VERMONT

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Tourism Funding Study

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January 15, 2015

Sec. 35: Tourism Funding Study

Sec. 35 of Act 199 directs the Secretary of Commerce and Community Development to submit to committees of jurisdiction a report that analyzes the results of the performance-based funding pilot project for the Department of Tourism and Marketing and recommends appropriate legislative or administrative changes to the funding mechanism for tourism and marketing programs.

Performance-Based Funding Pilot

Table 1 below represents the Department's performance based measures for FY 2014. The Department is measuring three categories.

1. Increase of rooms and meals tax revenue
2. Increase of jobs in the hospitality sector
3. Overnight camping at Vermont State Parks.

Table 1

	FY 2013 Actual	FY 2014 Target	FY 2014 Actual	% Increase FY14/FY13
$ increase of rooms and meals tax revenue*	$ 135,048,072.39	$ 140,048,072.39	$ 142,940,678.86	5.8%
# increase of jobs in the hospitality sector (annual average)	33,963	33,500	34,802.50	2.5%
# occupancy (overnight campers) at Vermont State Parks	398,370	410,000	409,531	2.8%

These items were selected as measurable outcomes of tourism marketing because they represent the health of the sector within Vermont. Rooms and meals tax revenue, and rooms revenue in particular, are a direct indicator of tourist spending within the state and provide the Department with a gauge of overall tourism performance. Job growth in the hospitality sector indicates the economic impact of visitor spending on Vermont's workforce. Increasing overnight camping occupancy at Vermont State Parks aligns with the Governor's strategic plan: Goal 1.3.5 Increase the public's knowledge and use of Vermont's parks, historic sites and resources to maintain a shared sense of the environment, history and economy, including strengthened stewardship of public and private historic assets.

1. **Increase rooms and meals tax revenue**
   Invest the Vermont Department of Tourism and Marketing budget in multi-media campaigns targeted at consumers who meet the demographic profile of the primary Vermont visitor based on industry research. Invest marketing funds in advertising that is micro focused on the primary consumer while limiting investment in mass media strategies. With limited marketing dollars every media purchase is critical to generating revenue via Vermont's rooms, meals and alcohol taxable receipts. Therefore, messaging and media must focus on initiating a direct consumer response. In order to positively increase Vermont's rooms and meals tax revenue it is critical that VDTM employ direct impact marketing strategies to stimulate both immediate and long term interest in visiting Vermont.

2. **Hospitality sector jobs increase**
   Visitor spending affects many different areas of Vermont's economy including employment for Vermonters. Visitor spending directly supports 21,362 wage and salary jobs; adding sole proprietors and indirectly supported jobs bring the total to 37,910 jobs in Vermont. That is 11.5% of employment in our state. The Department provides an online Vermont Ambassador training seminar for tourism businesses and their employees which emphasizes customer service and provides training about the many Vermont resources of interest to visitors. The Department supports employers by marketing Vermont as a travel destination in order to keep tourism businesses and attractions financially healthy.

3. **Vermont State Parks occupancy increase**
   To meet the Governors objective of promoting Vermont's natural resources and heritage, the Department has teamed with Vermont State Parks to promote overnight camping. Beginning in the summer of 2014 VDTM invested in digital marketing to promote parks and encourage consumers to make bookings. This collaboration included placement of tracking code on the Park's booking page.

Table 2 (below) shows the Vermont Department of Tourism and Marketing's budget appropriations for the past 10 years. Appropriations have risen and fallen during this time period. The Department reached its highest funding level in FY 2007 with a base budget of $4,346,500 plus an additional $325,000 one-time appropriation bringing the grand total to $4,671,500.

Table 2

Year	Base Appropriation General Funds	ARRA Funds	One Time Appropriation General Funds	Total funding	Change
FY2005	$4,678,637		$250,000	$4,928,637	$ (223,448.00)
FY2006	$4,209,458			$4,209,458	$ (469,179.00)
FY2007	$4,346,500		$325,000	$4,671,500	$ 137,042.00
FY2008	$4,174,127			$4,174,127	$ (172,373.00)
FY2009	$3,771,138			$3,771,138	$ (402,989.00)
FY2010	$3,412,153	$500,000	$420,000	$4,332,153	$ (358,985.00)
FY2011	$3,279,810		$20,000	$3,299,810	$ (132,343.00)
FY2012	$3,071,010		$50,000	$3,121,010	$ (208,800.00)
FY2013	$3,049,123		$230,000	$3,279,123	$ (21,887.00)
FY2014	$3,105,665			$3,105,665	$ 56,542.00
FY2015	$3,110,140			$3,110,140	$ 4,475.00

As funding levels have fluctuated, the Department has taken a number of steps to ensure a maximum amount of the annual appropriation is invested in direct marketing. These efforts include restructuring staff to allow the department to produce all marketing collateral in house, eliminating contracts for outside marketing services. This change was implemented despite a reduction in the number of positions in the department. Funds previously used to hire an advertising agency are now allocated to direct marketing.

Fluctuation of Revenues

While Vermont experienced reasonable growth in visitor spending during the first year we have been tracking performance in FY 15, there have been points in Vermont's recent history in which visitor spending fell below previous year levels.

While fiscal years 2012 through 2014 have demonstrated positive growth in visitor spending, the State of Vermont experienced a decline in visitor spending during the Great Recession. As shown below, FY 08 – 09 saw a decrease of 3.38 percent in Meals & Rooms revenue (*See Tables 3 - 5, below).*

Table 3

Meals & Rooms Revenue*		Percent Chg.
FY 2013	135,048,072.39	
FY 2014	142,940,678.86	
Increase	7,892,606.47	5.84%

**Tax Dept Revenue Accounting System 6/28/13*

Table 4

Meals & Rooms Revenue*		Percent Chg.
FY 2012	126,913,280.25	
FY 2013	135,048,072.39	
Increase	8,134,792.14	6.41%

**Tax Dept Revenue Accounting System 6/28/13*

Table 5

Meals & Rooms Revenue*		Percent Chg.
FY 2008	121,140,268.42	
FY 2009	117,050,282.63	
Decrease	-4,089,985.79	-3.49%

**Tax Dept Revenue Accounting System 6/28/13*

Factors that Influence Visitor Spending

Many factors influence visitor spending, including the national economy, local weather conditions, competition and effectiveness of marketing investments.

The National Economy

Travel is considered an optional activity for most households. As a result, the volume of travel is determined by the amount of available or disposable household income. During the recession of 2009, income levels dropped and disposable income dropped as well. Tourism dollars spent in Vermont and elsewhere decreased, reflecting the widespread reduction in discretionary spending.

Because travel is an optional activity, higher income households participate in travel at higher rates and with higher expenditures than do lower income households. During a 2014 meeting sponsored by the US Travel and Tourism Association, Ron Kurtz of the American Affluence Research Center reported that 60 percent of tourism dollars are spent by the top 10 percent of US households by income.

Weather Impact
The majority of Vermont visitors travel to our state from drive locations. Because visitors typically travel from within an eight hour radius of Vermont, our visitors tend to weigh a number of factors when planning their trip. These visitor decisions are often weather dependent, and the forecast for the coming week can make or break vacation plans. We see patterns of visitation follow fluctuations in our weather.

A persistently gray, chilly and rainy autumn in 2012 saw room sales for October drop 0.06 percent. While that was a decline of less than one percent, historically October is the one month of the year that is most consistent in showing an increase over the previous year, and was the month least impacted by the recession in 2009.

Winter season weather can have a significant impact on visitor spending. Again, 2009 provides an indication of the chilling effect of both the recession and poor snow conditions. January 2009, with good snow conditions saw only a 3.6 percent decline in room sales. In contrast, unseasonably warm weather brought a precipitous decline in room sales at resort communities throughout the state. In February (-18.5 percent) and March (-30.9 percent).

Competition
Competition for tourism dollars is fierce among destinations not only in New England but across the US and Canada. Vermont is competing in the marketplace with states offering similar recreational and seasonal opportunities. For example, states as far west as Arizona, and as far south as the Mid-Atlantic have begun to market autumn during the last decade. This competition has cut into Vermont's autumn traveler market share substantially. While Vermont continues to stretch every advertising investment through partner support and media negotiations, it is still a challenge to compete with destinations that invest significantly more advertising dollars than Vermont. Below are just a few examples of how other states are working to glean market share from Vermont.


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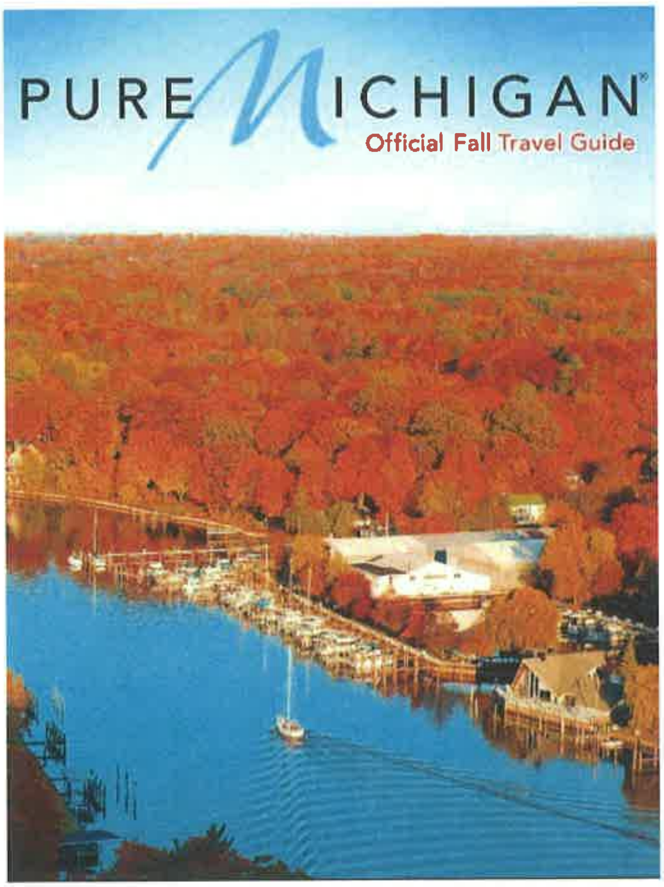
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Vermont Life magazine

As a branch of the Vermont Department of Tourism & Marketing, *Vermont Life* magazine continues to play an important role in extending Vermont's story to an out of state audience. Since 1946 *Vermont Life* magazine has been promoting the State of Vermont as a tourism destination and was among the first publications in the nation to do so. Like Vermont, *Vermont Life* magazine has evolved to the world class product that it is today. Though impossible to measure, intuitively we know sustained marketing through Vermont Life magazine has had a cumulative positive impact on the tourist economy in Vermont.

What Visitors Do

The Vermont Tourism Research Center at the University of Vermont periodically circulates a survey at State Welcome Centers, attractions and state parks. During the period June 2012 through February 2014, more than 8,500 visitors noted the following as activities they undertake while in Vermont.

Table 7

	Age under 50	Age 50 and over
Sightseeing	73%	78%
Hiking and Backpacking	47%	29%
Food and drink experiences	44%	40%
Shopping	42%	49%
Farms and Farmer markets	36%	36%
Historic sites and museums	32%	47%

Because just over 20 percent of those surveyed were camping at state parks, the percentage of those under age 50 reporting hiking or backpacking activities skews higher than is typical for all visitors.

Impacts of tourism spending

Visitors to Vermont spend almost $2.5 billion per year on the following (including second home expenses):

Table 8

	2013 Spending	**2003 Spending**
Lodging	$430 million	$320 million
Restaurants and bars	$400 million	$275 million
Gasoline sales	$150 million	$65 million
Groceries and Convenience stores	$150 million	$100 million
Other retail sales	$220 million	$150 million
Recreation and Entertainment	$300 million	$200 million
Travel expenses (airline, other public transportation)	$140 million	$100 million
Automotive rentals	$30 million	$25 million
Second Home Expenses		
Construction and renovation	$200 million	$150 million
Property taxes	$240 million	$140 million
Utilities and fuel	$125 million	$80 million
Maintenance, insurance and management	$105 million	$70 million
TOTAL	**$2.49 billion**	**$1.75 billion**

To support these activities, more than 30,000 Vermonters are employed and have wages and business income of more than $850 million.

In addition to the purchases made by travel consumers, businesses make significant investments in their infrastructure to support travelers. The most visible of these investments are the construction projects for lodging and recreation facilities. Vermont businesses consistently invest more than $100 million per year in these construction projects.

Tax revenues

The expenditures in Vermont made by visitors also provide tax revenue to the state and municipalities.

The dollar value of the taxes paid for by the Vermont hospitality sector are:

Table 9

	Tax revenues from tourism spending	**Total tax revenues (2013)**
Vermont Income Tax	$27.5 million	$623 million
Meals and Rooms Tax		
Meals	$24.6 million	$82.1 million
Alcohol	$6.0 million	$17.2 million
Rooms	$37.1 million	$39.1 million
Sales Tax	$34 million	$232 million
Property tax (Ed fund, not homestead)	$176 million	$588 million
Property tax (local government support)	$66 million	$403 million
Gasoline tax and fees	$12.4 million	$64 million
Car rental Use tax (Transportation fund)	$2.5 million	$3.7 million
TOTAL	**$386 million**	**2.1 billion**

Results of special Washington DC Advertising Campaign

In FY 2013 the Vermont legislature appropriated $230,000 for a marketing campaign in Washington DC. VDTM had not invested in advertising in the DC area for a number of years. A portion of this advertising investment included a media purchase through Orbitz.com, an online travel booking engine. Below are the results of that campaign.

Lodging 2012

Room Nights	13,279
Number of Rooms	7,847
Bookings	$1,688,119

Lodging 2013

Room Nights	15,256
Number of Rooms	8,840
Bookings	$2,147,127

Airline purchases

2012: 250 tix DCA>BTV
2013: 362 tux DCA>BTV
44.8% growth

Room Nights	+ 15%
Number of Rooms	+ 13%
Overall bookings $	+27%
Airline tix purchase	+44.8%

Orbitz is one of 4 major online travel agencies. Most consumers research many travel sites, such as Travelocity, Expedia, or Priceline, but only purchase on one site when finding their preference. Orbitz purchases make up ¼ of that total business and advertising on Orbitz.com may have influenced purchases on other Online Travel Agencies.

Marketing Partnerships

The Vermont Department of Tourism and Marketing leverages private sector marketing dollars through advertising cooperatives. VDTM works with businesses, regions, organizations and associations to match advertising dollars for specific out of state marketing campaigns. These valuable partnerships enhance and expand the State of Vermont's advertising investment by adding dollars to VDTM's media campaigns. VDTM's longtime partner Cabot, has invested in cooperative adverting with VDTM for over a decade, adding significant dollars to out of state promotions. Unfortunately, Cabot had to pause their cooperative advertising for 2015 due to external circumstances. This has led to a significant gap in the Departments' partner advertising budget. VDTM is currently seeking additional partners to fill the coop marketing gap for 2015.

Colorado Case

In 1993, Colorado became the only state to eliminate its tourism marketing function, when it cut its $12 million promotion budget to zero. As a result, Colorado's domestic market share plunged 30% within two years, representing a loss of over $1.4 billion in tourism revenue annually. Over time, the revenue loss increased to well over $2 billion yearly. In the important summer resort segment, Colorado dropped from first place among states to 17th.

It took until 2000 for the industry to convince the legislature to reinstate funding with a modest $5 million budget. Research tracked the effectiveness of the state's tourism campaigns over the next few years, and demonstrated an ROI of over 12:1. In 2006, Governor Bill Owens signed a bill upping the tourism promotion budget to $19 million. By 2007, travel to Colorado rebounded to an all-time high, with 28 million visitors spending $9.8 billion while enjoying their trips to the state.

Summary

Tourism is an important part of Vermont's economy. Not only does it bring in tax revenues but tourism spending supports jobs, infrastructure, retail and downtowns. Like all forms of marketing it is often difficult to gauge precise return on investment of marketing dollars. However, as the Colorado case mentioned in this report illustrates, tourism marketing does have impact on overall visitation.

Tourism is a long time tradition in Vermont. Starting with America's first alpine ski tow built on a Woodstock farm in 1934 and then the first chairlift in the nation on Mt. Mansfield in 1940. In 1946 Vermont Life magazine published its first issue and began to share our story with the world, setting the stage for our relationship with tourism. Since then countless businesses have decided to call Vermont home for their inn, bed & breakfast, restaurant, hotel or attraction. These decisions were made because of the opportunity for success in our state and Vermont's commitment to hospitality.

It is important to acknowledge the sustained support that the Vermont Legislature has provided in the past, including additional allocations of $50,000 in FY 2012 when the winter ski season took a turn for the worse, and in FY 2013 when the Department received $230,000 to market to Washington DC residents in a promotional collaboration with several Vermont partners as discussed in the report.

While visitor spending impacts many sectors of Vermont's economy, there is another benefit to increasing the number of out of state visitors to our state. Each visitor who sets foot in Vermont for a vacation, a business trip, or while traveling through to reach another destination becomes a potential resident, business owner, college student or home owner. Many who have relocated to Vermont from another place, more often than not fell in love with this state as a visitor. The best way to sell Vermont as a place to live, work, start a business or obtain an education is to grow the volume of visitors who can experience Vermont's intrinsic values first hand.

There are many different options in which the Vermont Department of Tourism and Marketing could be funded. We are pleased to have the opportunity to have this discussion.

Options for Funding the Vermont Department of Tourism

Funding formula

Funding formulas have been implemented in many states throughout the U.S. as a way of increasing tourism marketing investment without increasing taxes or drawing from budgeted state revenues. These models are often based on the assumption that sales tax revenue generated by the hospitality sector will grow incrementally each year. Funding formulas are often implemented as a performance-based measure to increase marketing activities for a state and are used as a method for financing a tourism office without drawing directly from general funds.

Tourism Improvement District

Tourism Improvement Districts have been implemented in many regions within the U.S. including right here in Vermont. While tourism funding district mechanisms can vary they typically include an assessment on room night sales either as a percentage of revenue or a fixed fee per night. Percentages typically range between 1-2% and dollar value assessments range from $1.00 - $2.00 per occupied room night. While tourism improvement districts are typically applied at the local level in large and small cities, Vermont's geographic size could potentially support such a concept. While this model has the potential of generating significant dollars it does require a significant amount of systems and management to develop the protocol and mechanism for tracking and reporting. This option would be the least favorable for businesses providing lodging services as there are regions within our state that already asses an optional tax on sales.

General Fund Appropriation

General fund appropriations are the primary source of funding for the majority of state tourism offices. The Agency of Commerce & Community Development feels that maintaining a steady level of marketing investment is an important policy measure. While it is challenging to quantify the impact of tourism marketing investments in the short term, we do believe that investment in promoting the State of Vermont as a tourism destination not only sustains long term tourism revenues but also strengthens and supports Vermont's brand in out of state markets. Today's investment in marketing Vermont provides future benefit's to the state in traveler spending.

Recommendation

The ideal option for funding the Vermont Department of Tourism & Marketing would use a blend of stable base appropriation with a funding formula. ACCD recommends 15% of the growth in revenue from the rooms and meals tax above and beyond the General Fund base appropriation should be allocated to boost tourism marketing efforts out of state. The 15% of growth in Rooms and Meals tax revenue above budgeted projections should be capped at $750,000 for fiscal year 016. Additional funds if available, would be applied to the Vermont Department of Tourism & Marketing in the FY 2016 budget. This legislative initiative would be budget neutral with no increase in taxes or impact on the general fund. If the legislature chose to continue with this formula beyond fiscal year 2016, it would not tap into state revenue for additional funds in years when the Rooms and Meals tax revenue does not increase year over year.