

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

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### Michigan Travel Promotion and Business Marketing Programs

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State advertising efforts to attract tourists and businesses have been augmented in recent years by additions to annual budgets and supplemental funding. Support for advertising has included line-item funding in the annual budget for the Michigan Strategic Fund (MSF), an earmark for tourism promotion, annual allocations for business marketing, and appropriations made to the MSF board with the authority for it to allocate them between tourism and business promotion. The MSF has spent these appropriations for the current advertising campaigns known as "Pure Michigan" for tourism promotion and "The Upper Hand" for business promotion. This article reviews the appropriations for tourism and business promotion, including those from the 21<sup>st</sup> Century Jobs Trust Fund, which will provide a boost to promotion expenditures through fiscal year (FY) 2008-09.

#### Tourism Promotion

For the last several years, General Fund/General Purpose (GF/GP) appropriations for tourism promotion (appropriated in the line item for the Michigan Promotion Program) have been relatively constant at \$5,717,500. A small increase was added to this line in a supplemental bill for fiscal year FY 2005-06, which authorized an additional \$100,000 GF/GP to provide promotion for the Detroit Zoo. In FY 2007-08 the line item again was increased to \$11,417,500. The bill required, however, that the \$5.7 million increase be split between tourism promotion and business marketing. This \$5.7 million increase was funded with a one-time allocation from the Investment Fund - Returns to Fund, the permanent fund established by 21<sup>st</sup> Century Jobs Trust Fund legislation (Public Act 225 of 2005) as the depository for any interest or loan repayments from awards under this program as well as interest or loan repayments from prior Life Science and Technology Tri-Corridor program awards. Amounts shown in [Table 1](#), under Investment Fund - Returns to Fund, reflect the allocation by the MSF board of this \$5.7 million, of which \$4,282,500 or 75.1% was allocated for tourism promotion. [Table 1](#) summarizes these recent appropriations for tourism promotion.

**Table 1**  
**Estimated Tourism Promotion Appropriations**  
**By Fund Source**

	GF/GP	21 <sup>st</sup> Century Jobs Trust Fund 2005 PA 225	21 <sup>st</sup> Century Jobs Trust Fund 2008 PA 98	Investment Fund – Returns to Fund	Total
FY 2004-05	\$5,717,500				\$5,717,500
FY 2005-06	\$5,817,500 <sup>a)</sup>	\$7,500,000			\$13,317,500
FY 2006-07	\$5,717,500	\$7,500,000			\$13,217,500
FY 2007-08	\$5,717,500		\$10,000,000 <sup>b)</sup>	\$4,282,500 <sup>c)</sup>	\$20,000,000
FY 2008-09	\$5,717,500		\$27,500,000 <sup>b)</sup>		\$33,217,500
FY 2009-10 Est.	\$5,717,500 <sup>d)</sup>				\$5,717,500

<sup>a)</sup> Included \$100,000 provided in Public Act (PA) 345 of 2006, Article 19, for promotion for the Detroit Zoo.  
<sup>b)</sup> Reflects the April 2008 allocation by the Michigan Strategic Fund board between business marketing and tourism promotion of the additional funds provided in PA 98 of 2008.  
<sup>c)</sup> Reflects the Michigan Strategic Fund board allocation of the \$5.7 million appropriated in PA 127 of 2007 from Investment Fund - Returns to Fund between tourism promotion and business marketing.  
<sup>d)</sup> Assumes GF/GP funding continues at the current level.

**Source:** Michigan Strategic Fund board packets, relevant statutes, and Senate Fiscal Agency.



The 21st Century Jobs Trust Fund, created in 2005 to finance a variety of economic development programs, has become the major source of funding for tourism promotion. The 21<sup>st</sup> Century Jobs Trust Fund money for tourism promotion was appropriated in two separate measures. The first, Public Act 225 of 2005, provided a one-time appropriation of \$15.0 million for tourism promotion to be used over a two-year period in FY 2005-06 and FY 2006-07. These funds were instrumental in crafting the new campaign titled "Pure Michigan", which replaced the previous "Great Lakes, Great Times" campaign that had been used since the 1990s.

The second appropriation for tourism from the 21<sup>st</sup> Century Jobs Trust Fund, a recent amendment to the Michigan Strategic Fund Act enacted in May 2008, Public Act 98 of 2008, deposited \$60.0 million from the General Fund to the 21<sup>st</sup> Century Jobs Trust Fund. Of these funds, \$50.0 million was appropriated to the MSF for tourism and business promotion in FY 2007-08 and FY 2008-09. These funds were made available by the refinancing and restructuring of some of the original Tobacco Settlement Finance Authority bonds issued for the 21st Century Jobs Trust Fund, which allowed the State to increase the amount it was borrowing without increasing the annual debt service expense. The additional funds realized from the bond refinancing were deposited into the General Fund and, while not earmarked for any specific purpose, they allowed the State to make additional expenditures for the tourism promotion program. The MSF board was authorized to allocate the funds between tourism and business promotion with the limitation that not more than one quarter of the total amount could be used to promote business development. At its meeting on April 23, 2008, the MSF board extended its contracts with vendors to spend the additional \$50.0 million in FY 2007-08 and FY 2008-09. The approved resolution provided \$37.5 million for tourism promotion.

These funds have allowed the State to expand advertising purchases to more markets around the country. In FY 2004-05, Michigan's tourism advertising was concentrated in three markets: Chicago, Cleveland, and Indianapolis – Lafayette. The first increases, provided in FY 2005-06 and FY 2006-07, allowed the State to purchase ads in additional markets, specifically Milwaukee, Cincinnati, and Ontario, Canada. The funding that was added for FY 2007-08 and FY 2008-09 further broadened the State's advertising campaign to Columbus, Dayton, and St. Louis, and in 2009 will fund the State's first winter tourism and national cable television tourism campaigns.

### **Business Development and Marketing**

Under the 21<sup>st</sup> Century Jobs Trust Fund legislation, the business development and marketing campaign was given priority by the establishment of a "set aside" from the annual appropriation. The statute permits the MSF board to use up to 5.0% of the annual appropriation to the 21<sup>st</sup> Century Fund for business promotion. To date, the MSF board has set the allocation for business development and marketing at 5.0% of the appropriation. Initially this generated \$19.7 million for business marketing to be used over two years, FY 2005-06 and FY 2006-07. This appropriation funded the creation of the "Upper Hand" business promotion campaign which is seen nationwide. In years such as FY 2007-08, in which \$75.0 million was appropriated to the 21<sup>st</sup> Century Jobs Trust Fund, pursuant to the schedule in the Michigan Trust Fund Act, the 5.0% allocation amounted to \$3.75 million per year. For FY 2008-09 the leadership target agreement, however, reduced the tobacco settlement revenue provided to the 21st Century Jobs Trust Fund by \$10.0 million. A \$3.0 million veto in this budget (Public Act 261 of 2008) further reduced funding to \$62.0 million. As a result of the veto, the 5.0% allocation for business promotion was reduced to \$3.1 million for FY 2008-09.



Allocations from Investment Fund – Returns to Fund also have been used for business marketing. In FY 2007-08, \$1,417,500 from the \$5.7 million appropriated from the Investment Fund - Returns to Fund in the annual budget for the Michigan Strategic Fund was allocated for business marketing. An additional allocation for business marketing was made with the enactment of Public Act 98 of 2008. Of the \$50.0 million appropriated by that Act, the MSF board allocated \$12.5 million (the maximum allowable) for business marketing, to be spent over two fiscal years, FY 2007-08 and FY 2008-09. Table 2 reviews the appropriations for business marketing.

**Table 2**  
**Estimated Business Development and Marketing Appropriations**  
**By Fund Source**

	<b>21st Century Jobs Trust Fund – 5% Business Marketing</b>	<b>21<sup>st</sup> Century Jobs Trust Fund 2008 PA 98</b>	<b>Investment Fund – Returns to Fund</b>	<b>Total</b>
FY 2005-06 and FY FY 2007-08	\$19,700,000			\$19,700,000
FY 2008-09	\$3,750,000	\$5,000,000 <sup>c)</sup>	\$1,417,500	\$10,167,500
FY 2008-09	\$3,100,000 <sup>a)</sup>	\$7,500,000 <sup>c)</sup>		\$10,600,000
FY 2009-10 Est.	\$3,750,000 <sup>b)</sup>			\$3,750,000

<sup>a)</sup> 5% of the \$62.0 million appropriated from the 21<sup>st</sup> Century Jobs Trust Fund in PA 261 pf 2008.  
<sup>b)</sup> Assumes 5% of the \$75.0 million allocated for 21<sup>st</sup> Century Jobs Trust Fund under MCL 12.257.  
<sup>c)</sup> Allocation reflects Michigan Strategic Fund board action April 23, 2008.

**Source:** Michigan Strategic Fund board packets, relevant statutes, and Senate Fiscal Agency

### Future Funding

Most of the increases to the tourism promotion program have come from one-time and annual appropriations, while some revenue for the business marketing program is available through a statutory allocation in addition to one-time appropriations. This makes the funding for tourism promotion potentially more vulnerable than business marketing funding to reductions in future years.

While the 21<sup>st</sup> Century Jobs Trust Fund has been used to augment State GF/GP spending on the tourism promotion program, the continued availability of this money for that purpose depends on Michigan's economy and the condition of the General Fund. Decisions to make deposits into and withdrawals from the 21<sup>st</sup> Century Jobs Trust Fund are increasingly based on the competing needs for the General Fund revenue. Revenue to the 21<sup>st</sup> Century Jobs Trust Fund has come from the securitization of a portion of the State's tobacco settlement revenue (the initial \$400.0 million), deposits of annual tobacco settlement revenue payments, and the transfer of funds from the General Fund to the 21<sup>st</sup> Century Jobs trust Fund. The availability of all of these fund sources has been reduced from the amounts originally enacted. In FY 2006-07, the 21<sup>st</sup> Century Jobs Trust Fund was reduced by \$50.0 million due to a transfer from that Fund to the General Fund (Public Act 50 of 2007), decreasing the funds available from \$400.0 million to \$350.0 million. Fiscal Year 2007-08 saw increases to the 21<sup>st</sup> Century Fund with \$75.0 million from tobacco settlement revenue deposited to that Fund pursuant to the original statute and the deposit of \$60.0 million from the General Fund discussed above. A portion of that General Fund deposit is expected to be reversed, however. The target agreement for FY 2008-09 requires a transfer of \$10.0 million from the 21<sup>st</sup> Century Fund back to the General Fund. The budget agreement for FY 2008-09 also requires a reduction in the deposit of tobacco settlement revenue from \$75.0 million to \$65.0 million, decreasing the allocation for business marketing.



In the absence of additional supplemental appropriations to the tourism program, it is estimated that the budget for promotion will be reduced by 82.0% from FY 2008-09 to FY 2009-10, shrinking the program from \$33.2 million back to the FY 2004-05 level of \$5.7 million. The business marketing program faces a similar reduction of 64.6% or \$6,850,000, from \$10.6 million in FY 2008-09 to approximately \$3,750,000 in FY 2009-10. For this reason, there is likely to be continued discussion of the funding for both tourism and business marketing and whether promotional activities should continue at the level appropriated for FY 2008-09. One proposal to generate future funding is included in Senate Bill 690, which would earmark a portion of the sales tax revenue for tourism promotion. The bill has been referred to the Senate Committee on Appropriations.

### **Conclusion**

As the above tables show, the State has made a large commitment over several years to promoting Michigan, not only as a tourist destination, but also as a place where businesses should relocate or begin operations. This commitment, especially in the case of tourism promotion, has been funded with one-time measures, making the program vulnerable to large reductions. Although the business marketing program has a statutory funding stream that can be allocated at the discretion of the MSF board, it too could be subject to reductions if the overall appropriations for the 21<sup>st</sup> Century Jobs Trust Fund are reduced or the MSF board shifts its priorities to other 21<sup>st</sup> Century programs. If the investment is believed to be providing positive results for the State, future policy decisions will be needed to determine specifically at what level the State should invest in these programs, and from what revenue source.