



Michigan Tourism Strategic Plan

"a plan for the industry, by the industry"

Funding

IWT Report to the Council
November 2, 2006

Section 1: **Overview**

The members of the Funding Issue Work Team began deliberations with a face-to-face meeting held at the Michigan Hotel, Motel & Resort Association's Lansing office on August 30th. Two additional meetings were convened in MHMRA's offices on September 18th and October 9th with members attending both in person and via conference call. Through the course of these meetings, an issue statement was discussed, drafted, revised and approved.

Participating members of the Issue Work Team included:

Steve Yencich - Chair, Michigan Hotel, Motel & Resort Association
Sue Bila, Michigan Festivals & Events Association
Laura Ingles, Northeast Michigan Council of Governments
Tom Nemacheck, Upper Peninsula Travel & Recreation Association
Rich Studley, Michigan Chamber of Commerce
Brad Van Dommelen, Traverse City Convention & Visitors Bureau
Rick Hert, (West Michigan Tourist Association, PDCT Liaison)

Our discussions covered a broad range of related topics including:

- Michigan's tourism industry is the second/third largest industry in the state and has a great impact on the state's economy.
- Collectively Michigan tourism businesses pay millions of dollars in income, property and Single Business taxes. IWT team members thought it would be helpful to quantify these amounts.
- The industry already contributes approximately \$35 million in self-imposed hotel taxes and assessments to fund the destination marketing efforts of CVBs, tourist bureaus, and other destination marketing organizations, (DMOs). This is a level more than over 2.5 times greater than the temporary \$13.2 million for FY 07 and FY 08, and almost 6 times greater than the existing, fixed, appropriation of \$5.7 million from the General Fund.
- We believe a compelling argument can be made that the State should consider matching this level of funding on an annual basis to support implementation of the excellent Pure Michigan campaign on a dramatically expanded basis and, that the state should increase funding for this purpose without tax increases.
- Some attempt should be made to quantify the amount of money spent by tourism business on their own individual advertising/marketing budgets, as this would serve to

further illuminate the industry's commitment to state, destination, and tourism business marketing on behalf of the private sector.

- It would be helpful if legislators could be presented with the cumulative amounts of property, income, & SBT taxes, along with industry-imposed assessments & bed taxes paid to fund DMOs, as well as estimated tourism business advertising/marketing budgets.
- Such amounts are likely to be comparable to taxes paid by our state's agricultural and manufacturing industries, but Michigan's tourism industry receives none of the tax subsidies, abatements, incentives and budget outlays provided by state government to agriculture and manufacturing.
- A brief discussion was held regarding the possibility of a statewide hotel assessment or tax being imposed with MHMRA being legislatively identified as the organization responsible for collection and expenditures.
- It was pointed out that because over 70% of tourism is generated by Michigan taxpayers, a self-imposed excise tax would not be well-received by Republican majorities in the House and Senate. In addition, MHMRA has a long-standing position opposing such an approach.
- Funding IWT members also discussed the Funding Issue Discussion Paper supplied by the Planning Development & Coordination Team, (PDCT). General observations included that it was a well-written and comprehensive examination of the three potential means by which the state's tourism promotion program might be funded, including the New Tax Option, the General Fund Option, and the Industry Assessment Option.
- Concern was expressed with the discussion paper's inclusion of a possible gas tax increase. Based upon knowledge of the entities involved, it was believed that such approach would be extremely controversial. In addition, because allowable uses of gas tax revenues are explicitly defined in Michigan's Constitution, utilization of gas tax revenue for tourism promotion would be strictly unconstitutional.
- The Funding IWT recognizes the critical nature of increased promotion funding for tourism as a paramount issue for the state. Furthermore we believe that an increase in promotion funding will result in an increase in tourism revenues for private industry that will lead to additional investment from the private sector for product improvement and development. Recognizing tourism promotion as a paramount need for our state, the Funding IWT has selected this issue as the primary focus for our component of the plan.

Based on our collective knowledge and experience in the appropriations process, it was our opinion that no arguments could be made for expenditure of General Fund monies for purposes other than state destination marketing. Indeed, the authors of the Funding Issue Discussion Paper recognized this when they wrote:

"... the Planning Council identified issues other than increasing the state's investment in promotion that it deemed important to the sustainable development of Michigan's tourism industry. Unlike investment in promotion, the returns on these other investments are not as immediate or as easy to quantify. Thus, it will be more challenging to garner GF monies to support these other needed investments."

As a result, the Funding Issue Work Team originally struck language from the draft statement authored by MSU's Gary Warnell which included:

"Funding--

- 2) to support and enhance research efforts important to the industry
- 3) to enhance training of tourism business staff and owners
- 4) to support new product development and existing product enhancement.”

However, at the request of the PDCT, the Funding IWT included language encouraging other IWTs to seek funding from existing state and federal grants, along with solicitation of private sector sources to provide resources necessary to explore implementation of their objectives.

The final approved Funding Issue Statement is as follows:

Funding Issue Statement

Michigan's tourism industry generates over 17 billion dollars in economic activity for our state and must have the financial resources required to maximize its economic importance and sustain its development and competitiveness in the tourism market regionally, nationally and globally.

These resource requirements include \$30 million annually from the State of Michigan's General Fund:

1. To enable Michigan to effectively promote the state and compete for tourism business with our competitive set of other destinations through national marketing.
2. To support and enhance research efforts to identify and validate appropriate target markets prior to expansion of the state's promotion campaign into new markets, and to quantify the return on investment (ROI) of state promotion expenditures.

The industry's strategic plan shall encourage involvement of tourism industry employees, representatives and customers in a statewide, private sector-based, grassroots effort to increase public opinion, editorial board, media, and legislative support for increased tourism promotion funding without tax, fee or surcharge increase.

The Funding Issue Work Team believes procurement of the highest possible level of statewide tourism promotion funding from the State's General Fund to be paramount and strongly supports \$30 million in state tourism promotion funding to be competitive and to build market share.

We recognize the need for other financial resources devoted to other specific issue areas (i.e. hospitality training, research); in fact, ROI research is covered in #2 above. We encourage those IWTs to utilize a combination of existing state/federal grants and solicitation of private sector sources to provide the financial resources necessary for implementation of their objectives.

Section 2: Challenges and Opportunities

As expected, most of the challenges identified relate to how best to fund statewide tourism activities. In the process of deliberations on development of the Funding Issue Statement, these challenges were identified and addressed including:

Industry Assessment Approach

There is absolutely no industry support for a broad-based industry self-assessment approach to generate sufficient monies to fund Travel Michigan. Last year, TICOM created a special task force to explore such an approach. Without exception, representatives from a variety of tourism industry segments indicated their members and/or Boards would strongly oppose such an approach.

In addition, the political complexities entailed in the development and passage of legislation to create a broad-based assessment mechanism, seems to present more in the way of obstacles and controversy than actual revenues. In fact, very few states have pursued such an approach. The Funding Issue Discussion Paper authored by PDCT members correctly points out that:

“...only one state has gone down this path, California, and their process took a full year to implement, and only raised \$8 million. It was very complicated to design and execute, and has raised little in funding from a much bigger tourism industry than Michigan’s.”

So while no support exists for a broad-based approach, singling out an individual segment to bear the entire burden for state tourism promotion funding would present equally difficult challenges. More importantly, such an approach would destroy the industry unity forged in recent years as a wide array of industry organizations and business operators came together:

- in 2003 to stave off proposed budget cuts of 30% in funding for Travel Michigan;
- in 2005 when the industry united to pass Post Labor Day School legislation and again;
- later that same year, to successfully push for amendment to the 21st Century Jobs Fund legislation which provided for the one-time placement of \$15 million in tourism promotion funding.

Imposition of New Industry Taxes

Similar to above, no segment of Michigan’s tourism wishes to volunteer for new government taxation of their customer base. As noted previously, lodging properties have taxed and assessed guests to fund the destination marketing activities of Michigan’s network of CVBs and tourist bureaus. It is estimated that nearly $\frac{3}{4}$ of a billion dollars have been generated by such taxes/assessments since these programs were established in the early-to-mid 1980s. But neither restaurants, hotels, nor Michigan’s rental car industry support the imposition of new taxes to fund tourism promotion, nor do we think it likely other industry segments will volunteer for such new taxes.

Increases from Michigan’s General Fund

Seeking dramatic increases in appropriations without tax increase is a bold and audacious goal that presents its own unique set of challenges. We must compete with other special interests for a much larger slice of a very limited State budget. We are pushing for such an objective in an era of dwindling tax receipts and tax cuts.

Pursuit of such an objective will be arduous and time consuming. It will be an effort that will be measured not in months, but in years. It’s important to remember that it took 16 years for Travel Michigan’s budget to drift from 7th largest nationwide, to 31st largest in 2005. Accordingly, it will take a period of years of concerted, collaborative effort on the part of our industry to make progress toward this challenging goal.

We must continue to benchmark the ROI of such expenditures, and if success is realized, research should drive the gradual expansion into new markets. Legislators, taxpayers and indeed, the industry itself, all deserve and will likely demand increased accountability for such expenditures.

It was agreed that the pursuit of dramatic increases in tourism promotion funding, without tax increases, presents the best opportunity and greatest potential to generate the degree of industry unity, collaboration, and grassroots support necessary to achieve such a bold objective.

Section 3: **Recommendations**

It is recommended that the Strategic Plan call for broad industry participation in an private sector-based, industry-wide effort to increase tourism promotion funding to \$30 million annually, utilizing appropriations from the State's General Fund, and to secure such funding without tax, fee, assessment or surcharge increase.

The industry should advocate for the expansion of the well-designed and creative "Pure Michigan" campaign into new markets in which research indicates will produce positive results. As resources grow, the campaign should be sequentially expanded to include Michigan's three primary travel seasons to market tourism activities and support tourism businesses that operate in summer, fall, and winter. The industry should push to expand the Pure Michigan campaign to promote cultural tourism, and attract national and regional convention business, thereby benefiting urban restaurants, attractions and lodging properties.

Attaining such objectives will require an all-out, collaborative, unified effort similar to successful efforts in passage of legislation requiring all schools to open after Labor Day.

There is a sense of urgency to these efforts as only one year remains before the balance of the one-time placement of \$15 million in promotion funding is expended and Michigan returns to the original budget allocation of just \$5.7 million.

MHMRA has created a coalition similar to Parents for Family Vacations, (PFFV) which proved to be instrumental in the passage of Post Labor Day School legislation. The coalition's name is the Tourism Improving Michigan's Economy, (TIME) Coalition. Eighteen major trade and tourism organization have joined TIME including the State Chamber, Michigan Association of CVBs, Michigan Restaurant Association, TICOM and others.

The association has requested and received proposals from three top public relations/advocacy firms to represent MHMRA and TIME as we pursue the coalition's objectives. MHMRA has established a tentative budget for the TIME Coalition which, depending on which public relations firm is retained will range from \$48,000 to \$60,000 per year. In addition to these budgetary needs, MHMRA will be committing a minimum of \$45,000 per year of in-kind contributions in the form of staff lobbying, administrative/ accounting support and full application of the resources of our multi-client lobbying firm of Muchmore, Harrington, Smalley and Associates.

It is anticipated that the TIME Coalition will be in operation for a period of three years. Again, it took 16 years of industry and legislative neglect for funding to drift down to \$5.7 million; it will take a minimum period of three years of concerted effort to dramatically increase those funding levels. The template for success is there. We've done it before and can do it again ... if we stick together.

Section 4: **The Process**

The initial visioning process aided the discussions of the work group. It provided an overview of issues of interest to the participating representatives of the industry. Further information was generated from reviewing comments made at the regional meetings. In addition, the deliberations of the Funding Issue Work Team resulted in a broad exchange of emails, phone calls and meetings with members of other IWTs, as well as with representatives from MSU, Travel Michigan, members of the Travel Commission, numerous trade groups, and the members of the Planning Development Coordination Team.