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BILL ANALYSIS

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Senate Bill 110 (Substitute S-1 as reported)
Sponsor: Senator Goeff Hansen
Committee: Outdoor Recreation and Tourism

(as passed by the Senate)

Date Completed: 2-16-11

RATIONALE

In 2009, tourism reportedly was a \$15.1 billion industry in Michigan that employed more than 140,000 people and contributed to the economies of all 83 counties. Recent years have seen stepped-up efforts to promote Michigan as a travel destination. In 2006, Travel Michigan, the State's travel bureau, created a new "brand" for the State, "Pure Michigan", and increased its regional advertising markets from three to six. In 2008, the Pure Michigan campaign was extended to another three regional markets, and in 2009, Travel Michigan added a winter campaign and introduced the first Pure Michigan national campaign. Pure Michigan has received a number of accolades and is considered by many to be a success.

In fiscal year (FY) 2008-09, Travel Michigan spent approximately \$30.0 million to promote the State. In contrast, the FY 2009-10 General Fund appropriation for Michigan promotion was approximately \$5.4 million, and \$1,425,000 was available from the 21st Century Jobs Trust Fund for business marketing. For FY 2010-11, another \$5.4 million was appropriated from the General Fund, and Public Act 271 of 2010 required \$10.0 million from the 21st Century Jobs Trust Fund to be used for tourism promotion. It has been suggested that additional funds should be appropriated for the promotion of tourism in the current fiscal year; and that tourism promotion should be added to the authorized uses of Trust Fund money.

CONTENT

The bill would amend the Michigan Strategic Fund (MSF) Act to add the promotion of tourism in Michigan to the

authorized uses of money transferred to the MSF from the 21st Century Jobs Trust Fund; and increase the amount of money from that Fund that may be spent for the promotion of tourism in fiscal year 2010-11 from \$10.0 million to \$20.0 million.

Under the Act, the MSF board must determine the annual allocation of money for authorized programs and make authorized expenditures or investments from the Jobs for Michigan Investment Fund of the 21st Century Jobs Trust Fund. Money transferred or appropriated by law to the MSF for these purposes must be spent or invested for the following:

- 21st century investments (i.e., commercial loan guarantees, private equity investments, venture capital investments, and mezzanine investments).
- Grants and loans to encourage the development of competitive edge technologies.
- Other authorized programs or activities.

For FY 2010-11 only, the Act also includes \$10.0 million for the promotion of tourism in Michigan from funds appropriated in the Jobs for Michigan Investment Program-21st Century Jobs Fund line in Public Act 191 of 2010 (the general government budget for FY 2010-11). The bill would increase this amount to \$20.0 million, and add the promotion of tourism in Michigan to the purposes for which MSF money may be used.

For all of the funds used for promotion of tourism in Michigan, the MSF would have to

report to the Legislature at the same time and in the same manner as provided in Section 89d. Under that section, the MSF annually must report to the Senate and House Appropriations subcommittees and standing committees with jurisdiction over economic development issues, as well as the Senate and House Fiscal Agencies, on the Fund's Michigan tourism and business promotion programs. For tourism promotion efforts, the report must include all of the following:

- The amount spent for promotion outside the State.
- An itemized list by market of how much was spent, when the promotion occurred, the types of media purchased, and the type of tourism promoted, specifically cultural, vacation, recreational, leisure, hunting-related, or agriculture-related.
- The return on investment analysis that uses existing baseline data and compares results with previous outcome evaluations funded by Travel Michigan.

MCL 125.2088b

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Traditionally, Michigan has been primarily a regional tourism destination, drawing about 70% of its business from residents of this State and 20% from residents of adjacent states and Ontario. Due to the weak economy, Michigan residents have fewer discretionary dollars to spend on vacations, and it is increasingly important to market the State widely beyond its borders. The Pure Michigan campaign has been both popular and successful. It has introduced the nation to the attributes that make Michigan a unique and desirable destination, and has helped to combat unfavorable perceptions of the State. According to Travel Michigan, from 2006 through 2009, the Pure Michigan advertising campaign motivated 5.0 million new trips to Michigan from outside the State, and those visitors spent \$1.3 billion at Michigan businesses and paid \$93.3 million in sales tax. Reportedly, each dollar spent on Pure Michigan summer advertising netted \$2.94

for the State. In addition to producing a direct return on investment to the State Treasury, the expenditures benefited numerous Michigan businesses that provide food, beverage, and lodging, sell groceries, gas, clothes, and souvenirs, outfit campers and anglers, and offer recreational opportunities such as skiing, golfing, and boating.

In addition to advertising on behalf of the entire State, Pure Michigan partners with local convention and visitors bureaus (CVBs), as well as individual destinations such as The Henry Ford, that are able to contribute to a targeted campaign. Once Pure Michigan's regional and national campaigns bring visitors into the State, they also are exposed to marketing efforts by local businesses and CVBs.

Marketing and promotion of a brand need to be consistent. The \$10.0 million allocated by the bill is critical to maintaining the momentum generated by Pure Michigan's recent campaigns. The \$15.4 million initially appropriated to Pure Michigan for FY 2010-11 covers all general marketing activity, a regional winter ad buy, and a national cable spring/summer buy. Additional funding is needed for regional spring/summer and fall buys. Furthermore, the bill's addition of tourism promotion to the list of eligible uses of 21st Century Jobs Trust Fund money would eliminate the need to amend the statute every time the Legislature wished to appropriate money for that purpose in the future.

Response: Some of the State's tourism promotion money should be dedicated in statute specifically to the winter season. Reportedly, winter sporting activities account for one-third of Michigan's leisure travel. An increased focus on winter tourism opportunities would promote the State as a year-round destination and help provide a greater return on investment.

Opposing Argument

Rather than relying on the State to implement an advertising campaign, the tourism industry should fund its own promotional efforts.

Response: In addition to creating their own advertising, some businesses, CVBs, and local government entities have partnered with the Pure Michigan campaign by contributing funds to regional and attraction-specific promotional efforts. This

money has been leveraged to maximize Pure Michigan's benefit to businesses in terms of profits and to the State in the form of increased tax revenue.

Legislative Analyst: Julie Cassidy

FISCAL IMPACT

The bill would increase the funds available for tourism promotion in Michigan by allocating an additional \$10.0 million from the 21st Century Jobs Trust Fund for tourism promotion in FY 2010-11. This would bring the funds available for tourism promotion to \$25,402,800 in FY 2010-11.

Under current law, appropriations for tourism promotion total \$15,402,800 in FY 2010-11. The annual budget for the Michigan Strategic Fund, in Public Act 191 of 2010, included an appropriation of \$5,402,800 from General Fund/General Purpose (GF/GP) revenue for the Michigan Promotion Program. Subsequently, Public Act 271 of 2010 allocated \$10.0 million in 21st Century Jobs Trust Fund money from the \$75.0 million appropriated in FY 2010-11 in the line item for the Jobs for Michigan Investment Program – 21st Century Jobs Fund, also in the MSF budget. Senate Bill

110 would allocate another \$10.0 million from the 21st Century Jobs Trust Fund for tourism promotion.

In FY 2010-11, the \$75.0 million appropriated to the MSF board for 21st Century programs is distributed according to statutory and boilerplate requirements. These include earmarks for specific programs with authority for the MSF board to allocate remaining funds among the 21st Century programs, including investment programs, loan enhancement programs, and competitive edge technology grants and loans. Allocations to date total \$33.2 million in FY 2010-11, leaving an unallocated balance of \$41.8 million. These allocations are shown in Table 1. Under the bill, an additional \$10.0 million would be directed to spending on tourism promotion in FY 2010-11. This would decrease the amount of funds available for allocation by the MSF board to other 21st Century programs to \$31.8 million in FY 2010-11. Also, under the bill, promotion of tourism in the State would be an ongoing purpose of the 21st Century Jobs Trust Fund. This would permit the MSF board in future years to allocate funds from 21st Century Jobs Trust Fund appropriations to tourism promotion.

Table 1

FY 2010-11	
21ST CENTURY JOBS TRUST FUND ALLOCATIONS	
	FY 2010-11 Allocation
21st Century Jobs Trust Fund Year-to-Date Appropriation	\$75,000,000
Boilerplate Allocations	
Lakeshore Advantage	3,000,000
Emerging Technology Fund (SBIR/STTR)	1,400,000
Michigan Aerospace Manufacturers Assoc.	250,000
Business Incubators	1,300,000
Statutory Allocations	
Administration (up to 4% of appropriation)	3,000,000
Business Development and Marketing (up to 5% of approp.)	3,750,000
Tourism Promotion	10,000,000
Allocation by the MSF Board	
Centers of Energy Excellence	9,000,000
Defense Contract Coordination Center	1,500,000
Total Allocations	\$33,200,000
Unallocated Balance	\$41,800,000
Source: Michigan Strategic Fund and Senate Fiscal Agency	

Funding for promotion in recent years has been appropriated in annual budgets for the MSF and in supplemental funding bills. Appropriations have been made from several fund sources including GF/GP revenue, 21st Century Jobs Trust Fund, Investment Fund – Returns to Fund (a fund established to receive repayments and earnings on 21st Century loans and investments), and earmarked use tax revenue. The history of tourism promotion funding as allocated by the MSF board in recent years is shown in Table 2.

A GF/GP appropriation to the Michigan Promotion Program has been made each year in the MSF budget; however, in FY 2008-09, the MSF board allocated the funds for business marketing. Another fund source used for promotion funding in the MSF annual budget was Investment Fund – Returns to Fund. In FY 2007-08, this appropriation totaled \$5.7 million of which \$4,282,500 was allocated by the MSF board for tourism promotion.

Several supplemental appropriations from the 21st Century Jobs Trust Fund have been made for tourism promotion. Public Act 225 of 2005 (part of the package of bills that created the 21st Century Jobs Trust Fund and programs) provided a \$15.0 million earmark for tourism promotion from the 21st Century Jobs Trust Fund. This appropriation was spent over two years, FY 2005-06 and FY 2006-07. Public Act 98 of 2008 provided \$50.0 million for business marketing and tourism promotion from bond refinancing savings appropriated through the 21st Century Jobs Trust Fund. The MSF board allocated \$37.5 million of these funds for tourism promotion, consisting of \$7.5 million in FY 2007-08 and \$30.0 million FY 2008-09. Public Act 271 of 2010 allocated \$10.0 million of the \$75.0 million appropriated for FY 2010-11 in the line item for Jobs for Michigan Investment Program – 21st Century Jobs Fund to tourism promotion. In FY 2009-10, Public Act 36 of 2010 earmarked \$9.5 million from use tax revenue for tourism promotion.

Table 2

Tourism Promotion Allocations by Fund Source					
	GF/GP	21st Century Jobs Trust Fund	Investment Fund – Returns to Fund	Use Tax Earmark	Total
FY 2004-05	\$5,717,500				5,717,500
FY 2005-06	5,817,500	7,500,000			13,317,500
FY 2006-07	5,717,500	7,500,000			13,217,500
FY 2007-08	5,717,500	7,500,000	4,282,500		17,500,000
FY 2008-09		30,000,000			30,000,000
FY 2009-10	5,402,800			9,500,000	14,902,800
FY 2010-11	5,402,800	10,000,000			15,402,800
Source: Michigan Strategic Fund and Senate Fiscal Agency					

The bill also would require the MSF to report to the Legislature on the use of the funds and the estimated return on investment. The MSF does not expect this to increase costs.

Fiscal Analyst: Elizabeth Pratt

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.