Public Tourism Promotion ROI:

Cutting the Tourism Promotional Budget is Tempting *–Is it Worth It?*

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Rockport Analytics

Agenda

- State & Local FY2010 Budget Situation
- Public Tourism Promotion Shares in the Pain. But What about ROI?
- Lessons from the Colorado Experience 1993-1997 and Tourism Economic Impact
- How Many Lost Visitors Does It Take to Negate Any Budget Savings?

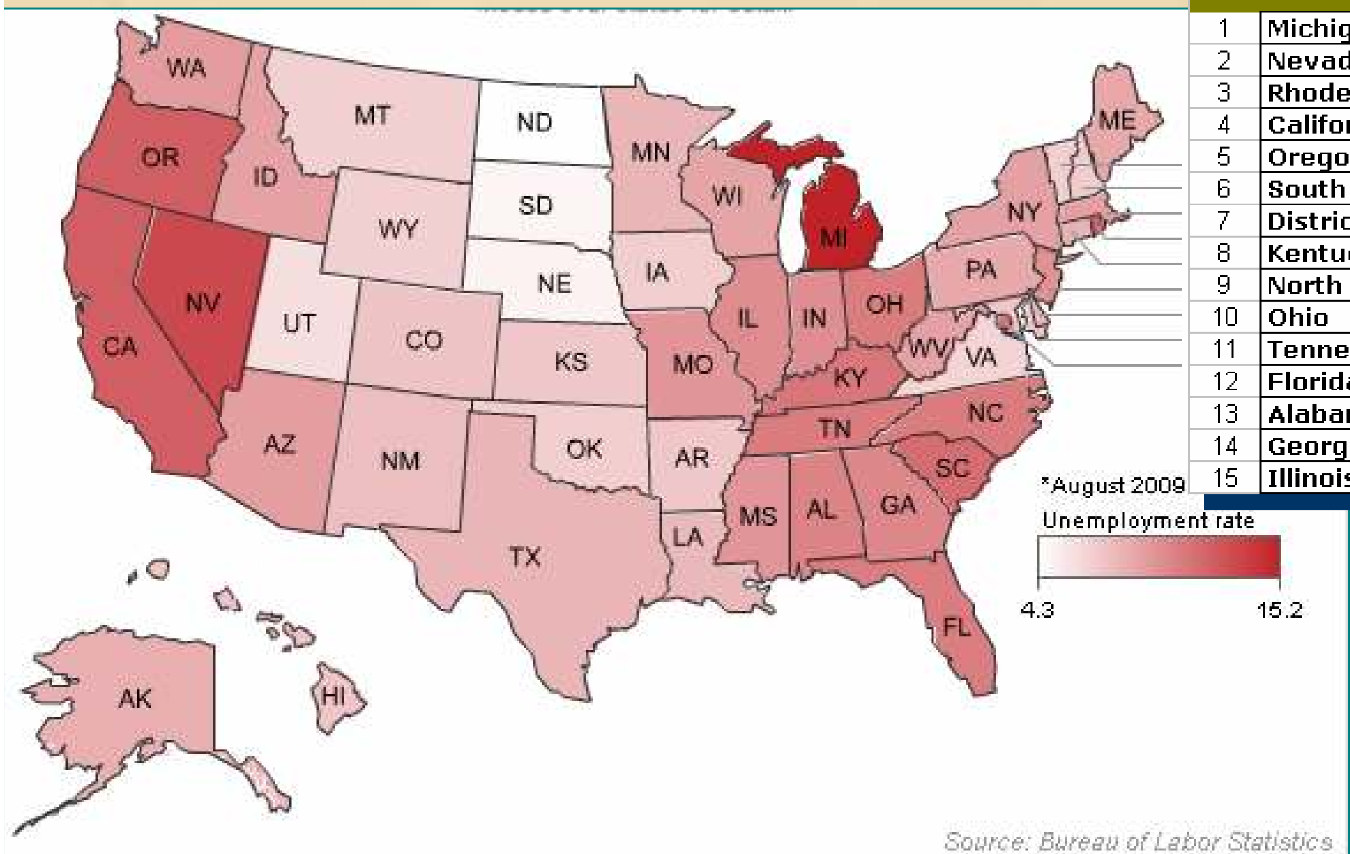
Presenter

- **Kenneth McGill**, MD Rockport Analytics LLC and Lead Research Consultant for National Business Travel Association (NBTA)
- Fifteen yrs at IHS Global Insight and its predecessors, most recently as EVP of Global Travel & Tourism Practice
- 30yrs as an economist & market researcher
- Extensive experience in tourism market analysis and economic impact on destination countries (MoTs), states (STOs), & regions (CVBs, CCAs, DMOs).
- Recently (Sept 2009) completed landmark study of business travel ROI –how T&E contributes to corporate performance

State & Local Economies Are Struggling

Employment losses, foreclosures, housing prices, commercial real estate, weak consumers, anemic capital goods activity, declining exports…

As of August 2009, 15 States Have Unemployment Rates At or Above 10%



		August 2009 Unemployment Rate
1	Michigan	15.2
2	Nevada	13.2
3	Rhode Island	12.8
4	California	12.2
5	Oregon	12.2
6	South Carolina	11.5
7	District of Columbia	11.1
8	Kentucky	11.1
9	North Carolina	10.8
10	Ohio	10.8
11	Tennessee	10.8
12	Florida	10.7
13	Alabama	10.4
14	Georgia	10.2
15	Illinois	10.0

Leading to an Unprecedented State & Local Fiscal Crisis…

- 48 States face FY2010 deficits totaling $168b
- At least 36 states expect a FY2011 gap totaling $74b
- FY2010/11 = ($350b). Fiscal Stim = +$140b
- Those in the best position tend to me natural resource-rich states

Source: Center on Budget & Policy Priorities, September 2009

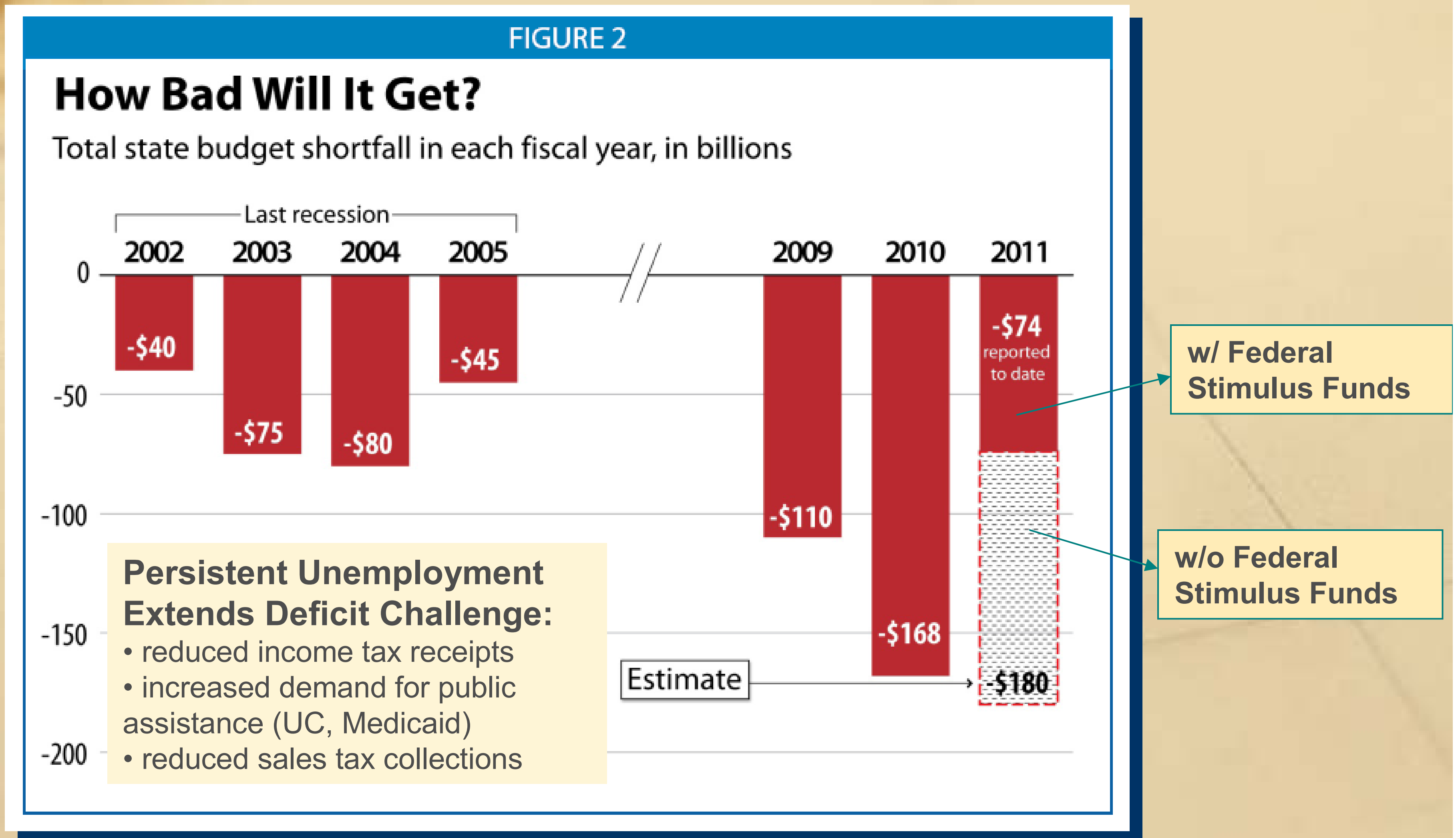
FY2010 State & Local Fiscal Crisis

STATES WITH THE WORST FY2010 BUDGET GAPS AS % of GENERAL FUND				
	FY2010 before budget adoption	FY2010 mid year gap	FY2010 Total	FY2010 Total – % of General Fund Budget
California	$26.0 billion	$19.5 billion	$45.5 billion	49.3%
Arizona	$4.0 billion	0	$4.0 billion	41.1%
Nevada	$1.2 billion	0	$1.2 billion	37.8%
Illinois	$13.2 billion	0	$13.2 billion	37.7%
New York	$17.9 billion	$2.1 billion	$20.0 billion	36.1%
Alaska	$1.3 billion	0	$1.3 billion	30.0%
New Jersey	$8.8 billion	0	$8.8 billion	29.9%
Vermont	$278 million	$28 million	$306 million	27.3%
Kansas	$1.4 billion	$183.2 million	$1.6 billion	25.6%
Connecticut	$4.2 billion	0	$4.2 billion	23.9%
Georgia	$3.1 billion	$1.0 billion	$4.1 billion	23.8%
Washington	$3.4 billion	$195 million	$3.6 billion	23.3%
Wisconsin	$3.2 billion	0	$3.2 billion	23.2%
Florida	$5.9 billion	0	$5.9 billion	22.8%
North Carolina	$4.6 billion	0	$4.6 billion	21.9%
Louisiana	$1.8 billion	0	$1.8 billion	21.6%
Maine	$640 million	0	$640 million	21.4%
Rhode Island	$590 million	$65 million	$655 million	21.3%
Minnesota	$3.2 billion	0	$3.2 billion	21.0%
Virginia	$1.8 billion	$1.5 billion	$3.3 billion	20.1%
Total	**$139.4 billion**	**$27.9billion**	**$167.6 billion**	**24.3%**

- Most of the $139b pre-adoption gaps have been filled
- Recession is already opening additional FY2010 shortfalls in 15 states = $28b
- PA passed its budget on Oct. 10th
- Situation is likely to worsen

Source: Center on Budget & Policy Priorities, September 2009

An Unprecedented State & Local Fiscal Crisis…



Source: Center on Budget & Policy Priorities, September 2009

Filling in FY2009-FY2011 Gaps

- Reserves
  - at the start of FY2007 state revenue reserves totaled about $495B or 11.5% of GF
  - Most states exhausted their reserves in FY2008 & 2009
- Increasing Taxes –political poison and self-defeating
- Federal Stimulus (ARRA)
  - App. $140B dedicated to states for FY2010-FY2011
  - Mostly in the form of Medicaid and Fiscal Stabilization Fund
- Spending Cuts –budget triage quickly moved from more "fringe" programs to cuts in health, education, workforce –no stone left unturned

Tourism Promotion Has Not Been Spared

Projected State Budget Rankings for FY09 With Possible Cuts				
Ranked by FY09	State	FY09 Reported Total Budget	Possible Reductions	New Budget if Reduction Occurs
1.	Hawaii	$ 71,000,000	18.0%	$58,220,000
2.	Illinois	$51,200,000	0.0%	
3.	Texas	$52,603,000	0.0%	
4.	California	$50,000,000	0.0%	
5.	Florida	$35,549,209	28.0%	$25,595,430
6.	Arizona	$25,800,000	47.3%	$13,596,600
7.	Louisiana	$24,975,000	7.0%	$23,226,750
8.	Missouri	$23,659,810	15.0%	$20,110,938
9.	Colorado *	$22,671,508		
10.	Tennessee *	$20,782,300	20.0%	$16,625,840
11.	Utah *	$19,583,500	7.5%	$18,114,738
12.	Nevada *	$19,279,583		
13.	New Mexico *	$17,604,300	2.0%	$17,252,214
14.	Arkansas	$16,498,492	0.0%	
15.	Pennsylvania	$16,159,000	9.0%	$14,704,690
16.	S. Carolina	$16,000,000	7.0%	$14,880,000
17.	New York *	$16,000,000	0.0%	
18.	Kentucky	$15,536,900	8.5%	$14,216,264
19.	Virginia	$15,400,000	12.0%	$13,552,000
20.	Wisconsin	$14,800,000		
20.	Alabama	$14,800,000	10.0%	$13,320,000

** Latest FY09 column budget projections provided by USTA (TIA). Others self reported from states' tourism offices-current fiscal year.*

Possible reductions column from informal survey of STO research directors Jan 2009 executed by D. McKinney

Possible reductions represent initial guidance for FY2010 budgets

The Stage is Set For Reduced Public Promotional Spending, But What About ROI?

- *If we eliminate or reduce our tourism promotion budget, how many visitors might we lose?*
- *How much "retained" tourism spending will disappear with these lost visitors?*
- *Lost visitor spending will reduce state and local tax receipts; by how much?*
- *How will our competitors react to our diminished promotional efforts?*
- ***Will the lost tax receipts be greater than the original promotional budget savings?***

GLOBAL INSIGHT

Economic Impact of All Tourism to a Destination

Tourism Expenditures

$2.23 billion

All Visitor Related Spending

Total Impact
$1.21 billion

Import Leakage
$1.02 billion

Tourism goods & services from outside of the state - e.g. ND t-shirts made in China

Economic Value to State

Core Tourism
(Direct)
$867 million

Industries directly providing goods & services to the visitor, such as restaurants

Non-Core Tourism
(Indirect & Investment)
$345 million

Industries directly providing goods & services to core tourism providers - e.g. Food Distribution

Source: Global Insight

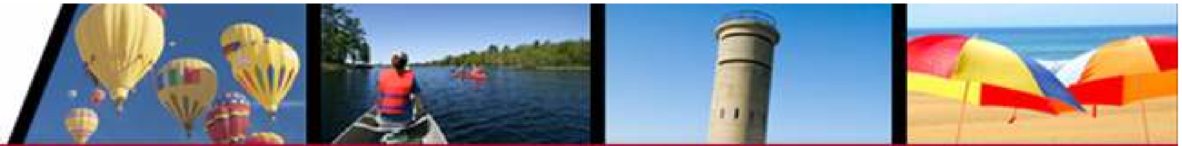
Core Tourism Impact – Composition – 2007

The activity of tourism touches a diversity of South Dakota's industries

Composition of Core Tourism

Rank	Industry	$ Value '07 (Millions)	'06-'07 Growth	% of Total
1	Food services and drinking places	438	7.9%	31.6%
2	Hotels and motels	288	6.2%	20.8%
3	Amusement, Gambling and Recreation industries	263	3.4%	18.9%
4	Real estate	75	0.0%	5.4%
5	Food and beverage stores	60	2.1%	4.3%
6	Gasoline stations	47	10.4%	3.4%
7	Miscellaneous store retailers	46	4.0%	3.3%
8	Clothing and clothing accessories stores	35	5.3%	2.5%
9	General merchandise stores	32	0.2%	2.3%
10	Travel arrangement and reservation services	24	1.6%	1.7%
11	Sporting goods, hobby, book and music stores	21	5.8%	1.5%
12	Rail transportation	20	0.8%	1.5%
13	Automotive equipment rental and leasing	18	-0.5%	1.3%
14	Air transportation	10	6.0%	0.7%
15	Performing arts companies	6	12.4%	0.4%
	Other Industries	5	3.3%	0.4%
	Total	1,386	5.3%	100.0%

IHS GLOBAL INSIGHT



Indirect Benefits: Tourism Supplier Industries

Many sectors on tourism's supply chain also benefit from Maryland's tourism industry in 2007

Indirect Benefits of Tourism

Rank	Industry	$ Value '07 (Millions)	'06-'07 Growth	% of Total
1	Real estate	$348.3	2.3%	9.2%
2	Wholesale trade	$153.3	2.7%	4.1%
3	Power generation and supply	$140.2	2.8%	3.7%
4	Management of companies and enterprises	$92.1	4.9%	2.4%
5	Non-depository credit intermediation	$82.2	1.9%	2.2%
6	Travel arrangement and reservation services	$74.4	4.3%	2.0%
7	Employment services	$72.7	3.2%	1.9%
8	Architectural and engineering services	$70.0	6.3%	1.9%
9	Legal services	$62.0	3.2%	1.6%
10	Telecommunications	$56.0	2.3%	1.5%
11	Banking and credit intermediation	$52.1	2.9%	1.4%
12	Management consulting services	$52.0	2.4%	1.4%
13	Scenic and sightseeing transportation and support	$49.8	1.8%	1.3%
14	Maintenance and repair of nonresidential buildings	$49.8	2.1%	1.3%
15	Accounting and bookkeeping services	$46.8	3.7%	1.2%
	Other Industries	$1,100.1	2.9%	29.2%
	Investment and Government	$1,269.3	10.5%	33.7%
	Total	**$3,771.2**	**5.4%**	**100.0%**

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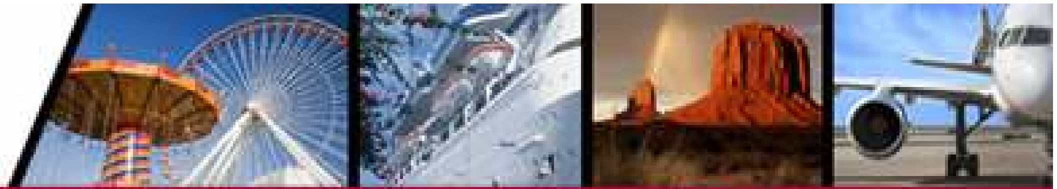
State & Local Government Revenue

Tax Revenues from Tourism	2008 *(Million)*	'07-'08 Growth
Federal Government		
Corporate Income	914.0	-3.6%
Personal Income	122.5	-2.1%
Social Security & Other Taxes	2,139.4	-2.2%
Federal Total	3,175.9	-2.6%
State Government		
Corporate Profits Tax	91.4	-3.2%
Personal Income	341.0	-2.1%
Sales (excluding Hotel & Entertainment)	1,065.2	-4.3%
Licenses & Fees	88.2	-2.5%
Other Taxes	441.6	-3.7%
Hotel Sales Tax	185.5	-3.0%
Entertainment Sales Tax	86.9	2.2%
Casino Room Fee	13.6	-7.5%
Casino Comp Tax	16.0	-7.5%
Occupancy Tax	76.2	-3.0%
State Total	2,405.8	-3.4%
Local Government		
Local Hotel Taxes	22.5	-3.2%
Property Taxes	2,079.2	-4.2%
Other Taxes	13.4	-2.1%
Local Total	2,115.2	-4.2%
Total	**7,696.8**	**-3.3%**

Declines in ADRs, RevPar, outpaced 1.5% decrease in overnights

Slot revenue impacted by Penn. And NY slot casinos

GLOBAL INSIGHT



Talking Points: What Do *Visitors* Mean to RI?

- ✓ Each RI visitor/traveler generates about $460 in expenditures, $63 of which goes to RI businesses that do not directly "touch" that visitor
- ✓ Every 150 visitors creates a new RI job
- ✓ Each visitor creates about $118 in tax receipts, $63 of which goes to state & local authorities
- ✓ It takes only 235 visitors to pay for one Rhode Island public school student for one year
- ✓ Each RI visitor generates $207 in wages paid to RI workers employed across an array of industries
- ✓ Each visitor adds about $333 to RI Gross State Product

Based on TSA definition of "visitor".

Measuring Promotional ROI

Conceptual ROI: total visitor-initiated tax receipts less all-in public promotional expenditures

Method	Approach	Challenges
Campaign Tracking & Conversion Studies	Track the impact of individual campaign(s) then generalize to estimate total ROI	• individual campaigns not representative of whole • can be prohibitively expensive
Econometric Approach	Model changes in visitation as a function of all key drivers, including promotion, then isolate promotion's incremental influence	• reliant on data availability • results not necessarily applicable to individual campaigns
Controlled Experiment	Observe destination results with and w/o promotional spending	• unrealistic • Colorado Experience ?

So, Is It Worth It?

Situation:

Public promotion budget is cut. Competitive destinations continue to advertise in key source markets…

Reaction:

Leisure visitor volume falls by:

- 7.7% -full Colorado-like response
- 3.5% -half Colorado

Leisure visitor spending falls by an amount equal to the average spend-per-visitor…

Translation:

Lost visitor spending has a direct and indirect impact on revenue, jobs, wages, and taxes in the local economy…

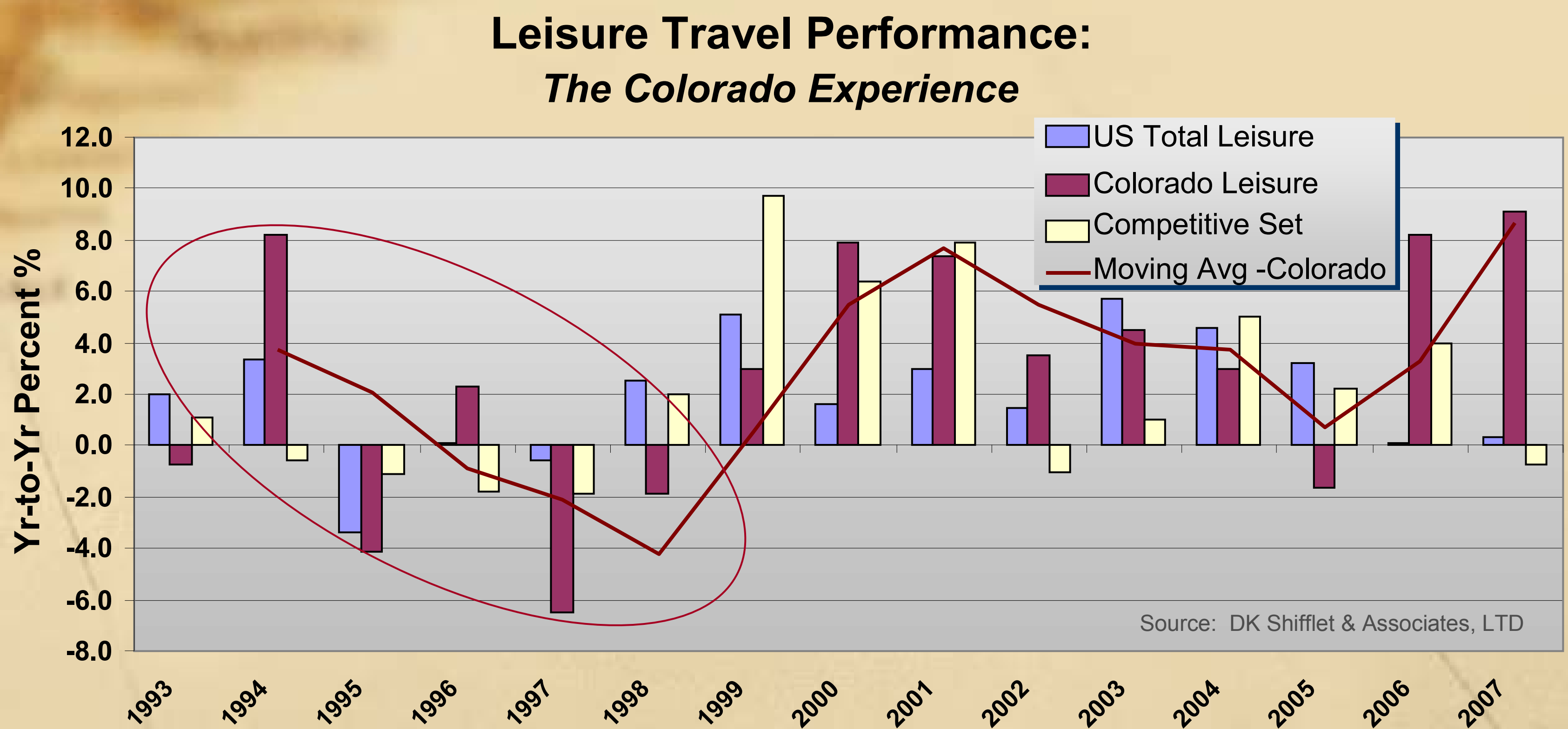
Outcome:

State & local taxes receipts –hotel, sales, rental car, income, property, and user fees – fall by an amount equal to average S&L tax receipts per visitor

Critical Decision Point:

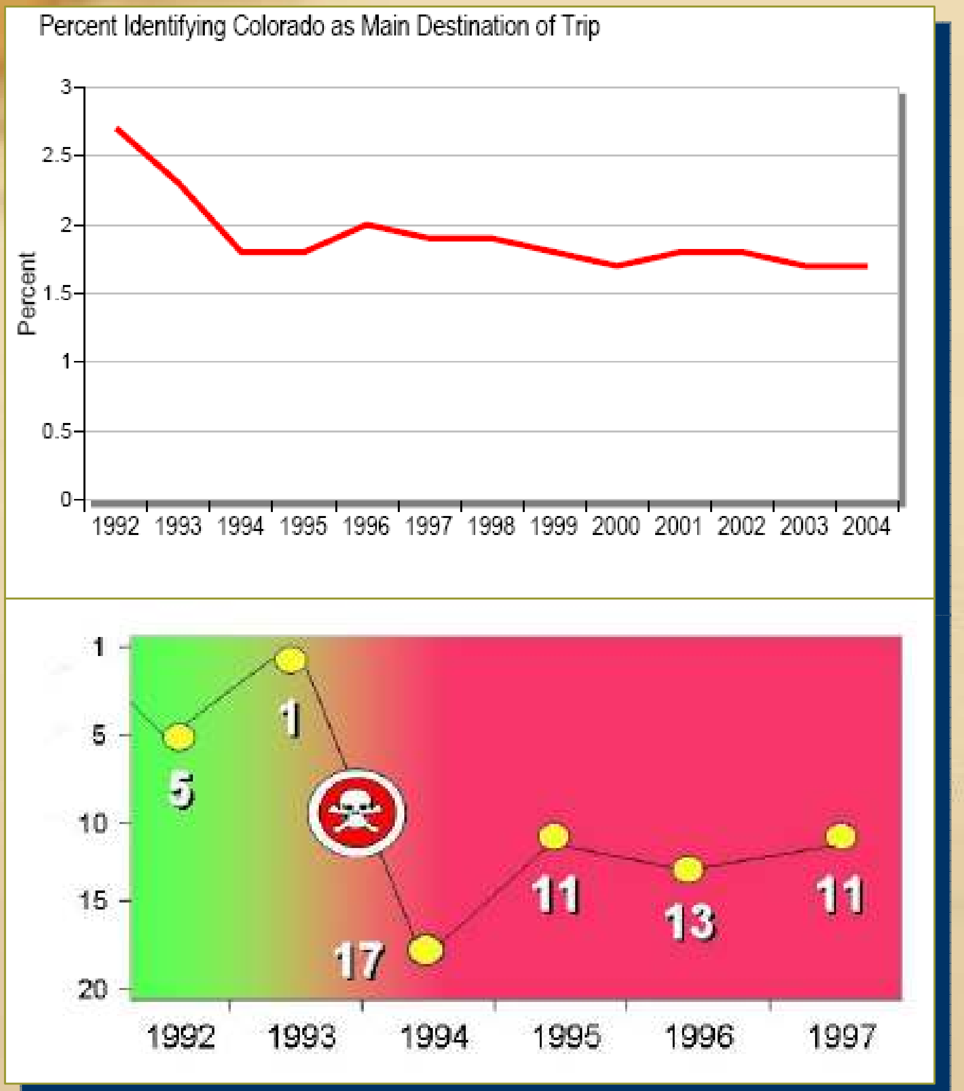
How many lost visitors does it take to completely negate any promotional budget savings?

Colorado Case: Promotional $$ & Visitation



- **Colorado Goes Dark**: State Tourism Office halts promotional spending 1993-1997
- For 1994-1998, Colorado **leisure visits declined by -8.4%** or 2.6M visitors
- Resulting in lost market share to CO's immediate competitive set and the US in total
- With promotion re-started in 1998, **CO leisure grew by 19%** (+5.4M visits) 1998-2001
- Share losses continued, however, as their primary competitors grew 25% during that period

Colorado Case: Co Loses Share of Mind

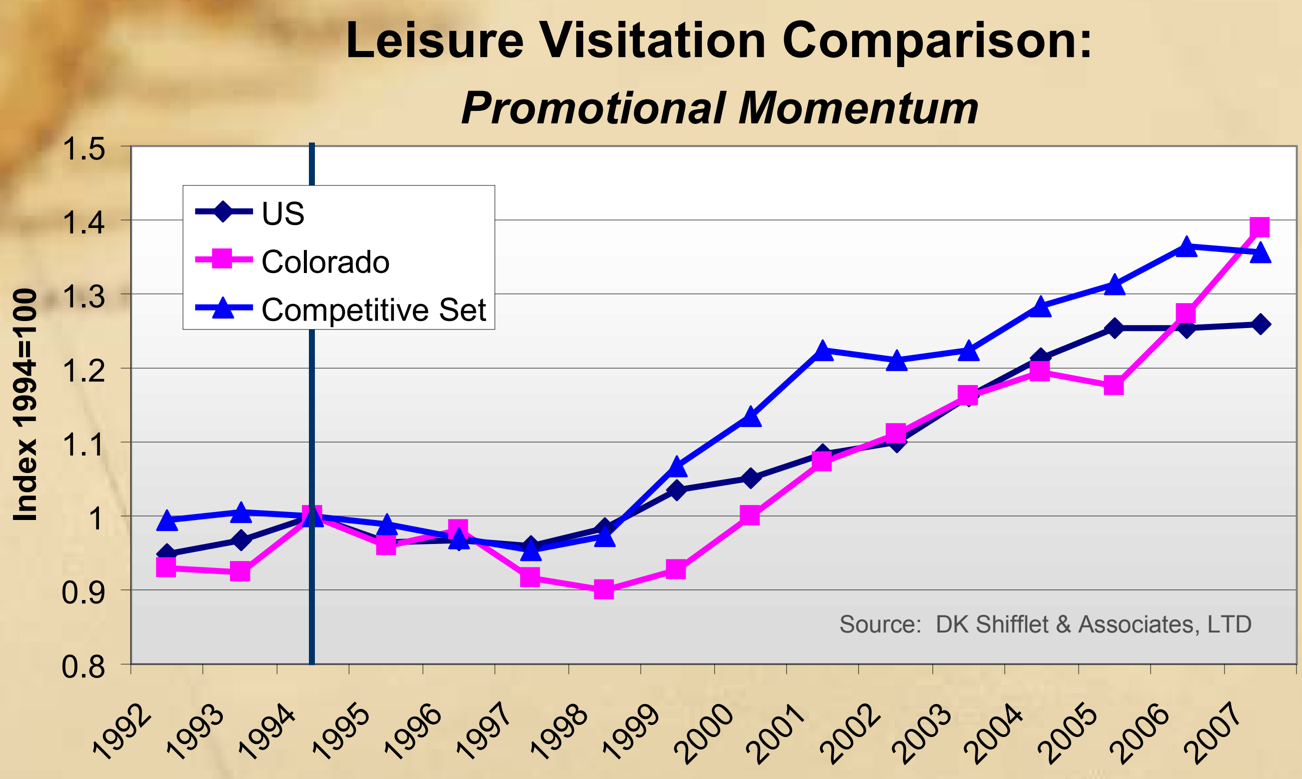


Colorado's Share of U.S. Overnight Leisure Trends Downward

Colorado's Rank Among 50 States as a Summer Destination

Source: "What Happens When You Stop Marketing? The Rise & Fall of Colorado Tourism," by Dr. Bill Siegel, Longwoods International, March 2009

CO: Promotional $ & Visitation (cont.)



- During the period that Colorado went dark, leisure visits dropped at twice the rate of its competitors
- With promotion re-started, it would take CO six years to reach its previous peak

	Peak-to-Trough Loss in Leisure Visitors *(in millions)*	P-to-T Growth Rate	Trough-to-Peak Recovery in Leisure Visitors *(in millions)*	P-to-T Growth Rate	Years to Regain 1994 Peak Visitation
U.S. Total	-70.87	-4.0%	220.34	12.8%	4
Colorado	-2.6	-8.4%	4.91	17.1%	6
Competitive Set States	-11.87	-4.7%	67.60	28.4%	4

Applying the Colorado Example to…NJ

- New Jersey's Estimated mid-Year FY2009 budget deficit is **-$1.2B**
- Under current conditions, the NJ deficit will climb to **-$4B** in FY2010
- Every public expenditure is under heightened scrutiny, including $15M in tourism promotion through the NJ Dept of Travel & Tourism

If NJ decides to go promotionally dark, what might happen?

TSA Facts

2007 NJ Leisure Visitor Volume	62.4M P-Trips
2007 Tourism Spend per Visitor	$505
2007 NJ State & Local Tax Receipts per Visitor	$56
2007 NJDTT Budget	$15M

Source: IHS Global Insight, DK Shifflet & Associates, LTD

Situation	Leisure Visitor Loss	Tourism Expenditure Loss	State & Local Tax Loss	Impact on NJ State Budget
Full CO Experience	-4.8M (7.7%)	-$2.42B	-$269M	**-$254M**
½ Colorado	-2.4M (-3.8%)	-$1.21B	-$134M	**-$119M**
How many lost visitors to negate savings?	268,000 (or 0.4% of NJ total)	-$135M	-$15M	**0**

Even half the visitation losses experienced by CO will worsen an already dire budget situation. Perhaps NJ should invest in more promotion?

How Many Lost Visitors Does It Take to…

…completely negate the savings associated with eliminating the entire tourism promotion budget?

State / City Examples	Projected Mid-Year FY2009 State Budget Deficit[1]	State Promotional Budget[2]	Colorado Experience Assumption[3]	S&L Tax Receipts per Visitor[4]	Tax Loss	Impact on State Budget[5]	How Many Lost Visitors Would Completely Negate Budget Savings?	Lost Visitor % of Total Leisure Person-Trips
	(in millions $)	(in millions $)	(millions of Person-Trips)		(in millions $)	(in millions $)	(Person-Trips)	
Delaware	($152)	$2.2	(0.5)	$48	(22.68)	(14)	45,833	0.8%
Kansas	($141)	$4.8	(1.3)	$35	(46.30)	(27)	137,143	0.8%
Maryland	($691)	$11.7	(1.6)	$65	(106.71)	(60)	179,723	0.9%
New Jersey	($1,200)	$15.0	(4.8)	$56	(278.49)	(218)	267,857	0.4%
North Carolina	($2,700)	$12.0	(3.6)	$50	(186.49)	(138)	240,000	0.5%
Pennsylvania	($1,600)	$15.5	(4.9)	$35	(175.73)	(114)	442,857	0.7%
Rhode Island	($372)	$3.0	(0.5)	$63	(29.62)	(18)	47,619	0.8%
South Carolina	($554)	$14.0	(2.1)	$42	(91.38)	(35)	333,333	1.2%
Utah	($640)	$11.0	(1.5)	$37	(57.79)	(14)	297,297	1.5%

[1] from *State Budget Troubles Worse*, Center fro Budget and Policy Priorities, Dec. 23, 2008

[2] compiled from IHS Global Insight Economic Impact Studies, STO Websites for FY2007 or FY2008.
Some figures represent only advertising budget, others all tourism support expenses.

[3] from an analysis of Colorado visitor volume 1993-2001. Visitation source: D.K. Shifflet & Associates, Ltd. Loss estimatated over 4-year period.

[4] compiled from Economic Impact or Tourism Satellite Account studies performed by IHS Global Insight. In dollars per Person-Trip.
Inflation (US CPI-U) applied to bring any pre-2007 estimates forward to 2007.

[5] Tax loss versus budget savings over 4-year period.

The answer…surprisingly few

Source: IHS Global Insight, DK Shifflet & Associates, LTD

Conclusions

- State & Local Budget Deficits Have Increased Dramatically Since FY2008. They will remain a challenge through at least FY2001
- States have filled in budget gaps with a combination of (1) reserves, (2) spending reductions, (3) increased taxes, and (4) Federal stimulus monies. Time may be running out, however.
- Tourism promotional spending has come under fire. Ironically, the longer the recession lasts, the harder it will be to politically justify *not* cutting tourism funding. Unless…
- Citizens and policy makers better appreciate the ROI of public tourism promotion and its direct impact on fiscal balances.
- For example, if New Jersey dropped its tourism promotion budget and experienced a CO-like visitor loss, budget savings would be dwarfed by the loss in S&L tax receipts ($268m) and the NJ budget would be $208million to the worse over the ensuing 4-yr period.
- In fact, NJ would need only lose 268,000 visitors (0.4% of total leisure) to completely negate the budget savings from associated with dropping public tourism promotion.
- Our team examined nine other states and found a similar story. The number of lost visitors needed to totally negate any budget savings ranged from 0.4% (New Jersey) to 1.5% (Utah).
- Consider the corollary: Perhaps a better budget strategy might be to *increase* public tourism promotion, particularly if your competitors do not.

How many visitors can a destination afford to lose before budget savings are negated by lost tax receipts? Our analysis suggests that is it fewer than one might think. Is it worth the risk to find out?

Questions
& Comments

Thank you

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