

TOURISM'S ROLE AS A REVENUE GENERATOR
A proposal to increase tax revenue for State of Ohio and Local Governments

Ohio Tourism Roundtable

Ohio Restaurant Association

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EXECUTIVE SUMMARY:

This report outlines a method of increasing Ohio's tax revenues up to \$263 million per year. The proposal is based on a 2006 Longwoods International report that evaluated revenue increases resulting from increasing the State of Ohio Division of Travel and Tourism budget by examining four scenarios for tourism funding.¹ Each scenario conservatively generates a positive return on incremental tax dollars. Tourism is a revenue generator, not a cost to taxpayers. Spending public funds on marketing tourism helps pay for other high-priority government programs and can help lower taxes. The return on investment (ROI) is short-term, with returns occurring within a year of marketing expenditures. Longwoods International's findings clearly demonstrate that a larger investment in marketing Ohio as a destination would generate new tax revenue, create a positive image of the State of Ohio among potential new businesses and residents, and help create jobs.

SITUATION ANALYSIS:

Tourism is big business for the State of Ohio. According to an economic impact study conducted by Rovelstad and Associates, visitors spent more than \$33 billion in Ohio in 2005 and generated the following:

- 560,000 direct full time job equivalents
- Nearly \$10 billion in direct earnings (wages, salaries, and proprietor income)
- \$1.5 billion in direct state taxes
- \$730 million in direct local taxes

Tourism impacts on Ohio's economy are already substantial; however, economic benefits of tourism are far below potential.

Lost opportunities can be identified by reviewing the following symptoms of tourism under-funding:

1. *The State of Ohio is over-reliant on visits to friends and relatives versus marketable trips* (those pleasure trips most influenced by marketing.) Those visiting friends and relatives spend less money in the State of Ohio. Currently, Ohio attracts 12 percent over the United States norm when it comes to attracting friends and relatives, and Ohio is 13 percent below the United States norm in attracting marketable trips.
2. *Ohio has a high percentage of in-state travelers.* Travelers visiting Ohio from out of state spend more money in the State of Ohio per trip, and they spend "new" money. Thirty-nine percent of Ohio's overnight trips are generated by in-state travelers.
3. *Market share has declined 24 percent over the last 11 years.* If you compare Ohio's market share (or its share of all travelers in the region) to those in neighboring states, it becomes evident that the real issue isn't whether or not people are traveling – it's that these travelers are going elsewhere, including Michigan, Pennsylvania, Kentucky and West Virginia.

FUNDING ANALYSIS:

Tourism funding has been studied numerous times over the last few years, including a Legislative Services Commission report in 1998 that recommended increased funding for the Ohio Division of Travel and Tourism. "Given the level of tourism promotion in other states and the very competitive quest for tourists' dollars, it seems doubtful that Ohio can continue to successfully compete for tourists without additional dollars", says the LSC report. The Management Improvement Commission (2000) also identified a need for increased funding for the Ohio Division of Travel and Tourism during its analysis of the Department of Development.

¹ "Funding Ohio's Tourism Promotion: A White Paper", December 2006, Longwoods International

Table 1

Despite frequent third-party expert recommendations, the economic importance of the tourism industry, the huge impacts it is already delivering and the promise it holds for reclaiming lost market share, the State has increased funding for the Division of Travel & Tourism by only 7% in the last 16 years. When adjusted for inflation, this 7% increase represents a \$2.9 million reduction in funding since 1990.

The Division of Travel and Tourism's current operating budget of \$6.8 million places Ohio in 37th position out of 49 states according to the Travel Industry Association of America's recent survey of funding for state tourism offices. The average operating budget was \$13.6 million, double that of Ohio's. Among key regional competitors, Ohio ranks 6th in terms of tourism budgets (Table 1).

FY04-05 State Tourism Budgets (millions)	
1. Illinois	\$ 47.8
2. Pennsylvania	\$ 33.0
3. W. Virginia	\$ 23.1
4. Michigan	\$ 22.9 *
5. Kentucky	\$ 7.5
6. Ohio	\$ 6.8
Average	\$ 12.8

* Michigan budget reflects \$15 million in additional funds appropriated for economic stimulus.

METHODOLOGY FOR PROJECTING ROI ON INCREASED TOURISM FUNDING

Longwoods International has specialized in tourism research since 1985 with clients in seven countries, 34 U.S. states and eight Canadian provinces. Because accountability is a key issue, Longwoods has developed a highly conservative methodology for tracking bottom-line impacts on tourism promotion.

In 2006, Longwoods applied their experience and methodology to evaluate the impact of increased tourism funding in the State of Ohio. Methodology took into account the following considerations:

- The key measure in determining ROI is the total of incremental trips generated per media dollar spent on advertising. Longwoods has determined this is the fairest measure of campaign efficiency because of tax structure differences and fluctuations of average expenditures per trip. Longwoods estimates the normative number of incremental trips generated per media dollar spent on advertising is .81 trips.
- Longwoods conservatively estimated impact based on advertising media expenditures only because other components of the State's promotion budget (such as web and public relations) are more difficult to measure in terms of tax return on investment.
- Assumptions were made that a majority of the increase would be dedicated to media and ad production costs because fixed costs/overhead do not grow proportionately with increased marketing dollars. Media negotiation and placement are already outsourced. Finally, if the advertising message is working, there is no need to spend additional dollars on creative. Instead, the focus can be on increasing audience reach and frequency.
- Calculations were based on average spending of \$529 per person per overnight trip and \$104 per person per day trip. State and local taxes per dollar are also based on same study.²
- Projections were reduced arbitrarily 20% as a conservative safety factor to allow for unforeseen events that could lead to performance problems, such as economy, weather, etc.

² "The Economic Impact, Performance and Profile of the Ohio Travel and Tourism Industry," 2004, 2005. Rovelstad and Associates.

PROJECTIONS FOR TAX REVENUE AND VISITOR SPENDING RESULTING FROM INCREASED TOURISM FUNDING:

The following projections should be viewed as conservative performance targets based on data from other destinations, including earlier studies conducted specifically for Ohio by Longwoods International.

Estimates indicate that the current tourism budget of \$6.8 million would generate an incremental 1,758,000 day and overnight trips to the state. The additional 1.8 million visitors who visit Ohio due to this effort are projected to spend \$603 million on trips, which will add \$41 million to state and local coffers in direct taxes. For every dollar of public funds allocated to tourism promotion, an anticipated \$6 will be returned in tax revenues.

The following table illustrates how a small investment in state funds can provide a positive and very significant impact on state and local revenue.

Scenario 3 below would result in \$177 million in state sales tax revenue. Overall return on a \$25 million budget would rise to 10.5:1, yielding 11.3 million visitors that would not otherwise have come, incremental visitor spending of \$3.8 billion and \$263 million in taxes on that spending. Local governments would receive \$86 million in new sales tax revenue under the same proposal.

TOURISM INVESTMENT CALCULATOR:

Tourism Budget	Visitor Spending	New Tax Revenue	ROI
Current investment \$6.8 Million	\$603 Million	Only \$ 41 Million	6:1
Scenario 1 \$15.0 Million	\$1,978 Million	Good \$135 Million	9:1
Scenario 2 \$20.0 Million	\$2,857 Million	Better \$195 Million	9.8:1
Scenario 3 \$25.0 Million	\$3,845 Million	Best \$263 Million	10.5:1

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