

27917

Gov Agency: Tribal Gaming—Tourism
Tribal Gaming Revenue for Tourism Marketing

Recommendations:

Paper No. 171 Alternatives: A 2(b) and B 2

Comments: The Governor wants to give Tourism \$4 million from the gaming revenues for tourism marketing purposes. LFB indicates this is an allowable use of the funds, but suggests that we could trade it for some of Tourism's GPR. Sounds like a nice idea and a good way to bank some extra cash. Alternative A 2(b) does just that, but gives Tourism a small boost in the appropriation to cover a 5% increase in advertising costs. This is a benefit for them, as the governor did not give them a boost in his budget request. LFB seems to favor Alternative B 2 also, which specifies that Tourism maintain proportionate balances between their GPR and PR appropriations. Seems okay to me.

Prepared by: Julie



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #171

Tribal Gaming Revenue Allocations

Tribal Gaming Revenue for Tourism Marketing (Tourism)

[LFB 1999-01 Budget Summary: Page 572, #2 & #3]

CURRENT LAW

The Department of Tourism is provided \$7,741,000 GPR in 1997-98 and \$9,241,000 GPR in 1998-99 in an annual appropriation for its marketing program efforts. From these amounts, Tourism is required to (a) expend \$250,000 to conduct or contract for marketing activities related to sporting activities or events and (b) allocate \$25,000 annually for state sponsorship of, and advertising during, media broadcasts of the Milwaukee Symphony radio show. In addition, Tourism was required in the 1997-99 biennium only to (a) provide a matching grant of up to \$50,000 to the Ten Chimney Foundation for the development of a plan to market, and raise funds for, the restoration of the ten chimneys estate in Waukesha County and (b) expend \$13,500 for the production of a film that would document the construction of the Frank Lloyd Wright Monona Terrace Convention Center in Madison.

GOVERNOR

Create a continuing appropriation of \$4 million PR each year from tribal gaming revenues for tourism marketing and change the GPR tourism marketing appropriation from annual to biennial. The funding is authorized for general advertising and promotion of the state, as well as funding the Joint Effort Marketing program (JEM). The JEM program offers grants to non-profit tourism promotion organizations for advertising innovative events and attractions in the state.

DISCUSSION POINTS

Department Funding Overview

1. The bill would provide a 56% biennial increase in tourism marketing from \$16,982,000 in 1997-99 to \$26,482,000 in 1999-2001. The 1997-99 budget adjustment act provided a \$1.5 million increase in 1998-99.

2. The Department of Tourism did not request additional funding for tourism marketing in its biennial budget request. However, in eight memoranda of understanding (MOU) associated with the state-tribal compact amendments, the promotion of tourism in the state is one of the specified purposes for the use of tribal gaming revenues.

3. In 1998-99, the Department of Tourism is provided a total of \$13,474,700 for the state's tourism promotion programs. Tourism's \$9,241,000 GPR marketing appropriation in 1998-99 accounts for approximately 69% of the Department's total budget. The remaining GPR funding is used primarily for general program operations (\$3.7 million) and the heritage tourism grant program (\$134,200).

4. While the level of funding available for tourism marketing has fluctuated some each year, funding increased by 23% between 1990-91 and 1998-99. Table 1 indicates the annual tourism marketing funding levels and the percentage change each year. The decrease in funding in the 1995-97 biennium was largely due to removal of one-time tourism marketing funding (\$250,000) and the transfer of some travel information center expenditures (\$26,700 in 1995-96 and \$84,400 in 1996-97) to Tourism's general operations appropriation.

TABLE 1

Tourism Promotion Funding Levels (GPR)

<u>Fiscal Year</u>	<u>Tourism Marketing</u>	<u>Percent Change</u>
1990-91	\$7,492,400	--
1991-92	7,092,400	-5.3%
1992-93	7,110,300	0.3
1993-94	7,110,300	0.0
1994-95	8,110,300	14.0
1995-96	7,750,000	-4.4
1996-97	7,741,000	-0.1
1997-98	7,741,000	0.0
1998-99	9,241,000	19.4
1999-00 (Gov)	13,241,000	43.3
2000-01 (Gov)	13,241,000	0.0

5. Under the Governor's proposal, marketing funds would increase by 77% over 1990-91 and Tourism general operations funding would increase 129% from approximately \$1.7 million in 1990-91 to \$3.9 million in 2000-01.

6. Table 2 shows the 1997-98 expenditures from the tourism marketing appropriation by category. As the table indicates, 58% of the total tourism marketing expenditures were for advertising, with significant amounts also expended on printing, responding to information requests, telemarketing efforts, public relations and matching funds.

TABLE 2
1997-98 Tourism Marketing Expenditures

<u>Category</u>	<u>Amount</u>	<u>Percent of Total</u>
Advertising	\$4,500,000	58.1%
Printing (publications, other printed materials)	850,000	11.0
Fulfilling requests/Telemarketing (ad inquiries, response mailings)	750,000	9.7
Public Relations (press releases and tours, newsletters)	415,000	5.4
Joint Effort Marketing Grants	400,000	5.2
Other (leases, professional services, travel, etc.)	271,000	3.5
International Promotion	200,000	2.6
Special Promotions (marketing outside advertising contract)	160,000	2.1
Research	80,000	1.0
Photo/Video Resources (equipment, film, processing, video)	70,000	0.9
Trade Shows (motorcoach and sport shows, etc.)	<u>45,000</u>	<u>0.6</u>
Total	\$7,741,000	100.0%

Impact of Tourism

7. The Department collects traveler profile and interest data at travel information centers and other sites around the state. This information provides the Department with data on traveler destinations, interests and likelihood of return to the state. Data on the number of annual contacts at the state's travel information centers and requests for brochures or literature may provide some general indication as to whether Tourism's marketing efforts are impacting the tourism economy of the state. However, data on the number of travel information center contacts and

information requests has fluctuated since 1994 and may be inconclusive as a measure of tourism activity in the state: travel information center contacts were highest in 1995 (488,500) and lowest in 1996 (398,100) while requests for literature were highest in 1994 (350,000) and lowest in 1996 (310,500). The twelve travel information centers reported 412,000 groups of visitors in 1997-98.

8. For the past nine years, Tourism has contracted with the consulting firm Davidson-Peterson Associates, Inc., to conduct a study measuring the economic benefits derived from dollars spent by all travelers in Wisconsin. "Travelers" include those on vacation, business or personal travel. Table 3 lists the estimated economic impact of travelers, including direct and indirect expenditures. The visitor count is an estimate of the number of people lodging per location of overnight stay (for example, a couple on a three-night stay at one hotel would count as two, whereas if they changed lodging each night, they would be counted as six "visitors"). As indicated in the table, both the estimated economic impact of travelers and the number of overnight visitors in the state have generally increased each year.

TABLE 3
Recent Estimates of Economic Impact of Travel

<u>Calendar Year</u>	<u>Economic Impact</u>		<u>Overnight Visitors</u>	
	<u>Amount</u> <u>(Billions)</u>	<u>Percent</u> <u>Change</u>	<u>Number</u> <u>(Millions)</u>	<u>Percent</u> <u>Change</u>
1993	\$5.29	--	24.5	--
1994	5.76	8.9%	26.3	7.3%
1995	6.13	6.4	26.7	1.5
1996	6.70	9.3	30.5	14.2
1997	6.80	1.5	29.8	-2.3
1998	7.65	12.5	31.0	4.0

9. However, it could be argued that factors other than state tourism spending, such as the strength of the economies of the Midwestern states, weather or fuel prices, have had a significant or even greater impact on the number of tourists and the amount of travel spending in the state. Conversely, while such factors influence the overall number of tourists in Wisconsin's market in a given year, it could also be argued that, regardless of the amount of potential tourists in Wisconsin's market, increased tourism marketing funding is necessary to encourage those who do decide to travel to choose Wisconsin as a destination over its competitors.

10. Further, the economic impact study estimates the impact of all traveler expenditures in the state rather than just the expenditures of those who are generally considered tourists. For example, the study includes travelers who are frequent visitors such as those visiting friends and relatives and frequent or extended-stay business travelers. Therefore, the study reflects more than just tourist expenditures.

11. The Department recently attempted to measure the economic impact of those

travelers who could generally be considered tourists or leisure travelers, such as convention travelers or those who usually make two trips or less to the state in a given year. It is these travelers that Tourism officials believe are most likely to be influenced by the state's tourism promotions. Utilizing economic impact study, traveler profile and interest data, the Department estimates that in 1996, these travelers had an economic impact of approximately \$3.5 billion.

12. Using the \$3.5 billion in tourist or leisure expenditures, the Department has developed an estimate of the impact of the approximately \$20 million in public and private (local convention and visitor bureaus) tourist promotion expenditures in 1996. Comparing state and local tourism marketing expenditures with the \$3.5 billion in tourist or leisure traveler expenditures, the Department estimates that each \$1 million spent on tourism marketing in 1996 equates to \$177 million in tourism related travel expenditures and \$17.3 million in state tax revenues. From this calculation, some tourism officials indicate that each additional \$1 million in tourism marketing may generate \$17 million in state tax revenues. However, this estimate of the return on marketing expenditures could be overstated because it is likely that a substantial portion of the estimated \$3.5 billion spent by tourists or leisure travelers would have occurred regardless of the amount of tourism marketing funds expended. Further, it is likely that at some point the return in tax revenues on each additional dollar of tourism marketing expenditures would diminish with each dollar spent. Conversely, those who travel more frequently may be impacted by promotional activities as well.

13. Since it is impossible to ascertain precise expenditures or the number of "tourists" from the broader category of "travelers," it is difficult to provide a reliable estimate of the economic impact of tourism. However, it is certain that tourism is among the largest industries in Wisconsin.

14. The Senate Committee on Insurance, Tourism, Transportation and Corrections voted 7 to 0 to support the Governor's recommendation of a \$4,000,000 annual increase in tourism marketing.

Comparison of State Tourism Budgets

15. It has been suggested that in order to maintain and potentially increase Wisconsin's current market share, the state has to maintain tourism marketing expenditures at a level that is competitive with other states. Wisconsin currently ranks among the top fifteen U.S. states in overall tourism promotion funding. Compared with neighboring states, Wisconsin appears competitive in terms of overall spending on tourism. Table 4 compares Wisconsin's and seven neighboring states' tourism budgets and per capita amounts for 1988-89 and 1998-99. Among the eight states, in 1988-89, Wisconsin ranked fourth in total tourism spending and third in tourism spending per capita. In 1998-99, Wisconsin continues to rank fourth in total tourism spending behind Illinois, Michigan and Missouri and third in per capita tourism spending behind Illinois and Missouri. The states listed in Table 4 have averaged a 5.2% increase in tourism budgets each year while Wisconsin's tourism budget has increased an average of 7.8% per year for each of the past 10 years. Wisconsin's per capita tourism budget is also higher than average. While most of these state's tourism budgets are funded from general fund taxes, it is notable that the Illinois' tourism budget is funded from a percentage of the state hotel/motel tax and approximately 10% of Minnesota's tourism effort is

funded from their highway fund. Illinois also has the largest tourism budget of any state in the nation.

TABLE 4
Comparative Tourism Budgets
1988-89 and 1998-99

State	1988-89		1998-99		Percent Increase	
	Total (millions)	Per Capita	Total (millions)	Per Capita	Total	Per Capita
Illinois	\$23.9	\$2.09	\$40.1	\$3.33	68%	59%
Indiana	2.1	0.38	4.0	0.68	90	79
Iowa	3.4	1.21	5.1	1.78	52	47
Michigan	11.6	1.25	15.2	1.55	31	24
Minnesota	6.8	1.55	9.9	2.10	46	35
Missouri	5.7	1.11	14.8	2.72	162	146
Ohio	5.6	0.52	6.3	0.56	12	9
Wisconsin	6.4	1.31	13.5	2.58	111	98
Combined Average	\$8.2	\$1.21	\$13.6	\$1.90	66%	58%

16. Another comparative measure of tourism promotion activity is the amount of state funds spent on tourism advertising. A travel industry survey of projected 1998-99 state tourism domestic advertising budgets ranked Wisconsin 10th highest in the nation. Table 5 compares Wisconsin's advertising budget with those of neighboring states.

TABLE 5
Comparative Advertising Budgets, 1998-99

<u>State</u>	<u>Projected Advertising Budget</u>
Illinois	\$8,535,000
Missouri	7,425,000
Michigan	5,562,000
Wisconsin	5,500,000
Minnesota	2,100,000
Iowa	1,518,000
Ohio	1,307,000
Indiana	1,070,000

Use of Additional Funds

17. In conjunction with the Governor's Council on Tourism and the Laughlin/Constable advertising agency, the Department drafted objectives for the state's tourism marketing efforts. The Department plans first to target leisure travelers, then meetings and convention and third, business and leisure combination travelers in promotional activities through expanding current marketing efforts, developing new markets and targeting niche markets. The plan identified several goals that would help meet these objectives, such as:

- expanding seasonal marketing campaigns in secondary markets, including Iowa, northern Illinois, eastern Minnesota and less populated areas in Wisconsin;
- developing new marketing efforts in the metropolitan areas of Detroit, Indianapolis, St. Louis and possibly Cleveland;
- enriching a customer history database to detail seasonal, geographic and activity vacation preferences;
- partnering with Wisconsin's tourism industry through JEM grants and cooperative marketing to target such tourism areas as motorcoach, business/leisure combination, and meetings and convention travel and to promote upscale tourism activities, encourage business travelers to include family on their trip and target young professionals and international leisure travelers in the core markets of Chicago and Minneapolis.

18. In 1998-99, Tourism is using the \$1.5 million provided in the budget adjustment act as follows: (a) \$400,000 for a spring marketing campaign, which included a publication, advertising and publicity; (b) \$350,000 for opportunity and emergency marketing programs, such as taking advantage of the Rose Bowl for program advertising, the Davis Cup Tennis Tournament and The Great Circus Parade in Milwaukee; (c) \$300,000 to expand the existing summer media campaign and to cover advertising cost increases; (d) \$250,000 in additional supplies funding for increased costs associated with response mailings and the Department's toll free number; and (e) \$200,000 to increase the Department's joint effort marketing program.

19. The Department would prefer to use approximately \$4.9 million of the \$8 million provided for the biennium in the first year as follows: (a) \$1,200,000 for increased summer television advertising aimed at core and new markets; (b) \$800,000 for new television productions (designing, shooting footage and editing); (c) \$650,000 for increased newspaper advertising; (d) \$1,155,000 for increased multimedia and other advertising (radio, magazine, transit, direct mail, new publications, etc.); (e) \$448,000 for additional publications printing and fulfillment mailing; (f) \$400,000 for additional JEM grants (Tourism indicates it would provide \$800,000 in JEM grants annually); (g) \$200,000 for establishing a travel information center at Minnesota's Mall of America (similar to the one currently in Chicago); (h) a \$60,000 increase in research costs; and (i) \$35,000 due to higher customer volumes at travel information centers.

20. Establishing a Mall of America travel information center in Bloomington, Minnesota

would require additional program staff. The Chicago center currently operates with 2.75 FTE, and Tourism is basing their Mall of America center costs on those in Chicago. However, due to the retail setting and high anticipated volume, the Department believes it would require 3.0 permanent positions and additional LTE support to staff a Mall of America travel information center. The Governor's recommendation does not include any additional position authority. Further, the majority of travel information center costs are currently funded under the Department's general program operations.

21. While the state-tribal gaming MOU include general promotion of tourism within the state, some have argued these funds should be focused on Indian gaming communities or for promotion of Native American museums and other attractions. However, using the funds for general promotion of tourism in the state is an acceptable use of the funds under the MOU.

Funding Needs

22. Tourism indicates that the cost of advertising media and supplies increases higher than the general rate of inflation each year. For example, industry estimates show that advertising media costs have increased by up to 5% in 1999 over the previous year.

23. In each of the last three biennia, the Department has suggested significant reductions in its tourism marketing appropriation to meet the Governor's suggested base budget reduction measures: \$534,400 in 1995-96, \$1,070,700 in 1996-97, \$309,600 annually in 1997-99 and \$663,200 annually in the 1999-2001 biennium (a reduction of \$83,600 in 1995-96 only was enacted). Therefore, while Tourism has plans to use the additional funding, the Department did not request additional marketing funds for consideration in the Governor's budget bill and, in fact, suggested agency reductions be taken from its tourism marketing budget.

24. The Committee could consider several alternatives to the \$4 million annual increase in Tourism marketing funding. Replacing \$4,000,000 marketing GPR each year with PR would still increase the Department's marketing appropriation by \$1.5 million over the last biennium. Providing a 5% annual marketing increase to reflect inflationary advertising and marketing costs would give the Department a \$2.9 million increase over funding in the last biennium. Or, since Wisconsin has averaged a 7.8% annual increase in total state tourism spending over the past ten years, providing a 7.8% annual increase would give the Department a \$4.5 million increase in funding over the last biennium, which would also provide a higher budget increase than neighboring states have averaged over the past 10 years. Another alternative would be to reduce the recommended Tourism marketing appropriation by \$1,500,000 GPR each year to transfer the additional funding provided in the 1997-99 budget adjustment act from GPR to tribal gaming revenues. This alternative would give the Department a \$6.5 million increase in funding over the last biennium. Further, the Committee could remove either GPR or tribal gaming revenues from the Department's appropriation.

Appropriation Structure

25. Tourism officials indicate that the bill would convert the annual marketing GPR

appropriation to biennial primarily to allow those who received JEM grants but were unable to spend them to use their award in the subsequent year of each biennium and to give the Department more flexibility in spending. However, the tribal gaming revenues would be deposited into a continuing appropriation, thereby allowing maximum flexibility for JEM grants or any other marketing expenditure the Department chose to fund from the continuing PR account.

26. As demonstrated in Table 6, approximately 4% of the tourism marketing appropriation lapses each year. Converting the GPR marketing appropriation from annual to biennial could create a loss to the general fund of approximately \$280,000 in the first year of each biennium.

27. Since the PR appropriation could fund any activity currently funded by GPR, Tourism would have the ability to spend down the GPR account each biennium before using PR from the proposed continuing appropriation. The Committee may wish to specify that the Department spend \$1 PR for every \$2.30 GPR spent for marketing to maintain proportionate balances in each appropriation.

TABLE 6

Marketing Appropriation Annual Lapses 1994-1998

	<u>Aids to Individuals and Organizations (JEM)</u>	<u>Other Marketing Lapses</u>	<u>Total Lapse</u>	<u>Lapse Percent</u>
1993-94	\$70,150	\$156,050	\$226,200	3.2%
1994-95	268,450	56,050	324,500	4.1
1995-96	160,950	104,050	265,000	5.6
1996-97	190,600	111,100	301,700	3.8
1997-98	124,800	155,500	280,300	3.5

ALTERNATIVES

A. Funding

1. Approve the Governor's recommendation to create a continuing appropriation of \$4,000,000 PR each year from tribal gaming revenues for tourism marketing.
2. Approve the Governor's recommendation as modified by any one of the following:
 - a. Delete \$4,000,000 GPR each year from the Department's marketing appropriation.

<u>Alternative A2a</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	- \$8,000,000

b. Delete \$3,538,000 GPR in 1999-2000 and \$3,052,800 GPR in 2000-01 to increase the Department's marketing funding by 5% annually.

<u>Alternative A2b</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	- \$6,590,800

c. Delete \$3,000,000 GPR in 1999-2000 and \$2,000,000 GPR in 2000-01 from the Department's marketing appropriation to increase the Department's budget by approximately 7.8% annually.

<u>Alternative A2c</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	- \$5,000,000

d. Delete \$1,500,000 GPR each year from the Department's marketing appropriation to transfer the additional funding provided in the 1997-99 budget adjustment bill from GPR to tribal gaming revenues.

<u>Alternative A2d</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	- \$3,000,000

3. Maintain current law.

<u>Alternative 3</u>	<u>PR</u>
1999-01 FUNDING (Change to Bill)	- \$8,000,000

B. Appropriation Structure

1. Approve the Governor's recommendation to change the GPR tourism marketing appropriation from annual to biennial.

2. Specify that Tourism maintain proportionate balances in each marketing appropriation.

3. Maintain current law.

Prepared by: David Schug