

COMPETITIVE ANALYSIS OF PENNSYLVANIA'S TOURISM BUDGET

Prepared for the Pennsylvania Restaurant & Lodging Association

Table of Contents

Introduction	Executive summary and recommendations	3
Section 1	PA tourism market share declines	7
Section 2	PA destination marketing	19
Section 3	Competitive analysis of funding	23
Section 4	Recommended tourism budget increase	28
Section 5	Scenario analysis	33
Appendix 1	The vital role of destination promotion	45
Appendix 2	The ROI of destination marketing	52



Executive summary and recommendations

Executive summary and recommendations

Overview

The Pennsylvania Restaurant & Lodging Association engaged Tourism Economics to conduct an independent analysis of the level of destination marketing needed to support Pennsylvania's future success as a visitor destination. This research represents an update of a previous study Tourism Economics conducted in 2015. The results of this research are summarized as follows.

Section 1: PA tourism market share declines

The travel and tourism sector is critically important to the Pennsylvania economy and its residents. Prior to the COVID-19 pandemic, travel's total impact supported 6.6% of jobs in the state, including almost 348,661 direct jobs, and nearly \$4.8 billion of state and local taxes. The effects of the pandemic were significant, resulting in job losses that have only partially been recovered, and making the future of the sector even more critical to the future of the commonwealth.

However, Pennsylvania's travel and tourism sector in recent years has not realized its full potential. **Instead, Pennsylvania has experienced a significant decline in tourism market share, with its share of visitor spending among eight competitive states declining 6.3% (1.1 percentage points) between 2010 and 2019.**

Section 2: Pennsylvania destination marketing

Statewide destination marketing is carried out by the PA Tourism Office. In FY 2021-22, the PA Tourism Office budget was \$9.1 million. This consists of an allocation of \$4.1 million, plus \$5 million supported by lodging tax revenue in accordance with Tourism Promotion Fund legislation enacted in 2019.

The PA Tourism Office allocation of \$4.1 million is part of the Marketing to Attract Tourists line item in the Pennsylvania budget. Other funds in that line item are used for Legislative initiative grants typically to provide funds for local and regional organizations. These funds are not under discretionary control of the PA Tourism Office and are not used for coordinated statewide tourism marketing.

Therefore, for the purpose of this study, we refer to the \$9.1 million budget of the PA Tourism Office as PA's "tourism budget excluding grants". It represents the amount that the commonwealth uses for statewide destination marketing.

While this \$9.1 million amount is more than was available in some recent years, it is substantially less than in FY 2008-09 when Pennsylvania had a budget of \$29.8 million for state tourism marketing. It is also substantially less than the \$35 million amount that Tourism Economics recommended in its 2015 analysis as an appropriate destination marketing budget for Pennsylvania.

Executive summary and recommendations

Section 3: Competitive analysis of funding

To evaluate a competitive level of state tourism marketing for Pennsylvania, we conducted a benchmark analysis. Indicators of the size of the tourism economy in Pennsylvania show that it is larger and more important than in many other states. **However, in the competitive market to attract visitors, Pennsylvania does not have sufficient funds to adequately market itself. Considering its size, Pennsylvania spends much less than virtually all other states on state tourism promotion activities.**

For example, Pennsylvania's tourism budget in FY 2020-21 ranked 35th out of 41 states by dollar amount, 40th out of 41 states by amount per leisure and hospitality job, and 40th out of 41 states by amount of earnings in the accommodations sector. States with large tourism sectors tend to have state tourism marketing budgets greater than \$20 million.

Even though Pennsylvania's tourism economy has grown over time, it has not realized its full potential, as evidenced by its declining market share.

Section 4: Recommended tourism budget increase

In our assessment, destination marketing of Pennsylvania is substantially underfunded and the tourism budget excluding grants should be increased to \$39 million. This would be closer in line with the size of the state's tourism industry. In a situation such as Pennsylvania's, in which funding has been substantially curtailed for several years, we expect an increase to this recommended funding level would have particularly valuable impacts.

Though our analysis recommends a tourism budget excluding grants of \$39 million, an increase of funding that is only part of that amount would still be anticipated to have positive impacts, driving additional visitor spending and economic benefits for Pennsylvania.

Executive summary and recommendations

Section 5: Scenario analysis

We analyzed two sets of scenarios. This first considers a lost opportunity historical scenario in which Pennsylvania tourism funding had been maintained at the previously recommended level of \$35 million (excluding grants) from 2015 to 2019. The second set of scenarios considers potential future gains over five years, assuming that Pennsylvania boosts its tourism funding to \$39 million (excluding grants) beginning in 2023. Based on our analysis, we find:

- Between 2015 and 2019, shortfalls in the PA tourism budget have caused the Commonwealth to lose \$9.7 billion of visitor spending, an average of 11,300 jobs per year, \$4.5 billion of labor income, and \$679 million of state and local tax revenue, while saving only \$151.7 million of tourism budget expenditures. Effectively, for every dollar saved on the PA tourism budget, the state has lost \$4.48 in combined state and local tax revenue.
- If tourism funding is boosted to \$39 million excluding grants, over a five-year future period Pennsylvania stands to gain \$9.6 billion of visitor spending, an average of 9,300 statewide jobs per year, \$4.4 billion of labor income, and approximately \$660 million of state and local tax revenue. For each dollar allocated to the PA tourism budget, the state would earn \$4.47 in combined state and local tax revenue. The net tax benefit would save each Pennsylvania household \$100 on combined state and local taxes.

We recommend increasing the PA tourism budget to an annual level of \$39 million (excluding grants) as quickly as possible.

Scenario results

Scenario	Historical losses	Potential gains
	Cumulative impact ('15 to '19)	Cumulative impact ('23 to '27)
	Losses relative to lost opportunity scenario with \$35 million tourism budget excluding grants	Gains in alternative scenario with \$39 million tourism budget excluding grants relative to baseline
Travel impact		
Visitor spending (billions)	(\$9.7)	\$9.6
Total impact		
Economic output (billions)	(\$16.7)	\$16.6
Labor income (billions)	(\$4.5)	\$4.4
Jobs (average)	(11,250)	9,303
State and local tax revenue (millions)	(\$679.2)	\$659.6

Note: Cumulative impacts except jobs, which are average.

Source: Tourism Economics



1. PA tourism market share declines

Travel and tourism has been a key economic driver in Pennsylvania

The travel and tourism sector is critically important to Pennsylvania's economy and its residents. Based on Tourism Economics' recent research, Pennsylvania visitors generated the following economic impacts in 2019:

- \$46.0 billion of traveler spending;
- 348,661 direct travel economy jobs; and,
- Secondary impacts that, together with direct impacts, support a total 521,073 jobs (6.6% of all jobs in the state), \$23.9 billion of labor income, and \$4.8 billion in state and local taxes.

Travel and tourism impacts in Pennsylvania have increased substantially since 2013, with visitor spending up 17.5% in nominal dollars, and total employment impacts up 8.8%.

If state tourism marketing had been more competitive, growth would have been even stronger. As estimated in the scenario analysis in this study, had state tourism marketing received additional funding, visitor spending would have been \$9.7 billion higher in total between 2015 and 2019.

Travel and tourism makes important contributions to the state economy.

Pennsylvania's state and local governments would have to tax each PA household an additional \$950 per year to replace the taxes generated by travel and tourism.

Pennsylvania travel impacts

	2013	2019	Change '13 to '19
Direct travel and tourism economy impacts			
Visitor spending (billions)	\$39.2	\$46.0	17.5%
GDP (billions)	\$16.4	\$20.5	25.0%
Employment	319,661	348,071	8.9%
Labor income (billions)	\$10.6	\$13.5	27.3%
Total travel economy impacts (including direct and indirect)			
GDP (billions)	\$30.9	\$38.7	24.9%
Employment	478,888	521,073	8.8%
Labor income (billions)	\$18.8	\$23.9	27.2%
Total traveler-generated taxes (in billions)			
State and local taxes	\$4.1	\$4.8	16.4%
Federal taxes	\$4.2	\$5.2	25.7%
Total fiscal impacts	\$8.3	\$10.0	21.1%

Source: Tourism Economics

Pandemic losses were significant

Visitor spending was significantly impacted by the pandemic in 2020. Both the limitations and restrictions to mobility, as well as economic disruptions, hit travel hard. Travel restrictions along with travel hesitancy by consumers cut nearly 60 million person-trips from 2019 visitor numbers. Visitors represent a critical driver of the state's future as a full economic recovery will need a tourism recovery-tourism's job losses from the pandemic represent 18% of all jobs lost in 2020.

- Visitor spending fell by 37.2% in 2020;
- Total employment declined by 20.9%; and,
- Total fiscal impacts were reduced by \$2.4 billion.

The \$17 billion in visitor spending losses is similar in size to what Amazon has invested in Pennsylvania over the last decade.

The nearly 110,000 jobs lost is similar to all jobs in Erie County disappearing.

Pennsylvania travel impacts

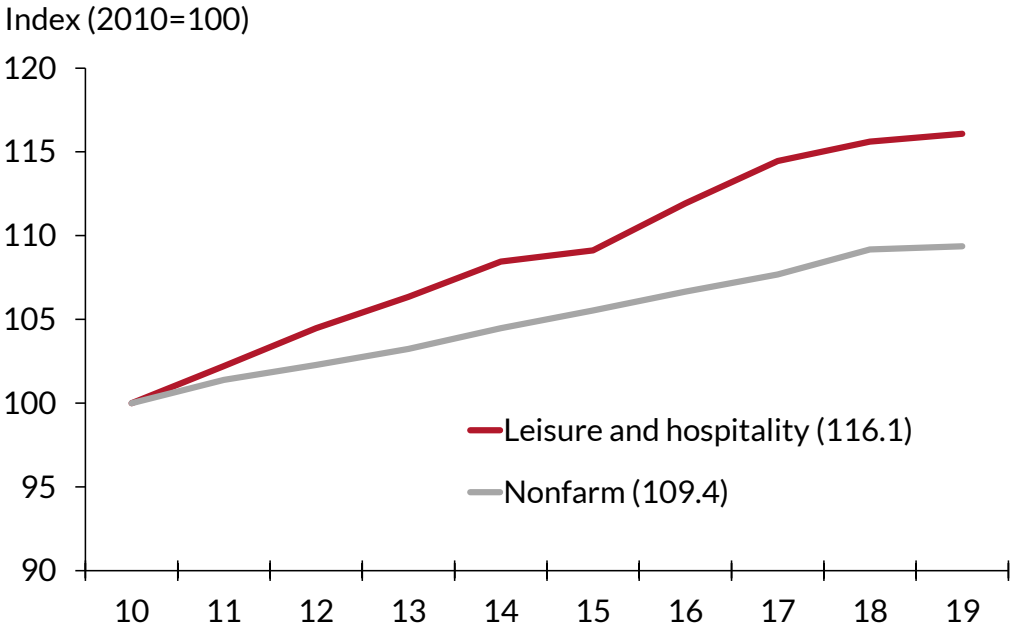
	2019	2020	Change '19 to '20
Direct travel and tourism economy impacts			
Visitor spending (billions)	\$46.0	\$28.9	-37.2%
GDP (billions)	\$20.5	\$15.1	-26.0%
Employment	348,071	265,964	-23.6%
Labor income (billions)	\$13.5	\$10.3	-23.6%
Total travel economy impacts (including direct and indirect)			
GDP (billions)	\$38.7	\$30.0	-22.5%
Employment	521,073	412,223	-20.9%
Labor income (billions)	\$23.9	\$18.9	-21.0%
Total traveler-generated taxes (in billions)			
State and local taxes	\$4.8	\$3.6	-25.6%
Federal taxes	\$5.2	\$4.1	-22.2%
Total fiscal impacts	\$10.0	\$7.6	-23.9%

Source: Tourism Economics

Tourism has been a long-term source of PA employment growth

Pennsylvania’s leisure and hospitality sectors had traditionally outpaced the broader economy prior to the COVID-19 pandemic. Though employment in leisure and hospitality sectors includes jobs that are not directly supported by tourism, it provides a proxy for tourism sector performance over an extended history. Between 2010 and 2019, leisure and hospitality employment has expanded 16.1%, while total nonfarm employment in Pennsylvania expanded 9.4%.

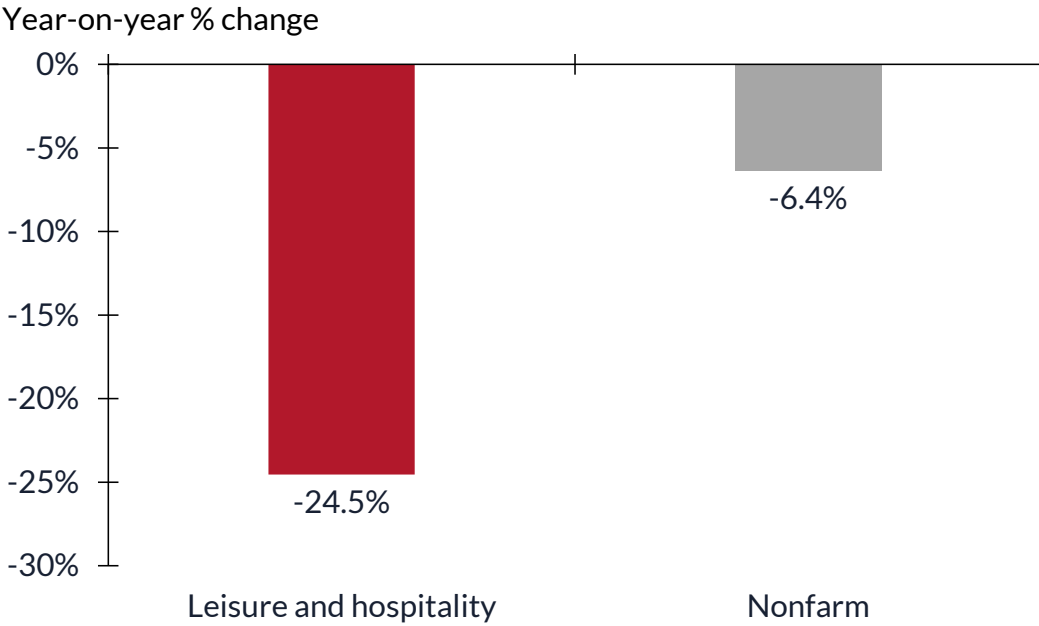
Pennsylvania employment



Note: Numbers in parentheses show 2019 index value.
Source: Bureau of Economic Analysis; Tourism Economics

If state tourism marketing had been more competitive, leisure and hospitality employment growth would have been even stronger. Moreover, the COVID-19 pandemic resulted in significant losses to the industry compared to the rest of the economy.

Pennsylvania employment in 2020



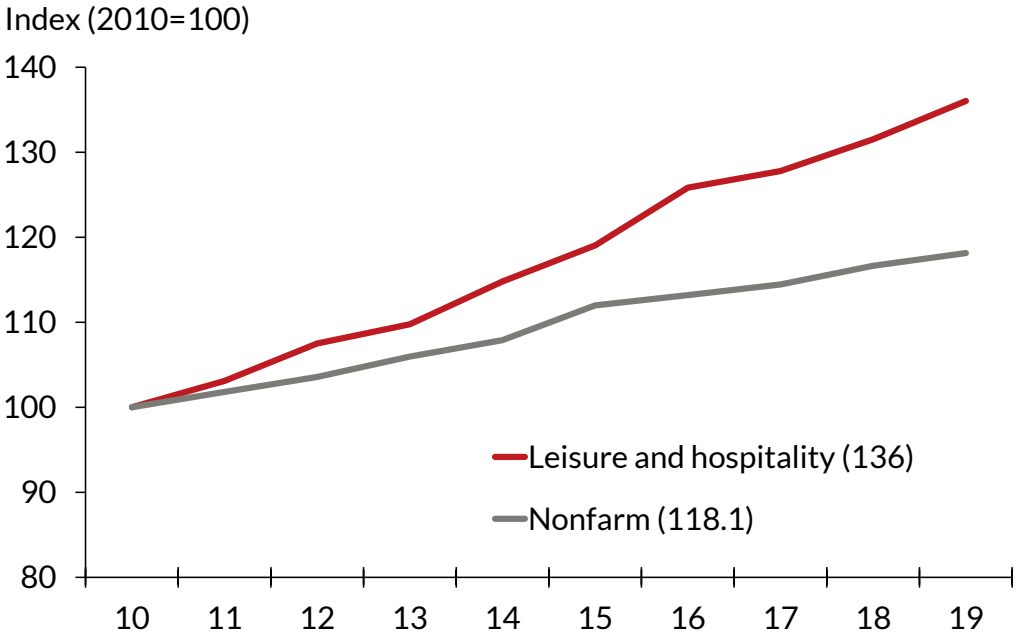
Source: Bureau of Economic Analysis; Tourism Economics

Tourism has been a long-term source of PA wage growth

Leisure and hospitality earnings, which are largely wages and salaries but also include proprietors' income for small businesses, represent another proxy. Overall, leisure and hospitality earnings in Pennsylvania have expanded 36.0% since 2001, compared to a 18.1% expansion for nonfarm earnings overall.

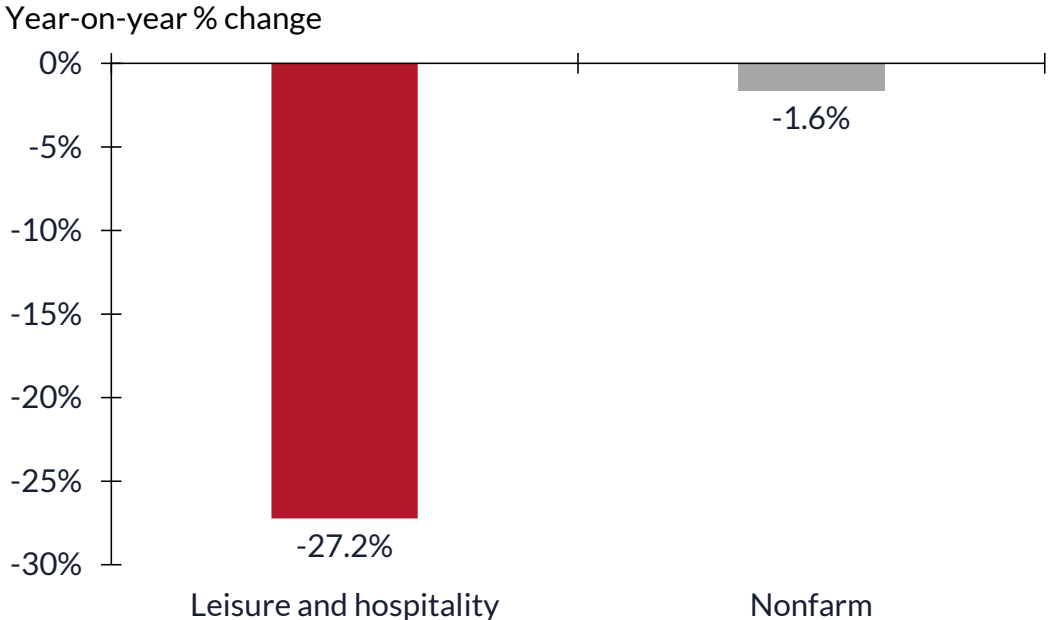
If state tourism marketing had been more competitive, leisure and hospitality wage growth would have been even stronger. Moreover, the COVID-19 pandemic resulted in significant losses to the industry compared to the rest of the economy.

Pennsylvania earnings



Note: Numbers in parentheses show 2019 index value.
Source: Bureau of Economic Analysis; Tourism Economics

Pennsylvania earnings in 2020



Source: Bureau of Economic Analysis; Tourism Economics

Assessing PA market share declines using visitor spending

We compare Pennsylvania's tourism economy and market share to a nine-state competitive region.

This region includes the following states:

- Delaware
- District of Columbia
- Maryland
- New Jersey
- New York
- Ohio
- Pennsylvania
- Virginia
- West Virginia

This provides a basis for tracking Pennsylvania performance relative to states experiencing similar regional trends.

Direct visitor spending compiled from Tourism Economics' annual visitor economic impact reports allows for the tracking of PA's share of tourism spending in the nine-state competitive region over time.

Direct spending includes spending by overnight and day travelers directly on accommodations (including second homes), food and beverage, recreation, retail shopping, and transportation (air and ground).

Destination promotion has evolved over time to promote leisure and group travel, targeted at overnight and day visitors from within the United States or abroad. As a result, destination promotion has considerable potential to influence travel patterns and spending. In the following analysis of market share, we have focused on direct visitor spending.

Assessing PA Market share declines

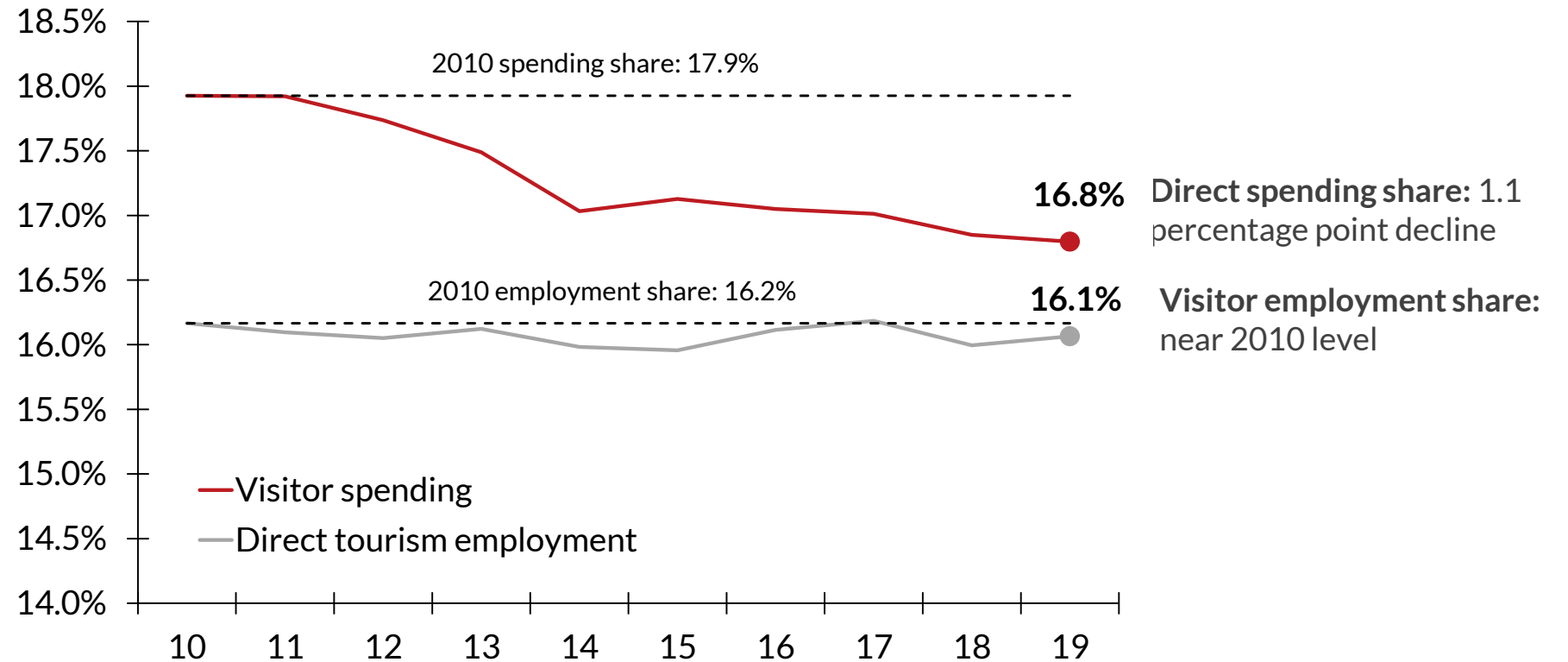
Pennsylvania has not been attracting its historical fair share of direct spending having realized declines in its market share relative to competitive states. Meanwhile, Pennsylvania has not advanced its market share of direct tourism employment from 2010 levels.

- Pennsylvania's share of visitor spending declined from 17.9% in 2010 to 16.8% in 2019, representing a decline of 6.3% (1.1 percentage points).
- Meanwhile Pennsylvania's share of direct employment in 2019 (16.1%) was near the same level as in 2010 (16.2%).

PA's share of visitor spending has declined

PA market share of impacts among competitive states

Share of visitor spending and direct employment



Source: Tourism Economics

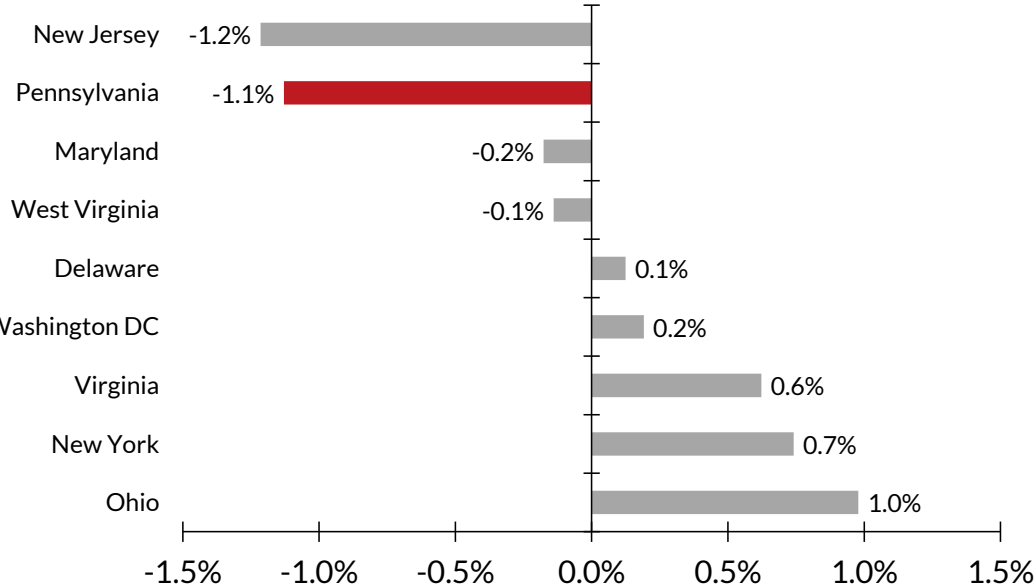
Significant spending market share declines in PA

Pennsylvania’s visitor spending share of competitive states declined by 1.1 percentage points between 2010-2019. The 1.1 percentage point decline highlights the relative underperformance compared to surrounding states, of which Ohio performed best – witnessing a 1.0 percentage point increase in its visitor spending market share.

Pennsylvania’s direct tourism employment share of competitive states declined by 0.1 percentage points between 2010-2019.

Change in visitor spending market share

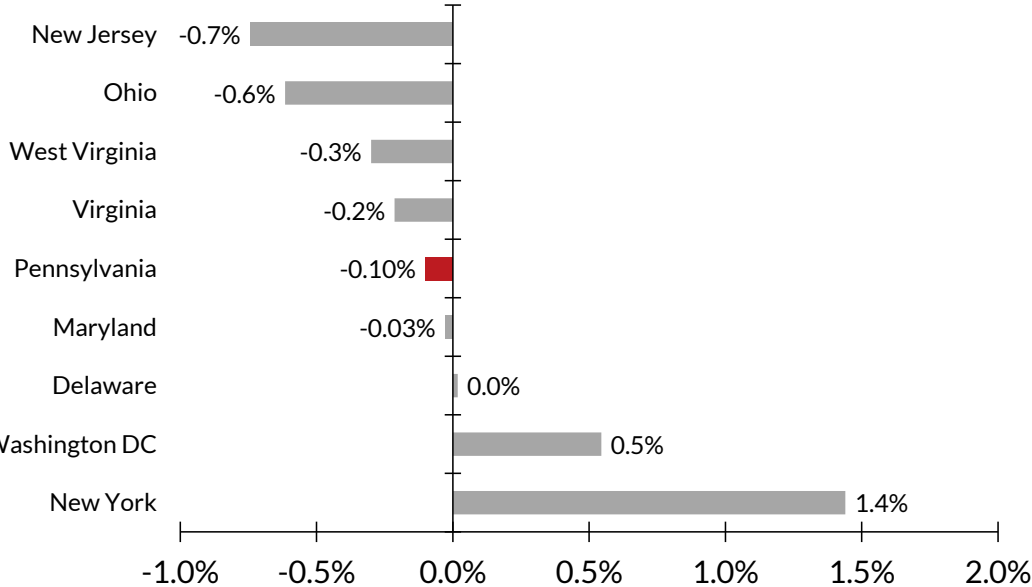
Difference in share of visitor spending (2019 minus 2010)



Source: Tourism Economics

Change in direct employment market share

Difference in direct tourism employment (2019 minus 2010)



Source: Tourism Economics

Assessing PA Market share declines

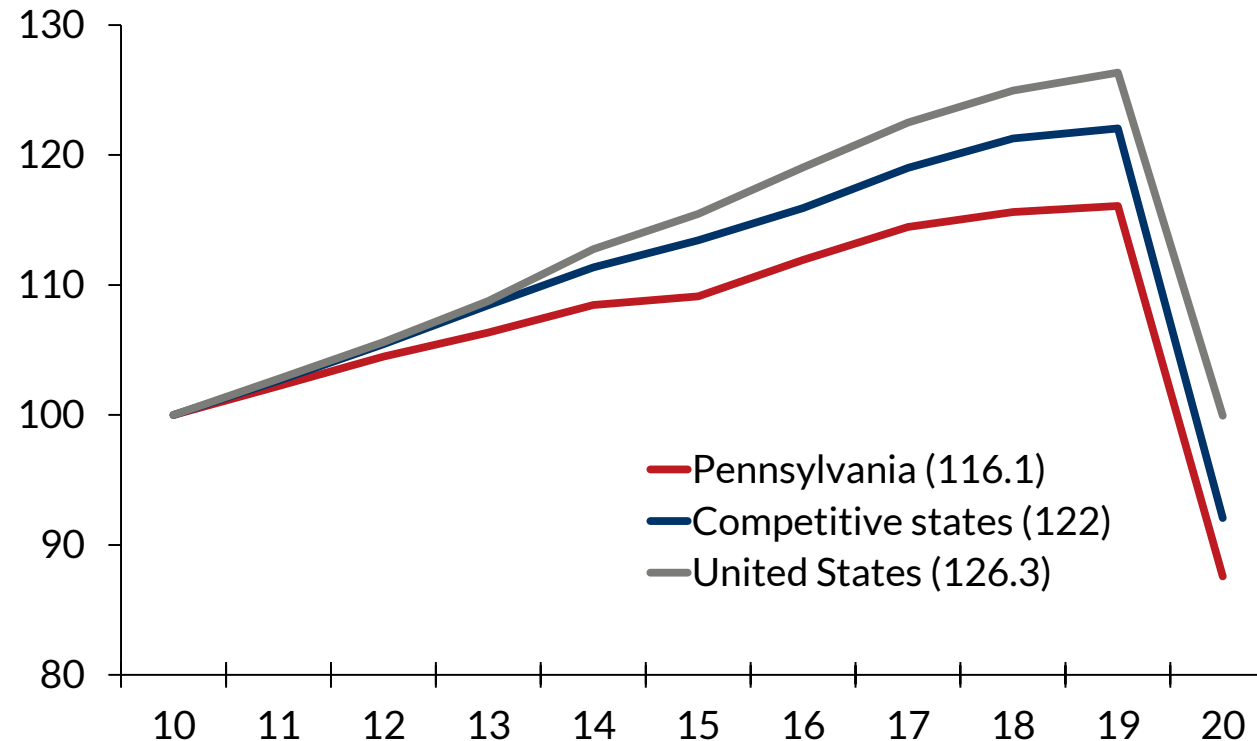
Employment in leisure and hospitality sectors provides a proxy for tourism sector performance that is comparable across states.

Over the long term, Pennsylvania has trailed the competitive states as well as the US in terms of leisure and hospitality employment growth and the job gap has widened. Due to the COVID-19 pandemic in 2020, Pennsylvania leisure and hospitality employment was down more than competitive states and the US total.

PA's leisure and hospitality employment growth has lagged competitive states

Leisure and hospitality employment

Index (2010=100)



Note: Numbers in parentheses show 2019 index value.
Source: Bureau of Economic Analysis; Tourism Economics

Assessing PA Market share declines

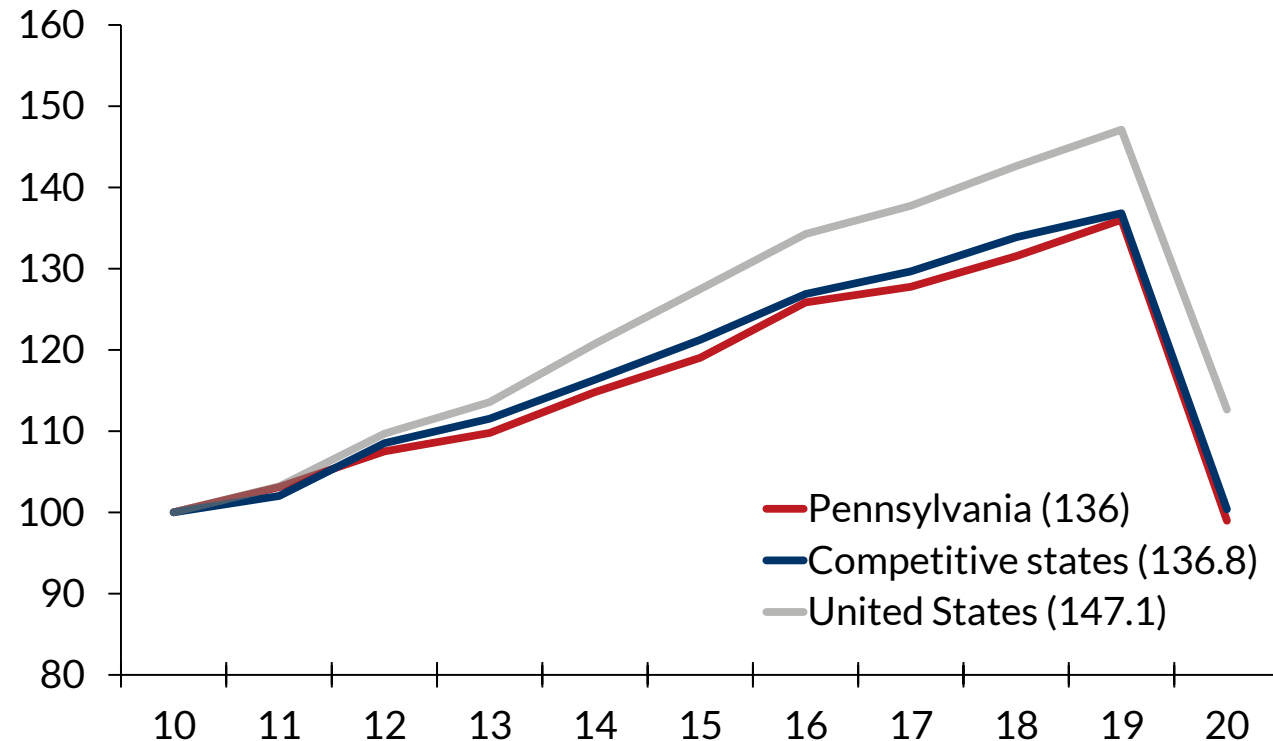
Earnings in leisure and hospitality sectors provides a proxy for tourism sector performance that is comparable across states.

Over the long term, Pennsylvania has slightly lagged the competitive states and more so the US in terms of leisure and hospitality earnings growth. Due to the COVID-19 pandemic in 2020, Pennsylvania leisure and hospitality earnings was down more than competitive states and the US total.

PA's leisure and hospitality earnings growth has slightly lagged competitive states

Leisure and hospitality earnings

Index (2010=100)



Note: Numbers in parentheses show 2019 index value.
Source: Bureau of Economic Analysis; Tourism Economics

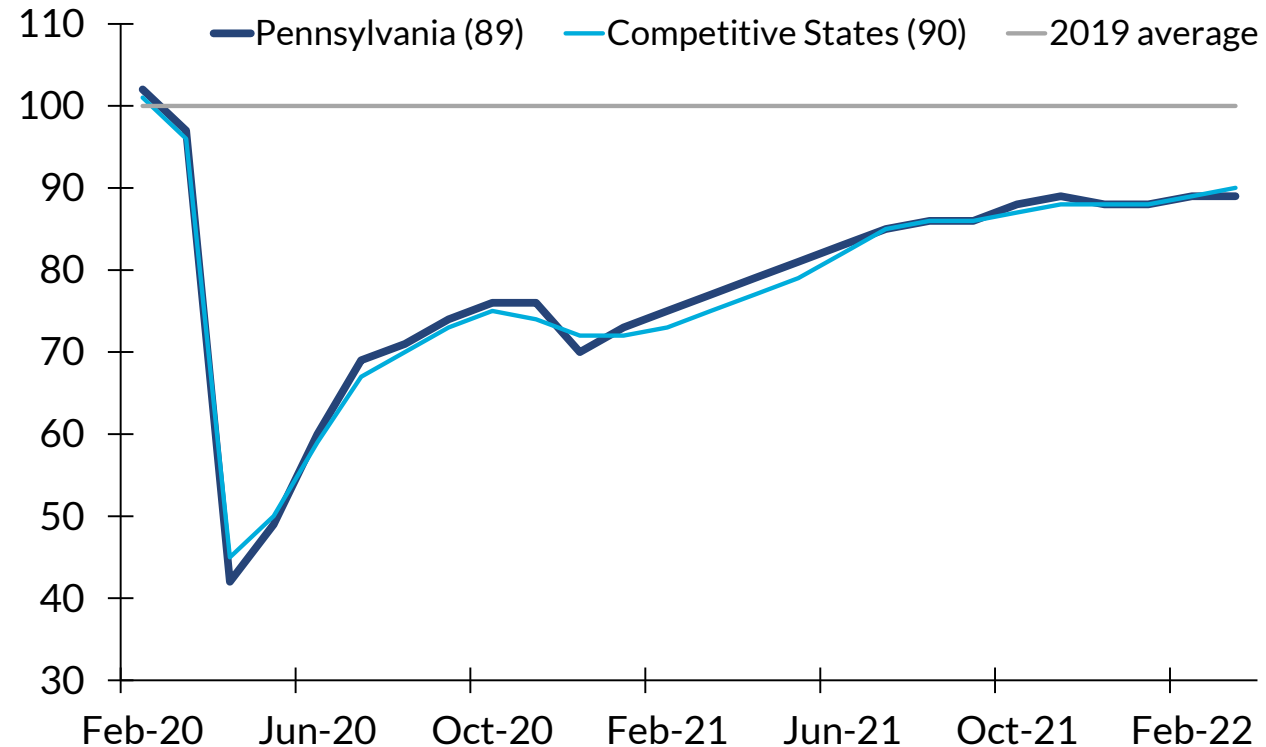
Assessing PA Market share declines

L&H employment has recovered gradually across competitive states as restrictions eased and the demand for travel picked up, but a lackluster recovery in worker supply has contributed to employment still being behind pre-pandemic levels. By March 2022, Pennsylvania L&H employment was 11% below 2019 levels.

PA's L&H employment yet to fully recover

Leisure and hospitality employment recovery

Index (2019=100)



Note: Numbers in parentheses show March 2022 index value.
Source: BLS, Tourism Economics

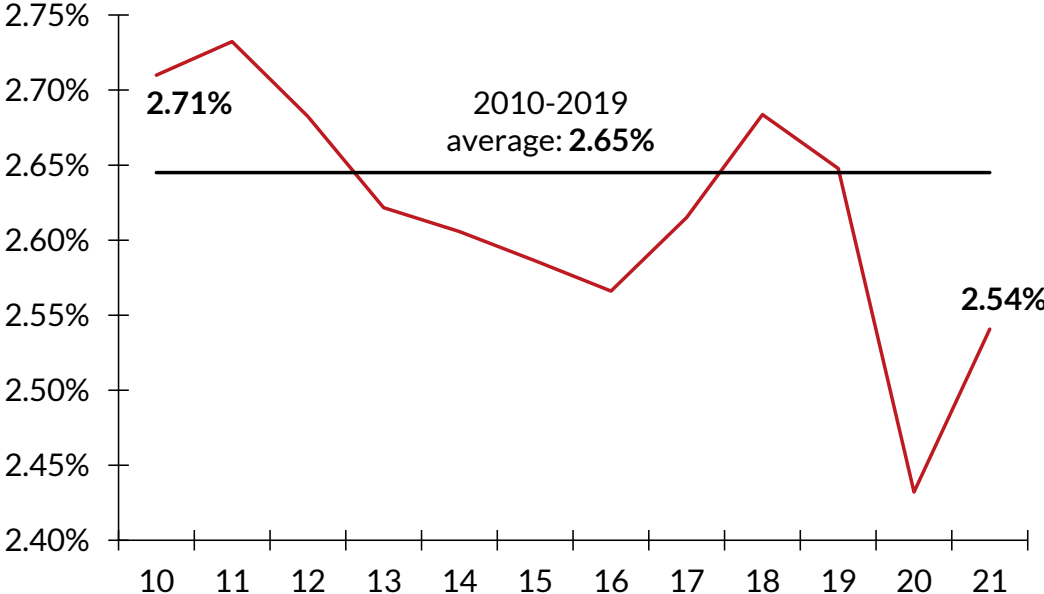
PA hotel room demand has lagged the national recovery

Hotel room demand (nights sold) in Pennsylvania has not experienced as much growth as the national average. Its share of total US room nights declined to 2.57% in 2016 from a high of 2.73% in 2011. The pandemic caused the share to fall to 2.43% in 2020. Room demand has since recovered to 2.54% in 2021, albeit below the long-term average of 2.65%.

Moreover, the aggregate Pennsylvania room revenue share of US hotel revenue has fallen steadily from a high of 2.80% in 2011 to 2.50% in 2019. The pandemic pushed the share down further to 2.37% in 2020 but recovered to 2.47% in 2021 – still 0.13 percentage points below the long-term average.

Hotel room demand

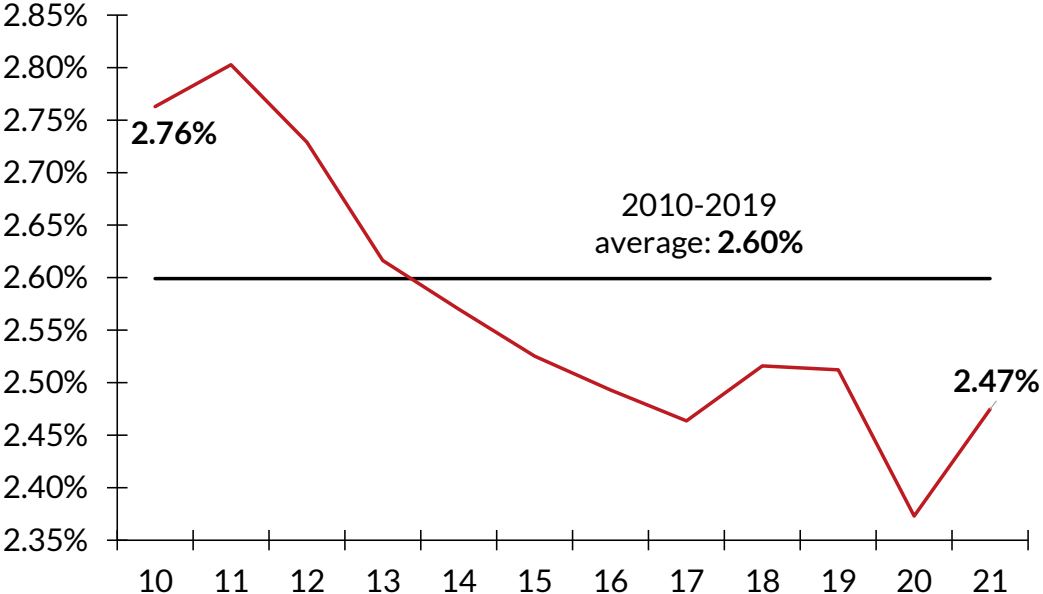
Pennsylvania as a share of US



Source: STR, Tourism Economics

Hotel room revenue

Pennsylvania as a share of US



Source: STR, Tourism Economics



2. PA destination marketing

PA tourism budget excluding grants

In the following analysis, we refer to the funds under the discretionary control of the PA Tourism Office (Tourism Office Expenditures), as PA's "tourism budget excluding grants". As shown in the accompanying table this PA tourism budget excluding grants totaled \$9.1 million in FY 2021-22.

The PA Tourism Office has historically used funds to promote travel and tourism in Pennsylvania. The allocation has been stable at approximately \$4.1 million since FY 2017-18.

Since FY 2018-19, Tourism Promotion Fund legislation added up to \$5 million in remitted lodging tax revenues to advertising funding.

The Marketing to Attract Tourists line item in the Pennsylvania budget is composed of legislative initiative grants and an allocation to the PA Tourism Office.

Legislative initiative grants typically provide funds for local and regional organizations. These funds are not under discretionary control of the PA Tourism Office and are not used for coordinated statewide tourism marketing.

PA's tourism budget has historically supported tourism marketing through the Tourism Office

Pennsylvania Tourism Office Budget

\$ thousands

Fiscal Year*	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
[1]+[2] Marketing to Attract Tourists - Line Item Appropriation	\$11,414	\$12,892	\$17,839	\$17,339	\$17,826	\$30,151
Allocation of Marketing to Attract Tourists Line Item Appropriation:						
[1] Legislative Initiative Grants	7,450	8,825	13,772	13,272	13,759	26,097
[2] Tourism Office Allocation	3,964	4,067	4,067	4,067	4,067	4,054
Additional Revenues:						
[3] Tourism Promotion Fund (Act 109 of 2018)+				2,500	5,000	5,000
[2]+[3] PA tourism budget excluding grants:	3,964	4,067	4,067	6,567	9,067	9,054
Tourism Office Operations	797	797	797	797	797	797
Tourism Office Marketing and Promotion Activities	3,167	3,270	3,270	5,770	8,270	8,257

*Fiscal Year: July 1 - June 30

+Tourism Promotion Fund legislation had an effective date of late January 2019 with tax revenues first remitted in late March 2019.

Source: Pennsylvania Tourism Office

PA tourism budget excluding grants

In 2015, Tourism Economics conducted an analysis of the PA tourism budget. This analysis showed that as recently as FY 2008-09, PA had a budget of \$29.8 million for state tourism marketing. By FY 2014-15, this had been reduced to \$7.3 million, of which only \$2.0 million was available for PA destination promotion, excluding grants.

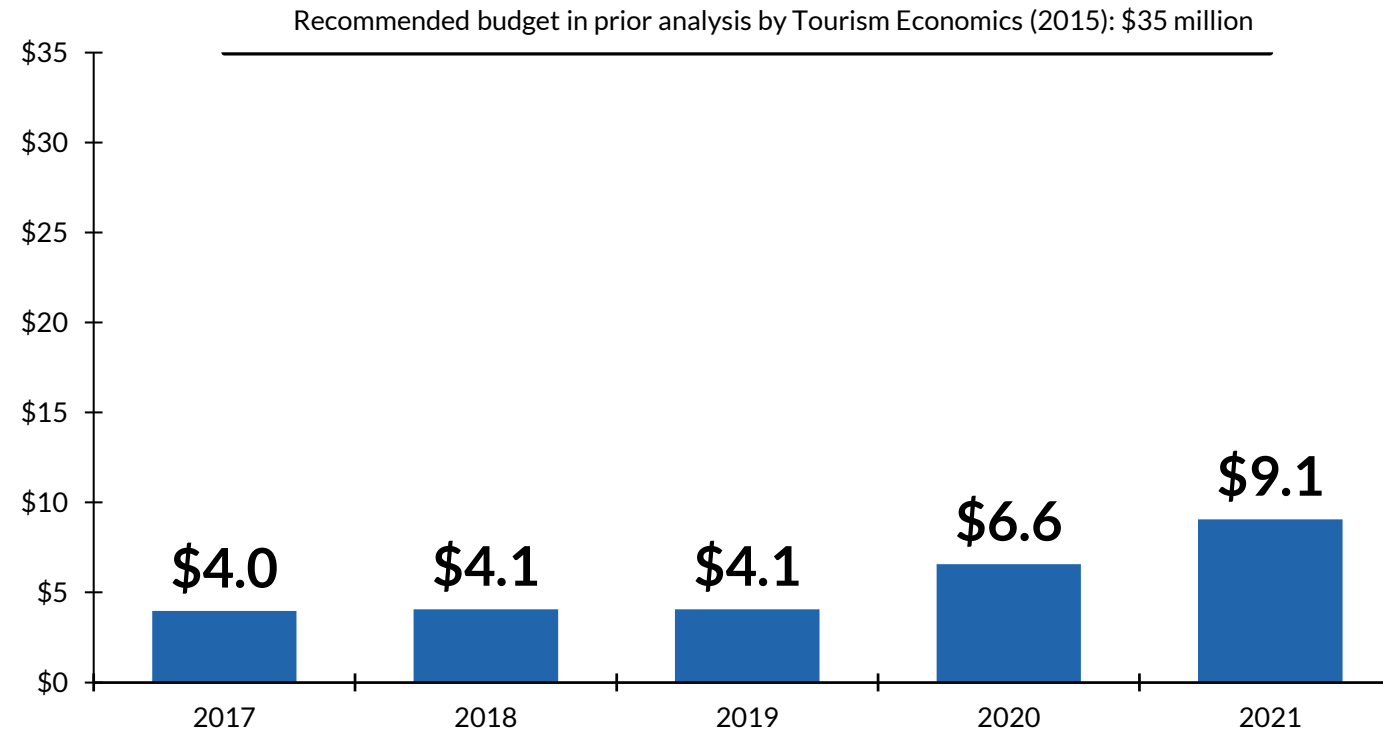
At the time, Tourism Economics' analysis recommended a PA tourism budget for the purpose of destination promotion of \$35 million excluding grants. This was intended to restore a competitive level of destination promotion.

Instead, over the past five years, PA's tourism budget excluding grants has ranged from \$4.0 million to \$9.1 million, well below the recommended level of \$35 million.

PA's tourism budget excluding grants well below the recommended level of \$35 million

PA tourism budget excluding grants

In millions



Source: PA Tourism Office, Tourism Economics

PA tourism budget excluding grants

Pennsylvania's visitor spending share of competitive states has declined over time, while its share of direct tourism employment has not grown. As of 2019, the visitor spending share was 16.8%, while employment share was 16.1%.

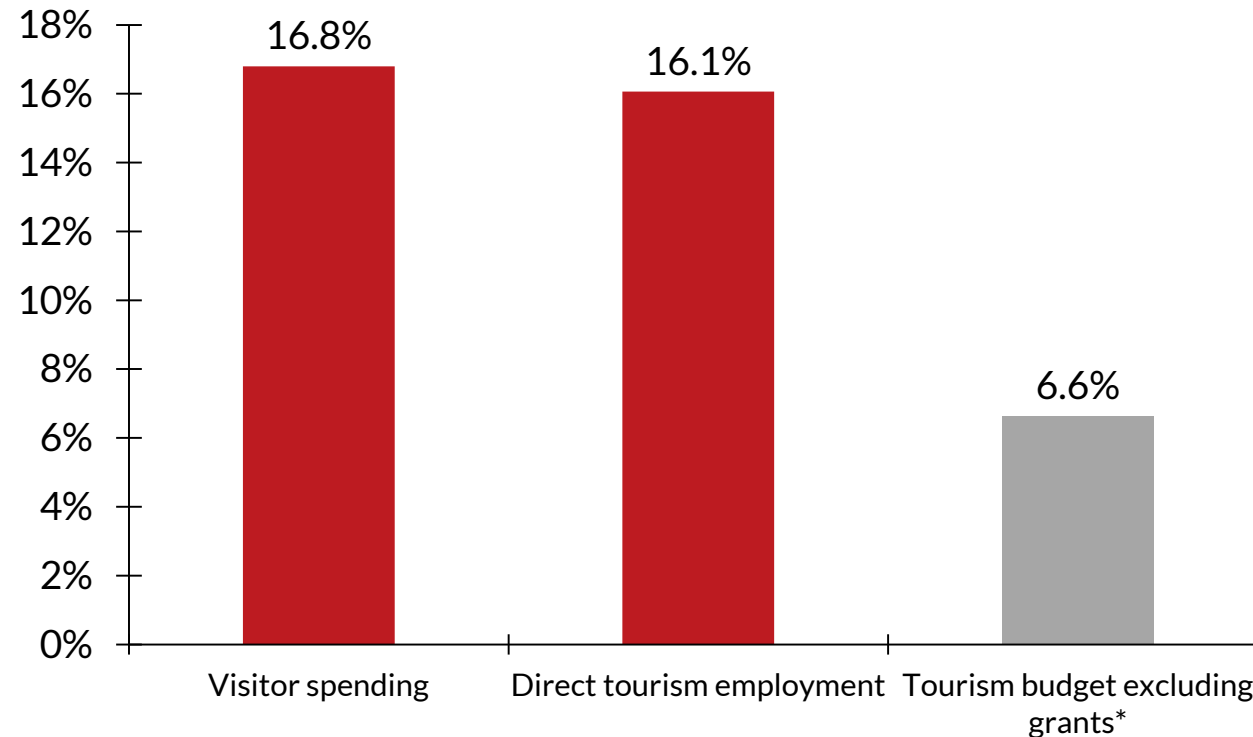
Compared to the size of economic impacts, the tourism budget excluding grants of Pennsylvania is small. At 6.6% of the FY 2020-21 tourism budget of competitive states, Pennsylvania is uncompetitive.

Should its budget share of competitive states continue to make up such a small fraction, Pennsylvania may experience further reductions in visitor spending shares and witness losses in its tourism job share.

PA's tourism budget excluding grants is no longer competitive

PA market share among competitive states

Share of visitor spending, tourism employment, and tourism budget ex. grants



* Visitor spending and direct tourism employment in red bars are based on CY2019. Tourism budget excluding grants in grey bar is based on FY2020-21
Source: Tourism Economics



3. Competitive analysis of funding

Funding metrics

Pennsylvania has one of the largest state tourism economies in the United States. On the basis of leisure and hospitality sector jobs in calendar year 2019, Pennsylvania ranks 10th out of 51 states (includes DC). On the basis of earnings in the accommodations sector (i.e., wages and salaries) in calendar year 2019, Pennsylvania ranks 9th nationally.

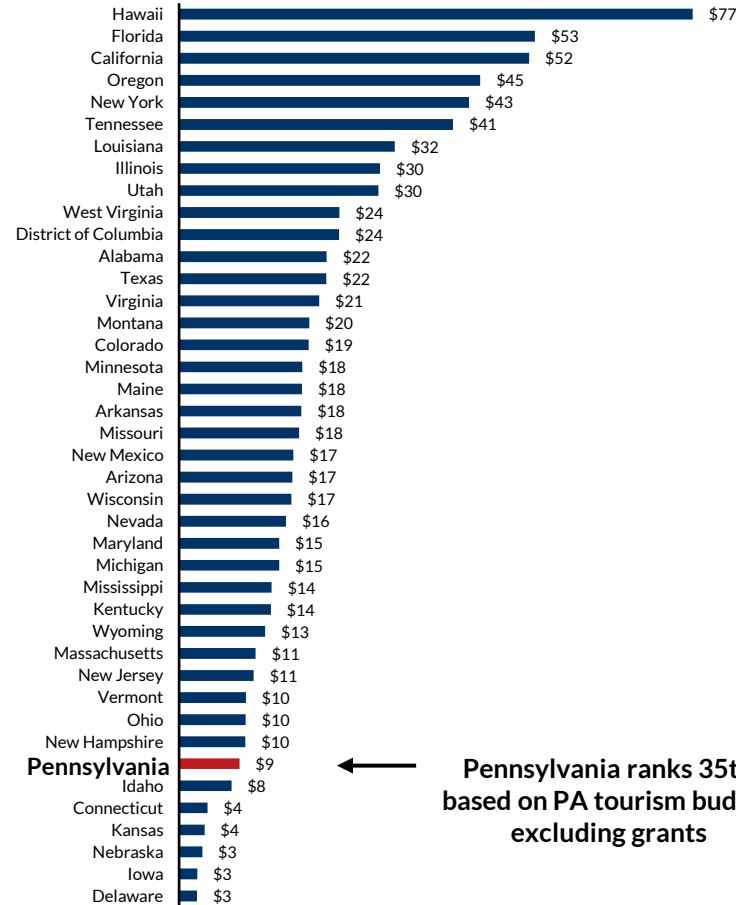
Despite having one of the largest state tourism economies, PA's state tourism budget excluding grants ranks 35th among 41 states by dollar amount in FY 2020-21. Of competitive states, only Delaware ranks lower.

Notes: State tourism budget amounts are based on the provisional FY 2020-21 budgets as reported in the annual Survey of State Tourism Office Budgets conducted by the US Travel Association, and supplemented with additional data gathered by Tourism Economics. The analysis of state tourism budgets covers 41 states, including the District of Columbia.

PA's tourism budget ranks low

State tourism budget, FY 2020-21

In millions



← Pennsylvania ranks 35th based on PA tourism budget excluding grants

PA rank:

10 out of 51 based on leisure and hospitality jobs in CY 2019;

9 out of 51 based on earnings in the accommodation sector in CY 2019; and,

35 out of 41 based on state tourism budget in FY 2020-21.

Funding metrics

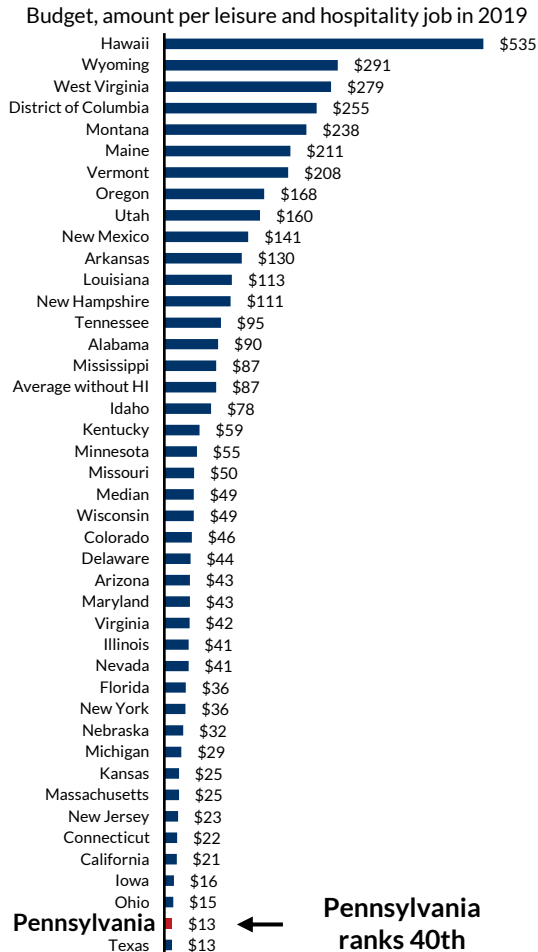
PA's state tourism budget is even smaller than average when considered in relation to the size of the state's travel and tourism industry.

- PA's tourism budget is equivalent to \$13 per leisure and hospitality job. This ranks 40th, and is far below the average (excluding Hawaii) of \$87.
- PA's tourism budget is equivalent to \$4 per \$1,000 of earnings in the accommodation sector, which ranks 40th out of 41 – and well below the average of \$17.

Notes: Employment in the leisure and hospitality sectors represents a proxy for the relative importance of tourism in each state. These sectors include recreation and entertainment establishments, as well as hotels, other accommodations, and restaurants. Another proxy for tourism sector importance is the level of earnings in the accommodations sector (i.e., wages and salaries). This sector includes hotels, motels, and bed and breakfasts, as well as RV parks and other accommodations.

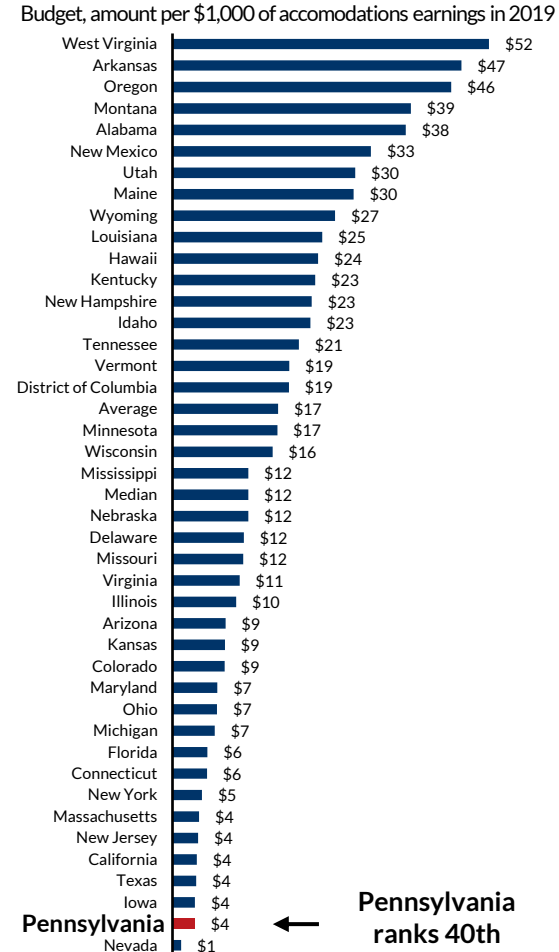
Tourism budget small versus size of industry

State tourism budget per L&H job



Source: US Travel; Tourism Economics analysis of state budgets

Budget share of accommodation earnings



Source: US Travel; Tourism Economics analysis of state budgets

Funding metrics

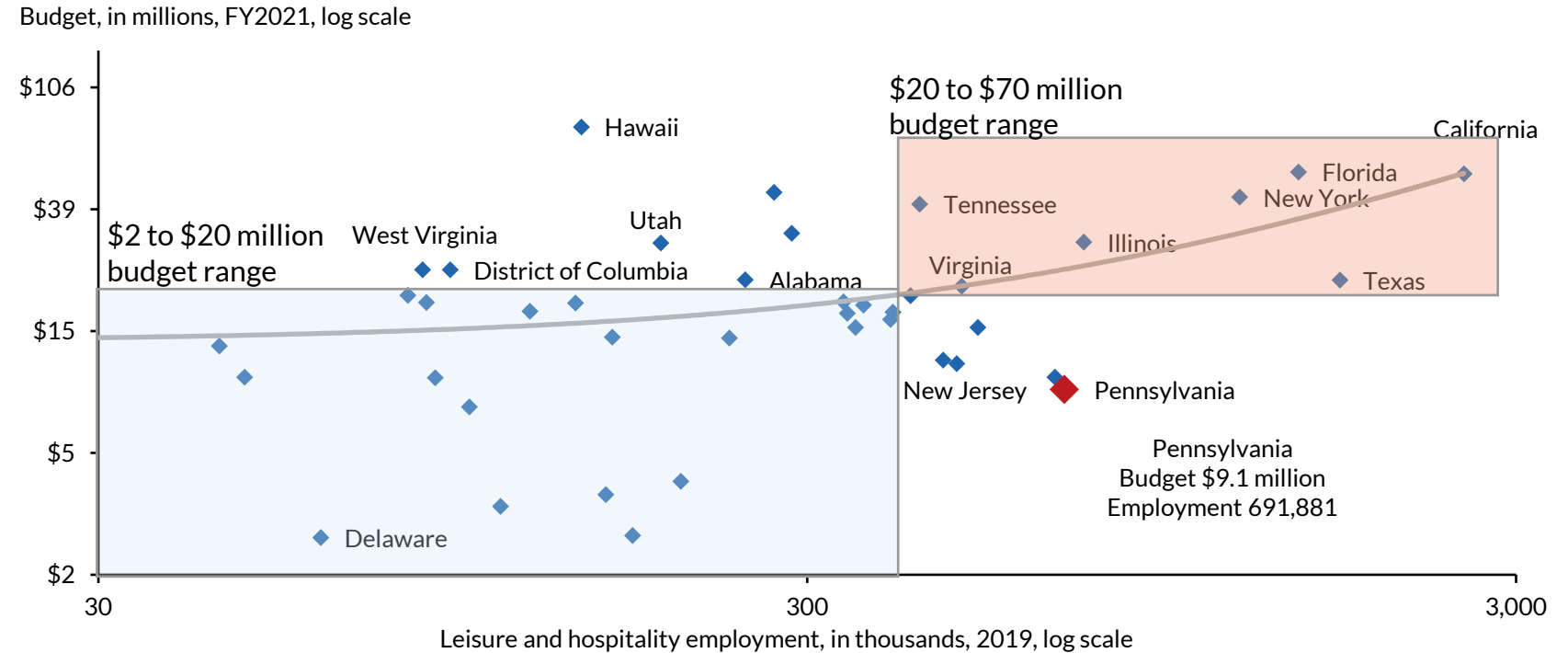
States fit largely into two groups:

- States with large tourism sectors tend to have larger state tourism budgets, generally \$20 million or more. This group is shown with the pink rectangle.
- Other states maintain a state tourism budget of between \$2 million to \$20 million, without necessarily showing a relationship to the size of the tourism sector. This group is shown with the blue rectangle.

Despite Pennsylvania's relatively large leisure and hospitality workforce, its tourism budget funding is low.

PA funding does not match employment size

State tourism funding compared to leisure and hospitality employment



Source: BEA; US Travel Association; Tourism Economics

Funding metrics

Hotels, motels, and other accommodations are a key subsector in the tourism industry.

Earnings within the accommodation sector (primarily wages and salaries), provide an effective sizing benchmark. By this measure, Pennsylvania has a larger tourism sector than many states. However, Pennsylvania's funding for state tourism marketing is lower in relation to its industry size (i.e., below the fitted line show in the adjacent graph).

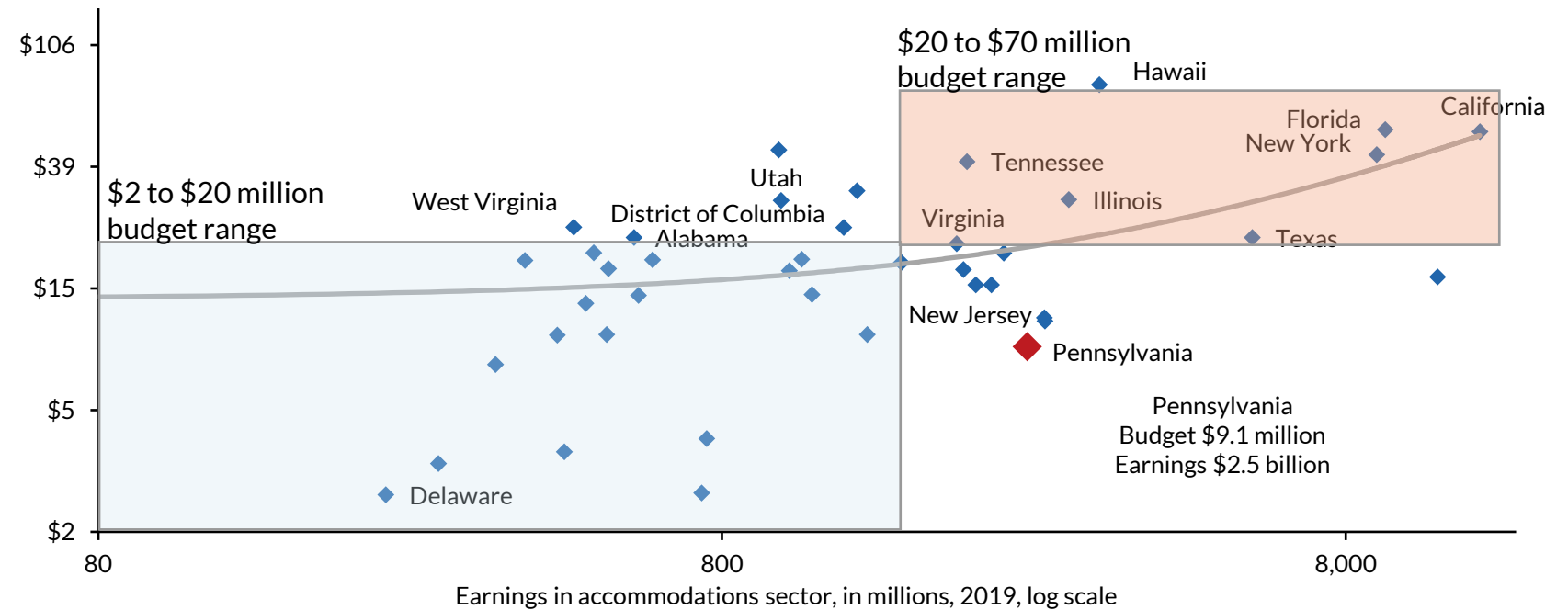
Pennsylvania competes for visitors with states such as New York and Virginia, which both have larger tourism budgets.

Also, many states with much smaller tourism industries spend more than Pennsylvania.

PA funding does not match earnings size

State tourism funding compared to earnings in accommodations sector

Budget, in millions, FY2021, log scale



Source: BEA; US Travel Association; Tourism Economics



4. Recommended tourism budget increase

In our assessment, destination marketing of PA is underfunded, and funding should be increased to \$39 million (excluding grants)

In our assessment, destination marketing of Pennsylvania is underfunded.

Pennsylvania destination marketing funding is below the benchmarks we analyzed. In addition, Pennsylvania has an extensive, successful and growing tourism industry. Destination marketing of Pennsylvania has not only lagged industry growth, but it has also been significantly reduced relative to past spending, such as the state's tourism office budget in FY 2008-09 of \$29.8 million.

We recommend Pennsylvania increase its annual state tourism funding to \$39 million (excluding grants).

We analyzed the optimal level of destination marketing funding for Pennsylvania. In this assessment, we considered the level of annual funding that would be:

1. consistent with the range of destination marketing funding currently in place in comparable benchmark destinations;
2. expected to yield effective returns on investment by increasing the number of visitors to the state;
3. adequate to support growth of the destination.

Based on our analysis, we recommend Pennsylvania increase its annual state tourism funding to \$39 million (excluding grants).

Comparison of increased tourism budget to benchmarks

We believe funding at approximately 75% of benchmark levels on key measures would represent optimal funding for PA. While this is lower than the benchmark averages, PA should benefit from economies of scale and be able to realize significant impacts.

We note the following:

- Benchmark state tourism budgets show current funding that averaged \$87 per leisure and hospitality job. To reach approximately 75% of that level, PA would require \$45.0 million of annual funding;
- Benchmark state tourism budgets show current funding that averaged \$17 per \$1,000 of earnings in the accommodations sector. To reach approximately 75% of that level, PA would require \$32.1 million of funding.

The rounded average of these amounts is \$39.0 million. In our assessment of PA's competitive position, and the size of its tourism industry and growth potential, we recommend this as the optimal funding level at this time.

We recommend PA increase its annual state tourism funding to \$39 million (excluding grants)

Recommended PA tourism funding

	State averages	Pennsylvania current	Recommended PA funding
Destination metrics			
Leisure and hospitality jobs (2019)		691,881	691,881
Earnings in accommodation sector (2019, in millions)		\$2,469	\$2,469
Destination marketing funding ratios			
Funding as a ratio to average			75%
Amount per leisure and hospitality job	\$87	\$13	\$65
Amount per \$1,000 of earnings in accom. sector	\$17	\$4	\$13
Potential PA tourism budget funding at benchmark levels			
Amount based on leisure and hospitality job ratio (in millions)			\$45.0
Amount based on earnings in accommodations (in millions)			\$32.1
Average (in millions, rounded)			\$39.0
Recommended PA tourism funding			
PA tourism office budget (in millions)		\$9.1	\$39.0

Source: BEA; US Travel Association; Tourism Economics

Comparison of increased tourism budget to benchmarks

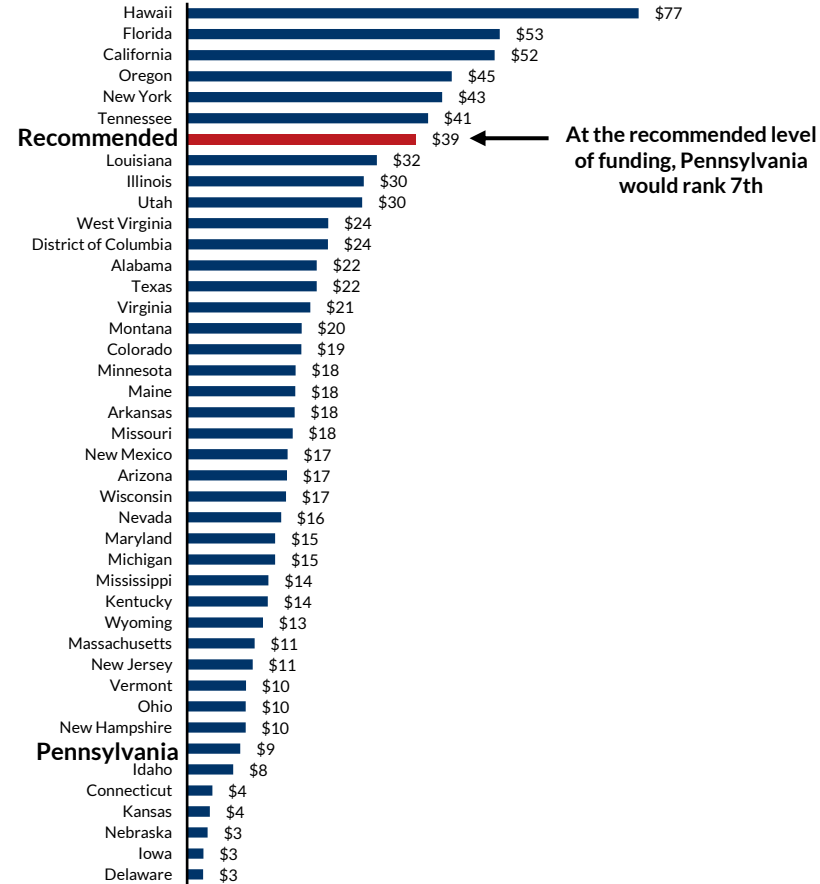
At \$39 million of recommended annual funding, Pennsylvania would rank 7th among the 41 states analyzed. This would be much more in line with the size of Pennsylvania's tourism industry than current funding.

This more closely aligns with Pennsylvania's tourism economy size. For example, on the basis of leisure and hospitality sector jobs, Pennsylvania ranks 10th out of 51 states (includes DC). On the basis of earnings in the accommodations sector (i.e., wages and salaries), Pennsylvania ranks 9th nationally.

PA's tourism budget ranks low

State tourism budget, FY 2020-21

In millions



Source: US Travel; Tourism Economics analysis of state budgets

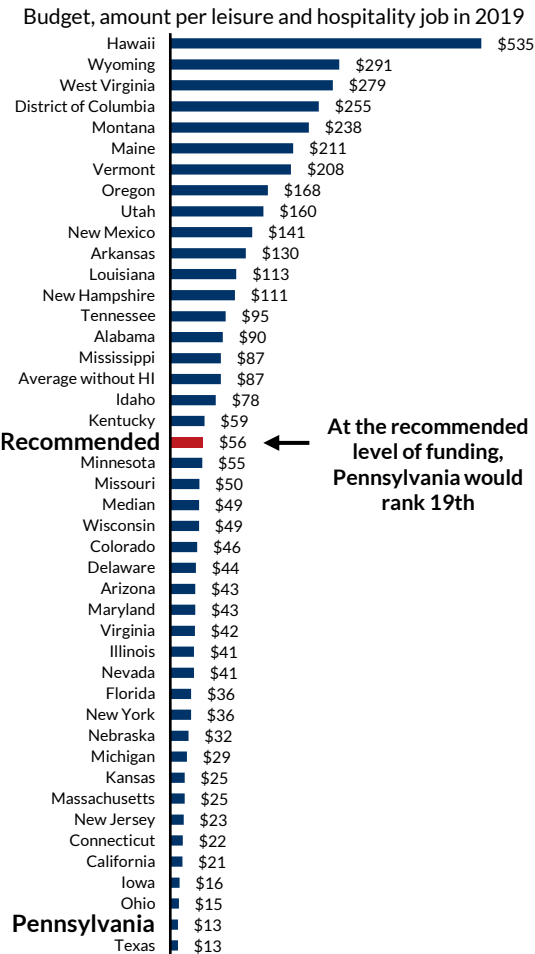
Comparison of increased tourism budget to benchmarks

On the basis of tourism budget funding per leisure and hospitality job, at recommended annual funding of \$39 million, which is equivalent to \$56 per job, Pennsylvania would rank 19th, slightly ahead of the median of \$49.

On the basis of tourism budget funding per \$1,000 of earnings in the accommodations sector, at recommended annual funding of \$39 million, which is equivalent to \$16 per \$1,000 of earnings, Pennsylvania would rank 20rd, slightly ahead of the median.

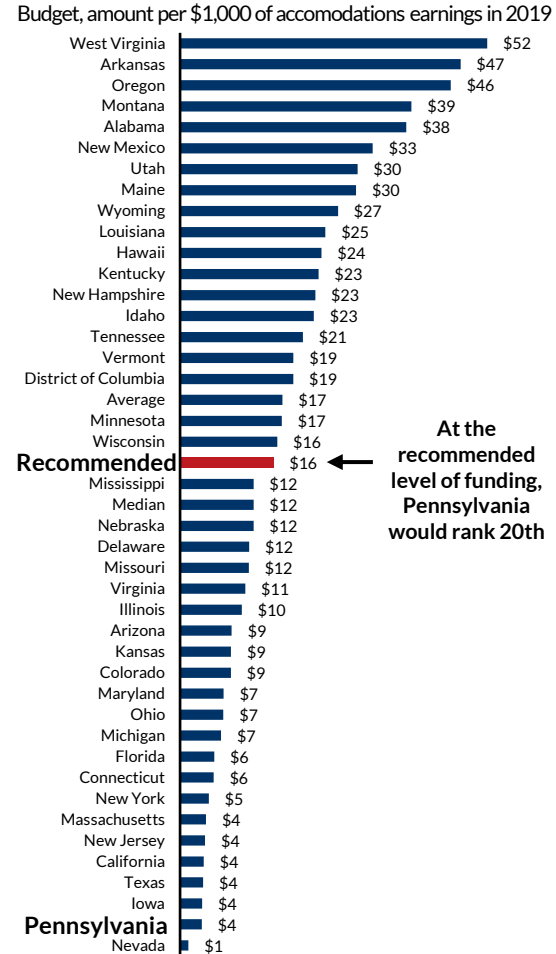
Recommended budget better reflects size of PA's industry

State tourism budget per L&H job



Source: US Travel; Tourism Economics analysis of state budgets

Budget share of accommodation earnings



Source: US Travel; Tourism Economics analysis of state budgets



5. Scenario analysis

Scenario analysis

We analyzed two sets of scenarios. This first considers a counterfactual, lost opportunity historical scenario in which Pennsylvania tourism funding had been maintained at the recommended budget amount, from Tourism Economics' 2015 PA budget analysis, of \$35 million annually, rather than the significantly reduced amounts in recent years. The second set of scenarios considers potential future gains, assuming that Pennsylvania tourism funding excluding grants increases to \$39 million annually.

To measure historical losses, we analyzed a counterfactual “lost opportunity” scenario in which the PA tourism budget excluding grants had been maintained at \$35 million.

We compared results in the lost opportunity scenario to actual historical results. The difference represents the visitor spending, economic output, jobs, labor income, and tax revenues that Pennsylvania lost as a result of PA tourism budget shortfalls.

To measure potential future gains, we analyzed an “alternative” scenario in which the PA tourism budget excluding grants increases to \$39 million starting in 2022.

We compared results in the alternative future scenario to baseline future results assuming the PA tourism budget is not increased. The difference between the two scenarios represents potential future gains that Pennsylvania could realize by increasing its tourism budget.

The following summarizes the results of our analysis.

Historical losses from underfunded tourism marketing

PA state tourism marketing has been underfunded in recent years compared to competitive states. To analyze the impacts of the weak budget, we prepared a counterfactual lost opportunity scenario. In this scenario, we estimated the level of additional visitor spending and economic impacts that would have occurred if Pennsylvania tourism funding excluding grants had been maintained at \$35 million annually. This analysis included the following key steps.

First, we reviewed information in the state budget and information from the PA Tourism Office on the funds available for state tourism marketing in recent years. Fiscal year budgets were converted to calendar year by averaging adjacent fiscal years (e.g., calendar year 2018 was calculated as the average of FY 2017-18 and FY 2018-19).

Next, we gathered a summary of visitor spending market share for Pennsylvania based on data from past economic impact reports prepared by Tourism Economics. As background on this approach, we note the following.

We next estimated the potential positive impact to visitor spending market share that competitive marketing of Pennsylvania could have achieved if its tourism budget excluding grants had been maintained at \$35 million. For example, we estimated that Pennsylvania's market share of visitor spending in the nine-state region would have been 17.7% in the lost opportunity scenario in 2019, as compared to the actual level of 16.8%.

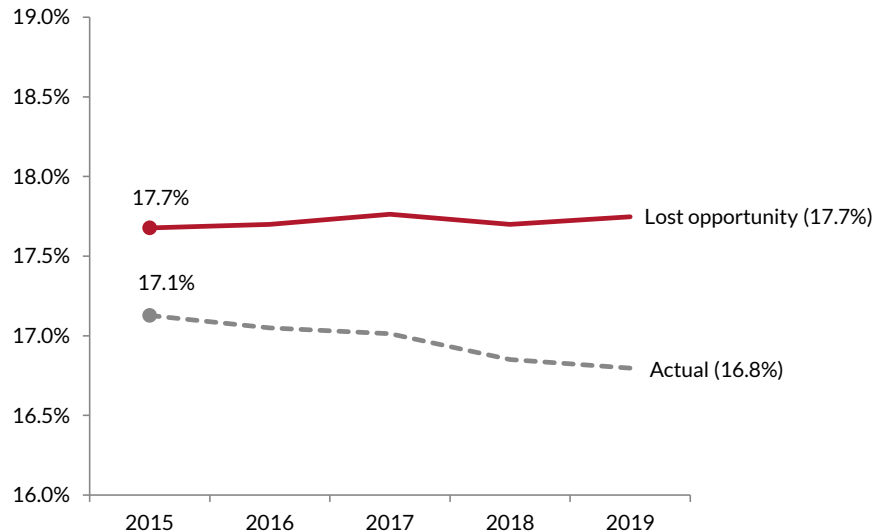
A lost opportunity in visitor spending

Our estimates of Pennsylvania's market share in the actual and lost opportunity scenarios are summarized in the graph below.

We next converted the estimated market share impact to an estimate of lost spending. For example, at 16.8% market share in 2019, Pennsylvania attracted approximately \$46 billion in visitor spending. With a 17.7% regional market share if funding was greater, this would have yielded \$49 billion in visitor spending. This implies a loss of \$2.6 billion relative to the lost opportunity (5.4% lower than actual).

PA share of visitor spending

Share of nine-state region, visitor spending



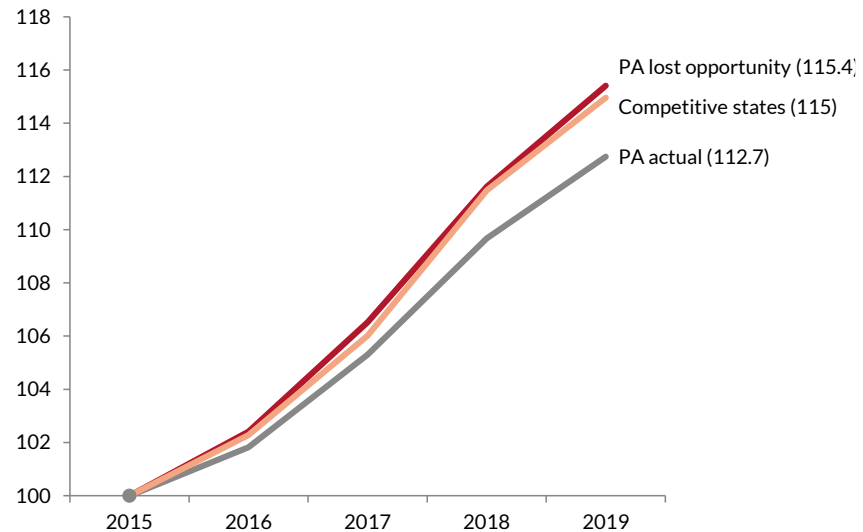
Source: Tourism Economics

The corresponding estimated visitor spending is presented in the following graph, which uses an index set equal to 100 in 2015. In the lost opportunity scenario, visitor spending in Pennsylvania would have expanded by 15.4% from 2015 to 2019, as compared to 12.7% growth that actually occurred, and slightly faster than the competitive state total of 15.0%.

These results are summarized in the table on the following page.

Visitor spending

Visitor spending, index (2015=100)



Source: Tourism Economics

Historical losses

As summarized in the accompanying table, the cumulative impact of PA tourism budget shortfalls from 2015 to 2019 relative to the lost opportunity scenario were as follows:

- 0.8 percentage points lower market share of visitor spending relative to the nine-state region;
- almost \$9.7 billion less visitor spending;
- 4.3% lower cumulative visitor spending than actual results; and,
- worsening lost opportunities over time.

The shortfall in PA's tourism budget has resulted in losses of \$9.7 billion of visitor spending

PA loss as a result of historical budget shortfalls

Amounts in millions, except key ratios

	2015	2016	2017	2018	2019	Cumulative
<i>PA tourism budget</i>						
Actual	\$5.8	\$4.1	\$4.0	\$4.1	\$5.3	\$23.3
Lost opportunity	35.0	35.0	35.0	35.0	35.0	175.0
Difference	-\$29.2	-\$30.9	-\$31.0	-\$30.9	-\$29.7	-\$151.7
<i>Market share (visitor spending)</i>						
Actual	17.1%	17.0%	17.0%	16.9%	16.8%	17.0%
Lost opportunity	17.7%	17.7%	17.8%	17.7%	17.7%	17.7%
Difference (percentage points)	-0.6%	-0.7%	-0.8%	-0.9%	-1.0%	0.8%
<i>Visitor Spending</i>						
Actual	\$40,839.0	\$41,581.0	\$43,004.0	\$44,788.0	\$46,041.3	\$216,253.3
Lost opportunity	42,150.4	43,166.2	44,899.8	47,047.3	48,645.3	225,909.0
Difference	-\$1,311.4	-\$1,585.2	-\$1,895.8	-\$2,259.3	-\$2,604.0	-\$9,655.7
Difference (relative to counterfactual)	-3.1%	-3.7%	-4.2%	-4.8%	-5.4%	-4.3%

Source: US Travel Association; PA Tourism Office; Tourism Economics

Historical losses for economic impacts

In our final step, we analyzed the lost economic impacts and tax revenues that resulted from the shortfall in the tourism budget. These represent business sales, labor income, jobs, and tax revenues that Pennsylvania would have realized.

For this analysis, we analyzed the impacts based on the economic impact model that we maintain as part of our ongoing analysis of the “The Economic Impact of Travel in Pennsylvania” for the Commonwealth. This economic impact model uses data from IMPLAN, a leading provider of economic impact models, to quantify the direct travel and tourism industry jobs and income that are supported by visitor spending, as well as the indirect and induced impacts in the broader economy that occur as a result of the direct impacts.

In total, Pennsylvania has spent approximately \$152 million less on tourism promotion since 2015. During that same period, the Commonwealth has lost approximately \$9.7 billion of visitor spending as a result of the weak budget. This implies that for each \$1 of budget “savings”, the Commonwealth has lost \$64 of visitor spending.

We estimate that as a result of the shortfall in the tourism budget, the Commonwealth lost an average of approximately 11,300 jobs per year from 2015 to 2019. In other words, with a budget excluding grants of \$35 million, during this period, travel and tourism industry employers would have employed approximately 7,500 more employees, and travel and tourism impacts would have supported an average of 3,700 more jobs in other parts of the economy.

In addition, the Commonwealth lost a cumulative total of \$4.5 billion of labor income that would have otherwise been earned by people employed by travel and tourism industry employers, or indirectly supported by the industry.

Lastly, the Commonwealth lost a cumulative total of \$679 million in state and local taxes. This implies that for each \$1 of PA tourism budget “savings”, the Commonwealth has foregone approximately \$4.48 of combined state and local tax revenues.

These lost state and local tax revenues include a cumulative total of \$45.2 million of lost local hotel occupancy taxes.

These results are summarized in the table on the following page.

Historical losses

As summarized in the accompanying table, the cumulative impact of PA tourism budget shortfalls from 2015 to 2019 relative to the lost opportunity scenario were as follows:

- \$9.7 billion of visitor spending;
- an average of 11,300 jobs;
- \$4.5 billion of cumulative labor income; and,
- \$679 million of state and local taxes, including \$45.2 million local hotel taxes.

Between 2015 and 2019, each \$1 of budget savings, caused:

- \$64 of lost visitor spending; and,
- \$4.48 of lost state and local tax revenues.

The PA tourism budget shortfall has resulted in a loss of \$679 million in state and local taxes

PA loss as a result of historical budget shortfalls

Amounts in millions, except jobs and key ratios

	2015	2016	2017	2018	2019	Cumulative
PA tourism budget						
Actual	\$5.8	\$4.1	\$4.0	\$4.1	\$5.3	\$23.3
Lost opportunity	35.0	35.0	35.0	35.0	35.0	175.0
Difference	-\$29.2	-\$30.9	-\$31.0	-\$30.9	-\$29.7	-\$151.7
PA lost impacts						
Visitor spending	-\$1,311.4	-\$1,585.2	-\$1,895.8	-\$2,259.3	-\$2,604.0	-\$9,655.7
Total economic output	-\$2,270.2	-\$2,744.2	-\$3,281.9	-\$3,911.1	-\$4,507.8	-\$16,715.2
Direct expenditures	-1,311.4	-1,585.2	-1,895.8	-2,259.3	-2,604.0	-9,655.7
Indirect and induced output	-958.8	-1,159.0	-1,386.1	-1,651.8	-1,903.8	-7,059.6
Total labor income	-\$604.0	-\$731.9	-\$872.9	-\$1,041.6	-\$1,202.2	-\$4,452.6
Direct labor income	-341.0	-412.2	-492.9	-587.4	-677.0	-2,510.5
Indirect and induced labor income	-263.0	-319.8	-380.0	-454.2	-525.1	-1,942.1
Total jobs (annual average)	-7,645	-9,253	-11,035	-13,145	-15,172	-11,250
Direct jobs	-5,104	-6,170	-7,379	-8,794	-10,135	-7,516
Indirect and induced jobs	-2,541	-3,083	-3,656	-4,351	-5,037	-3,734
Total fiscal (tax) impacts	-\$228.7	-\$275.4	-\$322.1	-\$384.3	-\$443.0	-\$1,653.5
State and local taxes	-96.2	-113.6	-133.6	-156.1	-179.7	-679.2
Federal taxes	-132.5	-161.7	-188.5	-228.2	-263.4	-974.3
Sub-total: Local hotel taxes	-5.5	-7.0	-8.8	-11.0	-13.0	-45.2
Key ratios (annual average)						
Visitor spending loss / budget savings	\$45	\$51	\$61	\$73	\$88	\$64
State and local tax loss / budget savings	\$3.29	\$3.68	\$4.31	\$5.05	\$6.05	\$4.48

Source: Tourism Economics

Historical losses

As summarized in the accompanying table, as a result of PA tourism budget shortfalls, the Commonwealth has lost:

- \$369.6 million of sales taxes;
- \$114.4 million of excise taxes and fees; and,
- \$92.4 million of personal income taxes.

The net state and local tax loss over this period is estimated at \$527.5 million (\$679.2 million of lost revenue, offset by \$151.7 million of tourism budget savings). This loss is equivalent to \$103 of additional taxes paid by each of Pennsylvania's more than 5.1 million households.

Reduced visitor spending has resulted in the loss of almost \$370 million of sales taxes

PA loss as a result of historical budget shortfalls

Amounts in millions of dollars

	2015	2016	2017	2018	2019	Cumulative
<u>State and local tax impacts by category</u>	-\$96.2	-\$113.6	-\$133.6	-\$156.1	-\$179.7	-\$679.2
Sales	-51.2	-61.4	-72.7	-85.6	-98.6	-369.6
Room Tax	-5.5	-7.0	-8.8	-11.0	-13.0	-45.2
Personal Income	-12.4	-15.2	-18.0	-21.9	-24.8	-92.4
Corporate	-8.3	-9.0	-10.1	-10.7	-12.4	-50.5
Social Insurance	-1.1	-1.2	-1.4	-1.6	-1.8	-7.1
Excise & Fees	-17.7	-19.8	-22.6	-25.3	-29.1	-114.4

Source: Tourism Economics

Note: Tax estimates are based on the IMPLAN model as customized for Pennsylvania. Excludes property taxes.

Potential future gains

We also assessed the potential future gains that could be achieved in an “alternative” scenario in which the PA tourism budget excluding grants is boosted to \$39 million, starting in calendar year 2023. In this analysis, we compared results in the alternative future scenario to baseline future results assuming the tourism budget is not increased. The difference between the two scenarios represents potential future gains that Pennsylvania could realize by increasing its tourism budget.

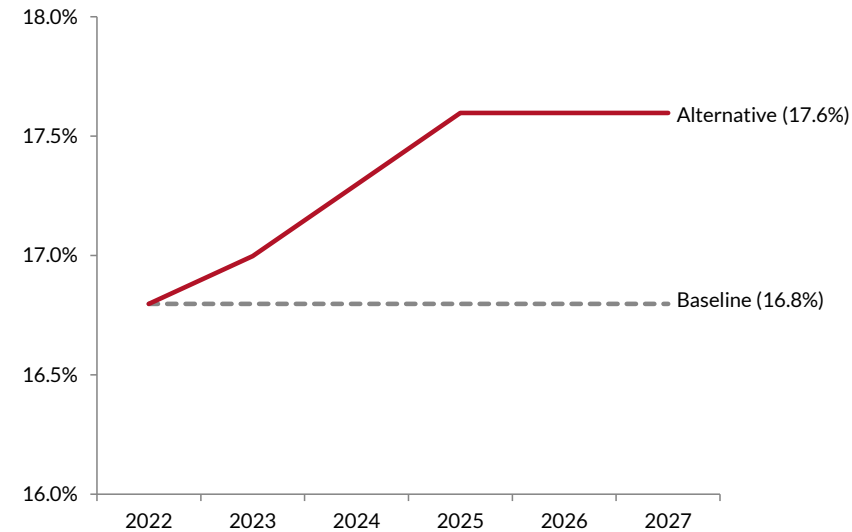
Our approach in this analysis is similar to the historical analysis in that we estimated the market share gains that Pennsylvania could achieve with additional destination marketing, and then estimated the corresponding level of visitor spending that would result.

Key assumptions were made about market share for this analysis. In the baseline scenario, Pennsylvania’s market share of visitor would remain approximately stable at its 2019 level of 16.8% from 2023 to 2027. In the alternative scenario, we estimate Pennsylvania’s market share of visitor spending in the nine-state region would gradually increase from 17.0% in 2023 to 17.6% in 2027. We assumed calendar year 2023 as the first year of budget increases and positive impacts.

The accompanying graph summarizes our market share estimates.

PA share of visitor spending

Share of nine-state region, visitor spending



Source: Tourism Economics

Potential future gains

As summarized in the accompanying table, the cumulative impact of increasing the tourism budget from 2023 to 2027 relative to the baseline are as follows:

- 0.6 percentage points increased market share of visitor spending relative to the nine-state region;
- \$9.6 billion of additional visitor spending;
- 3.8% higher cumulative visitor spending than in the baseline; and,
- improving gains over time.

Boosting the PA tourism budget could generate \$9.6 billion of additional visitor spending by 2027

PA potential gain as a result of future budget increase

Amounts in millions, except key ratios

	2023	2024	2025	2026	2027	Cumulative
<i>PA tourism budget</i>						
Baseline	\$9.2	\$9.4	\$9.6	\$9.6	\$9.7	\$47.6
Alternative	39.0	39.0	39.0	39.0	39.0	195.0
Difference	\$29.8	\$29.6	\$29.4	\$29.4	\$29.3	\$147.4
<i>Market share (overnight and day combined)</i>						
Baseline	16.8%	16.8%	16.8%	16.8%	16.8%	16.8%
Alternative	17.0%	17.3%	17.6%	17.6%	17.6%	17.4%
Difference (percentage points)	0.2%	0.5%	0.8%	0.8%	0.8%	0.6%
<i>Visitor Spending</i>						
Baseline	\$47,077.1	\$49,943.0	\$51,242.8	\$52,576.3	\$53,944.5	\$254,783.7
Alternative	47,637.6	51,429.7	53,683.3	55,080.3	56,513.7	264,344.7
Difference	\$560.5	\$1,486.6	\$2,440.5	\$2,504.0	\$2,569.2	\$9,561.0
Difference (relative to baseline)	1.2%	3.0%	4.8%	4.8%	4.8%	3.8%

Source: US Travel Association; PA Tourism Office; Tourism Economics

Potential future gains

As summarized in the accompanying table, as a result of boosting the tourism budget, over a five-year future period the Commonwealth has the potential to gain:

- \$9.6 billion of visitor spending;
- an average of 9,300 jobs;
- \$4.4 billion of labor income; and,
- \$659.6 million in state taxes and local taxes, including \$47.6 million of local hotel taxes.

For each additional dollar PA provides to its tourism budget it would generate:

- \$65 of additional visitor spending; and,
- \$4.47 of additional state and local tax revenues.

The 9,300 additional jobs would be statewide, across a range of diverse business in the travel sector and supporting sectors.

Boosting the PA tourism budget could add approximately 9,300 jobs between 2023 and 2027

PA potential gain as a result of future budget increase

Amounts in millions, except jobs and key ratios

	2023	2024	2025	2026	2027	Cumulative
<i>PA tourism budget</i>						
Baseline	\$9.2	\$9.4	\$9.6	\$9.6	\$9.7	\$47.6
Alternative	39.0	39.0	39.0	39.0	39.0	195.0
Difference	\$29.8	\$29.6	\$29.4	\$29.4	\$29.3	\$147.4
<i>PA potential impact gains</i>						
Visitor spending	\$560.5	\$1,486.6	\$2,440.5	\$2,504.0	\$2,569.2	\$9,561.0
Total economic output	\$970.4	\$2,573.6	\$4,224.9	\$4,334.8	\$4,447.6	\$16,551.3
Direct expenditures	560.5	1,486.6	2,440.5	2,504.0	2,569.2	9,561.0
Indirect and induced output	409.8	1,086.9	1,784.3	1,830.8	1,878.4	6,990.3
Total labor income	\$258.8	\$686.3	\$1,126.7	\$1,156.0	\$1,186.1	\$4,414.0
Direct labor income	145.7	386.5	634.5	651.1	668.0	2,485.8
Indirect and induced labor income	113.0	299.8	492.2	505.0	518.1	1,928.2
Total jobs (annual average)	3,273	8,679	14,248	14,619	15,000	9,303
Direct jobs	2,182	5,786	9,499	9,746	10,000	6,202
Indirect and induced jobs	1,091	2,893	4,749	4,873	5,000	3,101
Total fiscal (tax) impacts	\$95.4	\$252.9	\$415.2	\$426.0	\$437.1	\$1,626.7
State and local taxes	38.7	102.6	168.4	172.8	177.3	659.6
Federal taxes	56.7	150.4	246.9	253.3	259.9	967.1
Sub-total: Local hotel taxes	\$2.8	\$7.4	\$12.1	\$12.5	\$12.8	47.6
<i>Key ratios (annual average)</i>						
Visitor spending gain / budget increase	\$19	\$50	\$83	\$85	\$88	\$65
State and local tax gain / budget increase	\$1.30	\$3.46	\$5.72	\$5.89	\$6.05	\$4.47

Potential future gains

As summarized in the accompanying table, as a result of restoring the tourism budget, over a five-year future period the Commonwealth has the potential to gain:

- \$362 million of sales taxes;
- \$107 million of excise taxes and fees; and,
- \$91.1 million of personal income taxes.

The net state and local tax gain over this period is estimated at \$512.2 million (\$659.6 million of additional revenue, offset by \$147.4 million of additional tourism budget expenditures). Pennsylvania's state and local governments would have to tax each household \$100 over this period to raise an equivalent amount.

By 2027, boosting the PA tourism budget could generate \$660 million in state and local taxes

PA state and local tax gain as a result of future budget increase

Amounts in millions of dollars

	2023	2024	2025	2026	2027	Cumulative
<i>State and local tax impacts by category</i>	\$38.7	\$102.6	\$168.4	\$172.8	\$177.3	\$659.6
Sales	21.2	56.3	92.4	94.8	97.3	362.0
Room Tax	2.8	7.4	12.1	12.5	12.8	47.6
Personal Income	5.3	14.2	23.2	23.9	24.5	91.1
Corporate	2.7	7.1	11.6	11.9	12.2	45.4
Social Insurance	0.4	1.0	1.7	1.7	1.8	6.7
Excise & Fees	6.3	16.6	27.3	28.0	28.7	107.0

Source: Tourism Economics



Appendix 1: The vital role of destination promotion

Destination promotion provides the scale and strategic vision supporting a wide array of individual businesses

Destination marketing plays an integral and indispensable role in the competitiveness of the local and national visitor economy by addressing three challenges.

Challenge #1: The visitor economy is fragmented

The visitor economy is diverse with benefits accruing across various industries (e.g., hotels, restaurants, retail stores, transportation, performance venues and other attractions), and in many cases, these establishments are operated as small businesses that lack the capacity to conduct certain types of marketing. Moreover, certain benefits accrue across the economy rather than to just an individual business.

Because a visitor's spending is spread across businesses, any single business may not capture sufficient share of a visitor's spending to justify marketing to attract visitors to a destination. For example, an individual hotel could market the attractiveness of a destination, but it would only benefit from those additional visitors who not only choose the destination, but also choose that particular hotel; and the hotel would only benefit directly from the visitor's spending at the hotel. In other words, at the level of an individual business, the returns on independent marketing to attract visitors to a destination can be less compelling. However, when viewed at the level of the destination, there is a more direct connection. The destination captures a substantial dollar amount per visitor, and in aggregate there are compelling returns on effective destination marketing.

Solution: Destination promotion provides the scale and strategic vision supporting a wide array of individual businesses

Destination promotion organizations, including state tourism offices, also play a role furthering the strategic potential of the visitor economy. Destination marketing organizations (DMOs), including state tourism offices, can take a long-term view of the development of the destination and pursue tactics to help develop a visitor economy that better fits the goals of local residents and businesses. For example, many destinations have a mix of peak, shoulder, and low season periods. DMOs take steps to build shoulder season and low season demand and help fill slower days of the week, supporting a more stable base of employment and helping ongoing operations achieve a "break even" level of profitability. Similarly, DMOs can play a role helping to find solutions that balance the development of the visitor economy with the constraints and goals of a given destination, such as fostering the development of geographic areas with greater capacity for growth.

Destination promotion articulates the brand message that is consistent with consumer motivations

Challenge #2: The primary motivator of a trip is usually the experience of a destination, extending beyond the offerings marketed by a single business

The fundamental motivation driving a visit to a given destination is frequently not the offerings of a single business—instead it is the destination, including a range of attractions and the overall experience of a place. This experience is comprised of a visitor’s interaction with, and patronage of, numerous businesses and local experiences: hotels and other accommodations; restaurants; shopping and galleries; conferences; performances and other events; family activities; sports and other recreation; and cultural sites and attractions.

Marketing efforts that focus on only one sub-sector of the visitor market, such as communicating the offering of a specific hotel or other business, do not also adequately address the core motivation for potential visitors.

Solution: Destination promotion articulates the brand message that is consistent with consumer motivations

Through coordinated destination promotion, the destination is represented collectively, driving demand for all segments of the visitor economy. Stand-alone marketing efforts would almost certainly be less effective than a collective destination marketing campaign.

This relates to the significant importance of a destination’s brand. The most successful destinations are those that develop a strong and distinct brand identity, maintain awareness among key target markets, and provide a compelling call to action. This is only an achievable task if approached at the destination level since company-level efforts will inevitably fail to create consistent and representative brand awareness among global travelers.

Destination promotion pools resources to provide the economies of scale and marketing infrastructure required to generate impact

Challenge #3: Effective marketing requires scale to reach potential visitors across multiple markets

Effective destination marketing requires significant and consistent funding with the aim of gaining a sufficient “share of voice” to be heard and make an impact. Whether in the form of advertising or public relation efforts scale produces efficiencies that maximize the share of funding that goes to actual marketing and advertising, drives down per unit advertising costs, and enables higher impact, and more specialized efforts. As a result, the larger scale of collaborative destination marketing is more effective than what individual businesses could accomplish. Simply put, the whole of destination marketing is greater than the sum of individual parts.

Solution: Destination promotion pools resources to provide the economies of scale and marketing infrastructure required to generate impact

One of the benefits of coordinated marketing facilitated by a DMO is the ability to have a stable organization and funding base to support destination marketing. As a result, DMOs are able to efficiently leverage the brand, infrastructure and relationships that have been built over time.

For example, DMOs:

- Conduct marketing that leverages a base level of awareness of the destination than has already been established with some target customers, allowing annual marketing spend to be more effective at activating and reinforcing key messages;
- Use existing infrastructure, such as websites and publications, that are updated on a recurring basis;
- Employ a staff with established relationships with local tourism-sector businesses and marketing service providers; and,
- Support market research, such as visitor profile studies, that help individual businesses better target market opportunities, but which would likely not be economical for individual businesses to conduct independently.

Through these economic factors, destination promotion helps expand the visitor economy in ways that are consistent with local priorities, building the types of opportunities that are a critical part of economic development.

Destination promotion pools resources to provide the economies of scale and marketing infrastructure required to generate impact

Challenge #4: The pandemic reduced travel volumes and hit the industry particularly hard

The COVID-19 pandemic hit the travel industry hardest as travel restrictions and social distancing requirements caused visitor numbers to plummet. As social distancing requirements eased and the willingness to travel regained momentum, destinations have been eager to recapture pre-pandemic visitor volumes and regain market share.

Solution: Destination promotion is an essential tool in attracting back tourists

Marketing campaigns need to be designed to lure travelers to the most attractive destinations, ensuring their safety, and offering them experiences that align closely with their desires and interests. As the effects of the pandemic decline and borders progressively reopen, prospective travelers will be eager to be on the move again, and DMOs must be ready. This will require a level of speed and agility that will likely be new to many DMOs, long accustomed to the slower pace of more predictable times. But it is essential if they are to recapture their pre-pandemic visitor numbers. DMOs everywhere must act now to prepare and ensure that those upcoming experiences meet travelers' growing expectations. This will require significant investment to get destinations back on a path to growth in a rapidly evolving tourism environment.

Destination promotion supports the visitor economy, but it also acts as a catalyst of broader economic development

Tourism Economics / Oxford Economics has identified four primary channels through which destination promotion drives broader economic development and growth.

1) Attracting strategic events

By securing meetings and conventions, DMOs attract the very prospects that economic development agencies target. Not only do these events create valuable exposure among business decision makers, they create direct opportunities for economic development agencies to deepen connections with attendees.

“Economic clusters and conventions have become synergistic”

Tom Clark
Metro Denver Economic
Development Corporation

2) Raising the destination profile

Destination promotion builds awareness, familiarity, and relationships in commercial, institutional and individual networks that are critical in attracting investment.

“We are learning a lot from Visit California by how they brand California and how to take their model and apply it to economic development.”

Brook Taylor
Deputy Director
Governor’s Office of Business and Economic Development (GO-Biz)

3) Building transport networks

By developing the visitor economy, destination promotion supports transportation infrastructure, providing greater accessibility and supply logistics that are important in attracting investment in other sectors.

“Air service is profoundly important to corporate investment and location decisions... This is one of tourism’s most significant contributions since the levels of air service at New Orleans far exceed what local demand could support.”

Stephen Moret
Secretary
Louisiana Economic Development

4) Raising the quality of life

Visitor spending helps support a broader and higher quality set of local amenities than an area could otherwise sustain. The cultural, entertainment, culinary, and retail attractions that visitors support make a place more attractive to investors.

“Traveler attractions are the same reason that CEOs choose a place.”

Jeff Malehorn
President & CEO, World Business Chicago

Oxford Economics (2014, November) “Destination Promotion: An Engine of Economic Development: How destination promotion drives economic development.” Produced in connection with Destination & Travel Foundation. [Link](https://destinationsinternational.org/reports/destination-promotion-engine-economic-development) to <https://destinationsinternational.org/reports/destination-promotion-engine-economic-development>

Destination promotion helps drive economic development


Destination marketing supports economic development through four catalytic channels, extending its impact well beyond the effects of visitor spending. Destination marketing builds transport accessibility, attracts major events that build awareness, raises the quality of life for residents, and raises the profile of a destination among potential investors.

As a result, cities and states that succeed as destinations are more likely to succeed in broader economic terms.

The four channels of catalytic impacts generate benefits beyond direct effects of driving visitation



Oxford Economics (2014, November) "Destination Promotion: An Engine of Economic Development: How destination promotion drives economic development." Produced in connection with Destination & Travel Foundation. [Link](https://destinationsinternational.org/reports/destination-promotion-engine-economic-development) to <https://destinationsinternational.org/reports/destination-promotion-engine-economic-development>



Appendix 2: The ROI of destination marketing

The ROI of Destination Marketing

Many state and local CVBs and DMOs conduct periodic assessments of marketing effectiveness. There are several goals of these studies, including understanding how specific marketing campaigns are perceived by households, how effective the campaigns are in having an impact on households' intent to travel to a given destination, and which target markets are showing differing level of responsiveness to marketing. Frequently these studies include a specific analysis of the ROI of marketing spending in the form of a quantitative assessment of the level of incremental visitor spending and tax revenues that are attributable to destination marketing.

These studies use a variety of methods and are measuring the impact of a range of different campaigns across different situations. For example, a specific study may look at incremental visitors attracted by a state-level marketing campaign conducted by a state that attracts travelers from a range of national markets, while another study may focus on the results of a more targeted regional campaign carried out by a city-level CVB. While the results of a specific study pertain most directly to the situation that was analyzed and the corresponding assumptions, it is appropriate to consider broader inferences from the research. We analyzed recent studies that included an estimate of the incremental visitor spending attributable to advertising campaign spending.

For example, in a fairly typical approach, a study would:

- Use a survey to analyze the effect of a specific advertising campaign on households' travel to a given destination, such as by analyzing the impact on actual travel among those that had observed the advertising or by analyzing the impact on households' intentions to travel;
- Project that effect to the broader set of households in the marketing area to estimate the number of incremental visits attributable to the campaign;
- Apply typical levels of spending per visitor to estimate incremental visitor spending; and,
- Compare incremental visitor spending to the level of advertising spending to estimate the ROI.

Tourism Economics summarized the estimates of incremental visitor spending per dollar of advertising campaign spending from these studies in the table on the following page

The ROI of Destination Marketing

Estimates of incremental visitor spending per dollar of advertising campaign spending from the set of studies we analyzed is summarized in the adjacent table, supporting the following observations:

- We observe that recent marketing campaigns by destination marketing organizations at the state level have generated approximately \$198 of incremental visitor spending per dollar of advertising spending.
- We observe that recent marketing campaigns by destination marketing organizations at the metro/regional level have generated approximately \$111 of incremental visitor spending per dollar of advertising spending.

Marketing ROI matrix

Region	Timing	Visitor spending per ad dollar
States		
California	2019	\$465
Arizona	2019	381
Wyoming	Average 2016, '17, '18, '19	291
New Hampshire (Fall & Winter)	2018	270
Tennessee	2016	251
West Virginia	2016	193
North Carolina	2015	184
Kentucky	2014	151
Missouri	2013	131
Minnesota	2018	101
North Dakota	Average 2010, '12, '14	101
Michigan	2016	97
Utah	Average 2010, '11, '13	83
New Mexico	2013 to 2015	72
Metros and regions		
Trumbull County, OH	2019	\$194
North Lake Tahoe, CA	2018	182
Chicago, IL	Average 2012, '13, '14, '15	174
Alexendria, VA	2014	171
Niagara Falls, NY	2014	93
Virginia Beach, VA	2016	68
Kansas City, MO	2013	65
Washington, DC	Average 2013, '15	31
San Diego, CA	2013	19
Average of states		\$198
Average of metros and regions		\$111

Sources: Local studies compiled by Tourism Economics

COMPETITIVE ANALYSIS OF PENNSYLVANIA'S TOURISM BUDGET

Appendix: Case study review

Prepared for the Pennsylvania Restaurant & Lodging Association

Case Study: TIDs provide a competitive advantage for destinations

There is an average 2.12% difference in room demand between years in which a destination has an active TID and years without a TID.

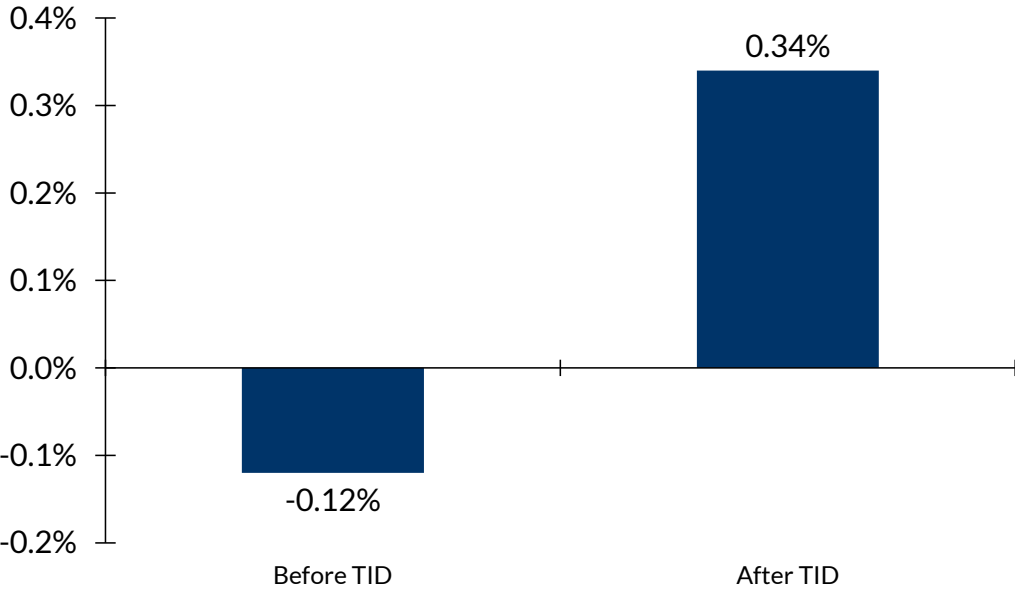
Tourism improvement districts (TIDs) are programs that involve a partnership with government organizations, like DMOs, and local private businesses, where private businesses opt-in to fund tourism budgets in their areas. A TID’s mission is to promote and improve tourism in the designated boundaries

Tourism Economics analyzed tourism-related economic impacts of 100 cities, including 29 tourism improvement districts (TID) destinations and 71 non-TID destinations.¹ Results suggest that TIDs enhance economic impacts in destinations.

- On average, TIDs produce a 2.1% lift in hotel room demand, while a destination gains 0.5% in demand growth per year after a TID is put in place. Before authorizing a TID, growth in was 0.12 percentage points slower compared to growth in non-TID cities. After authorizing a TID, growth in TID cities was 0.34 percentage points faster compared to non-TID cities.
- On average, TIDs produce a 4.5% lift in hotel room revenue, while a destination gains 1.1% in revenue growth per year after a TID is put in place. Before authorizing a TID, growth in TID cities was 0.24 percentage points faster compared to growth in non-TID cities. After authorizing a TID, growth in TID cities was 1.3 percentage points faster compared to non-TID cities.

Room demand growth premium*

2003-2019



Premium is measured as the difference in growth rates between TID and non-TID destinations
Source: STR, Tourism Economics

¹ Tourism Economics and Civitas (2021). The Economic Case For Tourism Improvement Districts.

Case Study: Colorado cuts state funding

Within two years, Colorado lost 30% of its US visitor market share.

Budget cuts in other US destinations provide case study examples of what has happened when destination marketing spending is reduced. Colorado, represents a powerful example of the impact of a dramatic reduction in destination marketing spending:

- Prior to 1993, the Colorado Tourism Board (CTB) had a \$12 million marketing budget, funded by a 0.2% tax on most tourism spend.
- Within two years of repealing its tourism funding in 1993, Colorado lost 30% of its US visitor market share, which translated into the equivalent of over \$1.4 billion annually in lost revenues. By the late 1990s, this had escalated to \$2.4 billion a year.
- After having moved from 14th to 1st position in the states' summer resorts category, Colorado slipped to 17th in 1994. It also shifted back to being more of a regional drive destination opposed to being a national fly-in venue and attracting fewer international visitors.
- The subsequent establishment of the Colorado Travel & Tourism Authority, which was an attempt to market the state with private sector funding in co-operation with the CTB, failed. This was attributed to the fact that private sector companies had separate priorities.
- The new Colorado Tourism Office opened with a \$5 million budget and in 2003, \$9 million was approved for tourism promotion. A campaign conducted from October 2003 through December 2004 resulted in 5.3 million incremental visits, representing 17% of total visitation to the state. In 2004, this generated \$1.4 billion of additional spend and \$89.5 million in state and local taxes.
- These estimates are equivalent to an implied visitor spending return-on-investment (ROI) per marketing dollar of \$140 (i.e., each dollar change in marketing spending resulted in a change in visitor spending of \$140).

ABOUT TOURISM ECONOMICS

Tourism Economics is an Oxford Economics company with a singular objective: combine an understanding of the travel sector with proven economic tools to answer the most important questions facing our clients. More than 500 companies, associations, and destination work with Tourism Economics every year as a research partner. We bring decades of experience to every engagement to help our clients make better marketing, investment, and policy decisions. Tourism Economics operates out of regional headquarters in Philadelphia and Oxford, with offices in Belfast, Buenos Aires, Dubai, Frankfurt, and Ontario.

Oxford Economics is one of the world's foremost independent global advisory firms, providing reports, forecasts and analytical tools on 200 countries, 100 industrial sectors and over 3,000 cities. Our best-of-class global economic and industry models and analytical tools give us an unparalleled ability to forecast external market trends and assess their economic, social and business impact. Headquartered in Oxford, England, with regional centers in London, New York, and Singapore, Oxford Economics has offices across the globe in Belfast, Chicago, Dubai, Miami, Milan, Paris, Philadelphia, San Francisco, and Washington DC, we employ over 250 full-time staff, including 150 professional economists, industry experts and business editors—one of the largest teams of macroeconomists and thought leadership specialists.