

Legislative Analysis



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TOURISM PROMOTION

House Bill 4160 (Substitute H-1)

Sponsor: Rep. Wayne Schmidt

Committee: Natural Resources, Tourism and Outdoor Recreation

First Analysis (2-9-11)

BRIEF SUMMARY: The bill would amend the Michigan Strategic Fund Act to increase from \$10 million to \$20 million the amount of funding provided to tourism promotion (Pure Michigan) from \$75 million previously appropriated to the 21st Century Jobs Fund in the current fiscal year (FY 2010-11) for other purposes. The bill would also add tourism promotion as a permissible use of funds appropriated to the 21st Century Jobs Trust Fund.

FISCAL IMPACT: House Bill 4160 would add the "promotion of tourism in this state" as an authorized use of 21st Century Jobs Trust Fund resources. In addition, the bill would specifically require the expenditure of \$20.0 million from the 21st Century Jobs Trust Fund for the promotion of tourism for fiscal year 2010-11 only. This authorization would support the Michigan Promotion Program (Pure Michigan) for FY 2010-11. In Public Act 191 of 2010, the FY 2010-11 general government appropriations act, the 21st Century Jobs Trust Fund received an appropriation of \$75.0 million. This bill would require \$20.0 million of that authorization to be spent on the Michigan Promotion Program. Coupled with the \$5.4 million line-item appropriation in PA 191 of 2010, the Michigan Promotion Program would receive a total of \$25.4 million in FY 2010-11. PA 271 of 2010 had previously amended the statute to require \$10.0 million of the 21st Century Jobs Trust Fund to be used for the Michigan Promotion Program in FY 2010-11.

As amended, the bill requires the Michigan Strategic Fund to report on tourism promotion expenditures to specified appropriations subcommittees and to both fiscal agencies by April 15 of each year.

THE APPARENT PROBLEM:

Travel Michigan, a business unit of the Michigan Economic Development Corporation (MEDC), oversees the award-winning Pure Michigan tourism promotion campaign, which replaced the "Great Lakes, Great Times" promotion campaign about five year ago. In recent years, the MEDC has urged the Legislature to provide at least \$30 million per year for the Pure Michigan campaign, but the program has seldom been funded at that level. In his state of the union address, the new governor has called for \$25 million in annual funding for the program.

The Pure Michigan campaign is aimed at increasing leisure travel in Michigan to strengthen Michigan's tourism sector and bolster employment. At the heart of the campaign are television and radio advertisements that promote Michigan as a travel destination featuring the voice of actor and Michigan native Tim Allen and Michigan's

natural beauty. Travel Michigan also uses the michigan.org website, the Pure Michigan YouTube channel, e-newsletters, *Michigan Travel Ideas* (a magazine), bus wraps, and social media such as facebook and twitter to promote Michigan tourism.

According to the MEDC, and various return-on-investment studies it has commissioned over the years from Longwoods International, a research firm specializing in this type of study, the Pure Michigan advertising campaign has improved Michigan's image as a travel destination, and has increased the number of leisure trips to Michigan, the amount of spending by travelers, and associated tax revenues. Moreover, by creating a positive new "brand" for Michigan, some people say that the campaign may make it easier to convince businesses to locate in or remain in Michigan, for businesses to recruit or retain employees, or for cities to land convention bookings.

Pure Michigan advertising was initially aimed at cities in neighboring states, starting with Chicago, Indianapolis, and Cleveland. Since 2005, the program has been expanded into additional Ohio markets (Cincinnati, Columbus, and Dayton), as well as Milwaukee, St. Louis, and Southern Ontario. In 2009, the first-ever national advertising "buy" was made, placing Pure Michigan advertisements on national cable television programs. In 2010, the spending on national cable television advertising was maintained, but regional advertising for summer and fall was discontinued due to a lack of funding for the program.

In recent years, state tourism promotion efforts have received some General Fund/General Purposes (GF/GP) support, but the major source of funding has been the 21st Century Jobs Trust Fund, created in 2005 to finance a variety of economic development programs using securitized tobacco litigation settlement revenue. The high mark for the program may have been FY 2008-09, when Pure Michigan together with the Upper Hand business promotion program received a total of \$33.2 million of state funds: \$5.7 in GF/GP funding, and \$27.5 million from the 21st Century Jobs Trust Fund under Public Act 98 of 2008.

Because tourism promotion has not had a steady and secure funding source, during the 2009-2010 session the Legislature considered, but did not adopt, other methods of funding the Pure Michigan campaign, including a \$2.50 per day assessment on certain rental car transactions (HB 5017), or dedicating a portion of tourism-related sales and use tax collections (HBs 5088-5089). After the deadline came and went for purchasing regional summer and fall advertising, the Legislature passed Public Act 271 of 2010 in mid-December of 2010, providing \$10 million in Pure Michigan funding from \$75 million previously appropriated to the Michigan Strategic Fund in the current fiscal year from the 21st Century Jobs Trust Fund.

According to the MEDC, PA 271 of 2010 allowed a \$1.5 winter regional advertising buy, and the remainder of the \$10 million was spent on a national cable television buy, which will appear in all 50 states on a variety of cable channels beginning in mid-March. This national cable campaign will include new spots featuring Mackinac Island and the Henry Ford (Historical Attractions). The new Mackinac Island assessment authority and the

Henry Ford each put up \$500,000 toward these ads, matched dollar for dollar by Travel Michigan. (Those private contributions increased the total amount available for the national cable buy from \$10 to \$11 million.)

According to the MEDC, because the entire \$10 million received in mid-December 2010 has already been used for winter advertising and for the national cable television buy, unless new legislation is enacted, no funds are currently available for the regional spring/summer and fall buys. If enacted, House Bill 4160 would make \$10 million available for those efforts, supplemented by at least \$2.5 million in public-private partnership contributions that have been offered by regional and local tourism promotion groups. For example, Big Rapids intends to put up \$25,000 to receive a \$25,000 match for a "Pure Michigan" style radio ad featuring Big Rapids. Frankenmuth and many other areas are putting up money for Pure Michigan advertisements as well.

It has been suggested that the \$15.4 million already provided to Pure Michigan in the current fiscal year be increased by \$10 million to reach the goal suggested by the governor and to allow the program to continue at least through the fall advertising buy. It has also been suggested that the Michigan Strategic Fund Act be amended to designate tourism promotion as an authorized use of 21st Century Jobs Trust Fund to allow future allocations from that fund toward a tourism promotion without new statutory authorization.

THE CONTENT OF THE BILL:

Public Act 271 of 2010 (effective December 15, 2010) amended the Michigan Strategic Fund Act to allocate \$10 million from the 21st Century Jobs Trust Fund to promote tourism in Michigan during the current fiscal year, with at least \$1.5 million designated for winter tourism advertising.

The bill would further amend the Michigan Strategic Fund Act (1) to designate tourism promotion as an authorized use of 21st Century Jobs Trust Fund money, and (2) **to increase the amount allocated to tourism promotion from the 21st Century Jobs Fund in the current fiscal year from \$10 million to \$20 million.** As a result, the state would provide at least \$25.4 million for tourism promotion in the current fiscal year—\$20 million from the bill and \$5.4 million from a separate line-item appropriation in PA 191 of 2010. The current fiscal year (FY 2010-11) ends September 30, 2011.

Reporting obligation. As amended in committee, the bill would require the Michigan Strategic Fund to report to the Legislature regarding all funds used to promote tourism in Michigan "in the same manner as provided in Section 89d of the act." Among other things, Section 89d requires the fund to report the following information to the Senate and House appropriations subcommittees with jurisdiction over economic development issues and to the Senate and House fiscal agencies by April 15 each year:

- The amount spent for promotion outside of Michigan.

- A list of expenditures, broken down by market, date, media type, and type of tourism promoted (cultural, vacation, recreational, leisure, hunting-related, agriculture-related).
- A return-on-investment analysis using existing baseline data comparing the year's results with previous evaluations funded by Travel Michigan.

Section 89d also requires the fund to work with the Department of Agriculture to arrive at a way to report the return on investment for agriculture-related tourism and compare results with previous studies conducted by the Department of Agriculture, if applicable.

MCL 125.2088b

ARGUMENTS:

For:

The Pure Michigan campaign enjoys widespread support among the tourism industry, and many people believe that for every dollar that the state spends to promote tourism, it receives more than two dollars back in increased tax revenues generated by additional trips to Michigan that would not have been taken but for the advertising. The bill will finance this program for the current fiscal year, and make it easier to tap into the 21st Century Jobs Trust Fund to fund tourism promotion in future years. Although not originally intended for this purpose, the 21st Century Jobs Trust Fund has become the default source of funding for the state's tourism promotion efforts.

Tourism advertising bolsters employment, especially in Northern Michigan where the economy relies more on tourism than in other parts of the state. Supporters say that the program has kept Michigan tourism afloat during an exceptionally severe economic crisis.

Against:

Some critics, including individuals associated with the Mackinac Center, say that advertising is an ordinary business expense that should be paid for by the businesses that directly benefit from the spending.

Response:

Businesses and local tourism groups funded by assessments on businesses will provide a greater share of funding for the program this year than in previous years. Mackinac Island businesses and the Henry Ford have already contributed \$1 million toward the national cable television buy, and many other tourism associations will contribute smaller amounts totaling at least \$2.5 million to receive matches from the program for in-state and regional promotion efforts.

Against:

Critics note that the returns on investment claimed for tourism spending often rely on estimates that are difficult to substantiate, and that consultants hired to do so generally paint a positive picture of the benefits of tourism spending. They note that even well-intentioned and -designed return-on-investment studies have large margins of error.

Critics also claim that having state taxpayers pick up the advertising bill for one group of business owners but not others is unfair.

Other people have asked which of the programs the 21st Century Jobs Trust Fund was originally designed to finance will receive less funding as a result of this bill? Are there more important uses for these scarce state dollars?

POSITIONS:

The Michigan Economic Development Corporation and Travel Michigan support the bill. (2-8-11)

The following entities testified for or otherwise indicated support for the bill at committee hearings held on February 1 or February 8, 2011:

The Amway Hotel Corporation
The Benzie County Chamber and Visitors Bureau
The Best Western PLUS Sterling Inn
The Boyne USA Resorts
The Grand Hotel
The Greater Lansing Convention and Visitors Bureau
The Henry Ford
The Lake Superior Community Partnership
The Michigan Association of Convention and Visitors Bureau
The Michigan Association of Recreation Vehicles and Campgrounds
The Michigan Environmental Council
The Michigan Lodging and Tourism Association
The Michigan Recreation Vehicle & Campground Association
The Michigan Restaurant Association
The Michigan Snowmobile Association
The Michigan Snowsports Industries Association
The Michigan Travel Commission
The Michigan United Conservation Clubs
The Northern Michigan Regional Chamber Alliance (a six-chamber partnership)
The Time Alliance, Inc.
The Traverse City Convention and Visitors Bureau

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.