REPORT OF THE
TOURISM FORMULA COMMISSION

Commonwealth of Massachusetts

May 1, 2014

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EXECUTIVE SUMMARY

Introduction

The tourism fund was created in the 1960s when the hotel industry came to the Legislature and asked to be taxed to create a dedicated revenue stream to fund tourism in Massachusetts. Their goals were threefold: to secure a stable funding source for marketing tourism, to increase hotel occupancy, and to create jobs. The tax rate has varied from five to almost 15 percent when local option taxes are included. It is interesting to note that decades of research confirm that the hotel tax rate does not impact consumer choice. **The tourism fund is expected to collect $138 million from the state room occupancy tax in FY14. Only $21 million was spent on tourism (15%).**

Almost 90 percent of tourism funding has been spent on purposes other than tourism. While this was justified during the Great Recession, the Commonwealth is now faced with an unprecedented, unique opportunity that must be addressed immediately. The opening of direct flights from China, Dubai, India, Istanbul, Tokyo, Panama City, and Mexico City give the state access to markets that are growing exponentially. **Massachusetts is positioned to capture this market first.** Foreign travelers are more familiar with Massachusetts than other states because of our world-renowned colleges and universities, and because the state enjoys a rich cultural and historic legacy.

Presently the tourism industry is the third largest revenue generator in Massachusetts. It creates over 130,000 jobs and $1.1 billion in *tax* revenue. **For every dollar invested in tourism, Massachusetts yields $7 in tax revenue.** This revenue comes primarily from visitors to the Commonwealth, not residents, and none of the taxed activities can be outsourced. With the opening of the new direct airline flights, this revenue could easily double. For example, travelers from Asia spend an average of 40 days, stay in high-end hotels, and shop for luxury items. If the Commonwealth does not invest in this exceptional opportunity, it will be leaving potentially billions of dollars of revenue and business opportunities on the table.

This new opportunity happened to coincide with the establishment of the Tourism Formula Commission under Section 195 of the FY14 budget. The commission is charged to "review and evaluate the current funding formula and determine if any revisions are necessary for achieving a fair and equitable funding formula."

Finding

The Commission concluded the following:

> The current Tourism Fund formula produces more than adequate funding for the tourism industry. It is the finding of the commission that the dedicated revenues and the formula for distribution created by the original enabling legislation are not followed. Consequently, Massachusetts' tourism industry is significantly disadvantaged in fulfilling its mission and impacting the economy. In addition, the timing of annual budget appropriations is in direct conflict with the funding needs of marketing tourism.

Recommendations

The commission voted on a number of proposals to make the Tourism Fund better meet the needs of the state's tourism industry. The commission recommends repeal of Section 35J of Chapter 10 of the Massachusetts General Laws. In its place the commission proposes to create a non-budgetary trust fund (similar to the Life Sciences trust fund) that will annually disperse funding to the Massachusetts Marketing Partnership and the Regional Tourism Councils. This trust fund would be a more stable and predictable source of funding that meets seasonal marketing demands on time.

The trust fund will initially receive 1.25 cents of the 5.7% state room occupancy tax, ramping up to two cents over four years. The fund may carry a balance between years, allowing for more cost-effective multi-year spending on advertising. At the end of those four years, a new commission should convene to study the effectiveness of the trust fund.

The commission concluded that direct appropriation to the Massachusetts Convention Center Authority (MCCA) is no longer necessary. The director of the MCCA testified that the convention centers' revenues cover their operating costs. The MCCA, however, does need the Tourism Fund as security for their bonds. The director of MCCA has confirmed that the fund can still be used for tourism purposes while securing their bonds. The commission member representing the Executive Office of Administration and Finance confirmed this point.

The trust fund will be overseen by the board of the Massachusetts Marketing Partnership. The partnership is made up of MOTT, the Massachusetts Office of International Trade and Investment, and the Commonwealth Marketing Office.

THE TOURISM FORMULA COMMISSION

Genesis and Mandate of the Commission

The Tourism Formula Commission was established in 2014 pursuant to An Act making appropriations for Fiscal Year 2014 (Chapter 38 of the Acts of 2013). The Act established the Commission's mandate, mission, and composition as follows:

> There shall be a tourism formula commission established pursuant to section 2A of chapter 4 of the General Laws to examine the distribution of funds in the Massachusetts Tourism Fund. The commission shall review and evaluate the current funding formula and determine if any revisions are necessary for achieving a fair and equitable funding formula that will ensure funding is cost-effective and that funds are distributed in the most cost-effective manner to the office of travel and tourism, the Massachusetts Convention Center Authority, the tourist promotion agencies listed under section 14 of chapter 23A of the General Laws, the Massachusetts Cultural Facilities Fund and the Massachusetts international trade office.
>
> The commission shall report the results of its examination, review and evaluation with the clerks of the senate and the house of representatives, the senate and house committees on ways and means and the joint committee on tourism, arts and cultural development not later than May 1, 2014. The commission shall hold 1 or more public hearings before issuing the report.
>
> The commission shall consist of the following members or their designee: 3 members of the senate, 1 of whom shall be the senate chair of the joint committee on tourism, arts and cultural development, who shall serve as co-chair of the commission, and 1 of whom shall be appointed by the minority leader; 3 members of the house of representatives, 1 of whom shall be the house chair of the joint committee on tourism, arts and cultural development, who shall serve as co-chair of the commission, and 1 of whom shall be appointed by the minority leader; and 3 persons to be appointed by the governor. The commission shall convene not later than 60 days after the effective date of this section.

Commissioners and Staff

Representative Cory Atkins, Co-Chair of the Joint Committee on Tourism, Arts, and Cultural Development	*Co-Chair of Commission*
Senator Kathleen O'Connor Ives, Co-Chair of the Joint Committee on Tourism, Arts, and Cultural Development	*Co-Chair of Commission*
Senator Jen Flanagan, Senate President appointee	*Commissioner*
Senator Robert Hedlund, Senate Minority Leader appointee	*Commissioner*
Representative Michael Finn, House Vice Chair of the Joint Committee on Tourism, Arts, and Cultural Development, House Speaker appointee	*Commissioner*
Representative Susan Gifford, House Minority Leader appointee	*Commissioner*
Betsy Wall, Executive Director, Massachusetts Office of Travel and Tourism Gubernatorial appointee	*Commissioner*
Tom Ryan, CFO, Executive Office of Housing and Economic Development Gubernatorial appointee	*Commissioner*
Rob Dolan, Director of Finance, Executive Office of Administration and Finance Gubernatorial appointee	*Commissioner*
Bradley Putnam, Staff Director Representative Cory Atkins	*Staff*
Maria Syrniotis, Deputy Staff Director and Director of Legislation, Senator Kathleen O'Connor Ives	*Staff*

MASSACHUSETTS' TOURISM INDUSTRY

Overview

Tourism is Massachusetts' third largest revenue generating industry. In FY13, Massachusetts saw 22.8 million visitors and ranked fourth in the United States in international visitors. The industry generated $17.7 billion in spending and employed 127,000 people who were paid $3.7 billion in wages.

Massachusetts ranked 33rd in *state budget appropriations* for tourism marketing. Other states invest more, for example, New York -- $60 million, Hawaii -- $75 million in FY14, compared to Massachusetts at $13 million. However, Massachusetts earns a far better return on investment when compared with other states.

State agencies and partnerships

Massachusetts Office of Travel and Tourism

The Massachusetts Office of Travel and Tourism (MOTT) is the state agency that markets Massachusetts as a world-class tourism destination to domestic and international travelers. MOTT is located under the Executive Office of Housing and Economic Development and within the Massachusetts Marketing Partnership.

MOTT promotes Massachusetts through the following outlets:

Domestic and International Media outreach	Sales Missions and Trade Shows
Television, Radio, and Online advertising	LGBT: Website and Social Media
Massvacation.com	International satellite offices
Public Relations	Massachusetts Film Office
Social Media	Massachusetts Sports Marketing Office
Research: U.S., Massachusetts, and credit card data collection and analysis	

In order to have direct contact with tour companies and tourists, MOTT presently has offices in seven key markets: France, the United Kingdom, Ireland, Canada, Japan, Italy, and Germany. MOTT is presently exploring opening offices in China and other emerging markets.

The agency partners with numerous quasi-public agencies and organizations to further the state's tourism efforts, including Massport, Brand USA, Regional Tourism Councils, and Discover New England.

There are additional offices under MOTT that focus on bringing film, sports, and other events to the state:

Massachusetts Sports Marketing Office **-** The **Sports Marketing Office** is dedicated to promoting the Commonwealth as a premier sports destination. Core services include serving as an informational and networking resource for Massachusetts venues, event rights-holders, event directors, and program directors; acting as a liaison to state and local agencies; and facilitating communication between Massachusetts venues, Regional Tourism Councils, and event directors.

The Sports Marketing Office has brought numerous events to Massachusetts in the past two decades, including:

1999 Women's World Cup	National Hockey League All-Star Game
2006 Men's World Curling Championship	U.S. Olympic Gymnastics Trials
2009 World Skateboard Championships	U.S. Figure Skating Championships
2012 Fed Cup tie between U.S. and Belarus	NCAA Women's Basketball Final Four
2014 ISU World Figure Skating Championship	NCAA Men's Ice Hockey Tournament
Major League Baseball All-Star Game	

Massachusetts Film Office

Massachusetts provides filmmakers with a highly competitive package of tax incentives: a 25% production credit, a 25% payroll credit, and a sales tax exemption. Any project that spends more than $50,000 in Massachusetts qualifies for the payroll tax credit. Spending more than 50% of total budget or filming at least 50% of the principal photography days in Massachusetts makes the project eligible for the production credit and the sales tax exemption. The 2013 film *Ted* was filmed in Massachusetts and earned two Oscar nominations.

In 2013, the Massachusetts Film Office secured:

- 22 productions, including seven feature films and 15 television shows
- 105,061 Resident Worker Days, which is a 52% increase over 2012

Massport

Massport owns and operates an integrated world-class transportation network that promotes economic growth and opportunity. They run Logan Airport, the Port of Boston, and regional airports in Worcester and Bedford. **Massport is restricted from using its federal funding for marketing purposes.** Logan Airport offers nonstop flights to 24 international destinations.

Regional Tourism Councils

The state is divided into 16 individual tourism regions. Each region is marketed by a Regional Tourism Council (RTC), a nonprofit, membership-based organization run by an Executive Director. The RTCs develop regional advertising, public relations, brochures, and other marketing initiatives throughout the year.

MOTT markets the state as a whole while the RTCs focus on promoting their area of the state. The RTCs are an invaluable resource for learning about attractions, accommodations, events, restaurants, retail, networking, and other tourism businesses. State funding helps the RTCs accomplish their marketing initiatives.

The RTCs are:

Greater Boston	Metro West
North of Boston	Johnny Appleseed Trail
Greater Merrimack Valley	Central Massachusetts
Bristol County and the South Coast	Greater Springfield
Plymouth County	Hampshire County
Cape Cod	Franklin County
Martha's Vineyard	The Berkshires
Nantucket	Mohawk Trail

Federal and Local Partnerships

Brand USA

In 2010 the United States launched its first-ever international tourism marketing program. Under the direction of President Obama and the U.S. Commerce Department, Brand USA seeks to increase visitation and revenue to the United States through integrated advertising campaigns in key international markets. By partnering with Brand USA, MOTT has significantly expanded reach in core markets (Western Europe and Canada) and emerging markets (China, India, and Brazil). Brand USA contributes 30% toward MOTT's international programs, maximizing impact and investment.

Discover New England

Discover New England (DNE) represents the New England region. It is a nonprofit cooperative marketing entity funded by the participating states of Connecticut, Maine, Massachusetts, New

Hampshire, Rhode Island, and Vermont. The Executive Director of MOTT serves as the chair of DNE.

DNE's primary mission is to increase tourism to the New England region from overseas markets with a particular focus on the core markets of Canada, China, the United Kingdom, Ireland, Germany, and Japan. DNE was formed in 1992 when the tourism directors of the New England states formed a partnership to market collectively to Europe. Outside of the United States, New England is the "brand" recognized by travelers and tour operators who often do not recognize the names of the individual states. This joint marketing effort has proven to be highly successful and continues to offer an excellent return on investment for each state.

Initiatives and Current Needs

Massachusetts has seven key international markets: Canada, the United Kingdom, Ireland, Germany, France, Italy, and Japan. There is fierce competition with other states to attract visitors from these and emerging markets. Massachusetts has a competitive edge because the Commonwealth already attracts over 46,000 international students annually to our world class colleges and universities, and so the state is already familiar to the emerging markets of China, India, and Dubai. These new markets are especially important because, according to the United Nations' World Tourism Organization, there will be 100 million new Chinese tourists traveling the world this year, and they will spend double the amount of other travelers on luxury goods. Massachusetts is set to capitalize on this phenomenon before competitor states. To date other states have invested more, but Massachusetts has repeatedly earned a better return on investment.

However, it is imperative that the state rise to the challenge of new market demands. Massachusetts' fiscal year begins July 1, which is half way through prime tourist season. This model is no longer viable. Converting the Tourism Fund to a non-budgetary trust fund would allow for available resources in the fund to be carried over from one year to the next, which would eliminate the challenge presented by the annual operating budget cycle and better position MOTT to market the state in a more cost-effective manner.

THE TOURISM FUND

Structure

The Tourism Fund is supposed to receive 35% of revenues from the state room occupancy tax, a 5.7% tax rate on hotel room stays. According to M.G.L. Chapter 10, Section 35J, these monies are distributed each fiscal year as follows:

40%	Massachusetts Office of Travel and Tourism
38%	Massachusetts Convention Center Authority
19%	Regional Tourism Councils
3%	Massachusetts Office of International Trade and Investment

The Tourism Fund is set to receive additional revenue from the following sources:

1. Gaming Licensing Fund - 1.5% of revenue through December 31, 2015 after the first $20 million is deposited into the Stabilization Fund to reimburse Gaming Commission start-up costs

2. Gaming Revenue Fund – 1% of revenue from:
    a. 25% tax on gross revenues from full casinos (slots and table games)
    b. Slot parlor license renewal fees (every 5 years)
    c. Full casino license renewal fees (every 15 years)
    d. Revenue from unclaimed prizes, fines, penalties assessed under legislation

Recipients

<u>MOTT</u>

See "Massachusetts Tourism Industry: State agencies and partnerships"

<u>Massachusetts Convention Center Authority</u>

The Massachusetts Convention Center Authority (MCCA) owns and operates the Boston Convention & Exhibition Center (BCEC), the John B. Hynes Veterans Memorial Convention Center in Boston, the MassMutual Center in Springfield, and the Boston Common Garage. The BCEC and Hynes have earned a gold standard from the International Association of Congress Centres, making Boston only the fourth city in North America and the 12th worldwide to have been awarded this top standard.

The MCCA's mission is to generate significant regional economic activity by attracting conventions, tradeshows, and other events while maximizing the investment return for the residents and businesses of the Commonwealth.

Chapter 152 of the Acts of 1997 established the funding structure for the construction of the Boston Convention and Exhibition Center (BCEC). From 2000 to 2010 the Boston convention market share grew more than in any other American city.

A 2.75% Convention Center Finance fee is added to the state room occupancy tax in Boston, Cambridge, Worcester, and Springfield. While there is no definitive way to calculate, much of this revenue is collected from out-of-state tourists, not Massachusetts residents. The Tourism Fund formula's 30% to MCCA has not been appropriated since 2003.

The convention industry is booming according to Price Waterhouse Cooper. The United States Bureau of Labor Statistics reported that the convention industry will grow 44% through 2020. The *Boston Globe* recently reported that the convention industry is ranked 10th in future job growth.

Conventions are MCCA's main clients. MOTT, the RTCs, and MCCA work collaboratively to market the state to convention attendees. While MCCA does not have personnel to market the state as a tourist destination to attendees, it provides guides, brochures, and links to websites for MOTT and the RTCs. This is unique because most convention centers in other states are run by a municipality.

The MCCA is planning an expansion of the BCEC in hope of making Boston a top five city for conventions nationally. According to the MCCA, funding for the BCEC expansion will come from existing Convention Center Fund revenues and cash flow, which means they do not anticipate the need for state budgetary support. However, a portion of funds in the Tourism Fund will be pledged to lower the interest rate the state receives on the bond. The State Treasurer and the Executive Office of Administration and Finance helped prepare the bill.

Regional Tourism Councils

See "Massachusetts Tourism Industry: State agencies and partnerships"

Massachusetts Office of International Trade and Investment

The Massachusetts Office of International Trade and Investment (MOITI) is the Commonwealth's primary international business development agency. They are charged with promoting trade and investment with global partners in Massachusetts and around the world. MOITI is dedicated to building international collaborations and partnerships essential to bringing new economic opportunities and investments to the Commonwealth.

Massachusetts is an international leader in today's competitive global economy. According to MOITI, innovative thinking, global connectivity, and a commitment to strong growth make the Commonwealth the premier location for exporters, international investors and foreign businesses.

History of the Tourism Fund

Overview

The tourism fund was created in the 1960's when businessmen representing hotels came to the legislature and asked to be taxed to create a dedicated revenue stream to fund the tourism industry in Massachusetts. Their goals were threefold: to secure a stable funding source for marketing tourism, to increase hotel occupancy, and to create jobs. In FY14 the tourism fund collected almost $194 million from state and local room tax. Only $21 million was spent on tourism (10.8%).

The Tourism Fund is subject to appropriation and is funded by the state room occupancy tax. **The Tourism Fund formula has rarely been followed.**

Additionally, municipalities may vote for a local option tax. In 1998 a Convention Center Financing Fee of 2.75% was established to help fund the construction of the Boston Convention and Exhibition Center. Since its creation in 1998, the Tourism Fund formula's allocation to the Massachusetts Convention Center Authority has been ignored. Since 2004, the growth in revenues from the room occupancy tax has fluctuated.

State Room Occupancy Tax

- The tax was established in 1966 at the request of hotel owners.
- Section 22 of Chapter 546 of the Acts of 1969 imposed a 14% surtax in addition to the meals tax (Chapter 64B) and the room occupancy tax (Chapter 64G).
- In 1985 the law was changed in Section 8 of Chapter 145 to state that the 14% tax shall not apply to the local excise tax imposed by cities and towns on the room occupancy tax.
- In 2008 as a part of the state's overhaul of corporate tax code and combined reporting the 14% tax imposed in Section 22 of Chapter 546 of the Acts of 1969 was repealed on all taxes except the room occupancy tax.

- As a result of all these changes, the state room occupancy tax is now 5.7%.

Tourism Fund

- The fund was created in 1991 as M.G.L. Chapter 10, Section 35J. It was funded by 35% of the revenue from the state room occupancy tax.
- Section 4 of Chapter 153 of the FY 1992 supplemental budget further defined how MOTT's share of the fund can be spent. It specified that the fund was "for promoting the recreational, cultural, historic, and scenic resources of the commonwealth to increase its desirability as a location for tourism, conventions, travel, recreation-related activities, economic development, business expansion, and job creation, provided that no funds may be spent for a building project, as defined by section thirty-nine A of chapter seven."
- In 1993, Section 58 of Chapter 110 of the FY 1994 budget made two changes:

  a) It re-established language from 1991: "40 percent to the office of travel and tourism for tourism promotion programs"

  b) It removed language from 1991: "38 percent to the Massachusetts Convention Center Authority established under provisions of chapter 190 of the acts of 1982"
- In 2000, Section 13C of Chapter 208 of the Infrastructure bill added a subsection "e" to the Tourism Fund language:

  "notwithstanding the provisions of the preceding paragraphs or any other general or special law to the contrary, for any fiscal year in which revenues deposited into the Massachusetts Tourism Fund exceed the amounts deposited into said fund in the previous fiscal year, 50 percent of the increase in said revenues shall be applied, subject to appropriation, to the Regional Tourism Facility Fund, established pursuant to section 42 of chapter 23G."
- In 2006, Section 5 of Chapter 123 of the Economic Development bill updated the name "Regional Tourism Facility Fund" to the "Massachusetts Cultural Facilities Fund"
- In 2010, Section 11, of Chapter 240 of the Economic Development bill updated the name "International Trade Council" to "International Trade Office."

RECOMMENDATIONS

Recommendations of the Commission

1. **The commission recommends establishing an off-budget tourism trust fund similar to the Life Sciences fund:**

A. The fund will come from two sources:
   a. Proceeds from the room occupancy tax will be placed into the trust fund based on the following phased-in scale:
      i. 1.25 cents of the 5.7% state room occupancy tax in the first year. This would yield $30 million based on the $138 million FY14 estimate referenced earlier in this document and is expected to grow.
      ii. 1.5 cents of the 5.7% state room occupancy tax in the second year. This would yield $36 million based on the $138 million FY14 estimate referenced earlier in this document and is expected to grow.
      iii. 1.75 cents of the 5.7% state room occupancy tax in the third year. This would yield $42 million based on the $138 million FY14 estimate referenced earlier in this document and is expected to grow.
      iv. 2 cents of the 5.7% state room occupancy tax in the fourth year. This would yield $48 million based on the $138 million FY14 estimate referenced earlier in this document and is expected to grow.
   b. All revenue from gaming that had been designated for the Tourism Fund will instead be placed in the trust fund.

B. The fund will be allocated in the following manner:
   a. Massachusetts Marketing Partnership – 80%
   b. Regional Tourism Councils – 20%

C. The fund will be overseen by the board of the Massachusetts Marketing Partnership. The board is chaired by the Secretary of Housing and Economic Development and includes ten other members from government and business as outlined in Section 32(a) of Chapter 240 of the Acts of 2010.

2. **The commission recommends repeal of the current Massachusetts Tourism Fund, section 35J of Chapter 10 of the General Laws.**

3. **At the end of the five years the legislature should convene a commission to study the cost-effectiveness of the tourism trust fund.**

There were other areas of concern that arose during the commission's meetings that were not within the scope of the commission but that commissioners felt merited further study:

Regional Tourism Councils (RTCs)

- RTCs do not have a mandated or uniform structure. They have no standards on staffing or guidance on their relationship with municipalities.
- There are too many RTCs. Other states with larger land areas have fewer RTCs per square mile than Massachusetts. For example, California has 3 RTCs.
- RTCs are not subject to Open Meeting Law, Ethics Commission limitations, or the Attorney General's Guidelines for Non-Profits.
- The membership form of organization may be too exclusive and may create a possible disconnect between the RTCs and non-member entities including but not limited to municipalities and non-profit organizations.

Massachusetts Convention Center Authority (MCCA)

The commission decided not to include the MCCA in its proposed trust fund because:

- MCCA has not received funding through the Tourism Fund since 2003.
- A separate fund, known as the Convention Center Fund, was established in 1997 to provide funding to MCCA.
- According to testimony received by the Commission, MCCA does not need funding through the Tourism Fund as it is able to sustain itself from earned revenues and the Convention Center Fund.
- The trust fund may still be pledged for the expansion of the Boston Convention and Exhibition Center if the legislation is enacted.