



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>

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Joint Committee on Finance

Paper #690

Marketing Increases (Tourism)

[LFB 2019-21 Budget Summary: Page 398, #2 and Page 400, #6]

CURRENT LAW

The Department of Tourism is required to promote Wisconsin as a destination for travelers. To do so, it advertises the state's scenic, historic, cultural, recreational, and other attractions through digital, print, radio, and television communications. Tourism is allowed to make the expenditures from any of its three marketing appropriations, which are funded by general purpose revenues (GPR), the segregated (SEG) transportation fund, and state proceeds under tribal gaming compacts. Tribal gaming proceeds are considered program revenue (PR), but unencumbered tribal gaming PR appropriations lapse to the general fund. In 2018-19, Tourism is provided \$15,482,600 for tourism promotion functions. Of this amount, \$12,545,600 is provided in Tourism's marketing appropriations, consisting of \$1,827,100 GPR, \$9,127,100 tribal gaming PR, and \$1,591,400 transportation fund SEG. In 2018-19, the Department is authorized 30.0 tourism development positions, of which 26.0 are GPR-supported and 4.0 are PR-supported.

Tourism marketing funds support advertising contracts with private firms to advertise Wisconsin tourism destinations primarily within the state and region. Tourism reports that because of the range of expertise required, the large professional staff of these private firms provide marketing services on a more cost-effective basis than the Department would likely be able to provide on its own. Currently, Laughlin Constable is responsible for Tourism's general advertising, including: (a) creating and placing general advertising in print, broadcast and internet-based media; (b) public relations efforts; and (c) marketing research. In 2017-18, expenditures with Laughlin Constable totaled approximately \$8.8 million. The Laughlin Constable contract expires July 1, 2019, and Tourism indicates it is in the process of preparing a request for proposals for its new general marketing contract.

Tourism also contracts with Native American Tourism of Wisconsin (NATOW) to provide

tribal marketing services. NATOW, which consists of a marketing representative from each of the 11 federally recognized Native American tribes in Wisconsin, promotes awareness of the tribes and their tourist destinations, including notable cultural and natural sites. Its activities include marketing, public relations, state-tribal relations, education, and awarding grants. The contract provides \$200,000 annually during the 2017-19 biennium.

GOVERNOR

Provide \$4,000,000 GPR in 2019-20 and \$1,000,000 GPR in 2020-21 in the Department's GPR marketing appropriation. Additionally, provide 1.0 GPR position with \$80,000 GPR in 2019-20 and \$106,700 GPR in 2020-21 in the Department's general program operations appropriation to support the increased marketing funding. Further, provide an additional \$100,000 each year in Tourism's tribal gaming PR marketing appropriation to increase the Department's contract with Native American Tourism of Wisconsin from \$200,000 to \$300,000 annually.

DISCUSSION POINTS

A. General Marketing

1. The Department reports it is in the process of developing a strategic plan, to be completed in July, 2019, that will inform its future marketing strategy. Thus, it is unable to report on its intended allocation of the proposed increased marketing funding. Tourism currently allocates advertising to appeal to markets that would encourage vehicle-driven visits to Wisconsin, but suggests that some funding may be redirected towards marketing Wisconsin as an air travel destination in new markets outside the Midwest. However, the Department notes that its allocation of marketing funding is intended to be consistent with its strategic plan and market research, so it is unable to report anticipated allocations or potential target markets. The Department did report it does not intend to create new grant programs or increase existing grants with the proposed increased funding.

2. As seen in Table 1, Tourism last received an increase in base marketing funding under 2013 Wisconsin Act 20, when total marketing funding increased to \$12,545,600 beginning in 2013-14. However, statutory requirements that Tourism spend \$950,000 each biennium on specifically earmarked purposes expired effective July 1, 2017. Thus, in the 2017-19 biennium, Tourism's general marketing budget effectively increased by this amount, as funding is no longer directed to other purposes. (In 2015-16 and 2017-18 other one-time earmarked expenditures were budgeted under Tourism's marketing appropriations, but equivalent funding increases were also provided. Thus, the base amount of \$12,545,600 provided in 2013-14 has remained unchanged relative to the 2019-21 adjusted base.)

TABLE 1**Tourism Promotion Funding Levels**

<u>Fiscal Year</u>	<u>GPR Tourism Marketing</u>	<u>PR Tourism Marketing</u>	<u>SEG Tourism Marketing</u>	<u>Total Tourism Marketing</u>
2009-10	\$0	\$8,213,600	\$1,757,100	\$9,970,700
2010-11	0	8,373,600	1,597,100	9,970,700
2011-12	1,172,000	9,557,900	1,595,900	12,325,800
2012-13	1,172,100	9,557,900	1,595,900	12,325,900
2013-14	1,827,100	9,127,100	1,591,300	12,545,500
2014-15	1,827,100	9,127,100	1,591,300	12,545,500
2015-16	2,327,100	9,127,100	1,591,400	13,045,600
2016-17	1,827,100	9,127,100	1,591,400	12,545,600
2017-18	1,909,600	9,127,100	1,591,400	12,628,100
2018-19	1,827,100	9,127,100	1,591,400	12,545,600
2019-20 (Bill)	5,827,100	9,127,100	1,591,400	16,545,600
2020-21 (Bill)	2,827,100	9,127,100	1,591,400	13,545,600

3. Tourism argues that increased funding for marketing is necessary to remain competitive with neighboring Midwestern states. The United States Travel Association (USTA) collects budget data on state tourism offices, which is compiled in the Table 2 to compare Wisconsin's Tourism budget with those of other states in the region. Per capita funding is based on the July 1 population estimate from the U.S. Census Bureau for the beginning of the respective fiscal year. For 2016-17, the most recently available data for state tourism budgets, Wisconsin ranked third among the six states in both tourism budget totals and budgeted dollars per capita. In 2016-17, Wisconsin was \$0.14 below the Midwest average spending per capita. Including population increases of 40,700 through July 1, 2018, the most recently available population data, Tourism would require an additional \$982,300 each year to meet the Midwest average of \$2.86 per capita.

TABLE 2**Midwest Tourism Budgets**

State	<u>2013-14</u>		<u>2016-17</u>		<u>Percent Change (FY14 to FY17)</u>	
	Total (millions)	Per Capita	Total (millions)	Per Capita	Total	Per Capita
Illinois	\$53.3	\$4.13	\$50.5	\$3.93	-5%	-5%
Indiana	3.6	0.55	6.2	0.94	72	71
Iowa	4.5	1.46	4.4	1.40	-2	-4
Michigan	32.3	3.26	34.0	3.42	5	5
Minnesota	14.0	2.58	14.5	2.62	4	2
Wisconsin	15.2	2.65	15.7	2.71	3	2
Combined Average	\$20.5	\$2.82	\$20.9	\$2.86	2%	1%

Source: U.S. Travel Association, U.S. Census Bureau

4. Tourism also argues that its advertising buying power, most notably in its primary out-of-state media market of Chicago, is declining relative to other states. Changes in this buying power can be roughly reflected by changes in the Consumer Price Index (CPI), as reported by the federal Bureau of Labor Statistics (BLS). BLS reports both national and Midwest measurements of CPI. Since the last increase in marketing appropriations in July, 2013, and March, 2019, the most recently available data, national CPI rose from 233.596 to 254.202 (8.8%) and Midwest CPI rose from 222.902 to 236.793 (6.2%). Increasing the Department's total marketing appropriations to adjust for national inflation would require an additional \$1,106,800 each year, and increasing marketing appropriations to adjust for Midwest inflation would require an additional \$781,800 each year.

5. Considering increased marketing spending may maintain or enhance Wisconsin's competitiveness relative to neighboring states and cover increased costs of doing business, the Committee could consider approving the Governor's proposal to increase marketing funding by \$1,000,000 GPR each year (Alternative A1). This alternative would more closely align Tourism's total operations and promotion budget with the per capita average of Midwest states.

6. The Committee could also consider increased funding of \$1,106,800 each year to reflect a national inflationary increase to marketing funding (Alternative A2), or \$781,800 to reflect a Midwest inflationary increase to marketing funding (Alternative A3). Conversely, given that general promotional funding increased with the expiration of earmarks in July, 2017, the Committee could take no further action (Alternative A4).

B. 2019-20 Marketing Supplement

7. In addition to the proposed increase to the Department's general marketing of \$1,000,000 each year, the bill provides an additional \$3,000,000 in 2019-20. The administration indicates that the supplemental funding provided in 2019-20 is intended to support additional promotional efforts related to Wisconsin's hosting of national events, namely the Democratic National Convention (July, 2020) and Ryder Cup (September, 2020). It is intended that funding would support marketing of state destinations while the events attract significant national and international attention. While funding would be provided in the first year, the appropriation is biennial, meaning amounts may be spent both years of the biennium, after which they would lapse to the general fund.

8. The Committee could consider providing an additional \$3 million in 2019-20 (Alternative B1), or a smaller amount of \$1 million (Alternative B2). The Committee could also consider providing one of the above funding amounts in its supplemental funding appropriation, which could be released once Tourism submitted a request and plan for its use (Alternative B3). The Committee could also take no action (Alternative B4).

C. Marketing Position

9. The administration indicates that the proposed position is intended to support the growing workload of the Department. However, Tourism reports that it has not yet determined what the activities or duties of the proposed position. The Department suggests the position could be a graphic designer focused on content creation and branding, or a media relations strategist focused on increasing earned media and third-party stories on Wisconsin tourism destinations. The Department

intends to finalize its strategic plan and review market research before determining how to allocate the position.

10. Alongside an increased funding level for general marketing, and the resulting increased workload associated with administering it, the Committee could consider adopting the Governor's proposal to provide an additional position and associated funding of \$80,000 in 2019-20 and \$106,700 in 2020-21 to assist in statewide marketing efforts (Alternative C1). The Committee could also take no action (Alternative C2).

D. Native American Tourism of Wisconsin

11. Prior to July 1, 2017, Tourism was required to provide \$200,000 annually to NATOW. Following the repeal of this statutorily required earmark, Tourism elected to continue funding to NATOW under an annual contract for the same amount. Tourism currently offers this funding as a sole-source contract, arguing that there is no other organization qualified to conduct these services. Tourism believes NATOW is best poised to conduct these activities because it has staff with the relational experience, and cultural and organizational knowledge necessary for effective collaboration with Native American tribes for marketing purposes.

12. The administration indicates the requested increase in funding for tribal marketing contracts was requested by the Stockbridge-Munsee Community on behalf of NATOW. Under the request, funding would be allocated as follows: (a) \$35,000 for marketing and promotional expenses; (b) \$40,000 for tribal coordination and education; (c) \$15,000 for its industry relations conference; and (d) \$10,000 for public and media relations.

13. Agreements between the state and most of the tribes that operate gaming facilities include ancillary memoranda of understanding (MOUs) related to government-to-government matters. In most cases, these MOUs specify that tribal gaming revenues, other than payments made to reimburse the state for the costs of regulating gaming and providing services and assistance, should be used for the following four purposes: (a) economic development initiatives to benefit tribes and/or Native Americans within Wisconsin; (b) economic development initiatives in regions around casinos; (c) promotion of tourism within the state; and (d) support of programs and services of the county in which the tribe is located. Given that tribal MOUs delineate tribal gaming revenues are to be used for Tourism promotion, the Committee could consider approving the Governor's proposal to provide \$100,000 tribal gaming PR annually to NATOW (Alternative D1).

14. Tribal gaming revenues that are not allocated to state agencies are deposited into the state's general fund. Given that the Governor's proposal would reduce the amount transferred to the general fund, the Committee could consider taking no further action (Alternative D2).

ALTERNATIVES

A. General Marketing

1. Adopt the Governor's proposal by providing \$1,000,000 in 2019-20 and \$1,000,000 in

2020-21 in the Department's GPR marketing appropriation.

ALT A1	Change to	
	Base	Bill
GPR	\$2,000,000	\$0

2. Provide \$1,106,800 each year in the Department's GPR marketing appropriation to reflect an inflationary increase based on national CPI.

ALT A2	Change to	
	Base	Bill
GPR	\$2,213,600	\$213,600

3. Provide \$781,800 GPR each year in the Department's GPR marketing appropriation to reflect an inflationary increase based on Midwest CPI.

ALT A3	Change to	
	Base	Bill
GPR	\$1,563,600	-\$436,400

4. Take no action.

ALT A4	Change to	
	Base	Bill
GPR	\$0	-\$2,000,000

B. 2019-20 Marketing Supplement

1. Adopt the Governor's proposal by providing \$3,000,000 in 2019-20 in the Department's GPR marketing appropriation.

ALT B1	Change to	
	Base	Bill
GPR	\$3,000,000	\$0

2. Provide an additional \$1,000,000 in 2019-20 in the Department's GPR marketing appropriation.

ALT B2	Change to Base Bill
GPR	\$1,000,000 - \$2,000,000

3. In addition to one of the above alternatives, specify that funding be provided in the Joint Committee on Finance supplemental appropriation. (The Department of Tourism could request, under s. 13.10 of the statutes, the release of funding by the Committee.)

4. Take no action.

ALT B4	Change to Base Bill
GPR	\$0 - \$3,000,000

C. Marketing Position

1. Adopt the Governor's proposal to provide 1.0 GPR position with \$80,000 GPR in 2019-20 and \$106,700 GPR in 2020-21 to assist in statewide marketing efforts.

ALT C1	Change to Base Funding	Change to Base Positions	Change to Bill Funding	Change to Bill Positions
GPR	\$186,700	1.00	\$0	0.00

2. Take no action.

ALT C2	Change to Base Funding	Change to Base Positions	Change to Bill Funding	Change to Bill Positions
GPR	\$0	0.00	- \$186,700	- 1.00

D. Native American Tourism of Wisconsin

1. Adopt the Governor's proposal to provide an additional \$100,000 each year in Tourism's tribal gaming PR marketing appropriation to increase the Department's contract with Native American Tourism of Wisconsin. Tourism would be provided \$9,227,100 tribal gaming PR each year of the biennium.

ALT D1	Change to Base		Change to Bill	
	Revenue	Funding	Revenue	Funding
PR		\$200,000		\$0
GPR-Tribal	- \$200,000		\$0	
PR-REV	<u>200,000</u>		<u>0</u>	
Total-REV	\$0		\$0	

2. Take no action. Tourism would be provided \$9,127,100 tribal gaming PR each year of the biennium.

ALT D2	Change to Base		Change to Bill	
	Revenue	Funding	Revenue	Funding
PR		\$0		- \$200,000
GPR-Tribal	\$0		\$200,000	
PR-REV	<u>0</u>		<u>- 200,000</u>	
Total-REV	\$0		\$0	

Prepared by: Rory Tikalsky