



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

April 25, 2013

Joint Committee on Finance

Paper #631

Tourism Marketing Funding (Tourism)

[LFB 2013-15 Budget Summary: Page 446, #2]

CURRENT LAW

The Department of Tourism is appropriated \$12.3 million each year under current law for marketing and advertising efforts to promote state destinations to prospective travelers. Activities funded include: (a) general advertising throughout Wisconsin and in major media markets in Midwest states, most of which is done by contract with a private advertising agency; (b) Joint Effort Marketing (JEM) grants, which are provided on a competitive basis to local nonprofit organizations for marketing regional events; (c) several statutory earmarks; (d) research on tourism impacts in Wisconsin and the effectiveness of Tourism's marketing efforts; (e) providing print and electronic information to prospective travelers; and (f) \$160,000 for grants to local organizations operating tourist information centers (TICs), which are facilities providing information to travelers on regional attractions. Tourism typically has focused marketing and advertising on Wisconsin and other Midwest markets, as opposed to national or international campaigns.

GOVERNOR

Provide an additional \$250,000 GPR each year for tourism marketing, and convert expenditure authority of \$405,000 tribal gaming PR for tourism marketing each year to GPR.

DISCUSSION POINTS

1. Base funding and levels recommended by the Governor under AB 40 are shown in Table 1. Tribal gaming PR amounts include \$160,000 annually for TIC grants.

TABLE 1

Tourism Marketing Appropriations -- AB 40

<u>Fund Source</u>	<u>Base</u>	<u>Bill</u> <u>2013-14</u>	<u>Bill</u> <u>2014-15</u>
GPR	\$1,172,100	\$1,827,100	\$1,827,100
Tribal Gaming PR	9,557,900	9,127,100	9,127,100
Transportation SEG	<u>1,595,900</u>	<u>1,591,300</u>	<u>1,591,300</u>
Total	\$12,325,900	\$12,545,500	\$12,545,500

2. The administration intends for additional GPR marketing funds to increase Tourism's resources for marketing the state as a traveler destination. Additional marketing would, in turn, seek to increase traveler expenditures and economic activity in the state.

3. Tourism and the administration expect the \$250,000 net GPR increase would be allocated as follows: (a) approximately \$100,000 for expanding the Department's international marketing of Wisconsin; (b) approximately \$75,000 for additional public relations activities, such as hosting media events and travel writers; and (c) approximately \$75,000 to increase marketing to attract additional amateur sporting events and conventions to Wisconsin. Of the additional \$250,000 GPR recommended by the Governor, \$75,000 would be designated in the state budget system for aids to individuals and organizations. This is intended to reflect additional funding Tourism may expend on its Meetings Mean Business (MMB) grant program. The Department created the MMB program internally to assist Wisconsin destinations in competing for national or international conventions or industry trade shows. Grants may support costs such as facilities rentals, guest shuttles and transportation, or promotion of the host city. For 2012-13, Tourism has established a reserve of \$110,000 of its tribal gaming PR appropriation for MMB grants. Eligible applicants are destination marketing entities, such as local chambers of commerce or convention and visitors bureaus, and grants may be for up to 50% of eligible costs, to a maximum of \$20,000 per fiscal year.

4. 2011 Act 32 also increased tourism marketing funding by approximately \$2.3 million each year in the 2011-13 biennium from an annual base of approximately \$10 million. That funding increase similarly was intended to expand Tourism's ability to market to prospective travelers throughout Wisconsin and the Midwest. Tourism reports it has used additional funding to increase advertising in Chicago, eastern Iowa, the Twin Cities, western Michigan and in-state markets.

5. Also, Act 32 converted tourism marketing GPR to a biennial appropriation, aligning it with the tribal gaming PR and transportation SEG appropriations. These appropriation designations allow Tourism to expend the full amount appropriated for the biennium at any time in the biennium, including expenditure authority initially designated by the state appropriations schedule for the second year of the biennium. Therefore, any increase enacted would be available to Tourism to expend beginning with the bill's effective date.

6. Wisconsin's neighboring states, which are generally seen as competing for

Wisconsin and Midwestern travelers, typically use general purpose tax revenues to fund some or all of their tourism agencies' operations and marketing activities. States in some instances also use special-purpose revenues for marketing efforts, including gaming or hospitality taxes. For example, Michigan in recent years has funded its tourism marketing activities with revenues from securitized proceeds of the state's portion of the tobacco settlement. Table 2 shows the appropriations and fund sources for tourism marketing in Michigan, Illinois, Minnesota and Iowa for the 2013 fiscal year, as well as amounts recommended by each state's executive budget for the 2014 and 2015 fiscal year. Per capita funding is calculated using 2012 estimates from the U.S. Census Bureau. The amounts shown are intended to show only each state's approximate funding for general state-directed marketing activities. Funding for special grant programs, for example, has been removed. Other states in some cases have substantial appropriations not included for general state-directed tourism marketing purposes. Examples would be: (a) state film incentive programs, the largest among bordering states being Michigan (\$50 million in the 2013 fiscal year); and (b) grant programs, analogous to Wisconsin's Joint Effort Marketing and Tourist Information Center programs. Illinois in particular has a number of grant programs for: (a) administrative and promotional activities of local chambers of commerce and convention and visitors bureaus; (b) structural improvements at tourist attractions; and (c) promotion of Illinois in international tourism. For the 2013 fiscal year, the Illinois Office of Tourism has approximately \$32 million budgeted for operations and promotions by local entities. It should be noted that the executive budgets of Iowa, Michigan and Minnesota have proposed increases in tourism marketing for each of the next two years.

TABLE 2

State Tourism Marketing Appropriations (Millions \$)

State	Fund Sources	2013		Proposed	
		Total	Per Capita	2014	2015
Illinois	Hotel operators' occupational tax	\$16.3	\$1.27	\$16.3	N/A*
Iowa	Gen. taxes, gaming taxes	2.2	0.71	2.6	2.6
Michigan	Tobacco settlement securities	25.0	2.53	29.0	29.0
Minnesota	Gen. taxes, PR	5.4	1.00	12.9	12.9
Wisconsin	GPR, gaming PR, transportation SEG	11.0 [♦]	1.93	11.2 [♦]	11.2 [♦]

* Illinois budgets on an annual basis, and figures for the 2015 fiscal year are not yet proposed.

[♦] Wisconsin annual amounts do not include: (a) \$1,130,000 for JEM grants; or (b) \$160,000 tribal gaming PR for TIC grants.

7. Tourism customarily attempts to reach most travelers with advertising placements from approximately May through July. The Department expects such timing to coincide with the periods in which state and Midwestern viewers typically plan travel taking place in the summer and extending through Labor Day. Purchases for such advertising may occur as early as March and April, with earlier purchases able to secure better advertising rates. As such, most of Tourism's advertising expenditures occur late in the fiscal year. For example, in 2011-12, \$4.2 million of the \$7.7 million Tourism expended with its primary contract advertising agency (Laughlin Constable of Milwaukee) occurred in May and June.

8. For several years, Tourism has commissioned research to estimate the annual

spending by travelers to Wisconsin. Davidson-Peterson Associates conducted this research through 2010. In 2010, Tourism began commissioning this research through travel research firms Longwoods International and Tourism Economics. The attachment shows the estimates produced by each firm dating to 2001. The firms use different methods to estimate traveler spending, resulting in significantly different figures for years in which both firms provided Tourism with estimates.

9. One could argue that creating a favorable impression of a destination, as Tourism's marketing efforts are intended to do, may prompt prospective travelers to give stronger consideration to traveling to a state or region, which could ultimately increase actual travel and ensuing economic activity. It also could be argued that because Iowa, Michigan and Minnesota are considering proposed increases in tourism marketing, as shown in Table 2, it is appropriate for Wisconsin to allocate additional marketing funding to compete for travelers. Further, although Tourism's contract advertising agency attempts to negotiate stable or reduced advertising rates for the Department's advertising purchases, the Department reports advertising rates across media may increase by perhaps 5% or more in some years. The bill would increase annual marketing funding by about 1.8% relative to 2012-13 base appropriations. It could be argued the recommendation is appropriate to attempt to preserve the Department's purchasing power in the 2013-15 biennium, should advertising rates increase. The Committee could adopt the Governor's recommendation [Alternative 1a].

10. On the other hand, it is also likely that consumer travel decisions depend on multiple other factors outside the control of tourism-focused entities. These include such factors as consumers' disposable income available, consumers' future earnings expectations, travel costs and weather. Certain categories of travel, particularly business travel and visiting friends or relatives, also may be less susceptible to influence by marketing campaigns. The attachment lists total marketing expenditures by Tourism each fiscal year from 2000-01 through 2011-12. In general, it is assumed expenditures made by the close of a fiscal year would purchase much of the advertising Tourism would deploy to target a majority of the prospective travelers attributed to the calendar year ending six months later. Under such an assumption, changes in estimated traveler spending each year do not follow proportionately with changes in Tourism's marketing expenditures, and for some years, the changes are inverted.

11. Some contend the Arts Board, which is budgeted under Tourism, merits consideration for additional funding in 2013-15 in light of funding reductions made to the Board's budget for 2011-13. 2011 Act 32 reduced Arts Board base appropriations by approximately \$2.2 million annually, including \$1.7 million GPR and \$511,100 PR for the Percent for Art program. Reductions were intended mostly to align state funding with expected grants from National Endowment for the Arts (NEA), which requires at least an equal amount of state funding to match federal grant awards.

12. Table 3 shows the 2011-13 annual appropriations for the Arts Board under 2011 Act 32. In addition to these appropriations, Act 32 allocated \$175,700 GPR annually in the Joint Committee on Finance supplemental appropriation in the event state appropriations were insufficient to match NEA grant awards. The supplemental amounts approved by the Committee (\$68,900 GPR in 2011-12 and \$10,400 GPR in 2012-13) also appear in the table, as does \$16,200 GPR for additional salary and fringe benefit costs in 2011-12 under a statewide, year-end

supplemental funding request approved by the Committee under a 14-day passive review process in July, 2012.

TABLE 3

Arts Board Appropriations -- 2011-13

<u>Appropriation</u>	<u>Act 32 (Annual)</u>	<u>2011-12</u>		<u>2012-13</u>	
		<u>Adjustment</u>	<u>Total</u>	<u>Adjustment</u>	<u>Total</u>
General operations (GPR)	\$270,000	\$16,200	\$286,200	\$0	\$270,000
State aid for the arts (GPR)	359,300	68,900	428,200	10,400	369,700
Wis. regranting program (GPR)	116,700	0	116,700	0	116,700
State aid for the arts (Tribal PR)	<u>24,900</u>	<u>0</u>	<u>24,900</u>	<u>0</u>	<u>24,900</u>
State Subtotals	\$770,900	\$85,100	\$856,000	\$10,400	\$781,300
General operations (FED)	\$231,000	\$3,600	\$234,600	-\$44,000	\$187,000
Aids for the arts (FED)	<u>524,500</u>	<u>80,700</u>	<u>605,200</u>	<u>69,800</u>	<u>594,300</u>
FED Subtotals	\$755,500	\$84,300	\$839,800	\$25,800	\$781,300

13. Table 4 shows total state appropriations for the arts agencies of Wisconsin's bordering states in the 2013 fiscal year of each, as well as the corresponding per capita amount based on 2012 U.S. Census Bureau estimates, and recommended amounts under the most recent proposed budget legislation. Budgets are intended to reflect only state funding for each agency's staffing, operations, and aids to artists and arts organizations, which are typically eligible as a match on NEA funds. These states mostly fund arts programs with general tax revenues. Minnesota, which funds arts programs at significantly higher amounts than other nearby states, provides: (a) a base from general tax revenues, budgeted at approximately \$7.5 million annually; and (b) a portion of a three-eighths percent of annual state sales tax receipts, which was enacted for a 25-year period under a 2008 amendment to the Minnesota Constitution, and is estimated at approximately \$23.3 million for the 2013 fiscal year. Although Wisconsin's per capita funding for state-directed tourism marketing is generally competitive with bordering states, it appears total and per capita arts funding is lowest among the same group of states.

TABLE 4

State Arts Agency Funding (Millions \$)

<u>State</u>	<u>2013</u>		<u>Proposed</u>	
	<u>Total</u>	<u>Per Capita</u>	<u>2014</u>	<u>2015</u>
Illinois	\$6.3	\$0.49	\$6.2	N/A*
Iowa	0.9	0.30	0.9	0.9
Michigan	5.3	0.54	6.3	6.3
Minnesota	30.8	5.73	31.1	31.4
Wisconsin	0.8	0.14	0.8	0.8

* Illinois budgets on an annual basis, and figures for the 2015 fiscal year are not yet proposed.

14. However, it could also be argued that state funding for the Arts Board under the bill would be expected to be sufficient to match anticipated NEA grants. Table 5 shows the eligible matching appropriations under the bill for the Arts Board as compared to budgeted FED.

TABLE 5

Arts Board Appropriations -- AB 40

<u>Appropriation</u>	<u>Annual</u>
General operations (GPR)	\$278,900
State aid for the arts (GPR)	359,300
Wis. regranting program (GPR)	116,700
State aid for the arts (Tribal PR)	<u>24,900</u>
State Subtotals	\$779,800
General operations (FED)	\$234,200
Aids for the arts (FED)	<u>524,500</u>
FED Subtotals	\$758,700

15. The Committee could consider providing \$500,000 in additional funding to Tourism in 2013-15, but reallocate a portion annually for state aid for the arts. The Committee could consider the following amounts: (a) \$10,400, the supplemental amount approved for 2012-13 [Alternative 1b]; (b) \$50,000 [Alternative 1c]; (c) \$68,900, the supplemental amount approved in 2011-12 [Alternative 1d]; (d) \$100,000 [Alternative 1e]; (e) \$125,000 [Alternative 1f]; or (f) \$250,000 [Alternative 1g]. The \$250,000 GPR recommended annually for tourism marketing would be reduced by one of these amounts each year.

16. Regardless of whether the Committee were to appropriate funding for state aid for the arts, any amounts provided for Tourism's marketing could be provided in different ways than it would be provided under the bill. These alternatives are shown in Table 6, assuming the \$500,000 GPR recommended by the Governor over the biennium. By providing any additional GPR funding in 2013-14 only [Alternative 2a], Tourism would receive the same amount to expend throughout the biennium because of the biennial nature of the appropriation. However, the increase would not continue as base funding for 2015-17. In essence, the increase would be one-time funding in 2013-15, and, absent any other changes, Tourism's marketing GPR would have a base of \$1,577,100 each year for 2015-17. Alternatively, by providing additional marketing GPR in 2014-15 [Alternative 2b], the increase would be available to Tourism to expend throughout the biennium, despite being budgeted in 2014-15. That amount also would continue as base funding for each year in the 2015-17 biennium. The Committee could also consider deleting the Governor's recommended net increase for marketing GPR [Alternative 3].

TABLE 6

Tourism Marketing GPR Funding Alternatives

<u>Alternative</u>	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial Total</u>	<u>2015-17 Base (Annual)</u>
Bill/Governor	\$1,827,100	\$1,827,100	\$3,654,200	\$1,827,100
2a	2,077,100	1,577,100	3,654,200	1,577,100
2b	1,577,100	2,077,100	3,654,200	2,077,100
3	1,577,100	1,577,100	3,154,200	1,577,100

ALTERNATIVES

1. Provide a net increase of \$250,000 GPR annually to the Department of Tourism as follows:

- a. \$250,000 for tourism marketing (Governor's recommendation);
- b. \$10,400 for state aid for the arts and \$239,600 for tourism marketing;
- c. \$50,000 for state aid for the arts and \$200,000 for tourism marketing;
- d. \$68,900 for state aid for the arts and \$181,100 for tourism marketing;
- e. \$100,000 for state aid for the arts and \$150,000 for tourism marketing;
- f. \$125,000 each for state aid for the arts and for tourism marketing; or
- g. \$250,000 for state aid for the arts.

2. In addition to Alternative 1, modify the Governor's recommendation as follows:

- a. Provide all tourism marketing GPR in 2013-14 only; or
- b. Provide all tourism marketing GPR beginning in 2014-15.

3. Delete the Governor's recommended net GPR increase.

ALT 3	Change to Bill Funding
GPR	- \$500,000

Prepared by: Paul Ferguson
Attachment

ATTACHMENT

Wisconsin Tourism Promotion Budget and Traveler Expenditures by Year

<u>Fiscal Year</u>	<u>Tourism Expenditures</u>	<u>Percent Change</u>	<u>Calendar Year</u>	<u>Estimated Traveler Spending (Billions)</u>	<u>Percent Increase</u>
Davidson-Peterson					
2000-01	\$11,695,200	--	2001	\$11.45	--
2001-02	10,968,100	-6.2	2002	11.56	1.0
2002-03	9,180,100	-16.3	2003	11.71	1.3
2003-04	9,143,500	-0.4	2004	11.78	0.6
2004-05	8,814,800	-3.6	2005	11.95	1.4
2005-06	9,209,600	4.5	2006	12.83	7.4
2006-07	9,213,200	0.0	2007	12.78	-0.4
2007-08	10,941,900	18.8	2008	13.12	2.7
2008-09	10,780,500	-1.5	2009	12.09	-7.9
Tourism Economics					
2008-09	\$10,780,500	-1.5	2009	\$8.52	--
2009-10	8,836,100	-18.0	2010	9.20	8.0
2010-11	10,563,500	19.5	2011	9.90	7.6
2011-12	10,848,600	2.7	2012	N/A	N/A