Legislative Fiscal Bureau

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Tourism Marketing and Vehicle Rental Fee Increase (Tourism and Transportation)

[LFB 2005-07 Budget Summary: Page 462, #2 & Page 472, #8]

CURRENT LAW

The Department of Tourism has base level funding of $9,155,900 annually for tourism marketing activities in 2004-05. This funding is split between two appropriations, one funded by general purpose revenue ($5,186,400) and the other funded by tribal gaming program revenue ($3,969,500). Marketing activities make up 70% of Tourism's $13 million total base budget (another $650,000 is budgeted for the Kickapoo Valley Reserve).

The vehicle rental fee is a tax on the gross receipts from the rental of automobiles, mobile homes, motor homes, camping trailers, and limousines that are rented for a period of 30 days or less. The rate of the tax is 5% for limousines and 3% for all of the other affected vehicle types.

GOVERNOR

Convert $5,186,400 annually from GPR to tribal gaming PR for tourism marketing.

Increase the vehicle rental fee from 3% of gross receipts to 5% of gross receipts and specify that this increase would first apply to rental or lease agreements entered into on October 1, 2005, or on the day after publication of the budget act, whichever is earlier. The current fee on limousine rentals would not be affected. Increase estimated transportation fund revenue by $1,600,000 in 2005-06 and $2,200,000 in 2006-07 to reflect this change.

Create a continuing appropriation from the transportation fund in the Department of Tourism for marketing. Specify that 40% of the amount of revenue collected under the vehicle rental and limousine rental fees shall be credited to this appropriation, effective on the budget's general effective date. Estimate this appropriation at $1,600,000 SEG in 2005-06 and $2,200,000 SEG in 2006-07. Further, specify that the requirement that Tourism annually expend at least $1,130,000 from its combined tourism marketing appropriations would apply to the newly-created SEG appropriation (in addition to the existing GPR and PR appropriations).

DISCUSSION POINTS

Tourism Marketing

1. The Department of Tourism would be provided over $10.7 million in 2005-06 and $11.3 million in 2006-07 under the bill for tourism marketing. This would be an increase over 2004-05 levels of 17% in 2005-06 and 24% in 2006-07. The following table shows tourism marketing funding levels since 1997-98.

TABLE 1

Tourism Marketing Appropriations

Fiscal Year	GPR	Tribal Gaming PR	SEG	Total	Percent Change
1997-98	$7,741,000			$7,741,000	--
1998-99	9,241,000			9,241,000	19.4%
1999-00	7,691,000	$3,969,500		11,660,500	26.2
2000-01	7,691,000	3,969,500		11,660,500	0.0
2001-02	6,434,300	3,969,500		10,403,800	-10.8
2002-03	5,503,400	3,969,500		9,472,900	-8.9
2003-04	5,186,400	3,969,500		9,155,900	-3.3
2004-05	5,186,400	3,969,500		9,155,900	0.0
2005-06	0	9,115,700	$1,600,000	10,715,700	17.0
2006-07	0	9,149,400	2,200,000	11,349,400	5.9

2. Tourism marketing expenditures for 2003-04 totaled $8.9 million as shown in Table 2.

TABLE 2

Tourism Marketing Expenditures (2003-04)

Category	Amount	Percent of Total
Advertising	$4,393,500	49.4%
Joint Effort Marketing Grants	1,153,500	13.0
Special Promotions	548,400	6.2
Public Relations (press releases and tours, newsletters)	501,000	5.6
Fulfilling Requests/Telemarketing (ad inquiries, response mailings)	432,100	4.9
Printing (publications, other printed material)	425,300	4.8
Rents/Leases	407,800	4.6
Minority Marketing Program	288,900	3.2
Statutorily Required Promotional Spending	275,000	3.1
Other (professional services, association dues software, travel, etc.)	231,900	2.6
Research	128,700	1.4
International Promotion	70,000	0.8
Trade Shows (motor coach and sport shows, etc.)	36,500	0.4
TOTAL	$8,892,600	100.0%

3. Special promotional expenditures include Tourism marketing done outside of ongoing advertising contracts. This funding is used for many different purposes, including Department website design and development, Tourism's direct marketing efforts (including those for motor coach travel and sports shows) through mail and email, and contingency money for sudden opportunities (the success of a state athletic team offers the state increased exposure) or emergencies (promotion of alternative winter activities given a lack of snow).

4. The statutes currently require Tourism to make the following expenditures totaling approximately $1.4 million annually from its tourism marketing appropriations: (a) at least $1.13 million annually for the joint effort marketing program; (b) $125,000 GPR annually for sports marketing activities and events in the state; (c) $25,000 GPR annually for state sponsorship of, and advertising during media broadcasts of, the Milwaukee Symphony; (d) $50,000 GPR each biennium for grants to America's Black Holocaust Museum in the City of Milwaukee; and (e) $200,000 PR each biennium for the Milwaukee Public Museum for Native American exhibits and activities.

5. As a part of his budget recommendations, the Governor eliminated GPR tourism marketing funding, which would have the effect of eliminating earmarked funds that are provided from this GPR funding ($125,000 annually for sports marketing, $25,000 annually for Milwaukee Symphony sponsorship, and $50,000 biennially for America's Black Holocaust Museum). However, administration officials indicate the Governor did not propose eliminating GPR funding with the intent to eliminate funding for these earmarks. Therefore, the Committee could consider

requiring Tourism to provide $125,000 annually for sports marketing, $25,000 annually for sponsorship of the Milwaukee Symphony, and $50,000 biennially for America's Black Holocaust Museum from the remaining tourism marketing sources under the bill (PR and SEG). Alternatively, the Committee could consider eliminating all tourism marketing earmarks. It should be noted that under the bill the GPR appropriation is reduced to zero, but is not deleted. As a result, were funding to be provided for this appropriation in the future, the language that earmarks funding for sports marketing, the Milwaukee Symphony, and America's Black Holocaust would remain and once again require these earmarks be funded.

6. The joint effort marketing (JEM) program is designed to help non-profit tourism promotion organizations publicize local events and attractions. Public agencies and private, non-profit organizations may submit applications for grants that generally fund up to 75% of the total promotional marketing budget for the first year of a project, 50% for the second year, and 25% for the third year. However, a JEM grant may not exceed the lesser of: (a) 50% of the event's total project budget; or (b) the difference between 50% of the event's total project budget, and event advertising and promotional revenue minus 50% of the event's total projected budget. Applications are reviewed by Tourism staff and forwarded with recommendations to the Council on Tourism, which makes the grant selections based on the project's advertising plan and budget, project coordination with statewide tourism, the project's likelihood of substantially increasing tourism visits and expenditures, and applicant ability to pay its share of the project costs and potentiality to be self-sufficient within thee years.

7. Tourism officials indicate the added resources under the bill would likely be allocated as follows: (a) 60% for advertising ($2.28 million over the biennium); (b) 12% for JEM grants ($456,000); (c) 10% for attracting "high-end" events ($380,000); (d) 6% for international and motor coach promotion ($228,000); and (e) 4% each for partnerships, public relations, and research ($152,000 each). The Department would use the advertising funds for both in-state and out-of-state advertising, and would develop new electronic advertising efforts. "High-end" events would include attracting meetings, conventions, sporting events, and other events that are likely to be the state's first point of contact with individuals. International and motor coach tourism marketing is typically done in partnership with other states and organizations, and Tourism officials state that additional funding for these purposes has been urged by the state's Native American tribes. Funding for partnerships would be used to assist in the marketing of state historic sites, parks, campgrounds, and other facilities that generate revenue for the state programs.

8. Under the plan developed by Tourism, an additional approximately $192,000 in 2005-06 and $264,000 in 2006-07 would be used for joint effort marketing grants. If the Committee desired to make this funding a statutory requirement, it could require that Tourism expend at least $1,322,000 on JEM grants in 2005-06, and at least $1,394,000 ($1,130,000 currently plus $264,000 under the bill) annually on JEM grants thereafter.

9. Initial estimates from a report commissioned by Tourism on the state's tourism industry from December, 2003, through November, 2004, indicate that travel related expenditures totaled $11.78 billion in Wisconsin. This represents a modest increase over the estimated amount

spent in Wisconsin during the period of December, 2002, through November, 2003. The December, 2002, through November, 2003, study concluded that spending of $11.71 billion had a total economic impact on Wisconsin resident income of $6.6 billion (direct and indirect), and supported approximately 311,000 jobs. Table 3 shows estimated travel expenditures over the last nine years in Wisconsin. Travelers include those on vacation, business, or personal travel. The overnight 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"). These estimates are not yet available for 2004.

TABLE 3

Economic Impact of Travel Estimates

Year	Travel Expenditures (In Billions)	Percent Change	Overnight Visitors (In Millions)	Percent Change
1996	6.70	--	30.5	--
1997	6.80	1.5%	29.8	-2.0%
1998	8.12	19.4	31.9	7.0
1999	9.08	11.8	32.2	0.9
2000	11.05	21.7	37.4	16.1
2001	11.45	3.7	36.9	-1.3
2002	11.56	1.0	38.0	3.0
2003	11.71	1.3	38.6	1.6
2004	11.78	0.6	N/A	N/A

10. In 2003-04, a National Council of State Tourism Directors poll found that Wisconsin ranked twelfth in total tourism office funding among the 50 states. Results of Midwestern states in the survey, along with a comparison to 1987-88 and 2000-01 levels, are shown in Table 4. It is important to note that the figures shown in the table reflect total tourism budgets and not just those for marketing activities.

TABLE 4

Comparative Tourism Budgets

	1987-88		2000-01		2003-04		Percent Increase (FY 88 to FY 04)	
State	Total (Millions)	Per Capita	Total (Millions)	Per Capita	Total (Millions)	Per Capita	Total	Per Capita
Illinois	$20.5	$1.79	$62.2	$5.13	$46.2	$3.65	125%	104%
Indiana	2.1	0.38	4.5	0.76	5.4	0.87	157	129
Iowa	1.4	0.50	5.3	1.85	3.5	1.20	150	140
Michigan	10.6	1.14	15.9	1.61	8.0	0.80	-25	-30
Minnesota	5.9	1.35	11.4	2.39	8.1	1.60	37	19
Missouri	5.2	1.02	16.4	3.00	15.1	2.64	190	159
Ohio	6.4	0.59	7.9	0.71	6.2	0.55	-3	-7
Wisconsin	6.3	1.29	16.1	3.07	12.8	2.34	103	81
Combined Average	$7.3	$1.01	$17.5	$2.31	$13.2	$1.71	81%	69%

11. Since it is difficult 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 on Wisconsin. However, it is certain that tourism is among the largest industries in the state.

12. Some argue that for every dollar the state expends on tourism promotion, the state realizes a return (in increased earnings and associated state income and sales taxes and local taxes) of many times greater value. However, it should be noted that while state marketing expenditures decreased each year from 2000-01 to 2003-04 (as shown in Table 1), traveler expenditures in the state have steadily risen (as shown in Table 3). On the other hand, supporters of additional tourism promotion funding note the more modest increase in traveler expenditures over the last three years.

Vehicle Rental Fee

13. On an annualized basis, 40% from the collections on the vehicle rental fee would equal the amount of the increase in that fee. That is, 40% of 5% (the new fee rate) is equal to the two percentage point increase. However, there are two reasons why the amount credited to the tourism marketing appropriation in the biennium would be more than the amount actually generated by the increase. First, the appropriation would be credited with an amount equal to 40% of the collections of both the vehicle rental and limousine rental fees. The vehicle rental fee makes up the vast majority of the total revenue from the two fees (thought to be over 95% of the total, although the Department of Revenue does not distinguish between the collections of the two), but 40% of the total revenue from both fees would be more than 40% of just the vehicle rental fee alone, and therefore would exceed the amount of the increase. Second, the provision that would credit 40% of

the annual revenues generated by the two fees would be in effect on the budget's general effective date, but the fee increase would not take effect immediately. Consequently, the provision would, in effect, result in 40% of the base revenues from the two fees being credited to the tourism marketing appropriation during the period before the fee increase goes into effect.

14. The amounts reflected in the SEG tourism marketing appropriation under the bill are equal to the estimates of the amount that would be generated by the vehicle rental fee increase (assuming an October 1, 2005, effective date). Taking into consideration the factors described in the previous point, a reestimate of the amounts that would be credited to this appropriation would be $1,900,000 SEG in 2005-06 and $2,300,000 SEG in 2006-07, increases of $300,000 SEG in 2005-06 and $100,000 SEG in 2006-07 from the bill.

15. Appropriations that are made from the transportation fund are generally sum certain amounts, not tied specifically to a particular revenue source, allowing the Legislature to make a determination on the appropriate amount made available for each program from the fund. Creating a new appropriation that varies depending upon the amount collected from a specific revenue source would be a departure from this current budgeting principle. If a decision is made to retain the use of transportation fund revenues for tourism marketing, but it is decided that the current policy of making sum certain appropriations should be maintained, the tourism marketing appropriation could be created instead as a sum certain appropriation. In this case, the Committee could provide $1,600,000 SEG in 2005-06 and $2,200,000 SEG in 2006-07 to provide the amount that was intended for this purpose, rather than the higher amounts that would likely be credited to the program as the appropriation is currently drafted. In this case, the appropriation could be made a biennial appropriation, instead of a continuing appropriation, to be consistent with the Department of Tourism's tribal gaming tourism marketing appropriation.

16. Regardless of whether or not the Committee decides to retain the direct tie between the amounts appropriated for tourism marketing and the amount generated by the vehicle rental fee, the decision to use transportation fund revenues for tourism marketing will likely be contingent upon the Committee's decision on the increase to the vehicle rental fee. That is, if a decision is made to not adopt the fee increase, then transportation fund revenues could not be used for tourism marketing without reducing funding available for other transportation programs, relative to the bill.

17. In its agency budget request, the Department of Transportation proposed an increase in the vehicle rental fee to 5%, as included in the bill. Unlike the bill, however, the Department's request would not have allocated the additional revenue to tourism marketing, but, instead, would have made these revenues available for the Department's transportation programs. If a decision is made to establish an ongoing program for tourism marketing using the revenues from the vehicle rental fee increase, this would preclude using this funding source for transportation programs.

18. Currently, vehicle rentals are subject to the 3% vehicle rental fee as well as state and local sales taxes. In Milwaukee County (or in municipalities that are wholly or partially in Milwaukee County), there is an additional 3% rental tax imposed by the Wisconsin Center Tax District on the rental of automobiles. Therefore, the total tax on the rental of automobiles may

range from 11.6% in Milwaukee County (3% vehicle rental fee, 3% Wisconsin Center tax, 5% state sales tax, 0.5% county sales tax, and 0.1% stadium district tax) to 8% in counties with no county sales tax (3% vehicle rental fee and 5% state sales tax). Under the bill, this range would increase to a high of 13.6% and a low of 10%. These amounts exclude various other fees that may also be charged, such as airport facility fees and vehicle registration recovery fees.

19. As in Wisconsin, the total tax on vehicle rentals in other states tends to vary depending upon various factors, including the imposition of local option sales taxes and entertainment or stadium district taxes. A vehicle rented in Chicago, Illinois, would be subject to a total tax of 18%, while a vehicle in some other places in Illinois would be subject to just a 5% tax. In Minnesota, the total tax generally ranges from 12.7% to 13.2%; in Iowa, the total tax generally ranges from 11% to 12%; and in Michigan the total tax generally ranges from 6% to 8%. As with the ranges given for the total tax in Wisconsin, these amounts exclude airport facility charges and vehicle registration recovery fees.

20. Overall, the combined total of sales taxes and vehicle rental fees in Wisconsin is currently higher than the similar taxes in Illinois outside the Chicago metropolitan region and the taxes in Michigan, but is slightly lower than the taxes in Iowa and Minnesota. The increase proposed under the bill would make the total taxes in Wisconsin comparable to the Iowa and Minnesota taxes, but the state's total taxes on vehicle rentals would still be below the taxes charged in Chicago.

21. Another option the Committee could consider would be to increase the vehicle rental fee by one percentage point (from 3% to 4% on October 1, 2005). In this case, the Committee could provide an amount for tourism marketing equal to the estimated amount generated by the increase, which would be $800,000 in 2005-06 and $1,100,000 in 2006-07. These amounts would provide a total increase in tourism marketing funding of 8.3% in 2005-06 and an additional 3.1% in 2006-07.

22. The bill specifies that the fee increase would take effect on October 1, 2005, or the day after publication of the budget act, whichever is earlier. The revenue estimates from the fee increase are based on the assumption that this provision would become effective on October 1, 2005, although the increase could take effect earlier if the bill is passed on an earlier date. DOA indicates that the intended effective date of this provision is October 1, 2005, but the bill would have to be amended to accomplish this intent.

Tribal Gaming Program Revenue

23. Since 1999-00, Tourism has been provided an annual appropriation of $3,969,500 in tribal gaming program revenue for marketing efforts. Under the bill, tourism marketing GPR funding provided to Tourism would be eliminated and replaced with tribal gaming program revenue (PR). This would have the effect of decreasing GPR funding by $10,372,800 from the base level over the biennium ($5,186,400 annually), and increasing tribal gaming PR by the same amount. However, since any tribal gaming revenue that is not expended is deposited to the general fund, any increase in tribal gaming PR expenditures would be expected to decrease the amount of general

fund revenue by the same amount. As a result, the bill would reduce anticipated general fund revenues by $10,372,800 over the biennium ($5,186,400 annually).

ALTERNATIVES

A. Vehicle Rental Fee

1. Adopt the Governor's recommendation to increase the vehicle rental fee from 3% of gross receipts to 5% of gross receipts, but modify the provision to specify that the increase would first apply to lease agreements entered into on October 1, 2005. Increase estimated transportation fund revenues by $1,600,000 in 2005-06 and $2,200,000 in 2006-07. Further, deposit 40% of the revenue from the vehicle rental and limousine rental fees to a new continuing tourism marketing appropriation in Tourism effective on the budget's general effective date and provide $1,900,000 SEG in 2005-06 and $2,300,000 SEG in 2006-07 to reflect a reestimate of anticipated revenues deposited in the appropriation.

Alternative A1	SEG
2005-07 FUNDING (Change to Bill)	$400,000

2. Adopt the Governor's recommendation to increase the vehicle rental fee from 3% to 5%, but specify that it would first apply on October 1, 2005. Increase estimated transportation fund revenues by $1,600,000 in 2005-06 and $2,200,000 in 2006-07, and specify one of the following:

a. Provide $1,600,000 SEG in 2005-06 and $2,200,000 SEG in 2006-07 from the transportation fund to a new, biennial marketing appropriation in Tourism.

b. Retain these revenues in the transportation fund.

Alternative A2b	SEG
2005-07 FUNDING (Change to Bill)	- $3,800,000

3. Increase the vehicle rental fee from 3% to 4% and specify that this increase would first apply on October 1, 2005. Increase estimated transportation fund revenues by $800,000 in 2005-06 and $1,100,000 in 2006-07, and specify one of the following:

a. Provide $800,000 SEG in 2005-06 and $1,100,000 SEG in 2006-07 from the transportation fund to a new, biennial marketing appropriation in Tourism.

Alternative A3a	SEG-REV	SEG
2005-07 REVENUE (Change to Bill)	- $1,900,000	
2005-07 FUNDING (Change to Bill)		- $1,900,000

b. Retain these revenues in the transportation fund.

Alternative A3b	SEG-REV	SEG
2005-07 REVENUE (Change to Bill)	- $1,900,000	
2005-07 FUNDING (Change to Bill)		- $3,800,000

4. Maintain current law.

Alternative A4	SEG-REV	SEG
2005-07 REVENUE (Change to Bill)	- $3,800,000	
2005-07 FUNDING (Change to Bill)		- $3,800,000

B. Tribal Gaming Program Revenue

1. Adopt the Governor's recommendation to transfer $5,186,400 annually in tourism marketing GPR funding to tribal gaming PR.

2. Maintain current law.

Alternative B2	GPR-REV	GPR	PR	TOTAL
2005-07 REVENUE (Change to Bill)	$10,372,800			$10,372,800
2005-07 FUNDING (Change to Bill)		$10,372,800	- $10,372,800	$0

C. Tourism Marketing Earmarks

1. Require Tourism to continue to expend at least the following amounts from available tourism marketing sources:

a. $125,000 annually for sports marketing (currently specified from the GPR appropriation).

b. $25,000 annually for sponsorship of the Milwaukee Symphony (currently specified from the GPR appropriation).

c. $50,000 biennially for America's Black Holocaust Museum (currently specified form the GPR appropriation).

d. $200,000 biennially for Native American exhibits and activities at the Milwaukee Public Museum (currently specified from the tribal PR appropriation).

2. Eliminate the requirement that Tourism appropriate any, or all, of the following amounts for tourism marketing purposes:

a. $1,130,000 annually for joint effort marketing grants.

b. $125,000 annually for sports marketing activities and events in the state.

c. $25,000 annually for state sponsorship of, and advertising during, radio broadcasts of the Milwaukee Symphony.

d. $50,000 each biennium for grants to America's Black Holocaust Museum in the City of Milwaukee.

e. $200,000 each biennium for the Milwaukee Public Museum for Native American exhibits and activities.

3. In addition to alternative A.1. or A.2.a., require Tourism to expend at least $1,322,000 in 2005-06 and $1,394,000 annually, beginning in 2006-07, on joint effort marketing grants.

4. Take no action (existing earmarks would remain from designated funding sources).

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