



METRO ATLANTA CHAMBER

Potential Economic Consequences of RFRA-like Legislation

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RFRA Risks: Executive Summary

Estimating losses associated with the passage of a RFRA styled bill is difficult because of a lack of comparable situations. The losses are a function of the reaction to the passage of the bill. If there is no reaction, there will be no consequences. The recent experience in Indiana suggests that the reaction will be quite vigorous. While their law was quickly modified after the bill's initial passage, the state continues to suffer blowback and, importantly, knows that its estimates of losses are too low because it cannot know all the instances where Indiana was removed from consideration in the decision process. The more vigorous and long-lived the reaction, the more the losses will mount.

Estimable Monetary risks (intentionally conservative estimates):

- **Convention and business travel.** At least \$600 million lost if the reaction is the equivalent of Indianapolis. Much more if the reaction is larger or longer (the law in Indiana was in place just a week).
- **Sports.** \$400M+ opportunity lost if the Super Bowl is not obtained.
- **Wealth.** On average a 4% loss in stockholder wealth of companies targeted for consumer boycotts. Since the major Georgia firms are in markets that make them particularly vulnerable to boycotts this is a very low estimate if a product boycott is realized.

Unquantifiable Risks:

- **Convention and business travel.** Professionals in the industry say “Why take the risk?” and move events to less politically sensitive cities. In the Indiana case, Moody's issued a downgrade warning for firms with revenue streams dependent on Indiana tourism.
- **Business attraction and retention.** Firms, too, say “Why take the risk?” and chose other very competitive cities for their location. This is cumulative; once some major companies reject Atlanta it becomes more difficult to attract others.
- **Workforce.** Georgia's economic growth is dependent on the in-migration of workers from the rest of the country. Surveys of Millennials show strong disfavor for RFRA-like legislation. Other cities are aggressively recruiting this cohort of the workforce that is critical to maintaining a vibrant economy.
- **Boycotts and divestiture.** Once behavior is changed due to a boycott it will not automatically change back when the boycott ends. Companies targeted for a boycott or divestiture will have long term losses.

- **Sports.** The Super Bowl may not come. Collegiate teams in the state could suffer as other states bar travel to Georgia. Other sporting events could be impacted.

RFRA and Georgia: An Assessment of the Risks

This memo discusses the potential economic consequences of Georgia adopting RFRA-like legislation and then experiencing a similar economic fallout like Indiana did in the spring of 2015. The risks will be grouped into four areas. There is considerable overlap across the areas. A bullet point summary is provided at the end of the memo. Predicting actual losses or consequences is problematic because it depends upon how the rest of the world responds to whatever the state does, or is perceived to have done. Given the sensitivities around this particular topic, it is very important that close attention is paid as to how the bill is received by the public.

It is unlikely that RFRA would pass and the rest of the world would not care. This is not what happened in the past. In the Indiana case, over 800 million Twitter impressions occurred in the few days leading up to the signing of the bill to the Sunday when the process of amending the legislation began. More than 1 billion Twitter impressions occurred overall. Nonetheless, gauging the intensity and breadth of the reaction to the passage of RFRA is difficult and largely beyond the scope of this memo. The complex dynamics of social and political reaction and interaction could easily take us well beyond what may seem reasonable before the fact. Experience has shown that the reaction is overwhelming (stakeholders who observed the Indiana situation closely used the term “spooky”). This work is an attempt at establishing what is at risk.

A major recent complication for this type of analysis is the role of social media in organizing a response. Because it is a relatively new phenomenon there is little study of the matter. The literature that does exist suggests that the sort of situation presented by the passage of RFRA is exactly the sort of social issue where social media is most effective.¹ This means that historical precedent may produce loss estimates that are too conservative for the current technology. This is consistent with the Indiana experience, where the social media response was simply overpowering.

¹ See Makarem and Jae, “Consumer Boycott Behavior: An Exploratory Analysis of Twitter Feeds” *Journal of Consumer Affairs*, 2015.

The first section will analyze the risks to Georgia’s convention and visitor industry. Socially or politically motivated avoidance of controversial locations has generated hard data on economic losses. These figures are conservative because adjustment in the industry involves very long lags, and because there are other less easily measured risks that in the long run may prove much more costly.

The second section deals with workforce issues. This state is heavily dependent on the immigration of skilled workers. Attracting and retaining workers is a growing problem in the state. In and out migration is an increasing phenomena and competition for new college graduates is intense in certain skill areas. Reputation as an attractive destination for millennials is critical for the maintained growth of high wage industries.

The third section deals with potential risks to Georgia based businesses stemming from negative sentiment coming from key segments of the economy. This is a matter of losses stemming from consumer boycotts and investment divestiture efforts.

The fourth and final section is the problem of sports.

1. Conventions and Visitors

Tourism in Georgia is responsible for more than \$50 billion in direct, indirect and induced spending and over 400,000 jobs. Both figures are slightly more than 10% of the respective totals for the state’s economy.² Disruptions will be costly. There are two dimensions to the problem:

First, Georgia’s convention industry is vulnerable to boycotts. In 2011 Georgia experienced a convention boycott motivated by the passage of the Illegal Immigration Reform and Enforcement Act of 2011 – a much smaller social issue than that of the RFRA – that the Atlanta Convention & Visitors Bureau (ACVB) privately reports generated an immediate direct loss of \$50 million in convention activity that pulled out from the state in the form of cancellations, lost groups and lost leads (~1.25% of convention activity that year). In addition, in the two years after the passage of the bill, leads for conventions dropped with the end result being a further \$40 million estimated loss. This is consistent with the Indiana’s experience with their RFRA bill where, on a much smaller base, \$50 million in conventions were cancelled (over 1% of their annual activity) and the state was barred from making a pitch at a national meeting planner

² <http://www.georgia.org/newsroom/press-releases/georgias-tourism-industry-impact-hits-record-high-53-6-billion/> This number includes estimates of induced and indirect spending associated with the events.

convention. Moreover, a representative of Indiana’s tourism industry report that the cancellation process was only beginning to ramp up by the time of their bill’s being amended.

STR (a hotel consulting and analytics company) produced a study for the ACVB showing that the demand for convention/visitor lodging is very inelastic. This means that overall changes in revenue coming from shocks to the demand for lodging produce disproportionate changes in total revenue to the industry. In their findings, a positive shock of around an 8000 room booking event can produce a doubling of the revenue per available room (RevPAR) for the area. A negative shock will have the same effect with the opposite sign. This means that a convention disruption would not only lower occupancy rates of area hotels, it would lower the rates at which those rooms are sold.

Second there is the “why take the risk?” issue among professional convention planners. *Meetings and Conventions* magazine, the trade publication for the convention industry, polled its professional convention planner constituency about the importance of political issues in deciding the location of major conventions and trade shows.³ A majority of the planners were personally indifferent to political issues, but 46% said that they would definitely cancel a meeting in a destination that passed a law that attendees would find offensive. More significantly 70% said that they would avoid picking locations where political issues might be important. Planning and organizing events requires a long period of time, and the overwhelming response to a politically sensitive location was “why take the risk?” Again this is consistent with the Indiana experience where, after passing their bill, tourism officials representing convention organizations in Indiana were barred from a major meeting planning convention.

2. Workforce Issues

The Georgia economy has, on average, grown at a faster rate than the U.S. economy over the last three decades. The practical arithmetic of this long-term differential requires that the state must attract in-migrants from the rest of the economy. It has done so consistently up until the last recession began. For example, in the decade 1990 to 2000, the 29 county metro Atlanta metropolitan statistical area (MSA) population grew by 38.4% while the nation grew by 13.2%. As the overall economy recovered from this recent recession, the state, too, has recovered some of its in-migration momentum, although from 2010 to 2014 the MSA added just 5.8% to its

³ Loren G. Edelstein, “Should Politics Matter?” and “Meeting in a Politically Charged Atmosphere,” *Meetings and Conventions*, April 1, 2015

population while the nation grew by 3%, a marked deceleration in relative growth from the decade of the 1990's.

There is troubling data on the metro area's ability to attract and retain college educated millennials. From 2000 to 2012 the metro area added just 3% to its population of 25-34 year old college graduates. Dallas added 20%, New York 25%, and Houston 50%.^{4 5} This puts the metro area at a huge competitive disadvantage in terms of being able to meet firms' needs for this important worker group. RFRA could make the state comparatively unattractive for the critical millennial worker cohort, making this problem worse. Pew surveys show a huge majority (70%) of this group favor same sex marriage.⁶ Indiana firms report continued problematic questioning by out-of-state potential employees about the social climate of the state.

The metro area is undertaking the "ChooseATL" campaign to address the problem of the lack of in-migration and retention. The campaign is specifically targeting millennials. Negative attention and reputational problems from an RFRA-like event would substantially damage that effort.

3. Corporate Issues

- a. Consumer Boycotts, Reputational risk, and Goodwill. Georgia's largest firms tend to be consumer oriented with readily identifiable competitors. There are easy alternatives for consumers that want to avoid products of major Atlanta based firms.⁷

An allied issue is persistence in consumption. Once consumer behavior changes, it tends to stay changed. Thus once a boycott ends, consumers would

⁴ City Observatory, October 2014.

⁵ It is worth noting that Texas currently has a RFRA law, but it was passed in 1999, a time when issues like RFRA were much less controversial. And the Texas law also includes language that addresses concerns regarding civil rights issues.

⁶ <http://www.pewsocialtrends.org/2013/06/13/a-survey-of-lgbt-americans/>;
<http://www.pewforum.org/2015/07/29/graphics-slideshow-changing-attitudes-on-gay-marriage/>;
<http://www.people-press.org/2013/06/06/in-gay-marriage-debate-both-supporters-and-opponents-see-legal-recognition-as-inevitable/>

⁷ This was not the case in Indiana. Indianapolis' major firms are Ely Lilly, Cummins and some health care and software service providers. These are not products that are easy for consumers to boycott.

not immediately return to their previous patterns of consumption. The loss of market share may be very long lived.

Boycotts also hurt stock prices and would result in a loss of wealth to individuals and firms that own Georgia-based companies. White and Kare⁸ show that consumer boycotts produce a cumulative and statistically significant 2.7% abnormal decline in wealth in the first 10 days of a consumer boycott, with an eventual loss of 3.4% at a 100 day horizon. This is an average across their samples and, with Atlanta firms particularly easy to boycott, may be low for the local firms.

- b. Divestiture. Atlanta has a concentration of large publicly held firms that are easy targets for investment divestiture campaigns. In many cases these are a natural partner with consumer boycotts. This is an inevitable vulnerability of attracting a disproportionate number of Fortune 1000 companies to the area.

4. Sports

The Super Bowl site selection process reaches a critical point this spring, when the city's formal application is due. It would be very difficult for the NFL to select Atlanta for either 2019 or 2020 in the midst of RFRA turmoil. This is around a \$400 million mega-event – more than \$200 million in direct spending and more than \$150 million in indirect and induced spending over the course of two weeks. More generous estimates put the combined number close to \$600 million.

Professional sporting events that are not location dependent could move. These events are driven by corporate sponsorship, not ticket sales. The impact of not having the fans come to the state because an event is relocated is quite sizable. Ticket sales, however, do not determine the location where events are held – sponsors do. NASCAR, in the Indiana case, expressed strong displeasure with the bill's passage, prompting speculation that racing events could be moved out of state as sponsors of both the event and the individual race teams participating did not want to be associated with the state. NASCAR events can vary in size, but \$100 million per race is a common estimate.

⁸ Richard E. White and Dilip D. Kare, "The Impact of Consumer Boycotts on The Stock Prices of Target Firms." *The Journal of Applied Business Research*, Vol 6, No. 2, pp 63-71.

At the collegiate level there is another set of complications. In the days that Indiana had their version of RFRA in place, three states enacted travel bans of state employees to Indiana. Had the law been in place longer presumably more states would have likely joined the boycott. This means that state college and university sports teams were effectively prohibited from playing in the state. This was a major concern with regards to the NCAA Final Four to be held in Indianapolis two weeks after passage of the bill.⁹ Indiana substantially modified their law before there was any material sports related fallout.

Summary

Convention and Tourism Activity:

- A \$57 billion tourism industry, generating \$3 billion in tax revenue. Of the overall tourism economic impact, \$1.4 billion of that is generated at the GWCC and Dome.
 - Indianapolis lost over 1% of its convention business (approximately \$50 million) in the time their version of RFRA was in place. The 800 million negative Twitter impressions, nearly half of which contained the hashtag “#boycottIndiana,” were the equivalent of a multi-million dollar Twitter campaign. Moody’s issued a downgrade warning regarding tourism related business in the state.
- “Why take the risk?”
 - A survey of professional trade show planners show a majority will avoid booking in politically charged metropolitan areas when there are plenty of other less risky locations.

Business Attraction, Retention and Expansion:

- Corporate relocations to the state: “Why take the Risk?” is a question confronting firms’ site selecting committees. Corporate recruiters from other states will also use this as leverage against firms choosing Georgia.
- Talent attraction among millennials with college degrees is already unsustainably weak. A reputation for an unwelcoming environment will make the problem worse.

Direct action against existing Georgia Companies:

- Boycotts.

⁹ In the case of Indiana, one of the states was Connecticut. UConn was in the Final Four basketball tournament to be held in Indianapolis. The law was amended the week the games were to be played, averting a serious problem. The other two states who enacted travel bans were Washington and New York.

- Georgia's major companies have easily identifiable competitors as social media boycotts emerge: Georgia has a set of large firms offering products or services where it is particularly easy to use a competitor. Longer term, changes in consumer behavior persist even after the boycott is formally ended.
- Boycotts result in an almost 4% average loss in wealth among stockholders. Georgia companies have a much larger potential for wealth loss due to the nature of the products and services involved.
- Divestiture.
 - Georgia has a disproportionate number of Fortune 1000 publicly traded companies. Stock divestiture campaigns will have many attractive targets.

Sports:

- Super Bowl selection process coincides with the legislative session. Around \$400 million at stake.
- Professional sponsor-driven sporting events could leave. NASCAR strongly condemned the new Indiana law. Other sports events where there are out of state alternative venues are vulnerable.
- Complications and disadvantages for Georgia collegiate teams, including other state school travel bans here as happened with Indiana.