A REVIEW OF:
ECONOMIC GAIN SPATIAL ANALYSIS - TOURISM

The following outlines the substantive issues and concerns that a review of the Tourism Economic Gain Spatial Analysis report (Report) found. A first pass revealed a few, minor arithmetic/analytical errors that have only a marginal impact on the results. These are discussed at the end of this review. A number of Output Requirements were not completed as specified in the Terms of Reference although there are reasonable data available that would have enabled the contract team to complete these Requirements. These are discussed in a separate section of the review.

More important, I found (to me) a lack of consistent and reliable background information from which projections of future activity could be judged. Further, while the mechanics of the projections are generally fine, there is little justification or rationale as to why a particular scenario is most likely and whether the area in question can sustain such development. Indeed, there is no real appreciation of what the scenario(s) will mean in terms of the growth in visitors or their demands on resources such as harbours, coastal waters, fish, etc.

The following outlines briefly the findings of my review.

Existing Tourism Characteristics

The Report, in my mind, does not provide a succinct description of the tourism product and characteristics on the ground today in each tourism area. Different sets of descriptive data are used at different times in the report, and this makes it difficult to get a clear picture of exactly what tourism product exists. In addition, the confusing uses of data and important omissions makes judging the validity of the projections difficult.

Central Coast Data

1. The initial and main description of tourism sectors and products on the Central Coast is given on page 19:

   - 160 businesses catering to tourists; room revenues increased from $946,000 in 1996 to $1.3 million in 2000 (~40% increase) from 13 properties (169 rooms). This translates into revenues of $100,000 per property.
   - There is no indication of the size/quality of the lodging sector. That is, do two or three large, comprehensive lodges with another group of very small owner-operated motel-type properties dominate the area, or are most of the properties of medium size. Similarly, there is no attempt to identify the types of other businesses catering to tourists, nor is any information provided as to the approximate level of employment generated in the area and how many are likely residents of the area. Perhaps most important, there is no assessment of the historic trends over the last years of these variables, with the exception on room revenue growth.

2. Later (page 70) the Report uses data from the entire Vancouver Island/Coast Development zone to describe the tourism characteristics on the Central Coast.
    - 54 fishing lodges (881 rooms) in 2000, an increase from 45 (779 rooms) in 1996.
    - The impression is given that the data represent actual Central Coast characteristics and indeed is one of the main justifications for scenario #1 ("one lodge development [in the Central Coast] every year equates to an annual capacity increase of 2%).
3. Earlier on page 36 it is stated: "there are a few dozen lodges in the study area" (i.e. in all of the Central Coast, North Coast, and QCI).

North Coast Data

1. The initial description of tourism sectors and products on the North Coast are given on page 20:
    - Fairly detailed information on business numbers for 2000 are provided from the North Coast TOS. A total of 46 accommodation and accommodation and touring businesses are identified, but there is no indication of the types of accommodation (high-end or low-end), the historic trends, or even the location (urban vs wilderness).
    - Room revenues are estimated at $20 million from 87 properties (2,268 rooms), up from $18.5 in 1996, but this is for an area somewhat larger than the North Coast LRMP (how much larger; what material impact). Again, there is no attempt to contrast these numbers with the TOS estimates or to provide a breakdown in terms of type of accommodation and location nor to provide employment in the area and how many are likely residents of the area. Since the projections are essentially for wilderness-type lodges, it's difficult to use the room revenue data as a benchmark when the room revenue data include all the urban (Prince Rupert) accommodations.
2. Later in the Report (page 93) the description differs:
    - There are "about 40 roofed accommodations in the area", of which about 30 are in Prince Rupert itself, the remainder in the rural areas.
    - The Report suggests very little development has taken place lately, yet the projections are predicated on a high rate of lodge construction.

QCI Data

1. The initial description of tourism sectors and products on the North Coast are given on page 20 – 21:
    - Fairly detailed information on business numbers, but no source is provided. A total of 55 roofed accommodation are identified, but there is no indication of the types of accommodation or historic trends.
    - Room revenues are estimated at $3.5 million in 2000 based on 25 properties with 420 rooms. The footnote indicates how the room revenue data were calculated, but there is no explanation as to why there are only 25 properties in the BC

STATS database but at least 55, and perhaps as many as 72, operations in QCI that ought to be paying hotel tax.

- Again, there is no attempt to provide any information as to the approximate level of employment generated in the area and how many are likely residents of the area.

2. On page 114 a somewhat different description of the area is provided:

   - "There are currently about 50 accommodations in the area of which about two-thirds are motels, inns, and B&Bs. Most of these are very small, typically under five units. The remaining operations are mainly lodges, both floating and land-based". What does "remaining" mean: 2 lodges, 5 lodges, 15 lodges?
   - Again, the Report suggests very little development has taken place lately in the QCI, yet the projections are predicated on a high rate of lodge construction.

<u>Concerns Regarding Existing Tourism Data</u>

1. As implied above, the data are often inconsistent and a discussion of many characteristics is missing: historical trends, employment, types of lodges and other wilderness businesses. Particularly absence is an assessment of from where the growth in the area has been stemming: is the growth in high-end fishing lodges, in ocean kayaking using non-fixed roof accommodation, etc.

2. If it is true that total room revenues in the Central Coast were $1.3 million in 2000, then this implies that there were at most three high-end lodges in the region. However, a simple review of the Outdoor Adventure Guide published by Tourism BC reveals at a minimum 4 lodges (2 connected with the Oak Bay Marina Group, Shearwater, and Rivers Lodge) and certainly there are more. This is enough to question the validity of the room revenue data.

3. There are no caveats placed on BC STATS room revenue information.

   - First, room revenues are not equivalent to actual revenues earned, since fishing lodges only pay room tax on an imputed portion (usually $100 per person per night) of the daily (inclusive) rate.[1] Consequently, using just room revenues as a descriptor leaves the impress that tourism activity in the area is much smaller that it actually is.
   - Second, it is highly likely that the revenue data for a number of lodges in each area are not captured properly in the BC STATS database. For example, Oak Bay Marina Group operates 2 lodges (one vessel, one land-based) in the Central Coast, but they also have at least four other properties: two on Vancouver Island and two on QCI. Unless BC STATS has changed its geo-coding method, all of these properties are attributed to their head office in Victoria. Similarly, West Coast Resorts operates a number of floating lodges that are moved around the Central/North Coast and QCI, depending on the time of year. Are these

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[1] This point is acknowledged obliquely much later in the Report on page 94, but likely too late to correct any misconceptions as to the size and nature of the existing tourism product. Indeed, there is never an attempt to convert room revenues into an estimate of actual revenues, which ought to be a relatively trivial exercise.

revenues distributed (unlikely), assigned to one wilderness location, or assigned to their Richmond head office?[2] While it may not have been possible for the consultants to improve the room revenue data, the reader should have been warned as to the problems underlying the information.

Economic Gain Projections

The Economic Gain projections for each area are predicated on three underlying aspects: the Product Development Analysis (discussion found in section 4.0); the Tourism Outlook to 2020 (discussion found in sections 5.2 and 5.3) and the Planning Area Analysis (discussion found in section 6.2).

The Product Development Analysis attempts to measure the likelihood that particular tourism products will be further developed in each of the areas. It rates 22 products using a scale of 0-4 (N/A to Excellent) against three main criteria: Resource (including the quality and quantity of the resource available); Markets (existing, potential, origins, etc.); and Economic (job creation and duration, revenues, employment income).

The Tourism Outlook identifies the likely future travel characteristics: more individualistic and sophisticated travellers, more environmentally-aware and educated travellers, an increase demand for eco- and soft adventure tourism, higher yields from more specialized travel and reliance on relatively affluent travellers, "tremendous" opportunities from large cruise ships; and an increase in overall adventure tourism demand because of the increase in the numbers of baby boomers.

The Planning Area Analysis assigns a numeric rating to various characteristics: Very High = 4; High = 3; Moderate = 2; Low = 1. These characteristics include: Features; Activities; Irreplaceability; Activity Development Suitability, and Lodge Development Suitability. Once ratings have been assigned to each Planning Area's characteristics, the Planning Areas with the highest ratings are chosen for "development".

Concerns Regarding Projections

1. The product ratings are, at times, peculiar. For example, First Nations (that is, "interpretive tours … visiting petroglyph and pictographic sites, and seeing culturally modifies trees") is given a High to Very High rating for many characteristics, including market potential, job creation, and employment income. In fact, First Nations is rated higher in employment income than any other activity! Given the very high cost of travel to any of the three areas, it is, in my opinion, highly unlikely that First Nations activities would outperform, on their own, many of the activities that are lower rated. That is not to say that First Nations activities could not hook up with a lodge to provide some clients with a First Nations experience. But the

[2] I requested clarification on this from BC STATS, and was informed that West Coast Resorts is allocated to Richmond, their headoffice. They didn't give me information for Oak Bay Marina Group, but did mention that King Pacifc (on the North Coast) is assigned to the Central Coast.

employment income generation would be nowhere near what the lodge would generate from fishing and the like.

2. The various discussions of future trends are problematic.

   - While it may be true that the age cohort 45-64 (the cohort most likely to take part in soft adventure tourism) will be growing faster in BC than overall population, this is because of net in-migration. That age group in Canada, in the US, and in our major overseas markets (Germany, Britain and Japan) will be relatively smaller (by 2020 the average "baby boomer" will be roughly 70). I'm also not convinced that it is the 45-64 cohort that represents the major market for the Central and North Coast and QCI, (no concrete data are provided for that assertion), especially for activities such as kayaking and the like. Already we are seeing in Europe and many parts of North America a slow down in the demand for downhill skiing as the population is aging.
   - Saltwater fishing is defined as "a mature tourism product in the area". Despite this, there is a projected large increase in the number of lodges, all, by definition, catering to the fishing client.
   - Although many of the existing marine-based lodges are floating, "over the planning horizon of this project, there is expected to be an increase in land-based facilities". No justification is given for this assertion. Some facts tend to suggest the opposite: (a) the cost of floating lodge construction is lower than for land-based construction in the isolated locations within the CIT study area; (b) most of the new facilities of late have been either floating lodges or vessels, in part because of construction costs, in part because of the ability to move the lodge/vessel around to different locations of the coast.
   - Cruise Ships. This is a difficult problem since the Report authors use direct information from a Prince Rupert Authority study (page 97). Nevertheless, given the importance they place on cruise ship impacts, I should have like to have seen a greater discussion of the Port Authority report and some assessment of the findings. For example, is a per capita spending estimate of $120 realistic and what would this entail.[3] If these average spending estimates are too high, what would this mean to the economic gains outlined in the Report.

3. Projection Rationale**:** For both the Central and North Coast areas, the scenario #1 projection is for one lodge development per year (i.e. an increase of 10 lodges in Central Coast; an increase of 11 lodges in North Coast) and two adventure tourism activities per year (i.e. an increase of 26 activities in Central Coast; an increase of 24 activities in North Coast).

[3] Although I haven't an intimate understanding of the cruise ship industry in BC, I have done a number of studies for the cruise ship sector in the Caribbean. Several characteristics jump out. One, in the Caribbean the average spending per cruise ship passenger disembarking is less than $60 (CAN). Two, more than 30% of this spending goes back directly to the cruse ship in the form of commissions, meaning that the local economy earns less than $40 per disembarking passenger. Three, the majority of spending is on duty-free goods that add virtually nothing to the local economy. And four, well less than one half of passengers do not disembark and therefore do not spend anything in the local economy.

- ➢ There is no attempt to match this development scenario neither against the product that now exists nor to recent historic trends. At one point the authors suggest the Central Coast expansion in capacity is 2% (page 70), but this is clearly incorrect since the base capacity used is for the entire Vancouver Island/Central Coast Development Zone.
- ➢ There is no attempt to translate the product development into visitors in order to assess capacity constraints. For example, an increase of 10 lodges on the Central Coast will likely mean an increase in the number of visitors of approximately 3,000 to 3,500, based on North Coast Study information. An increase of 26 activities in the North Coast implies an increase of roughly 5,000 new visitors (using an average rate of $1,300 per person). Is an increase of 8,000 – 9,000 visitors sustainable? I'm not suggesting it isn't, it's just that there is no discussion of the impacts to provide justification for the projections.

4. The revenue and employment estimates for lodges are taken from the North Coast Study, of which I was the author. The data are quoted correctly, but the Report suggests that the data reflect "relatively modest developments to high-end speciality resorts". Actually, the sample (there are more resorts/vessels on the North Coast; they just are not part of the Back Country Caucus) is skewed toward high-end facilities, although there was one firm included with very small revenues (the company had just started operations and did not have a full year). Nevertheless, due to the high cost of travel to the North and Central Coast areas and QCI, the type of new lodging that will be built will likely be higher-end. As a consequence, I don't have serious problems with using the $1.17 million revenue average. Indeed, it may be too low (the average revenue for the lodges vs the vessels was $2.1 million and $350,000 respectively). More detailed information can be provided to the Report authors on the characteristics of fixed roof lodges vs vessels if that would be of assistance.

Terms of Reference Requirements

1. The Terms of Reference stipulate that the consultants should develop three separate scenarios: Optimistic (high market demand; ambitious marketing efforts); Intermediate (moderate market demand; average marketing effort); and Pessimistic (weak market demand; ineffective marketing effort). The Report only includes two "scenarios" and, while scenario #2 is clearly "more pessimistic" than scenario #1, there is no demand/marketing justification for either of the scenarios chosen.
2. The Terms of Reference ask for employment projections to be assessed on the basis of how many jobs would be within the CIT area and how many outside (I interpret this to mean how many jobs go to residents of the area vs to residents coming from outside the area). No data or projections are included in the Report pertaining to this output requirement.
3. The Terms of Reference indicate that, in addition to projections of revenues and employment, the contractor is responsible to provide estimates of government revenues

and profit[4]. Neither of these measured are provided in the Report, despite that fact that the North Coast Study does provide some insights into these.

Other Minor Concerns

1. The summation of Central Coast Lodge Revenue (Table 6-3, page 75) for Bella (first row) is incorrect, should be 23.40 (not 22.23). This results in a total of 181.35 (not 180.18).

2. Numerous times paragraphs from the Central Coast section seem to have been pasted into the North Coast discussion (e.g., page 94) or headings have not been changed (Tables on page 96 and 103) without changing wording (i.e., the North Coast discussion refers to conditions in the Central Coast). This is true for QCI as well (pages 115, 118 and 123). While not substantive to the projections presented, it takes away from the perceived credibility of the Report.

3. There appears to be a misunderstanding between sectors (such as lodges) and products such as wildlife viewing. Wilderness lodges are not products as suggested on page 24. Almost always, wilderness tourists are engaged in some activity (fishing, wildlife viewing, etc.) and do not "consume" lodging for its own sake. Very often, the lodge is providing the wilderness product at a cost implicit in its daily rate.

   As a consequence, the projections seem to imply that there is a potential market for "lodges" and another potential market for adventure activities; that the demand for lodging will be filled by the lodges and the demand for adventure activates will be filled by adventure tourism companies. Thus, the structure of the projections is almost double counting: there is an increase in "lodges" earning revenues and an increase in adventure activities, earning incomes.

   What is missing is a true assessment of potential demand for adventure activities and then an assessment of what portion of that demand will be satisfied by the new lodges and what portion by adventure tourism companies not having fixed roof accommodation facilities. As it stands now, there is no way to assess whether under the each scenario the carry-capacity for (say) kayaking or fishing will be exceeded or whether there still will be unused space.

RECOMMENDATIONS

1. There needs to be a single set of descriptive data for the existing tourism product in each of the three areas. Obviously it is not possible to achieve a complete historical profile of all tourism products; nevertheless it should be possible, using information from BC STATS and Tourism BC, to develop a more accurate profile of the number of facilities by type and size in each area and, at least with lodging, an estimate of total revenues (as

[4] I'm not sure why "profits" were asked for, since the heading of the output requirement is "Net Benefits to Society". I should have thought that an estimate of economic rent would have been more suitable.

opposed to room revenues). Data on average daily package rates (from which the imputed $100 per client per night is assessed) are available from several sources, including the North Coast Study.

2. Identifying the implications of the various scenarios beyond revenues and employment gains would be important. Specifically, examining the number of new visitors resulting from each scenario is important in terms of assessing the impacts on the land base and capacity constraints. Data on average package rates for various wilderness activities and lodges are available from several sources.

3. Clearly the Report should meet (at least some of) the Output Requirements as laid out in the Terms of Reference. This would include a third scenario if the Project Manager desires it (since scenario #2 is a linear function of scenario #1, a third scenario would not give any additional information, if the same methodology is used). More important, estimates of provincial government revenues need to be assessed. These revenues include direct taxes on tourists such as the accommodation tax, fishing licenses, etc.; explicit taxes paid by businesses such as guide fees, LWBC tenure fees, etc.; and implicit taxes paid by businesses such as the PST contained in the purchase price of some business expenses. In addition, the Terms of Reference ask for estimates of "Profits to Enterprise". My personal opinion is that, without access to accurate financial information from operators in the areas, trying to estimate Profits is a non-starter. Perhaps a reference to the North Coast Study, where detailed financial information was available, would suffice.

Respectively submitted

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