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BILL ANALYSIS

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Senate Bill 619 (Substitute S-1 as reported) *(as passed by the Senate)*
House Bill 5018 (Substitute S-1 as reported)
Sponsor: Senator Jason E. Allen (S.B. 619)
Representative David Nathan (H.B. 5018)
Senate Committee: Finance
House Committee: Tourism, Outdoor Recreation and Natural Resources (H.B. 5018)

Date Completed: 2-25-10

RATIONALE

Tourism is said to be a $17.5 billion industry in Michigan that employs 200,000 people and contributes to the economies of all 83 counties. Although the State traditionally has had a travel bureau, now called Travel Michigan (in the Michigan Economic Development Corporation), recent years have seen stepped-up efforts to promote Michigan as a travel destination. In 2006, Travel Michigan 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. According to the results of a return-on-investment (ROI) study commissioned by Travel Michigan and performed by Longwoods International, each regional advertising dollar spent between 2004 and 2008 generated $2.86 in State tax revenue. In 2009, according to the study, the regional ROI increased to $5.34 and return from the national campaign was $2.23.

Due to reduced appropriations, however, Travel Michigan did not launch a winter campaign this season and is concerned about its budget for the summer campaign. In fiscal year (FY) 2008-09, Travel Michigan spent approximately $30.0 million to promote the State. That amount included $19.0 million for the purchase of advertising, and $11.0 million for the Pure Michigan website, ad agency fees, production costs, and other marketing and promotion activities. In contrast, the FY 2009-10 General Fund appropriation for Michigan promotion is approximately $5.4 million, and $1,425,000 is available from the 21st Century Jobs Trust Fund for business marketing. It has been suggested that additional revenue be allocated to tourism promotion, to enable Travel Michigan to purchase advertising and continue the Pure Michigan campaign. (Please see **BACKGROUND**, below, for a recent history of tourism promotion funding.)

CONTENT

Senate Bill 619 (S-1) would amend the Use Tax Act to require the Department of Treasury to deposit $9.5 million of use tax collections into the Michigan Promotion Fund for fiscal year 2009-10 only.

House Bill 5018 (S-1) would add Chapter 3A to the Michigan Strategic Fund Act to create the "Michigan Promotion Fund" for the promotion of tourism; and allow the Fund to borrow money and issue notes through December 31, 2010.

The bill is tie-barred to Senate Bill 619, and is described in detail below.

House Bill 5018 (S-1) would create the Michigan Promotion Fund as a separate Fund in the State Treasury and require it to be administered by the Department of Treasury. The Fund would have to be used to promote economic development and job creation in Michigan through the promotion of tourism. The Fund could not be used to promote business development.

The State Treasurer would have to credit to the Michigan Promotion Fund all amounts designated for it by Chapter 3A and Section 21 of the Use Tax Act (the section Senate Bill 619 (S-1) would amend). The State Treasurer would have to direct the investment of money in the Fund as all other funds are invested, and credit to it interest and earnings from the Fund.

Money deposited, funds granted, or funds received as gifts or donations to the Michigan Promotion Fund would be available for disbursement when deposited. The Fund would not be required to maintain a minimum balance. Funds could be disbursed at any time. Money in the Fund at the close of the State fiscal year would remain in the Fund and not lapse to the General Fund.

Through December 31, 2010, the Michigan Promotion Fund could borrow money and issue notes to provide sufficient funds for achieving its purpose and objectives, including amounts necessary to pay the costs for promoting economic development and job creation in Michigan through the promotion of tourism, and for all other expenditures of the Fund incidental to and necessary or convenient to carry out its purposes, objectives, and powers.

The bill contains the following statement: "The legislature finds and declares that the activities authorized under this chapter to promote this state and the creation of jobs in this state are a public purpose and of paramount concern in the interest of the health, safety and general welfare of the citizens of this state. It is the intent of the legislature that the economic benefits and creation of jobs resulting from this chapter shall accrue substantially within this state."

The bill also states that activities authorized under Chapter 3A could not be considered a project, an economic development project, or a project assisted by the Michigan Strategic Fund for purposes of Chapter 1 or 2 of the Act. (Those chapters provide for the powers and duties of the Michigan Strategic Fund, including the power to construct or equip a project and to borrow money and issue bonds or notes to finance the costs of a project, acquire a project, or make a loan for the costs of a project.)

MCL 205.111 (S.B. 619)
Proposed MCL 125.2038 & 125.2039 (H.B. 5018)

BACKGROUND

In fiscal year 2008-09, the Michigan Economic Development Corporation (MEDC) had funds from several sources available for tourism promotion and business development and marketing. Totaling approximately $46.3 million, these funds consisted of the appropriation for the Michigan Promotion Program of $5,717,500 General Fund/General Purpose (GF/GP) from Public Act 261 of 2008, in the annual budget for the Michigan Strategic Fund (MSF); $3.1 million from the 21st Century Jobs Trust Fund for business marketing and development allocated by the MSF board pursuant to its statutory authority; and $37.5 million from the 21st Century Jobs Trust Fund remaining from the one-time appropriation of $50.0 million in Public Act 98 of 2008. (A package of legislation enacted in 2008 required the MSF to establish the Michigan Promotion Program to promote tourism and business development; transferred $60.0 million to the 21st Century Jobs Trust Fund from the refinancing of bonds previously issued by the Tobacco Settlement Finance Authority; and appropriated $50.0 million from the 21st Century Jobs Trust Fund to the MSF for tourism and business promotion in FY 2007-08 and FY 2008-09.)

According to staff from the MEDC, of those funds, $30.0 million was used for tourism promotion in FY 2008-09 and the remaining $16.3 million (including the $5,717,500 GF/GP appropriation for the Michigan Promotion Program) was allocated for business marketing and development. In addition to the funds appropriated by the State, the revised budget for the MEDC approved in August 2009 indicates that $2.5 million of MEDC corporate revenue (which comes primarily from funds received pursuant to Indian gaming compacts) was allocated for business marketing in FY 2008-09.

In FY 2009-10, the State-appropriated funds available for tourism promotion and business marketing are lower than in the prior year. In particular, one-time funding from Public Act 98 of 2008 is no longer available. The State-appropriated funds available for tourism and business promotion in FY 2009-10 total $6,827,800. That sum consists of $5,402,800 GF/GP for the Michigan Promotion Program appropriated in Public Act 128 of 2009 (in the annual MSF budget), and $1,425,000 available for business marketing from an allocation by the MSF board of 5% of the annual appropriation from the 21st Century Jobs Trust Fund. The MEDC corporate budget for FY 2009-10 approved in August 2009 augments these funds by $14.5 million, of which $6.0 million has been allocated for tourism promotion and $8.5 million for business marketing.

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, the Longwoods study showed that the national Pure Michigan advertising campaign in 2009 motivated 680,000 new trips to Michigan from outside the Great Lakes region, and those visitors spent $250.0 million last summer and paid $17.5 in State taxes. 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 momentum generated by Pure Michigan's recent campaigns will be lost, and the public dollars invested will be wasted, if Travel Michigan cannot launch a 2010 campaign. Together with the $5.4 million already appropriated for FY 2009-10, the $9.5 million directed to tourism promotion by Senate Bill 619 (S-1) would enable Travel Michigan to begin purchasing ads. House Bill 5018 (S-1) also would authorize the Michigan Promotion Fund to borrow money and issue notes through the end of the year. These measures would address the immediate need for funding.

Response: The funds allocated for tourism promotion under the legislation and current law would provide approximately half the amount needed for a campaign comparable to last year's advertising. While this funding would be a start, a long-term solution is needed.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Senate Bill 619 (S-1)

The bill would require the deposit of $9.5 million in FY 2009-10 from use tax revenue to the Michigan Promotion Fund. This would reduce revenue to the General Fund by $9.5 million in FY 2009-10.

House Bill 5018 (S-1)

The bill would establish the Michigan Promotion Fund (MPF). Revenue to the MPF would come from the deposit of $9.5 million in FY 2009-10 from use tax revenue proposed by Senate Bill 619 (S-1). This revenue otherwise would be directed to the General Fund. The MPF also could receive gifts and donations. The MPF would retain interest earnings on any balances and money in the Fund would not lapse to the General Fund at year-end, but would be carried forward. Money in the MPF would be available for disbursement when deposited and thus would not be subject to appropriation.

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.