.5 | 3.2% |
| Services | - | 325.2 | 325.2 | 7.1% |
| Government | - | 361.3 | 361.3 | 7.9% |
| Total | 3,089.6 | 1,492.0 | 4581.6 | 100.0% |

The amounts are in millions of dollars.

Table 5

DIRECT, INDIRECT AND INDUCED LODGING AND RESTARANT SPENDING
– FISCAL YEAR 2012

| Sector | Direct Sales | Indirect & Induced | Total | Percent |
|---------------------------|---------------------|-----------------------------------|--------------|----------------|
| Const/Ag/Mn/For | - | 249.3 | 249.3 | 2.4% |
| Manufacturing | - | 89.7 | 89.7 | 0.8% |
| Hosp & Leisure | 3,089.6 | 78.5 | 3168.1 | 29.9% |
| Retail Trade | - | 1,046.9 | 1046.9 | 9.9% |
| Tans/Ut/WhTd/Inf | - | 879.0 | 879.0 | 8.3% |
| FIRE | - | 659.7 | 659.7 | 6.2% |
| Services | - | 938.6 | 938.6 | 8.9% |
| Government | - | 676.0 | 676.0 | 6.4% |
| Households | | 2,878.9 | 2878.9 | 27.2% |
| Total | 3,089.6 | 7,496.6 | 10,586.3 | 100.0% |

The amounts are in millions of dollars.

By comparing the second data column in Table 5 with the second data column in Table 4, one can observe the effect of including the household sector. The largest effect is in retail trade (up by \$1.01 billion) and services (up by \$0.61 billion), those sectors in which households spent the greatest share of their incomes.

The first data column in Table 6 shows the direct employment that occurs in each economic sector as a result of \$3.09 billion in direct lodging and restaurant spending. Employment data used in Tables 6 and 7 include both full time and part time jobs, and both wage earners and self-employed sole proprietors. The second column in Table 6 shows how the direct spending at lodgings and restaurants spreads employment across all eight industrial sectors through the indirect multiplier effect. The direct and indirect employment multiplier is 1.48 - which means that for each one hundred jobs supported by direct lodging and restaurant spending, an additional 48 jobs also have been created in the state's economy. This is lower than the 1.56 multiplier found for the state's economy during fiscal year 2012. The indirect employment multiplier tends to be lower for industries that pays a greater portion of the expenditure to household labor (such as, educational and professional services) since less is spent to support jobs in supply industries.

Table 7 shows how direct employment expanded across all eight industrial sectors and households through the indirect and induced multiplier. The direct, indirect and induced employment multiplier was 2.49. This means, for each original one hundred jobs supported by direct lodging and restaurant spending, an additional 149 jobs were generated within the economy due to the sales, earnings and purchases of industries and households that grew out of the original direct spending. This multiplier (2.49) is slightly higher than the 2.41 multiplier found for the state's economy during fiscal year 2012. The industry's direct, indirect, and induced employment multiplier increased from the indirect employment multiplier more than the state average because it accounts for earnings of workers in the industry where direct spending occurred and its supply industries; a greater portion of lodging and restaurant spending accrues to household earnings.

Table 6

DIRECT AND INDIRECT LODGING AND RESTARANT SPENDING SUPPORTED
EMPLOYMENT – FISCAL YEAR 2012

| Sector | Direct Jobs | Indirect | Total | Percent |
|---------------------------|--------------------|-----------------|--------------|----------------|
| Const/Ag/Mn/For | - | 2,357 | 2,357 | 2.4% |
| Manufacturing | - | 951 | 951 | 0.9% |
| Hosp & Leisure | 67,554 | 238 | 67,791 | 67.7% |
| Retail Trade | - | 748 | 748 | 0.7% |
| Tans/Ut/WhTd/Inf | - | 10,139 | 10,139 | 10.1% |
| FIRE | - | 3,180 | 3,180 | 3.2% |
| Services | - | 7,110 | 7,110 | 7.1% |
| Government | - | 7,899 | 7,899 | 7.9% |
| Total | 67,554 | 32,622 | 100,175 | 100.0% |

Table 7

DIRECT, INDIRECT AND INDUCED LODGING AND RESTARANT SPENDING
SUPPORTED EMPLOYMENT – FISCAL YEAR 2012

| Sector | Direct Jobs | Indirect & Induced | Total | Percent |
|---------------------------|--------------------|-----------------------------------|--------------|----------------|
| Const/Ag/Mn/For | - | 5,451 | 5,451 | 3.2% |
| Manufacturing | - | 1,961 | 1,961 | 1.2% |
| Hosp & Leisure | 67,554 | 1,716 | 69,269 | 41.1% |
| Retail Trade | - | 22,890 | 22,890 | 13.6% |
| Tans/Ut/WhTd/Inf | - | 19,219 | 19,219 | 11.4% |
| FIRE | - | 14,424 | 14,424 | 8.6% |
| Services | - | 20,523 | 20,523 | 12.2% |
| Government | - | 14,781 | 14,781 | 8.8% |
| Total | 67,554 | 100,966 | 168,520 | 100.0% |

Government Revenues

Total State government revenues are estimated at \$329.9 million. Nearly 11 cents of every dollar spent at lodgings and restaurants in New Hampshire ended up directly or indirectly in the State treasury, more than nine times greater than the rate of about one cent for all spending during fiscal year 2012. Rooms and meals tax made up more than 72% of these state government tax receipts.

The largest single source of lodging and restaurant spending which becomes state government revenues is the rooms and meals tax. The New Hampshire Department of Revenue Administration reported that \$239.8 million in state revenues resulted from spending for lodging, at restaurants, and for taxable food store purchases. Other important forms of state revenues were: business profits/enterprise taxes (\$29.3 million), state educational property tax (\$17.7), tobacco tax (\$8.4), transfer from Liquor Commission (\$4.9), insurance tax (\$4.2 million), communications taxes (\$2.9 million), beer tax (\$0.5), and \$22.3 million in taxes and fees collected from telecommunications, banking, insurance, utility consumption tax, utility property tax, and real estate transaction taxes and fees.

Taxes and fees also are received by local governments as a result of lodging and restaurant spending. While some local governments receive taxes and fees from services they provide, such as parks and recreation facilities, water supply, sewerage, and airports, most local government income is from property taxes. And all these taxes and fees are paid by earnings of workers in the lodging and restaurant industry and their suppliers who hotels and restaurants buy materials from. Approximately \$178.7 million was paid to local governments in property taxes and local government fees. About 6 cents from every lodging and restaurant dollar ended up with local governments, not including any transfer payments from the State government. This was above the level of 2 cents from every dollar spent in the state.

In estimating state government receipts, it was assumed that state government receipts supported by lodging and restaurant spending were proportional to the ratio between lodging and restaurant spending and state-wide sales in the case of economy-wide general taxes such as, business profit taxes. In the case of industry-specific taxes such as insurance tax, the ratio between indirect spending in the industry as a result of lodging and restaurant spending and state-wide industry total sales was used. Local government receipts were estimated using the share of estimated household income supported by lodging and restaurant spending in the state's total household income.

Table 8

ESTIMATED DIRECT AND INDIRECT STATE AND LOCAL
GOVERNMENT TAX AND FEE RECEIPTS

| <u>Source</u> | <u>Receipts</u> |
|---|-----------------|
| Rooms & Meals Tax | 239.8 |
| Business Profits/Enterprise Tax | 29.3 |
| State Property Tax | 17.7 |
| Tobacco and Beer Tax | 8.9 |
| Transfer from Liquor Commission | 4.9 |
| Insurance Tax | 4.2 |
| Communications Tax | 2.9 |
| Others* | 22.3 |
| Total State Government | 329.9 |
| Local Government Taxes and Fees | 178.7 |
| Total State and Local Government | 508.6 |

Dollar amounts are shown in millions.

Others include telecommunications, banking, insurance, utility consumption tax, utility property tax, and real estate transaction taxes and fees.

Transfer from Liquor Commission refers to the net liquor sales (operating profits) transferred to the General Fund after subtracting the Commission's operating costs.

Government receipts were estimated from total spending, including direct, indirect and induced spending. State government receipts represent general and education funds, while local government receipts mean general revenue, excluding transfer payments from the federal and state government. Local government receipts are estimated based on State and Local Government Finances, FY11.

Conclusions

In conclusion, spending at lodgings and restaurants is a major source of revenues for state and local governments. The lodging and restaurant spending directly and indirectly made up more than 15 percent of the state's general and educational funds during fiscal year 2012. This is largely due to the presence of the industry-specific rooms and meals tax (9 percent) in a state that doesn't have general sales taxes and income taxes (on wages and salaries). In addition, the lodging and restaurant industry is a major driving force of the state's economic engine. More than half of the lodging and restaurant spending was paid by non-residents bringing in new money from outside the state, fueling the state's economic growth. Therefore, our findings indicate that the overall economic contribution from the lodging and restaurant industry within the state is very impressive, much more so than its standing in gross state product would indicate.

Glossary

Direct spending represents original spending. In this study, direct spending is original dollars spent at lodgings and restaurants.

Indirect spending comprises monetary transactions among businesses, organizations and government agencies that supply those businesses where the original spending has taken place.

Induced spending includes the income of employees and owners and their spending within New Hampshire, for all of those businesses, organizations and government agencies where the direct and indirect monetary transactions occurred.