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Alexander Ciesluk, Jr.
Deputy Regional Permit Administrator
NYSDEC
21 South Putt Corners Road
New Paltz, NY 12561-1620

Dear Mr. Ciesluk,

I submit the following comments on behalf of Riverkeeper, Inc. My comments focus on the economic analysis portion of the DEIS for the proposed Belleayre Resort development. I have worked in the fields of economic analysis and econometric modeling and forecasting for 30 years. I received my B.A. in economics from The Johns Hopkins University and my M.A. and Ph.D. in economics from the University of Maryland. I have applied economic analysis and modeling techniques in a variety of industries and applications both here and abroad. Several of my former positions include Chief Economist, New York Metropolitan Transportation Authority and Consultant and Account Manager, Chase Econometrics/Interactive Data Corporation.

There are serious deficiencies in the economic impact analysis presented in the DEIS, which cause the results to be biased toward the developer. I address six areas of concern in this letter.

- Updated and additional publicly available data do not support the base line economic conditions and conclusions presented in the DEIS.
- The model used for the impact analysis is insufficient to accurately estimate the local and regional economic impacts of the proposed development.
- In this case of large scale tourism development, multiplier analysis produces biased, overly optimistic estimates of the economic impact.
- The potential for adverse economic impact on the locality is not sufficiently addressed.
- The DEIS choice and analysis of comparables appear to have little relevance to the proposed project.
- The analysis of secondary development is incomplete.

1. Base Line Economic Conditions - Income and Employment

The current economic conditions described in the DEIS are not presented clearly and there are additional publicly available economic data that contradict some of the conclusions and trends presented in the DEIS.

Income, labor force and employment growth are stronger than stated in the DEIS.

- Personal income in the area appears to be increasing, but the DEIS states otherwise. The DEIS states that "the 2000 average household income in the study area, approximately $39,524, decreased in real terms by 2.8% between 1990 and 2000." Data from the NYS Department of Labor (DOL) show that real per capita personal income increased during the same period by 11%, 10.7% and 1.9% in Delaware, Greene and Ulster Counties, respectively.

- The DEIS states that "average household income in the study area is less than that for all the individual counties, about $7,500 less than the tri-county region, and $26,600 less than New York State overall." The fact that the study area has a greater number of second homes (implying a relatively higher level of affluence), indicates that the effective income is higher than indicated by publicly available data. Income is generally reported at the location of one's primary residence, as is labor force status.

- Employment and employed labor force in the area have a more positive outlook than indicated by the DEIS. First, note that Table 2-5 on Page 2-5 of Appendix 26 is titled "Employment Trends 1980-1999." I believe that this table is incorrectly titled as it is showing Employed Labor Force rather than Employment (which usually refers to number of jobs). While this table shows Employed Labor Force to have declined by 4.8% in Delaware County from 1990 to 1999, data from NYS DOL shows an increase of 4.1% from 1999 to 2003. Likewise, the Table in the DEIS shows an increase of only 2.5% in employed labor force from 1990 to 1999 in Greene County, but NYS DOL data show a growth of 7.7% for the period from 1999 to 2003. Finally, in Ulster County, the DEIS shows a decline of 3.4% for the period 1990 to 1999, but NYS DOL data show an increase of 2.8% for the period from 1999 to 2003.

- Total Labor Force for the period 1999 through 2003 increased by 3.8%, 6.8% and 3.6% for Delaware, Greene and Ulster Counties, respectively. This is much stronger growth than shown for the period 1990 to 1999 in the DEIS (-4.6%, 2.8% and -3.5%).

- The number of jobs in each of the three counties has increased in recent years. From 1999 to 2003, employment (number of jobs) in non-agricultural establishments increased by 4.7%, 7.4%, and 2.5% in Delaware, Greene and Ulster Counties, respectively. The DEIS shows employment changes (primarily declines) for some sectors, but only for the period ending in 1997, not reflecting significant events and possible changes in the economy that have occurred since then.

2. Impact Model Used for the Analysis is Insufficient

For the purposes of impact analysis in this DEIS, RIMS II multipliers were used. The project was separated into two phases, a construction phase and an operational phase. Neither the details on the inputs used for the RIMS II model nor the actual multipliers were provided in the DEIS. The RIMS II model results are not sufficient for impact analysis of the Belleayre Resort development.

- RIMS II is a static input-output (I/O) model, based primarily on national I/O tables which do not allow impacts to be analyzed over time. Clearly the actual impacts of such a project will be felt over time. The economic impact analysis for such a large development should estimate the impacts over time (10 to 20 years for construction and operation). In addition, RIMS II should be supplemented with models more specific to the region. Reference is made to local market research data and interviews with businesses, but it does not appear that these local data were used in modeling and estimating the economic effects.

- Static I/O models tend to assume linear production and consumption functions, implicitly assuming that household spending increases directly with income and there are no economies or diseconomies of scale. With increased income, there are, in fact, increased leakages away from local spending and into saving and investment and purchase of travel and luxury goods. In addition, such models tend to assume the existence of nearly perfect supply elasticity in all sectors and the absence of supply constraints. There is little allowance made for the inability of any local sector to supply the required products. They also assume that relative prices are constant. Dynamic econometric type models are better able to capture these effects.

- The use of the REMI Policy Insight Model, which is a combination of a dynamic structural econometric model and an I/O model and is widely used to estimate economic development impacts, would be a step in the right direction. By combining input-output analysis with regional econometric modeling, it allows region-specific analysis over time as well as multiplier impact analysis at a detailed region-specific level. Even REMI, however, is likely to result in overly optimistic economic impacts for this particular tourism development.

3. Multipliers and Impacts are Exaggerated for this Type of Development

Due to the location of the proposed development, the type of development and various sources of leakages, the multipliers and the estimated impacts are exaggerated for this proposed development.

- If most goods and services are produced and sold locally, the multiplier would be relatively high. In isolated, rural, or country areas (such as the Catskills) multipliers tend to be lower. Specific regional modeling is essential for accurate estimates of economic impact of this development. . Brian Archer, in Tourism Multipliers: the State of the Art, discusses the problems with using both static I/O models generally and standard multiplier analysis for relatively small economies.

- There are a number of leakages that occur in the multiplier effect, and they are particularly significant with "up market", large-scale tourism developments. Note that the standard I/O tables and industry-level data effectively are based on average tourism businesses. At an "up market" resort, visitors may demand a higher standard of products than are currently available in the local area and the resort is likely to "import" these into the area in large quantities.

- The impact on employment is exaggerated. While the DEIS states that the new employees of the Belleayre development are expected to be primarily local residents, it is not certain that this would be the case or that this would help the local economy. If currently unemployed local area residents are hired by the resort, then the economic benefit to the region and the state will be relatively strong. Note that in many cases, the unemployed will require relatively more training than those currently holding comparable jobs, so the employer may be less likely to hire the unemployed. To the extent that members of the current employed labor force are hired, the economic benefit to the region will be negligible as this would imply simply a switching of jobs (negligible additional income entering the economy).

- The DEIS states "it is reasonable to assume that the Resort management would make every effort to hire for all positions from within this two-county region." They are referring to Delaware and Ulster Counties. The Emerson Inn & Spa, another development near Belleayre in the Catskill region, was initiated by the same developer proposing the Belleayre Resort. The Emerson Inn & Spa appears to make an effort to hire staff outside of the region, and in fact, outside of the country. An online review of the Emerson Inn states "The well-trained English-speaking staff is from all over the world – Belgium, England, France, Germany, Hungary, Ireland, Romania, Scotland, South Africa and Wales." This international hiring practice will not diminish local unemployment, and a large portion of the wages will not be spent locally, resulting in little stimulus to the local economy.

- The investor group will reap the greatest profits and these profits are unlikely to stay in the locality.

- A large-scale resort is more likely to import in large-scale, including both imports of materials and equipment for construction and consumer goods.

- The construction phase will produce little economic stimulus to the region. The DEIS states that "the economic effects from construction of the proposed project would, to a large extent, not be localized, but would occur throughout the regional economy in southern New York State." The local benefit will clearly be minimal and it is possible that even southern New York State will not derive the bulk of the benefit. There are many specialty construction trades required for this development that will have to be imported into the region and possibly even into Southern New York State. Construction workers who are not local residents may work and even live in the area temporarily, but will not spend much money in the area, taking most of their wages to their own locality.

- The development as proposed at Belleayre is similar to an "all inclusive" resort where visitors stay in the one resort for recreation, food, drink and accommodation. Large "all-in" resorts do not tend to help the localities. They do not bring a significant multiplier impact outside of the resort. Tourists visiting a self-contained resort buy all food and entertainment on site, but the adverse effects are felt by the community outside of the resort (traffic, water pollution, air pollution, etc.).

A report on the economic impacts of tourism, issued by the United Nations Environment Programme, Division of Technology, Industry and Economics, states "local businesses often see their chances to earn income from tourists severely reduced by the creation of 'all inclusive' vacation resorts. When tourists remain for their entire stay at the same resort, which provides everything they need and where they will make all their expenditures, not much opportunity is left for local people to profit from tourism."

A survey by the Organization of American States concluded that "all inclusives generate the largest amount of revenue but their impact on the economy is smaller per dollar of revenue than other accommodation subsectors."

The development of all inclusive resorts, therefore, results in a smaller multiplier effect on the local economies than the average tourism development. Unfortunately, industry sector analysis does not separate out types of resort accommodation, so the multiplier is exaggerated for this analysis. The six RIMS II industry sectors used for the DEIS analysis do not generally reflect "all inclusive" resorts, but independent, separate businesses, such as recreation clubs, retail establishments, eating and drinking establishments, etc. In other words, the RIMS II results presented in the DEIS are more realistically reflecting the effect of development in separate, smaller-scale tourism-related businesses in the area. The impact from the larger proposed "all in" resort would be much smaller.

In a study by Slee, Farr and Snowden and quoted in an August 2002 briefing to Scottish Parliament, produced for the Enterprise and Lifelong Learning Committee, comparisons were made between impacts on development of "hard" versus "soft" tourism. Hard tourism includes large hotels and timeshares. Soft tourism includes farms, forests, small hotels and guest houses. The study concluded that money received by tourists in the hard sector was not retained within the region; tourist spending in the soft sector is more likely to circulate within the local economy, thereby producing a multiplier effect. Small businesses in the "soft" sector are more likely to be embedded in the community.

Tourism development which encourages visitors to stay in local hotels, partake in local recreation and frequent local eating and drinking establishments will have a substantial multiplier effect on a region and the I/O models are more accurate in estimating the impact of this type of tourism development.

4. Adverse Effects

The potential for adverse economic impacts is not sufficiently addressed.

- Diversification of an economy is desired for long-term economic strength. Introducing a large development that would far exceed the size of any other business in the area would result in a very low level of business diversification in the economy, which is risky. Jost Krippendorf, in The Holiday Makers: Understanding the Impact of Leisure & Travel, emphasizes that "over reliance on any single economic activity is dangerous and in the case of the tourist trade, the risk is even greater." He further states that "under no circumstances should a development relying solely on tourism be allowed. A maximally diversified economic structure must be strived for in tourist destination areas." In the case of the Catskills, this implies that forestry, handicrafts, small-scale industry and non-tourist services must be promoted as well.

- Tourism, if done properly, can have a considerable impact on employment and income in a locality, but Krippendorf emphasizes the reverse side of the coin, seldom mentioned: "jobs in tourism are mostly unattractive, working conditions are hard, the hours are irregular, there is seasonal overload, overtime is more or less compulsory and one is at the mercy of the guest. Earnings are below average. The range of professional and training possibilities is limited. Many jobs are unskilled and considered socially inferior, for example the work behind the scenes such as in the kitchen or cleaning. Tourism-related occupations therefore enjoy very little prestige, especially in developed countries."

- If there is an impact on local businesses resulting from increased demand for their goods and services, prices will rise, and local residents whose incomes do not rise, particularly the unemployed, retirees and others on fixed incomes, may be adversely affected by the price increases.

- A large influx of tourists may drastically alter the community and potentially degrade it if crime increases and/or potential business owners invest or potential employees come to the area in the hope of high growth. If the development does not have a strong positive economic impact, then unemployment, poverty levels and failed businesses increase.

- Development on a large scale relative to other local businesses can be detrimental to a community in the longer run if not in the short run. If the development fails, the community gains a failed business, loss of tax revenue, and is forced to take over certain public services that the developer promised to cover. If the development is successful (resulting in strong visitation and spending at the resort and in the community), the successful new business may request tax breaks from the locality, or put pressure on the local communities to take over services such as road maintenance, fire protection, etc. Further, if the development is successful, the cost of living and real estate prices may increase in the surrounding area, driving out lower income residents (some of whom have lived in the area for generations) and changing the economic climate of the region.

- The economic benefits of large scale tourism development will go disproportionately to elite groups (the investors) which does not help the local economy.

5. Comparables

- The "comparables" portion of the analysis provides insufficient information. There is little, if any, quantitative information on the physical and fiscal impacts of the comparable developments. The revenue and tax impacts on the localities and the state are not addressed for two of the comparables, nor are the impacts on local roads, utilities and public services.

- I question the choice of some of the comparables. Mount Greylock is not yet built, so comparable impacts are difficult to examine. I believe that Gore Mountain is primarily for day visitors, as there are no residential facilities.

6. Secondary Development

The secondary development portion of the study indicates that there will be no significant secondary development, either commercial or residential.

- This portion of the analysis is not complete. Public expenditures on police, fire and schools and costs of new and maintenance of existing infrastructure to the localities are not addressed.

- A proper analysis of secondary development should be more extensive and should estimate the likely impacts over time (perhaps for approximately 10 to 15 years required for development and marketing.) Detailed projections of supply and demand over time, separately for commercial and residential development, and labor force should be estimated. In addition, government revenue and expenditures and property values should be projected for the same time period. Finally, alternative scenarios of secondary development should be estimated, ranging from "worst case" to "best case."

In conclusion, the economic analysis presented in the DEIS is not comprehensive and the economic impacts are overly optimistic. Serious adverse effects are ignored, the multipliers are exaggerated, the base line economic data and trends are in question, and the impact model used is inappropriate for the proposed development.

The development of small-scale resorts/hotels, which are more likely to purchase supplies locally and whose visitors are more likely to frequent local establishments, is expected to realize a larger local impact from each tourist dollar spent.

A resort development on a significantly smaller scale than the one proposed would result in greater economic benefit to the area and at the same time reduce the risk of the potentially adverse economic effects. A smaller resort project (not a full-service resort), that would require visitors to spend in community businesses, would result in greater growth of existing businesses and allow currently unemployed persons to be hired by both the smaller businesses and the new development.

Best regards,

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