Competitive Analysis of Funding: Monterey, California

March 2017

MONTEREY
Monterey County Convention & Visitors Bureau

TOURISM ECONOMICS
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Executive Summary

Overview

The Monterey County Convention and Visitors Bureau (MCCVB) engaged Tourism Economics (“we”) to analyze market share and the return on investment of the publicly funded TID. In addition to this analysis, our report reviews the performance of Monterey County’s tourism sector, the role of the MCCVB in attracting visitors to the area, the economic rationale for tourism promotion, and case studies of changes in destination marketing organization (DMO) funding. This executive summary follows the structure of the accompanying report, with eight main sections.

1) Monterey County’s Tourism Sector Overview and Recent Performance

Visitors to Monterey County spent $2.7 billion in 2015. This spending directly generates (i.e. not including indirect and induced effects) 24,390 jobs, $1.1 billion in income, and $240 million in state and local taxes. 10% of all jobs and 5% of all income in Monterey County is directly attributable to tourism (source: BEA).

Monterey County’s share of the state’s total room demand has increased slightly to 2.21% in 2016 from 2.12% in 2011. While a 0.09 percentage point increase in the share of rooms booked may appear slight, travelers booked 141 million rooms in California in 2016, and therefore a 0.09% increase in share equates to 118,000 more room nights in Monterey County.

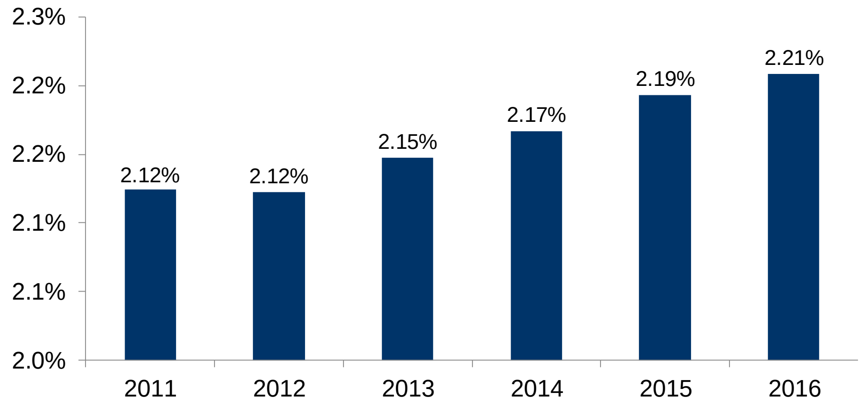
Key tourism indicators in Monterey County

Dollar figures are in millions	2015 value	Share of Central Coast total	Share of California total
Total visitor spending	**$2,709**	**33.5%**	**2.2%**
Earnings	**$1,111**	**39.5%**	**2.7%**
Employment	**24,390**	**30.8%**	**2.4%**
State and local taxes	**$240**	**34.8%**	**1.5%**

Source: Dean Runyan Associates

Monterey County's market share

Percent of California's total room demand



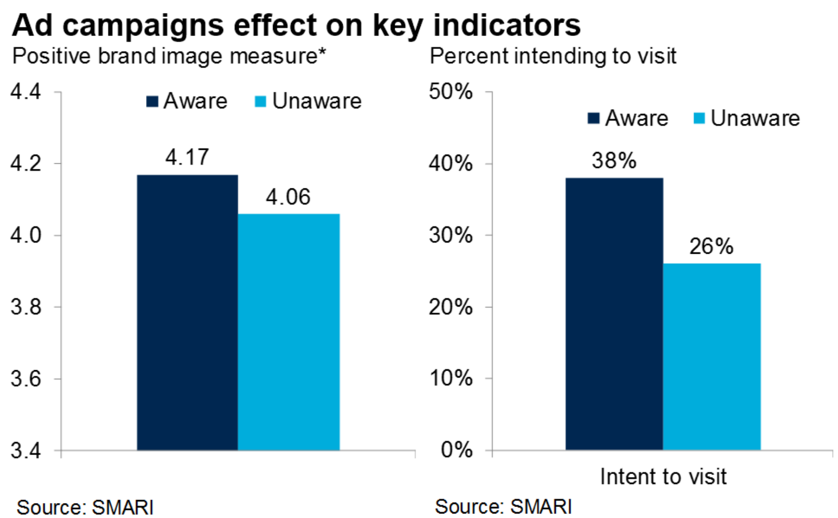
*Central Coast, Central Valley, San Fransisco Bay Area
Source: STR

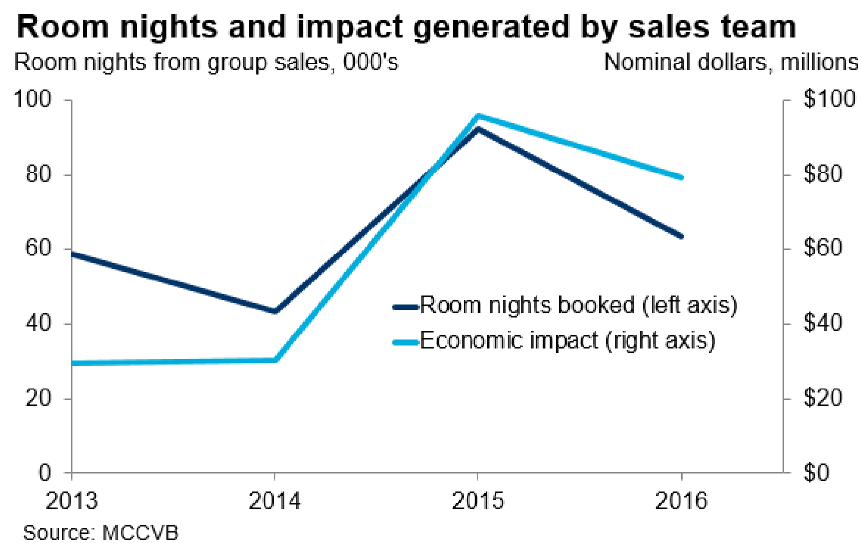
Executive Summary

2) MCCVB Performance

In 2016, the MCCVB sales team facilitated 87,500 room nights for groups, or 2.8% of all room nights in Monterey County. These bookings generated $74 million in local economic impact.

The MCCVB also manages media campaigns targeted toward the leisure market. Study results demonstrate the campaign's effectiveness. 38% of individuals that recall seeing media produced by the MCCVB ("Aware") report that they intend to visit in the future vs only 26% of those not aware of the MCCVB's advertisements.





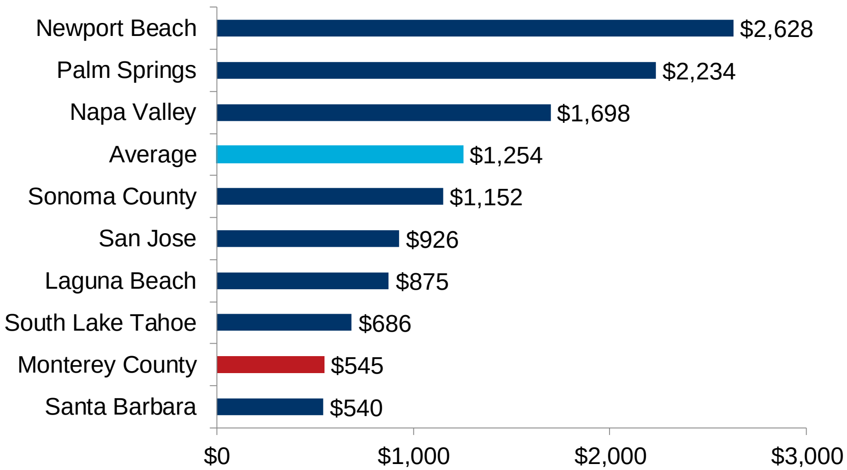
Executive Summary

3) Competitive Analysis of Funding

An analysis of public DMO funding in comparison to the size of similar and competing destinations indicates that the MCCVB is considerably underfunded. While the MCCVB receives only slightly less total public funding than its average competitor, the MCCVB represents a much larger tourism sector than its typical competitor. On a per hotel room basis, we find that the MCCVB receives only 43% of the funding suggested by its benchmark set.

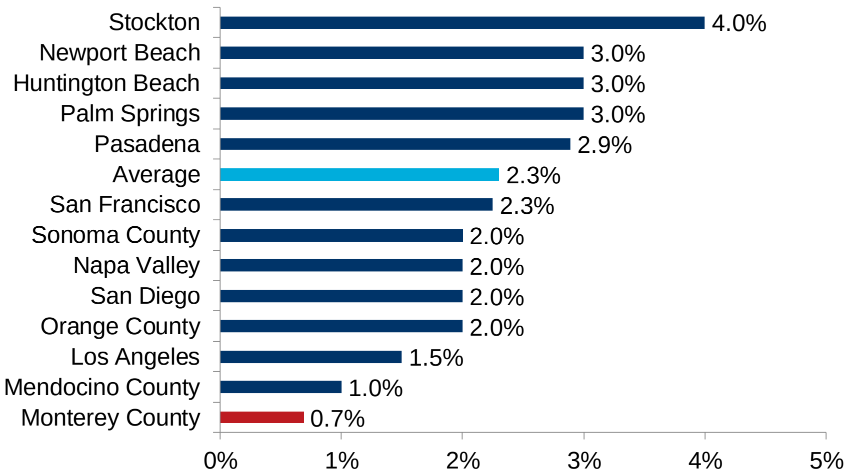
Analysis reveals that Monterey County's TID assessment rate (hotel tax rate) of 0.7%, is well below the average rate of 2.3%. In fact, Monterey County levies the lowest assessment of any destination examined.

Public funding per hotel room



Sources: DMAI; STR; DMO annual reports

Assessment rates in California TIDs



Sources: DMAI; STR; DMO annual reports

Executive Summary

4) Impacts of the TID on Monterey County's Economy

Monterey county relies on the TID to be competitively funded in comparison to competing destinations. The TID comprises 83% of the public funding necessary to compete suggested by our benchmarking analysis.

To analyze the impact of the TID, we create two scenarios, a **Non-TID Scenario (or Absence of TID)** and a **Baseline Scenario** in which the TID remains in place. We estimate the fiscal and economic impacts of these two scenarios

In 2020, our **Baseline Scenario** forecasts MCCVB receiving $7.6 million in public funding. In the **Non-TID Scenario**, the MCCVB receives $3.2 million in public funding, a decrease of $4.4 million. We estimate that this level of funding would result in $128.9 million of lost visitor spending.

On a cumulative basis, from 2018-2022, we forecast that the TID for Monterey County contributes $518 million in visitor spending. This spending in turn delivers a total of $36 million in state and local tax revenue. Additionally, 782,000 total room nights and $174 million in room revenue result from the TID. To put this into perspective, a medium-sized hotel (100 rooms) with a destination average ADR ($222) gains 1,600 rooms and $360,000 in room revenue.

DMO revenue and visitor spending in two scenarios, 2020

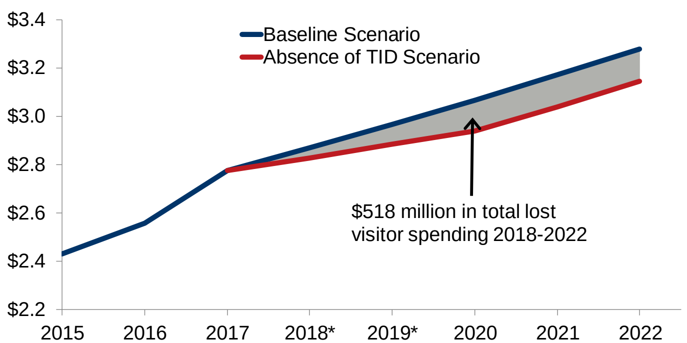
Dollar figure in millions

	Baseline Scenario	Absence of TID Scenario
TID revenue	$4.4	--
Hotel tax revenue	$2.9	$2.9
Private revenue	$0.3	$0.3
Total MCCVB revenue	$7.6	$3.2
Total Funding decrease relative to baseline	--	$4.4
Total decrease in marketing spending (90%)	--	$4.0
Anticipated total ROI on lost marketing spending	--	32-to-1
Decrease in visitor spending	--	**$128.9**
Total visitor spending	$3,067	$2,938

Sources: Tourism Economics

Visitor spending in two scenarios

Nominal dollars, billions



*Cool-down years in which the full impact of funding decrease is not realized
Source: Tourism Economics

Executive Summary

Appendix 1: Methodology

We combine previous research and widely accepted techniques to calculate how increased DMO funding will increase visitor spending and the economic impacts of tourism on the Monterey County economy.

Appendix 2: The economic rationale for destination marketing

The case for destination marketing is broad and compelling. The need for strong destination marketing is connected to the characteristics of the tourism sector, the dynamics of travel markets, and proven economic returns of effective marketing. Destination marketing plays an integral and indispensable role in the competitiveness of the local tourism economy by addressing three challenges. In addition to addressing key challenges, catalytic impacts make tourism promotion integral to Monterey County's tourism sector and economy as a whole.

Appendix 3: Case study review

A case study review demonstrates the important role of the destination marketing organization (DMO) on the local tourism economy, and validates the need for competitive destination funding. When destinations such as Colorado and San Diego significantly reduced destination marketing, profound negative impacts on visitation soon followed. Conversely, providing increased levels of funding has been shown to drive tourism growth and positively contribute to regional and national perceptions, such as the case with the "Pure Michigan" campaign.

1) Monterey’s Tourism Sector Overview and Recent Performance

Tourism is a major driver of the Monterey County economy

In 2015, visitors spent $2.7 billion in Monterey County, generating 24,400 jobs and $1.1 billion in local income

The following pages detail the size of Monterey County's tourism sector along with trends in the tourism sector.

Visitors to Monterey County spent $2.7 billion in 2015. The majority of this spending accrues to the accommodations and food services sectors.

This spending directly generates (i.e. not including indirect and induced effects) 24,390 jobs, $1.1 billion of income, and $240 million in state and local taxes.

10% of all jobs and 5% of all income in Monterey County is directly attributable to tourism (source: BEA).

Monterey County represents approximately one-third of the Central Coast region's tourism sector and over 2% of the state's tourism sector.

Key tourism indicators in Monterey County

Dollar figures are in millions	2015 value	Share of Central Coast total	Share of California total
Total visitor spending	**$2,709**	**33.5%**	**2.2%**
Accommodations	$680	36.2%	2.9%
Food Service	$797	36.1%	2.8%
Food Stores	$73	27.2%	2.0%
Local Tran. & Gas	$203	22.0%	1.2%
Arts, Ent. & Rec.	$356	35.7%	2.2%
Retail Sales	$491	34.7%	2.9%
Visitor Air Tran.	$18	28.6%	0.3%
Other travel spending	$91	27.9%	0.9%
Earnings	**$1,111**	**39.5%**	**2.7%**
Employment	**24,390**	**30.8%**	**2.4%**
State and local taxes	**$240**	**34.8%**	**1.5%**

Source: Dean Runyan Associates

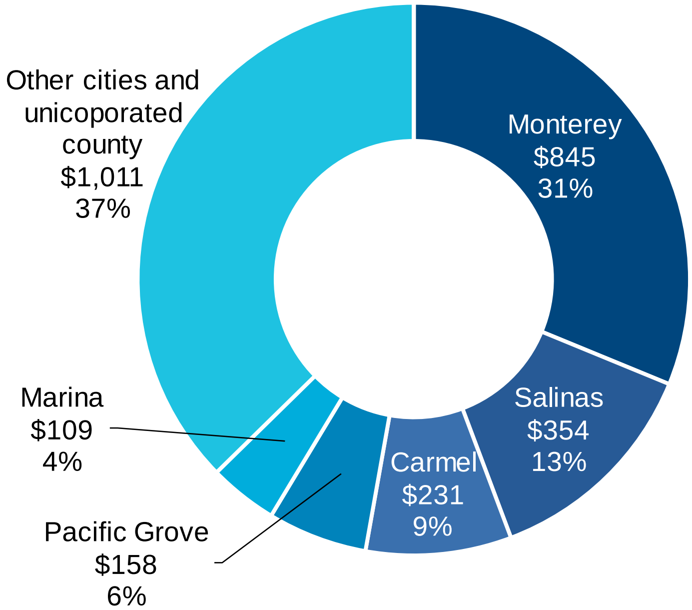
Visitor spending is distributed throughout the county

While the city of Monterey receives the most visitor spending, all local communities benefit from the tourism sector

31% of all spending in Monterey County, or $845 million, occurs in the City of Monterey. While the City of Monterey receives the most spending, smaller cities like Marina and Pacific Grove receive over $100 million annually.

Visitor spending in Monterey County, 2015

Nominal dollars, millions, and percent of total

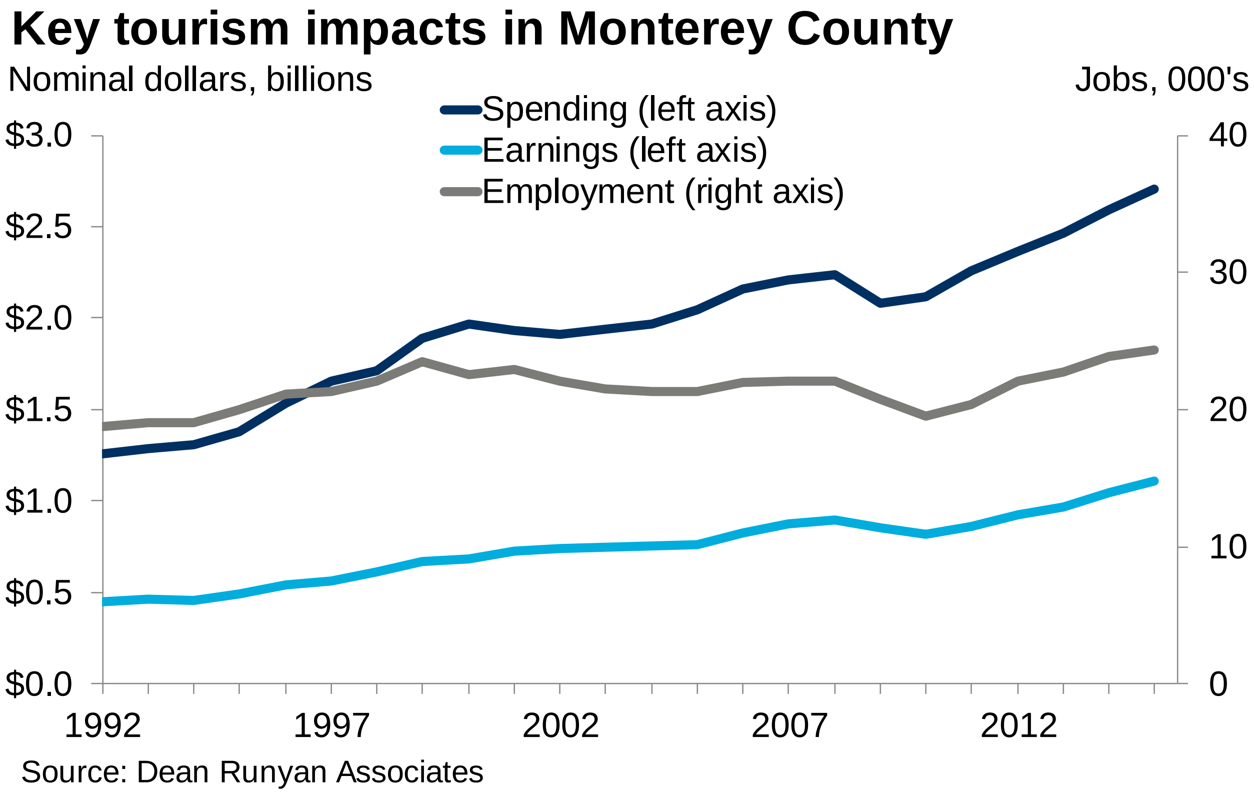


Source: Dean Runyan Associates

The impact of tourism is rapidly increasing

Visitor spending is up 30% in six years

Visitor spending reached $2.7 billion in 2015, up from $2.1 billion in 2009, a 30% increase in six years. Over the same period, employment is up 18%, income is up 31%, and tax revenue is up 27%.

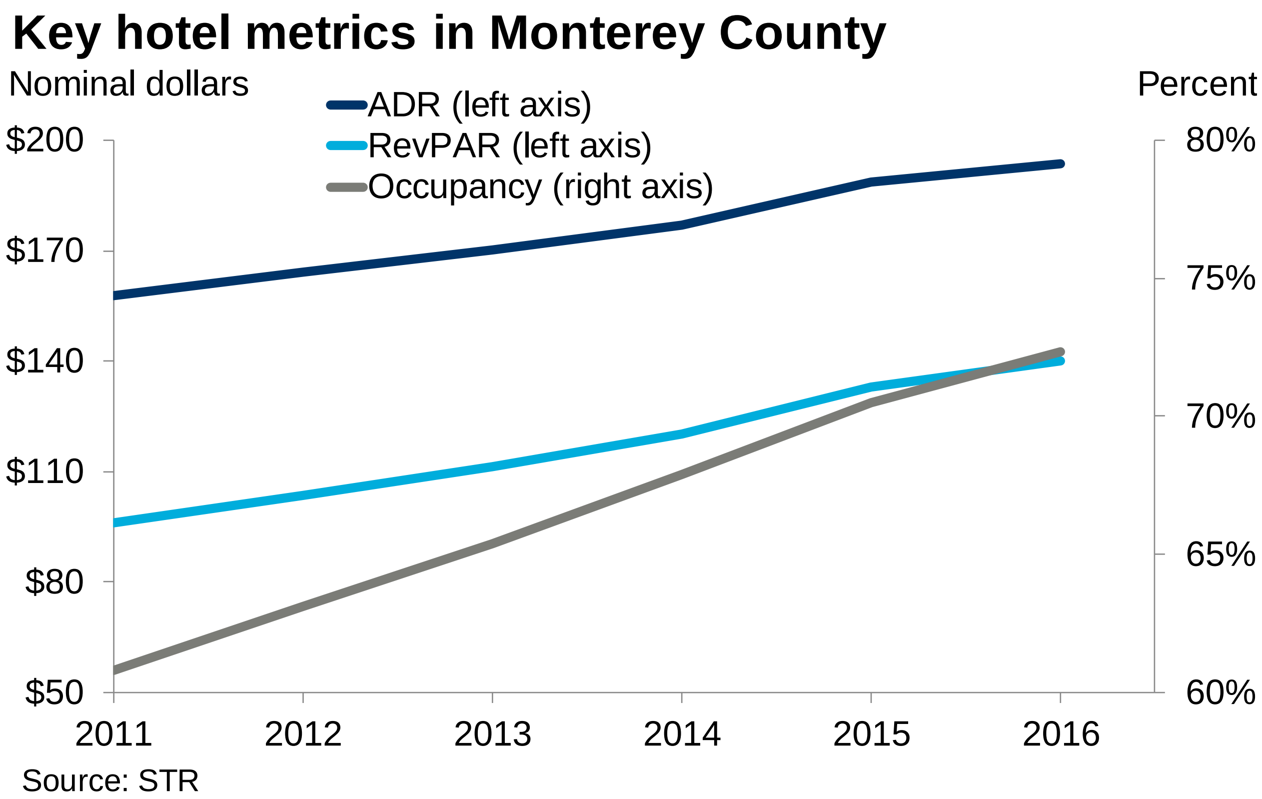


Hotel sector KPIs are rising steadily

ADR reached $194 and RevPAR reached $140 in 2016

Hotel sector KPIs (key performance indicators) have grown at a steady rate since 2011.

- ADR (average daily rate) increased to $194 from $158.
- RevPAR (revenue per available room) increased to $140 from $96.
- Occupancy rate increased to 72% from 61%.



Total room demand is growing at a healthy rate

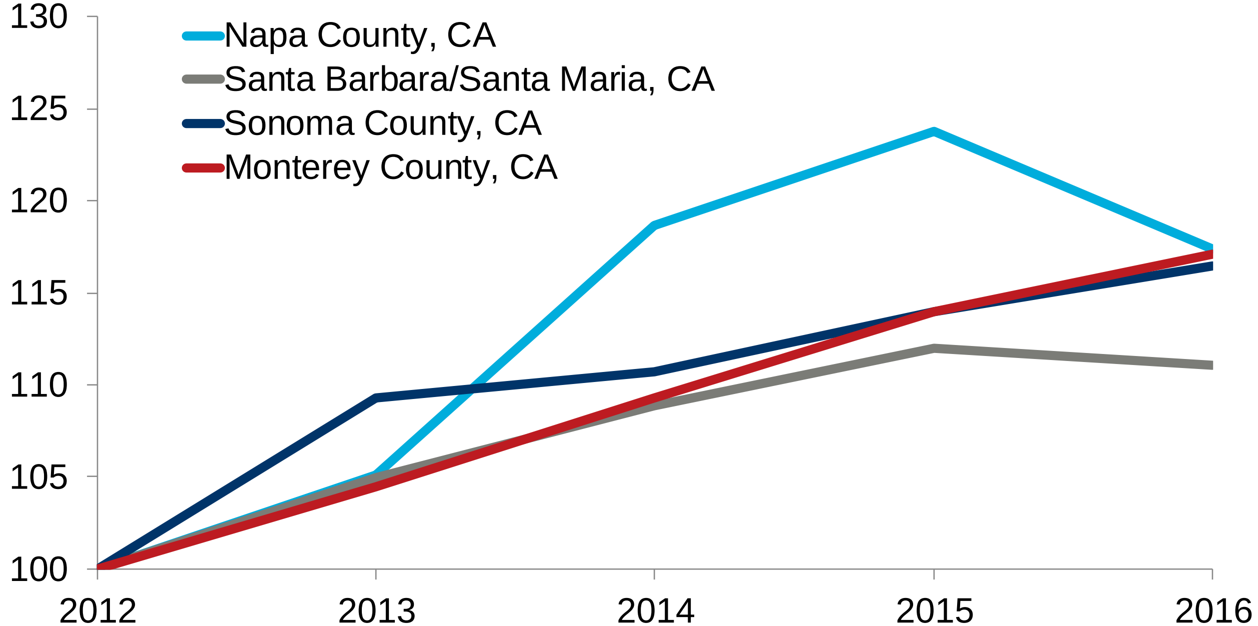
Monterey County has grown at a similar rate as competing destinations

Room demand in Monterey County has grown 17% since 2012. This is higher than Santa Barbara's growth, and roughly equivalent to growth in Napa County and Sonoma County.

This indicates that Monterey County is growing at a similar rate as its nearby competitive destinations.

Growth in hotel room demand, 2012-2016

Index (2012=100)



Source: STR

Monterey County's share of room demand in the state has increased

The increase may appear slight, but represents 118,000 additional room nights

Room demand may be the best measure of change in market share as it directly reflects the size of the overnight tourism market, and overnight tourists account for the majority of visitor spending.

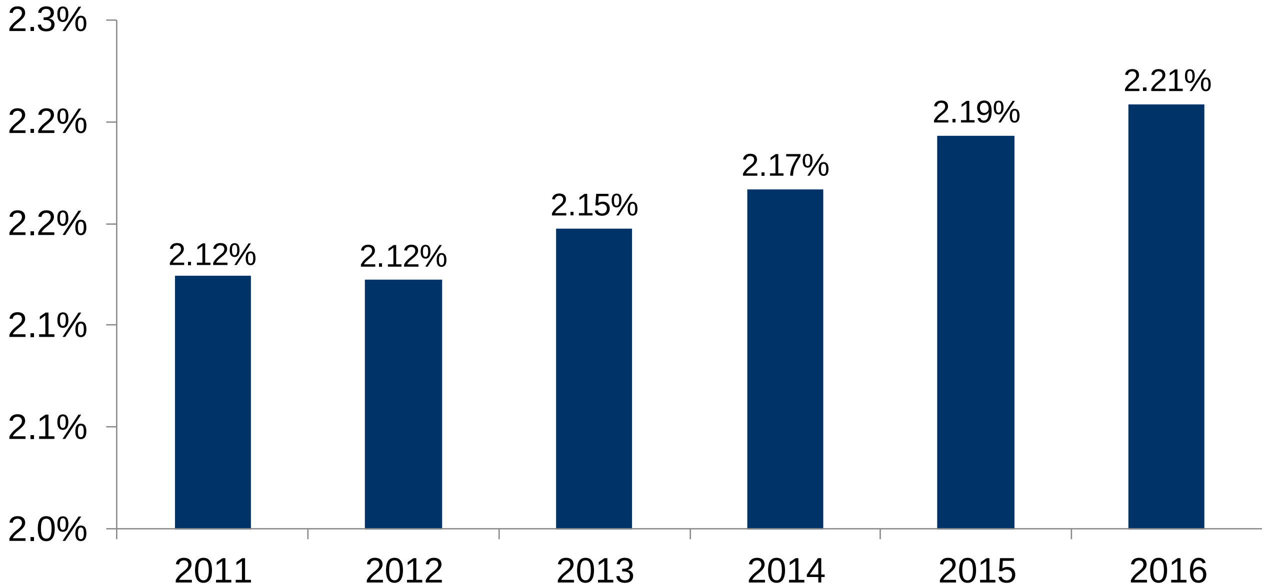
Monterey County's share of the state's total room demand has increased slightly to 2.21% in 2016 from 2.12% in 2011.

While a 0.09 percentage point increase in the share of rooms booked may appear small, travelers booked 141 million rooms in California in 2016, and therefore a 0.09% increase in share equates to 118,000 more room nights in Monterey County.

All trends examined indicate that tourism in Monterey County is experiencing healthy growth.

Monterey County's market share

Percent of California's total room demand



*Central Coast, Central Valley, San Fransisco Bay Area
Source: STR

2) MCCVB Performance

The Monterey County Convention & Visitor Bureau (MCCVB) is an engine that drives the growth of Monterey County's tourism sector

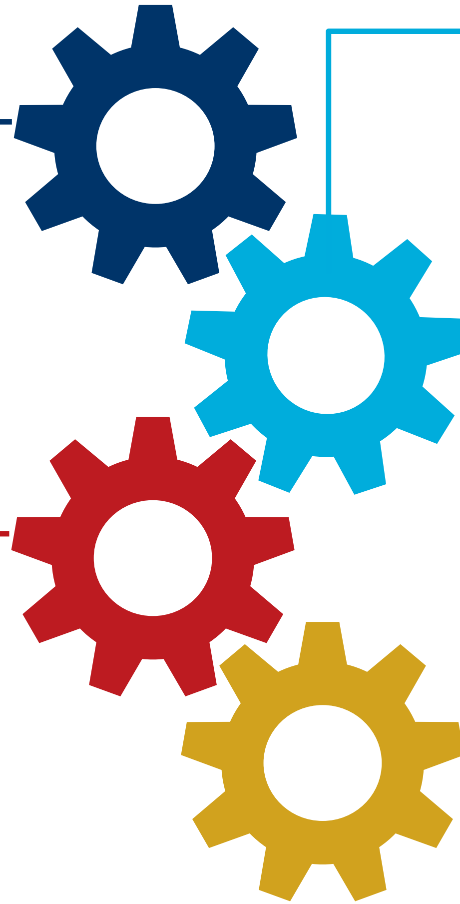
The MCCVB utilizes a variety of complementary channels to encourage potential travelers to visit and spend the night in Monterey County

Hosting SeeMonterey.com

- Engineered a major reconfiguration of the site in 2016 based on stakeholder feedback
- Created a "Utrip" feature which allows visitors to create customized itineraries
- Hosted 1.7 million unique visitors in 2016

Creating online and social media campaigns

- Partners with LATimes.com and SFGate.com to create an online Monterey content hub that garnered 121,000 story reads
- The Big Blue Live Sweepstakes earned 1.3 billion(!) total media impressions
- Engages over 100k Facebook fans, 18k Twitter Followers, and 13k Instagram followers



Working with industry professionals

- Hosted 14 FAM tours with 144 agents and operators
- Facilitated 87,500 room nights for groups, or 2.8% of all room nights in Monterey County

Catering to Group Sales experiences

- The MCCVB's Strategic Client Services Department works to create programs that add additional value to group experiences
- Site inspections allow potential meeting professionals to see the hotels and venues
- Microsites and custom maps ensure that each group's unique needs and desires are catered to

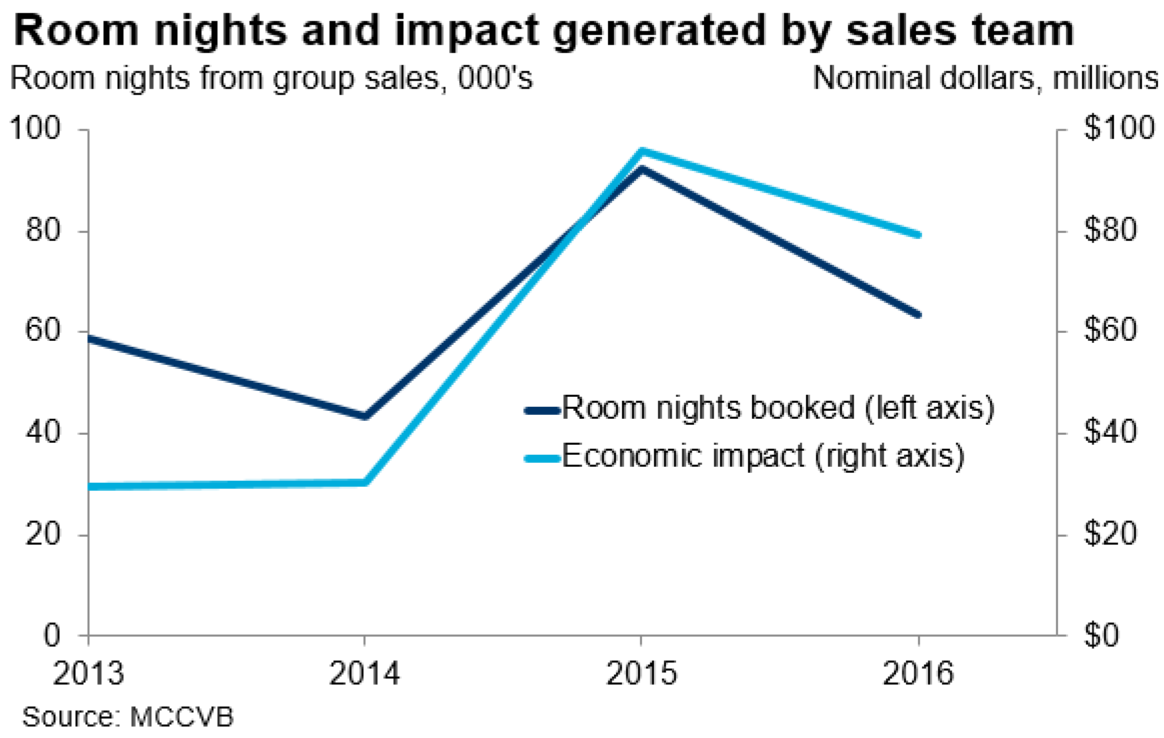
Booking large groups and generating millions of dollars in economic impact

In 2016, the MCCVB sales team facilitated 87,500 room nights and created a total economic impact of $79 million

The following slides detail the major impacts that the MCCVB has on the Monterey County tourism sector and the Monterey County brand.

The MCCVB sales team actively pursues group bookings for Monterey County hotels.

In 2016, the sales team facilitated 87,500 rooms for group bookings; this equates to 2.8% of all Monterey County room nights. These bookings generated $79 million in local economic impact.



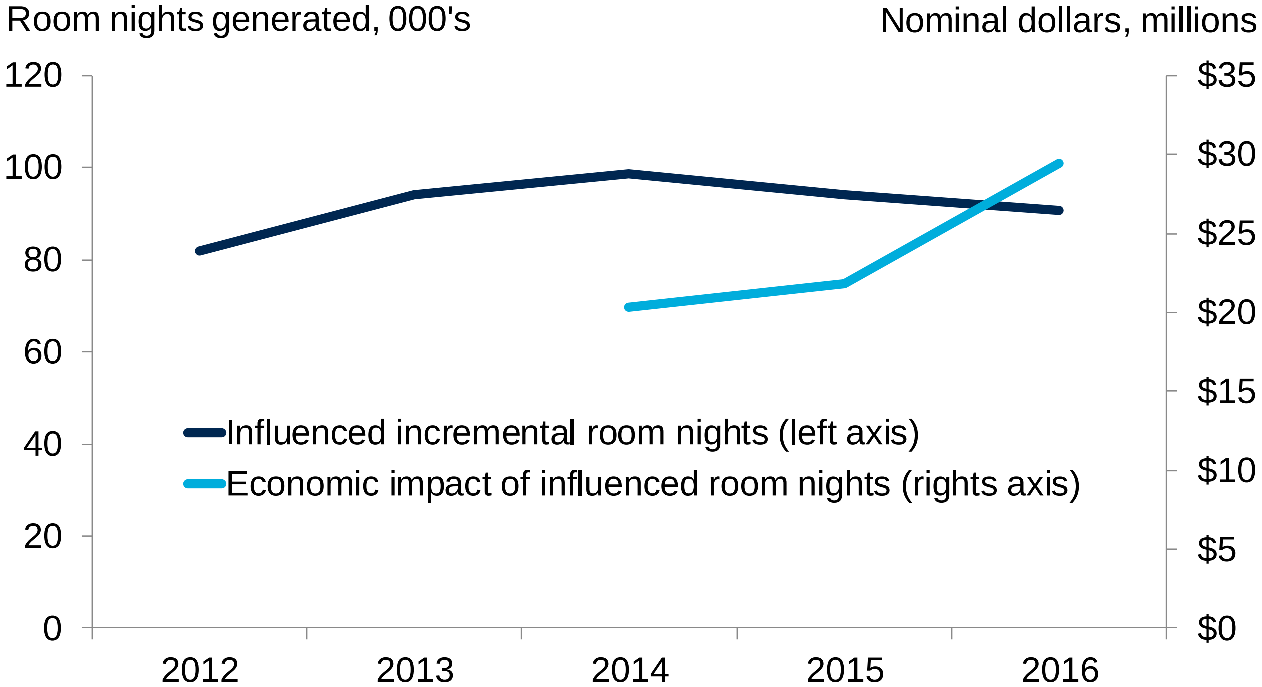
Influencing visitors to spend the night

Visitor Services Specialists work to encourage visitors to lengthen their stays and spend more money in Monterey County

The Monterey Visitors Center serves as a local tourism hub and encourages inquisitive visitors to stay in Monterey longer and spend more money at local businesses. In 2016, 62% of visitors served by Visitor Services Specialists extended their stay as a result of their interaction.

In addition to influencing visitors at the official visitors center, the MCCVB operated satellite services at 43 local events and conferences. In 2015-16, 108,000 visitors were assisted by specialists, these meetings generated 90,700 incremental room nights and $29 million in additional visitor spending.

Visitor services



Source: MCCVB

Promoting Monterey County as a destination

Media campaigns increase perceptions of Monterey County and make travelers more likely to visit Monterey County

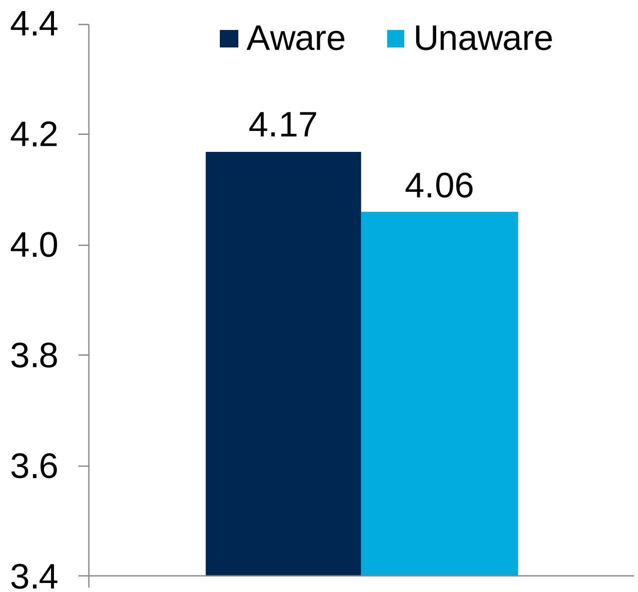
The MCCVB has partnered with Strategic Marketing & Research Inc. (SMARI) to measure the impact of its advertising campaigns.

SMARI's research indicates that individuals that have seen media produced by the MCCVB have more positive association with the Monterey brand and are more likely to visit in the future.

38% of individuals that recall seeing media produced by the MCCVB ("Aware") report that they intend to visit in the future vs only 26% of those not aware of the MCCVB's advertisements.

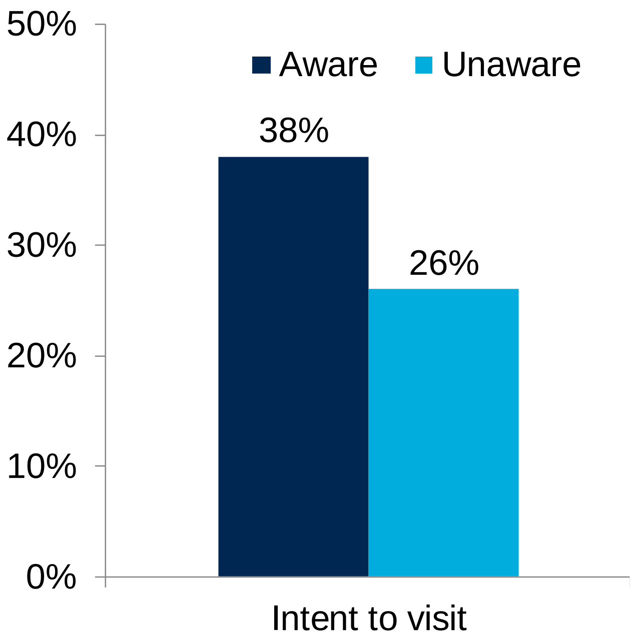
Ad campaigns effect on key indicators

Positive brand image measure*



Source: SMARI

Percent intending to visit



Source: SMARI

*Measures the degree with which survey respondents have positive associations with the Monterey brand

Targeting the international market

The MCCVB engages with the rapidly growing international market to ensure that the County does not miss out on the increasingly lucrative segment

China

- Targeted tour operator promotion resulting in over 4700 bookings (average 3-5 room nights each) over 3 month promo period
- Gained over 50,000 Weibo (China's main social media site) followers
- Hosted China-ready training seminars for hospitality professionals in Monterey County

Mexico

Conducted Brand USA campaigns and Visit California media & sales missions to Mexico

- Campaign delivered social reach of 8.7MM
- Presented to 240 travel agents;
- Held one-on-one meetings with 10 largest tour operators

Canada

- Targeted travelers with an ad campaign on Expedia Canada receiving 338,000 impressions and booked over 2,500 rooms during the campaign
- Ran a print campaign in Air Canada's in-flight magazine in promoting new flights to the region

The United Kingdom

- Partnered with Brand USA to host the Jeni and Olly Show, a popular Travel Channel show with an estimated 1.7 million viewers
- Partnered with San Jose and Santa Cruz CVBs to launch Expedia and British Airways promotions

3) Competitive Analysis of Funding

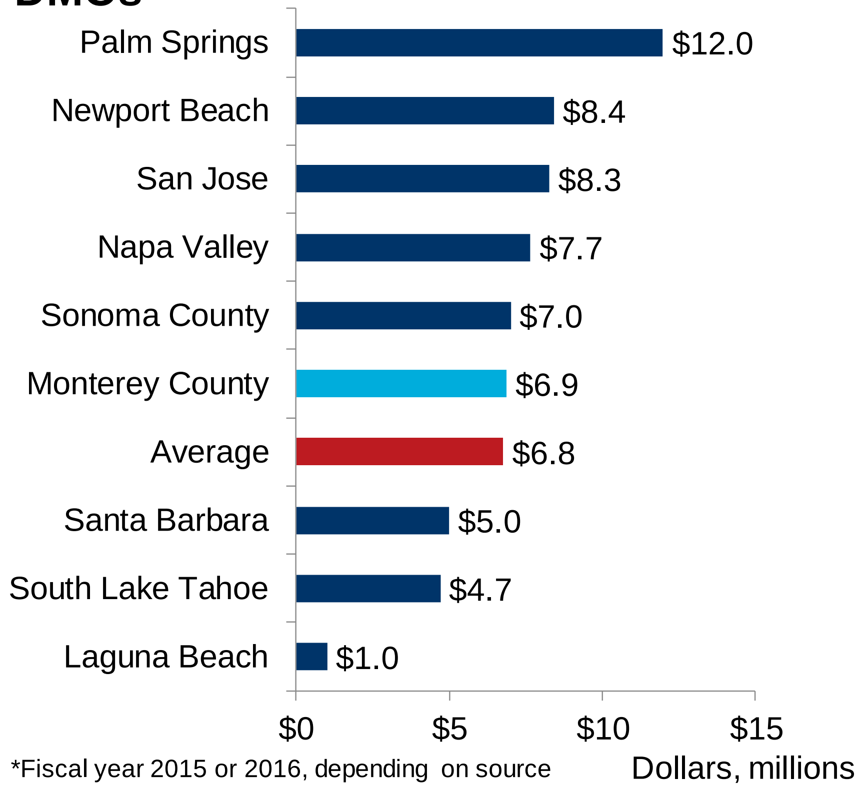
Funding comparison (1 of 3)

The MCCVB receives less funding than five of its eight competitors.

The following slides will analyze the MCCVB's level of public funding compared to competing and similar destinations. To analyze the appropriateness of funding for tourism promotion in Monterey County, we analyze a competitive set of eight destination marketing organizations (DMOs). These are the destinations that the MCCVB considers major competitors for the leisure market. This analysis provides key benchmarks in understanding an appropriate level of funding for the MCCVB.

With total public funding (city, county, and assessments) of $6.9 million, the MCCVB receives less funding than five of its eight competitors but slightly more funding than the set average of $6.8 million.

Total public funding* for competitive DMOs



*Fiscal year 2015 or 2016, depending on source data availability

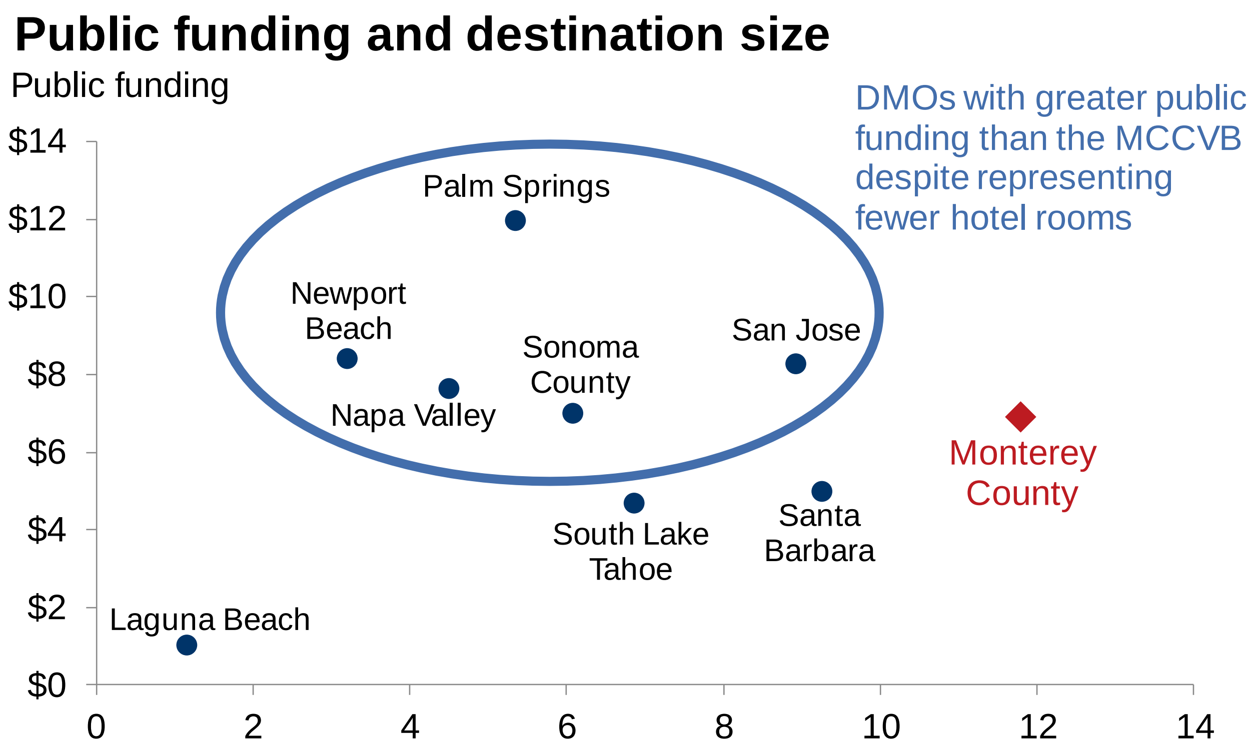
Sources: DMAI; STR; DMO annual reports

Funding comparison (2 of 3)

Monterey County has low DMO funding relative to its hotel inventory

To more fairly compare the appropriateness of DMO funding across the competitors, we evaluate the size of the tourism sector in these destinations (as measured by the number of hotel rooms) compared to the amount of public funding they receive (from the city, county, or special assessment).

Plotting the data reveals that a number of competing destinations receive greater public funding than the MCCVB despite representing a smaller tourism sector.



Sources: DMAI; STR; DMO annual reports

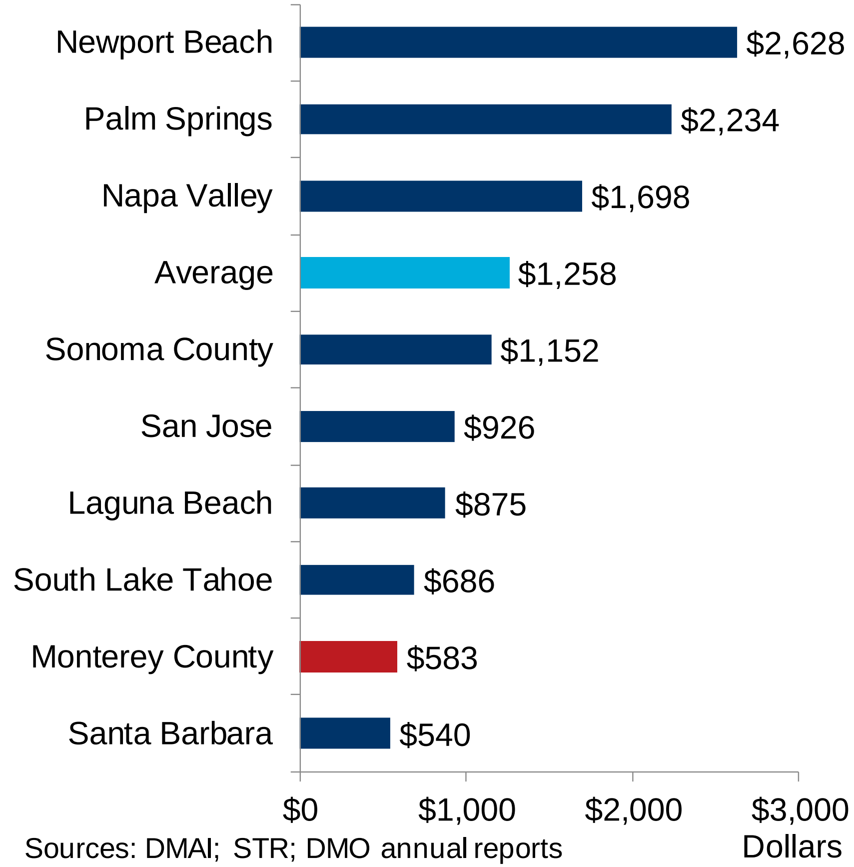
Funding comparison (3 of 3)

Monterey County has the second lowest per room funding of the destinations in its competitive set

Continuing our analysis, we calculate the amount of public funding per hotel room to benchmark an appropriate level of public funding for the MCCVB. We find that the MCCVB receives only 43% of the funding suggested by this benchmark. Only Santa Barbara receives less funding than Monterey. **<u>This analysis demonstrates that the MCCVB is not funded at a competitive level.</u>**

To reach the average of its competitive set, the MCCVB would need to receive 130% more funding or approximately $7.8 million in additional public funds.

Public funding per hotel room



Sources: DMAI; STR; DMO annual reports

The relatively low assessment rate in Monterey County impacts the destination's competitiveness

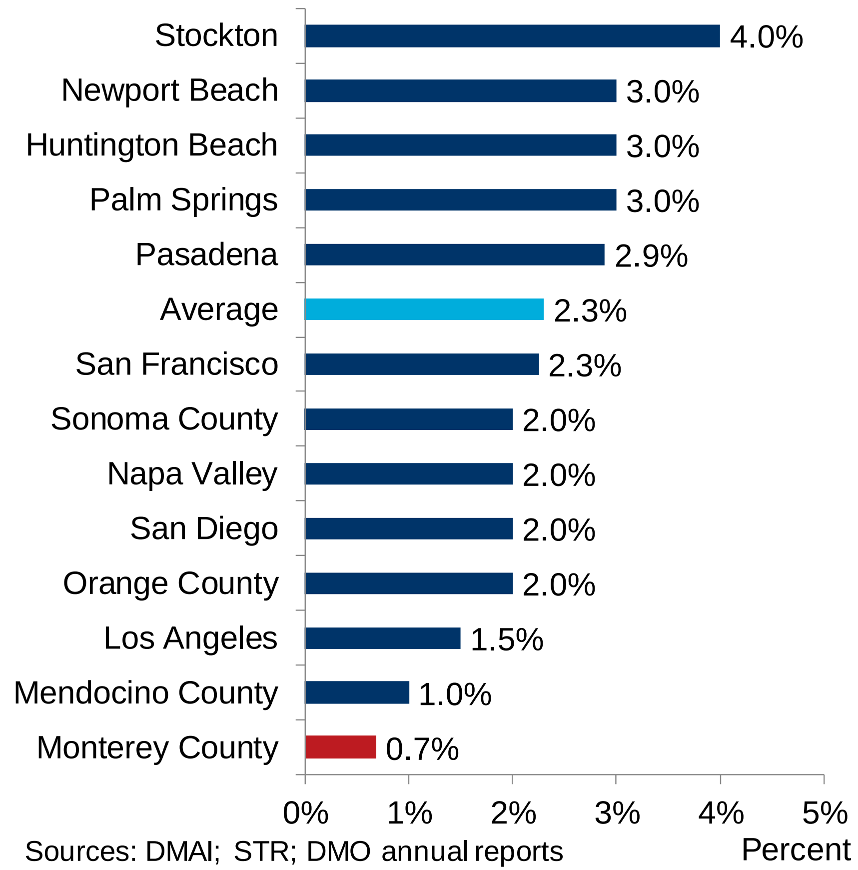
Adjustments to the TID assessment rate are worth consideration

To benchmark an appropriate assessment rate for the MCCVB , we analyze TID assessments in a number of California TIDs. These TIDs include the MCCVB's competitive set and additional DMOs that disclosed their assessment rate to Destination Marketing Association International (DMAI) to Monterey's competitive set (data on the entire competitive set was not available).

Analysis reveals that Monterey County's TID assessment rate of 0.7% (while the assessment is levied on a per room basis, its equals 0.7% of room revenue) is well below the average rate of 2.3%. In fact, Monterey County levies the lowest assessment of any destination examined.

Since the assessment is the primary source of revenue for the MCCVB (and the vast majority of other DMOs on this list), this results in a limited tourism promotion budget for Monterey County.

Assessment rates in California TIDs



Sources: DMAI; STR; DMO annual reports

4) Impacts of the TID on Monterey County's Economy

The TID makes Monterey more competitive

The following slides detail the potential impact of MCCVB's work without benefit of the TID in Monterey County.

While the analysis in section 3 demonstrated that the MCCVB is underfunded, the TID comprises a significant portion of the funding for the MCCVB, and makes the destination more competitive.

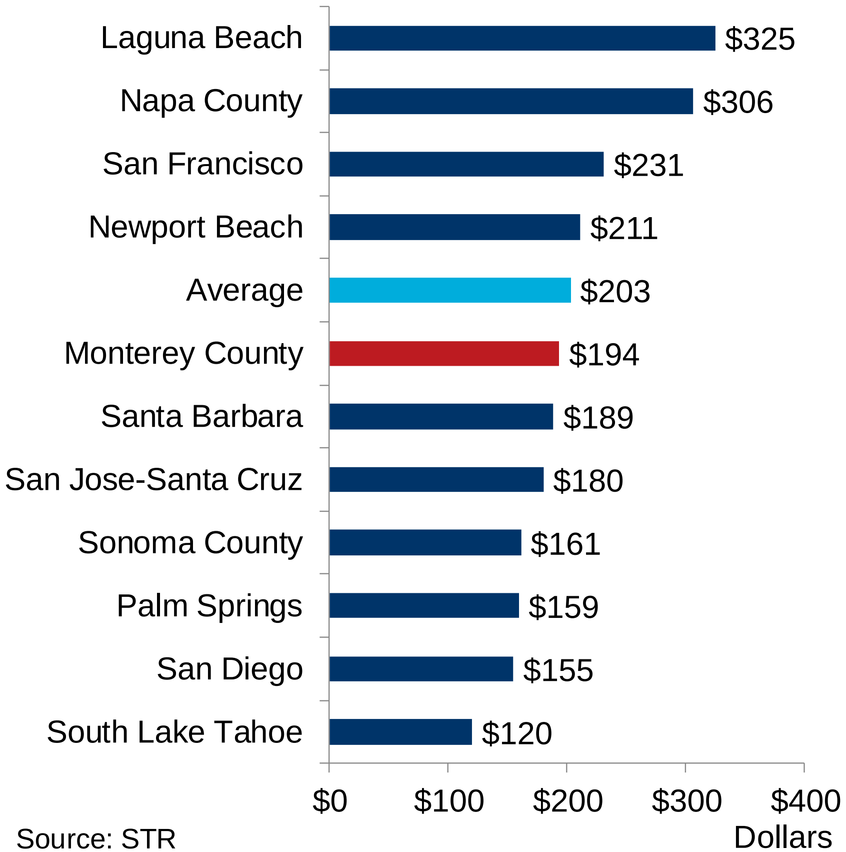
This is important for the MCCVB and the tourism sector of Monterey County as the TID must be re-approved by the City Council on an annual basis.

Economically, absence of the TID is unlikely to produce any positive benefit on room demand. Tourism Economics modeling on behalf of STR has consistently found hotel room demand to be inelastic at the market level. That is, while an individual property may gain or lose share within a market based on price, a **market-wide shift in rate has no appreciable impact on room demand**. The one caveat is that the market ADR remains competitive. Analysis shows that ADR in Monterey County is below average for its competitive set, so customers are not 'priced out' of Monterey County.

The absence of tourism promotion funding would in all likelihood far exceed any possible negative effect of higher room costs. We also note that while Monterey County's ADR has increased 23% since 2011, total room demand has increased 17%. This indicates that price sensitivity does not seem to be a major factor for visitors. In sum, **we believe that the absence of the TID would not have an appreciable positive effect on room demand in Monterey County**.

ADR is below the average competitive destination, and the benefits of DMO funding far exceed any benefit of room cost reduction

ADR in competitive destinations



Source: STR

Scenario Development (1 of 2)

The TID is a critical component of Monterey County's tourism promotion competitiveness

To analyze the impact of the TID, we create two scenarios, an **Absence of TID Scenario** and a **Baseline Scenario** in which the TID remains in place. We estimate the fiscal and economic impacts of these two scenarios

To provide an example of the fiscal impact for the MCCVB, we examine fiscal year 2017's forecasted revenue. If the TID did not exist, the MCCVB would lose $4.2 million in public funding. This is equal to 59% of its total revenue or 62% of its total public funding.

Without the TID, Monterey would be severely underfunded in comparison to competing destinations. Without the TID, Monterey would receive only $214 of public funding per hotel room, or 17% of the public funding amount suggested by our benchmarking analysis.

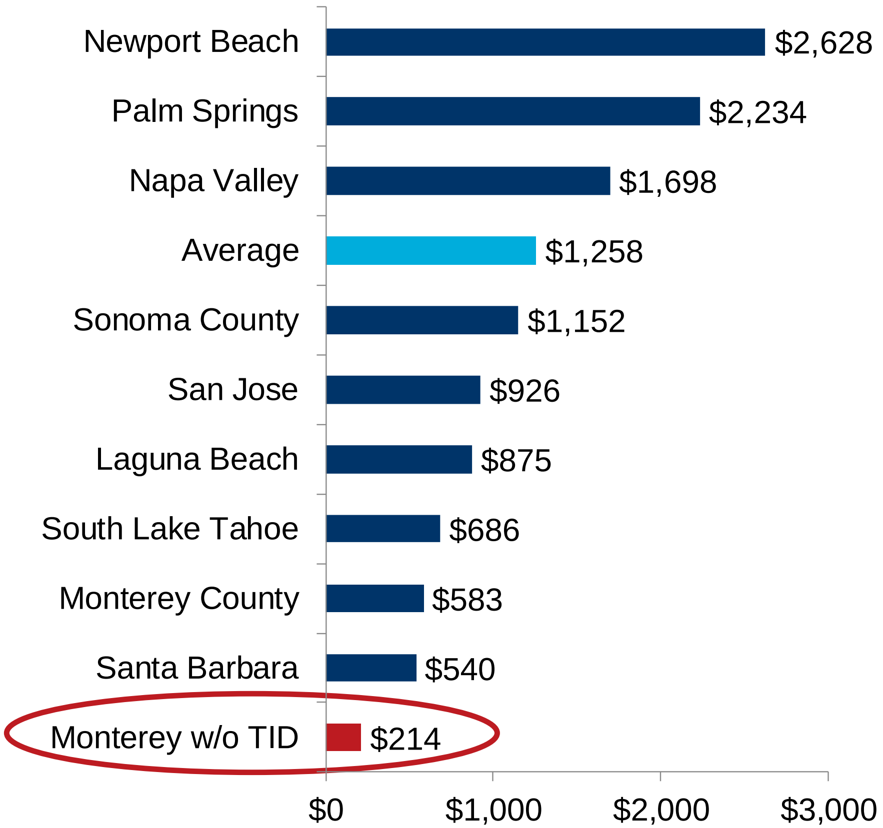
Two Scenarios example, fiscal year 2017

Dollar figure in millions

	Baseline Scenario	Absence of TID Scenario
TID revenue	$4.2	--
Hotel tax revenue	$2.6	$2.9
Private revenue	$0.3	$0.3
Total MCCVB revenue	**$2.9**	**$3.2**

Source: MCCVB

Public funding per hotel room



Sources: DMAI; STR; DMO annual reports

Scenario Development (2 of 2)

Without TID, Monterey County could lose $129 million in visitor spending

We provide additional details on the two scenarios in fiscal year 2020, as this is the first year without a “cool-down” effect (i.e. while immediate effects would be felt, the full effect of a funding decrease will not be felt in the first two years of budget cuts as lags exists between taxes being collected, distributed, media spending being curtailed, consumers making travel plans, and visitors actually traveling).

In 2020, our **Baseline Scenario** forecasts MCCVB receiving $7.6 million in public funding. In the **Absence of TID Scenario**, the MCCVB receives $3.2 million in public funding, a decrease of $4.4 million. We assume 90% of this funding would have been spent on marketing efforts (or $4.0 million). Based on a meta-analysis of ROI and conversion studies performed on DMO marketing efforts, we conservatively estimate a 32-to-1 ROI on this lost marketing spending (see Appendix 1 for additional details on methodology). **This results in $128.9 million of lost visitor spending.**

This lost spending is split into five visitor spending categories and then input into an economic model of the Monterey County economy created in the IMPLAN modeling software. The model calculates the direct impact of this lost spending (the impact from the initial visitor spending), as well as the indirect (supply-chain) effects, and induced (income) effects. The model reports the impact on Monterey County sales, income, employment, and taxes.

DMO revenue and visitor spending in two scenarios, 2020

Dollar figure in millions

	Baseline Scenario	Absence of TID Scenario
TID revenue	$4.4	--
Hotel tax revenue	$2.9	$2.9
Private revenue	$0.3	$0.3
Total MCCVB revenue	$7.6	$3.2
Total Funding decrease relative to baseline	--	$4.4
Total decrease in marketing spending (90%)	--	$4.0
Anticipated total ROI on lost marketing spending	--	32-to-1
Decrease in visitor spending	--	**$128.9**
Total visitor spending	$3,067	$2,938

Sources: Tourism Economics

Benefits of TID – five year forecast

Over the next five years, the TID will result in an additional $518 million in visitor spending, and $36 million in state and local tax revenue

On a cumulative basis, from 2018-2022, we forecast that eliminating the TID would cost Monterey County $518 million in less visitor spending. This lost spending costs a total of $36 million in state and local tax revenue.

Additionally, 782,000 total room nights and $174 million in room revenue would be lost.

Note that all indicators increase in the **Non-TID Scenario**, however the rate of increase is slower than in the **Baseline Scenario**.

Forecast: fiscal years 2017-2021

Dollar amounts in millions of nominal dollars	2017	2018*	2019*	2020	2021	2022	2018-2022 Total	2018-2022 Annual average
Baseline Scenario								
Total MCCVB funding	$7.1	$7.3	$7.4	$7.6	$7.8	$8.0	**$38**	**$7.6**
Visitor spending	$2,774	$2,869	$2,966	$3,067	$3,171	$3,279	**$15,352**	**$3,070.4**
Room demand, 000's	3,181	3,245	3,310	3,376	3,444	3,513	**16,888**	**3,378**
Room revenue	$637	$672	$709	$749	$790	$834	**$3,754**	**$750.8**
State and local taxes	$251	$259	$268	$277	$287	$296	**$1,387**	**$277.5**
Losses in Absence of TID Scenario								
Total MCCVB funding	--	$4.2	$4.3	$4.4	$4.4	$4.5	**$22**	**$4.4**
Visitor spending	--	$41.0	$83.5	**$128.9**	$131.3	$133.7	**$518**	**$103.7**
Room demand, 000's	--	68.5	133.8	198.0	193.3	188.8	**782**	**156**
Room revenue	--	$14.4	$28.8	$43.6	$43.5	$43.5	**$174**	**$34.8**
State and local taxes	--	$2.9	$5.9	$9.1	$9.2	$9.4	**$36**	**$7.3**
Absence of TID Scenario								
Total MCCVB funding	$7.1	$3.1	$3.2	$3.3	$3.4	$3.4	**$16**	**$3.3**
Visitor spending	$2,774	$2,828	$2,883	$2,938	$3,040	$3,145	**$14,834**	**$2,966.8**
Room demand, 000's	3,181	3,176	3,176	3,178	3,251	3,325	**16,106**	**3,221**
Room revenue	$637	$658	$680	$705	$747	$790	**$3,580**	**$716.0**
State and local taxes	$251	$256	$262	$268	$277	$287	**$1,351**	**$270.2**

*"Cool-down" years in which the reduction in impact of reduced funding is not fully realized

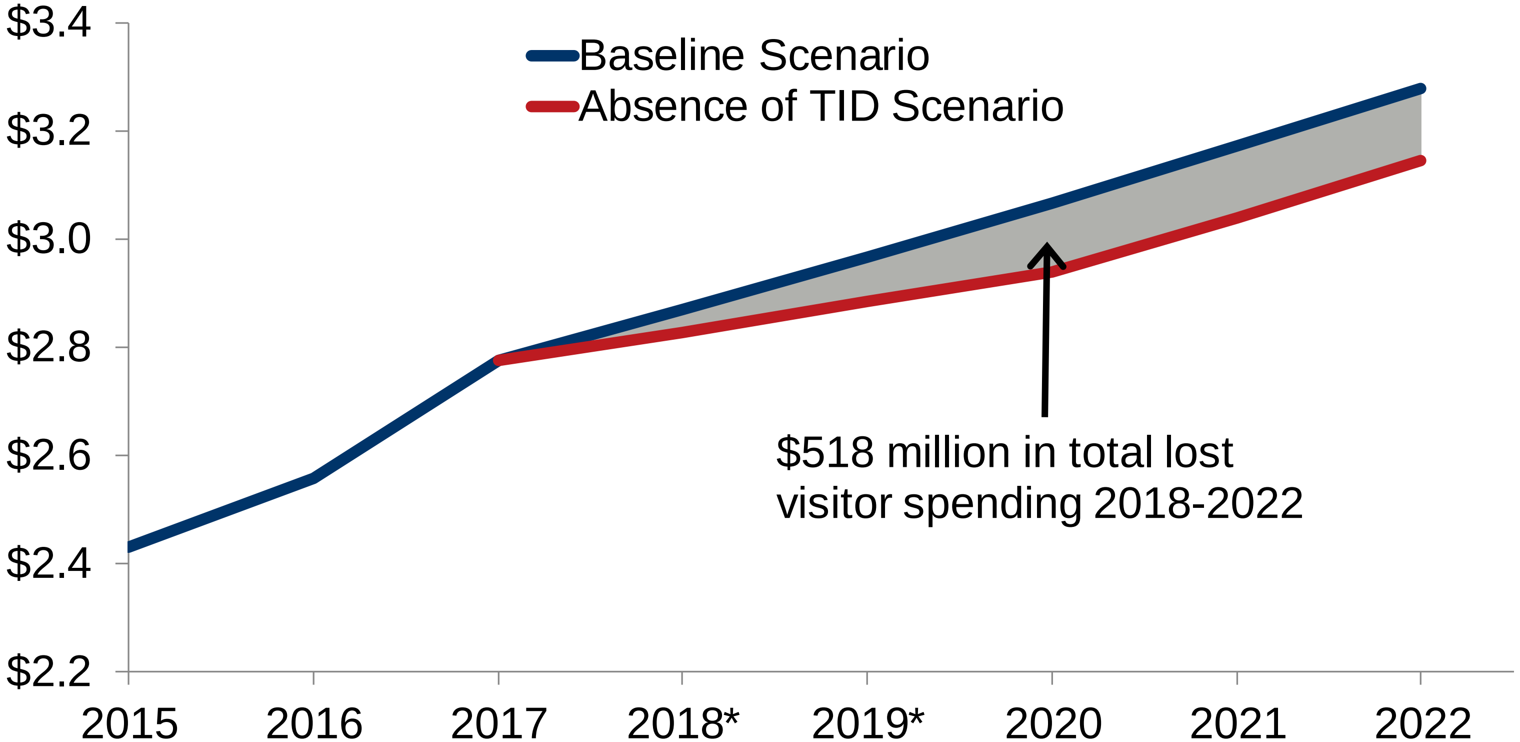
Source: Tourism Economics

Benefits of TID – visualization

In the Non-TID scenario, visitor spending still grows but at a diminished rate; losses in visitor spending total $518 million over 5 years

Visitor spending in two scenarios

Nominal dollars, billions



*Cool-down years in which the full impact of funding decrease is not realized
Source: Tourism Economics

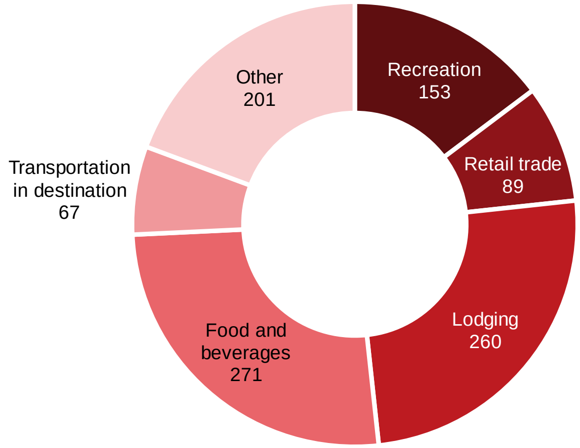
Benefits of TID – 2020 details

In the **Non-TID** Scenario, $4.4m in lost TID funding results in $128.9m in lost spending in Monterey County, which in turn costs:

- $176.9m in total business sales;
- $50.5m in total income;
- 1,042 total jobs; and
- $9.1m in state and local taxes.

201 jobs are lost in industries not typically thought of as in the tourism sector.

Lost jobs in Absence of TID Scenario
Jobs



Source: Tourism Economics

Losses in Absence of TID Scenario - FY 2020
Dollar amounts in 2020 dollars, millions

Decrease in DMO funding	**$4.4**
Impacts on Monterey County	
Lost visitor spending	**$128.9**
Total economic output	**$176.9**
Direct expenditures	$128.9
Indirect and induced output	$48.1
Total income	**$50.5**
Direct income	$33.9
Indirect and induced income	$16.6
Total jobs	**1,042**
Direct jobs	685
Indirect and induced jobs	357
State tax revenue	**$3.4**
Sales	$1.8
Personal income	$0.1
Corporate	$0.2
Excise, fees, and other taxes	$1.4
Local government tax revenue	**$5.6**
Sales	$0.6
Lodging tax	$4.2
Excise, fees, and other taxes	$0.8
Key Ratios	
Business sales lost per $1 of funding decrease	$39.90
Jobs lost per $1,000,000 of funding decrease	235
Income lost per $1 of funding decrease	$11.40
State and local taxes lost per $1 of funding decrease	$2.00

Source: Tourism Economics

Benefits of TID – 2020 conservative estimate on hotel impact

Occupancy rates could drop 4% and hotels could see a substantial decline in room revenue

The loss of visitors and visitor spending would have major effects on the local hotel sector. We created two estimates of the possible impact.

In our conservative estimate of potential losses, ADR still grows at the same rate in both scenarios, reaching $222 in 2020. Even with this assumption, the loss of visitors and visitor spending would have a major impact on local hotels.

- A small hotel (50 rooms) with a below average ADR ($166) could lose 800 rooms and $130,000 in room revenue.
- A medium sized hotel (100 rooms) with a destination average ADR ($222) could lose 1,600 rooms and $360,000 in room revenue.
- A large hotel (200 rooms) with an above average ADR ($333) could lose 3,300 rooms and $1,100,000 in room revenue.

Hotel KPIs in two scenarios - alternative estimate, 2020

Dollar figures are nominal

Baseline Scenario

		Annual rooms sold	Annual room revenue (000's)	Occupancy	ADR	RevPAR
	Monterey County totals	3,376,000	$748,600	75%	$222	$167
Examples	50 room economy	13,300	$2,210	73%	$166	$121
	100 room midscale	27,500	$6,100	75%	$222	$167
	200 room upscale	55,900	$18,590	77%	$333	$255

Absence of TID Scenario

		Annual rooms sold	Annual room revenue (000's)	Occupancy	ADR	RevPAR
	Monterey County totals	3,277,100	$693,100	73%	$211	$150
Examples	50 room economy	13,100	$2,100	72%	$159	$115
	100 room midscale	26,700	$5,600	73%	$211	$153
	200 room upscale	53,700	$17,000	74%	$317	$233

Losses in Absence of TID Scenario

		Annual rooms sold	Annual room revenue (000's)	Occupancy	ADR	RevPAR
	Monterey County totals	98,900	$55,500	2%	$10	$17
Examples	50 room economy	200	$110	1%	$8	$6
	100 room midscale	800	$500	2%	$10	$14
	200 room upscale	2,200	$1,590	3%	$15	$22

Source: Tourism Economics

Benefits of TID – 2020 alternative estimate on hotel impact

If ADR does not grow at its forecasted rate, the revenue impact on hotels could be even greater

In our alternative estimate, hotels react to falling occupancy rates by reducing ADR. In this estimate, ADR still increases from its present level, but at only half the speed as the **Baseline Scenario**. The reduced rates do have a positive effect on occupancy and lost room nights are cut in half.

- A small hotel (50 rooms) with a below average ADR ($159) could lose 200 rooms and $110,000 in room revenue.
- A medium sized hotel (100 rooms) with a destination average ADR ($211) could lose 800 rooms and $500,000 in room revenue.
- A large hotel (200 rooms) with an above average ADR ($317) could lose 2,200 rooms and $1,590,000 in room revenue.

Hotel KPIs in two scenarios - conservative estimate 2020

Dollar figures are nominal

Baseline Scenario

		Annual rooms sold	Annual room revenue (000's)	Occupancy	ADR	RevPAR
	Monterey County totals	3,376,000	$748,600	75%	$222	$167
Examples	50 room economy	13,300	$2,210	73%	$166	$121
	100 room midscale	27,500	$6,100	75%	$222	$167
	200 room upscale	55,900	$18,590	77%	$333	$255

Absence of TID Scenario

		Annual rooms sold	Annual room revenue (000's)	Occupancy	ADR	RevPAR
	Monterey County totals	3,178,000	$705,000	71%	$222	$157
Examples	50 room economy	12,500	$2,080	69%	$166	$114
	100 room midscale	25,900	$5,740	71%	$222	$157
	200 room upscale	52,600	$17,490	72%	$333	$240

Losses in Absence of TID Scenario

		Annual rooms sold	Annual room revenue (000's)	Occupancy	ADR	RevPAR
	Monterey County totals	198,000	$43,600	4%	$0	$10
Examples	50 room economy	800	$130	4%	$0	$7
	100 room midscale	1,600	$360	4%	$0	$10
	200 room upscale	3,300	$1,100	4%	$0	$15

Source: Tourism Economics

Report summary

1 Tourism is a major driver of Monterey's economy

- Visitors spending reached $2.7b in Monterey County in 2015
- 24,400 local jobs are directly generated by tourism
- Market share analysis indicates that Monterey County is gaining a larger share of the state's and region's overnight travel market

2 The MCCVB drives visitors to Monterey County

- Media campaigns increase perceptions of Monterey County and make travelers more likely to visit
- In 2016, the sales team facilitated 87,500 room nights. These bookings generated $74m in local economic impact.
- The MCCVB operates in the international market

3 The 2012 assessment increase boosted growth in the tourism sector

- From 2013-2017, the increased assessment rate raised visitor spending by $220 million.
- This spending generated a total of $16 million in tax revenue, 403,000 total room nights, and $76 million in room revenue would be lost.

4 The MCCVB is underfunded in comparison to local competitors

- A number of local competitors receive higher funding than the MCCVB despite representing fewer hotels
- Monterey would need to receive $8.8m in additional public funding to reach its benchmark average
- Monterey County's TID assessment rate of 0.7% is well below the average rate of 2.3%

5 The absence of a TID would result in significant economic and fiscal losses

- In 2020, $4.4m in lost TID funding could results in $128.9m in lost spending which in turn costs:
  - $50.5m in total income;
  - 1,042 total jobs;
  - $9.1m in state and local taxes; and
  - $44m in room revenue.

Appendix 1) Methodology

Methodology

Gains Due to TID Assessment Increase

To calculate potential loss in the No Assessment Increase Scenarios, we first estimate the impact on visitor spending by examining a number of sources detailing the impact of DMO funding cuts and increases on visitor spending.

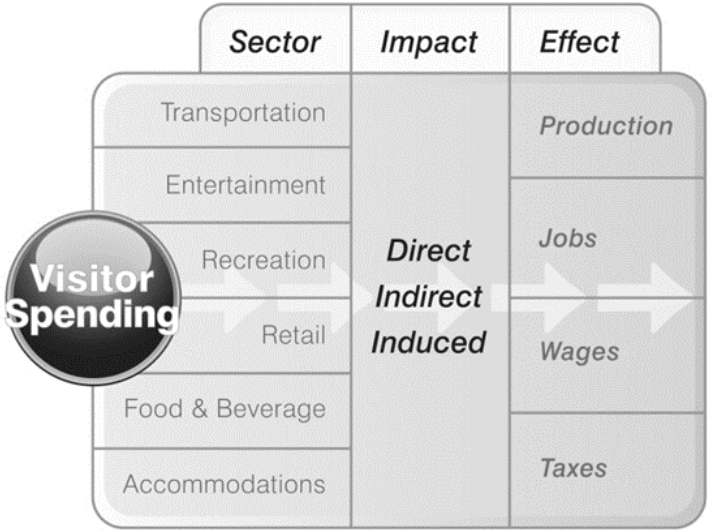
SMARI estimates an ROI on the MCCVB's marketing campaigns of over 200-to-1 using a proprietary survey and derives marketing exposure to a DMA (Designated Market Area) to gauge incremental marketing campaign effectiveness. Our meta-analysis of the ROI of tourism promotion which suggests that every dollar spent on tourism advertising for metro and regional DMOs typically generates $51 in visitor spending (see following slides). We choose to rely heavily on the meta analysis in order to 1) remain conservative in case these higher ROIs cannot be maintained with additional funding, 2) reflect that the MCCVB advertises to a wider audience than the DMA measured by SMARI, and 3) remain conservative in case the MCCVB is not able to commit a high percentage of its budget to incremental marketing.

Given uncertain future economic conditions and the possibility of diminishing marginal returns on additional marketing investment, we assume an ROI of 40-to-1 on the first million dollars of lost DMO funding and a 30-to-1 ROI on additional lost funding. Additional spending is calculated by multiplying the decrease in DMO marketing (assumed to be 90% of the decrease in funding) in the two scenarios by the ROIs described above.

The **Baseline Scenario** forecast is based on a combination of historical data on Monterey County and the Tourism Economics / STR forecast of the nearby San Francisco-San Mateo market. The **Absence of TID Scenario** forecast is calculated by subtracting the estimated losses from the **Baseline Scenario** Forecast.

To spread visitor spending through a number of sectors, we used SMARIs estimates of visitor spending in Monterey County (note that the raw dollar figures are not used, only the percent spending across the different categories). We then input lost visitor spending into an economic model of the Monterey County economy created in IMPLAN. The model calculates the direct impact of this lost spending (the impact from the initial visitor spending), as well as the indirect (supply-chain) effects, and induced (income) effects. The model reports the losses on sales, income, employment, and taxes.

How visitor spending flows through the economy



Destination promotion ROI in other markets (1 of 2)

Many state and local 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 DMO. 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.

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

Destination promotion ROI in other markets (2 of 2)

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

- The results range from as low as $12 for an analysis conducted for Syracuse, NY to as high as $326 for the average of several analyses conducted for California.
- Overall, we observe that recent marketing campaigns by destination marketing organizations at the metro/regional level have generated approximately $51 of incremental visitor spending per dollar of advertising spending.

These ROI estimates relate directly to advertising spending. It is also appropriate to consider a visitor spending ROI relative to total DMO operating costs, or relative to public funding. As an example of the former approach, Meet Minneapolis reports the ratio of visitor spending associated with events tracked in its group sales management system to total DMO operating costs has averaged $33 in recent years. This excludes almost all leisure visitor spending.

As an example of an ROI based on public funding, the Florida state government recently analyzed the return on investment for public funding of Visit Florida. The analysis attributed Visit Florida's public funding (excluding, for example, significant private funding for cooperative advertising and promotions) to generating $11.2 billion of visitor spending during the three-year-period through FY 2013, representing a visitor spending ROI of $97, and a state tax revenue ROI of $3.2 ($3.20 of state tax revenue generated by each $1 of state funding).

Monterey County's Visitor spending per dollar in 2015 was $397.

Marketing ROI matrix

Region	Timing	Visitor spending per ad dollar
States		
California	Average 2009 to 2013	$326
Arizona	Average 2007, '11, '12, '15	$221
Georgia	Average 2011 and 2012	$211
Colorado	2012	$200
Florida	2011	$177
Maryland	2012	$160
Wyoming	Average 2012, '13, '14	$156
Kentucky	2014	$151
Missouri	2013	$131
North Dakota	Average 2010, '12, '14	$101
Utah	Average 2010, '11, '13	$83
New Mexico	2013 to 2015	$72
Virginia	2006	$71
Michigan	Average 2006 to 2014	$69
Large metros and regions		
Philadelphia, PA	2009/10	$100
Kansas City, MO	2013	$65
Washington, DC	2013	$27
San Diego, CA	2013	$19
Smaller metros and regions		
Branson, MO	2012	$79
Springfield, MO	2011	$61
Finger Lakes Wine Country, NY	2012	$44
Syracuse, NY	2008	$12
Average of states		$152
Average of larger metros and regions		**$53**
Average of smaller metros and regions		**$49**

Sources: Local studies compiled by Tourism Economics

Appendix 2: The Economic Rationale for Destination Marketing

The vital role of destination promotion

Destination marketing plays an integral and indispensable role in the competitiveness of the local tourism economy by addressing its unique challenges

Destination marketing plays an integral and indispensable role in the competitiveness of the local 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 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 also play a role furthering the strategic potential of the visitor economy. Destination marketing organizations (DMOs) 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.

The vital role of destination promotion

The fundamental motivation driving a visit is not usually the offerings of a single business—instead it is the destination

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.

The vital role of destination promotion

The scale of collaborative destination marketing is more effective than what individual businesses could accomplish

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 its 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.

Travel has proven its resilience

As incomes rise, consumer spending on travel has grown at an even faster rate and employment in the travel economy has led growth during the recent economic recovery

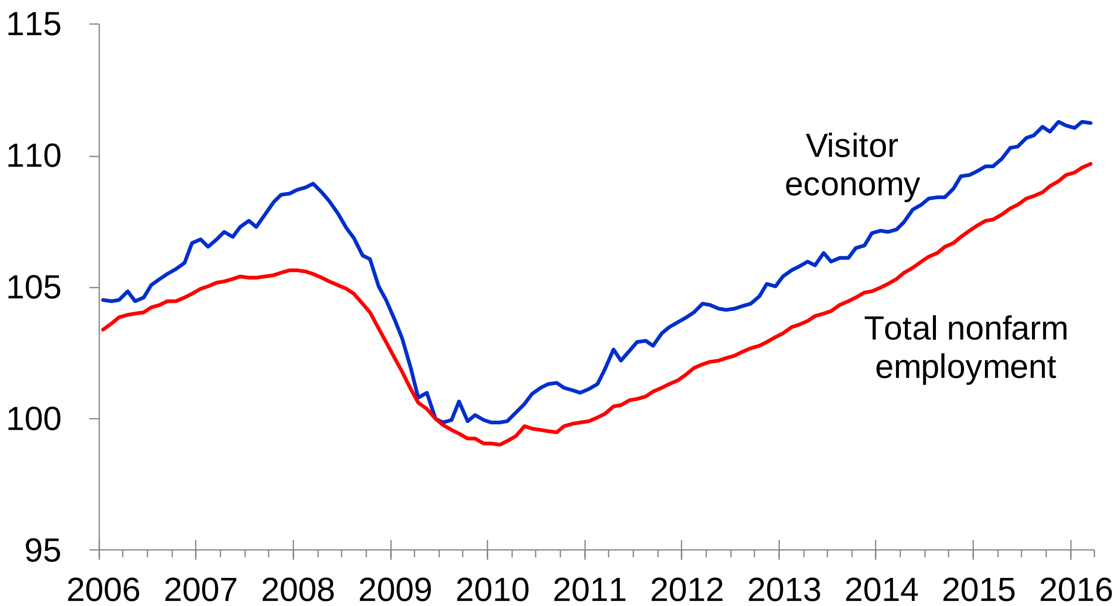
Across the US, favorable tail winds have supported above average growth in the visitor economy. As income levels rise, consumers are dedicating a greater share of spending to travel and tourism. For example, in the span of slightly more than a generation, per capita consumer spending on hotel stays in the US has increased 200% since 1980, even as per capita GDP – as a measure of income levels – has increased only 75%.

Travel has proven its resilience, with a strong recovery from the most recent economic downturn. As the visitor economy has recovered, it has contributed job growth since the end of the recession at a faster rate than the US average. As of March 2016, employment in key sectors of the visitor economy was 11.3% ahead of its June 2009 level, compared to a 9.7% gain for the broader economy.

Visitor economy employment trends

Compared to total nonfarm employment

Index (June 2009=100)



Source: Bureau of Labor Statistics; Tourism Economics

The visitor economy represents an export, drawing new dollars into the local economy

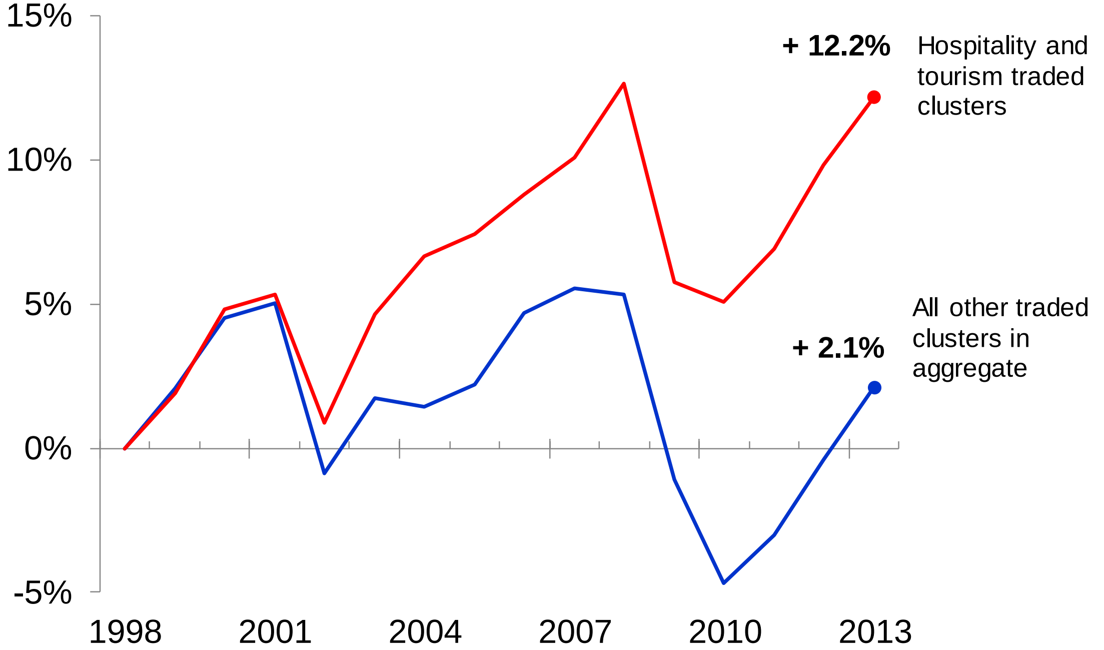
Nationally, hospitality and tourism has outperformed the aggregate of all other traded cluster export sectors since 1998, with employment expanding more than 12.2% while all others grew only 2.1%

The visitor economy represents a valuable locally-produced export for many regional economies. The resulting visitor spending supports jobs, incomes, tax revenues and local business sales that represent part of the region's economic base, critically important in providing demand for local supporting sectors. In this sense, whether referred to as an "export" or a set of "traded" goods and services, the visitor economy plays an important role in the "base" economy of many regions.

As developed through research by Michael Porter, the term "traded cluster" refers to "geographic concentrations of interconnected companies and institutions in a particular field" that sell products and services across regions.

Traded cluster employment gains over time (US)

Index, cumulative percentage points of employment growth since 1998



Source: US Cluster Mapping Project; Census Bureau; Tourism Economics

Destination promotion helps drive economic development (1 of 6)

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

In recent research[1], Tourism Economics / Oxford Economics 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

[1]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 to http://www.oxfordeconomics.com/engine

Destination promotion helps drive economic development (2 of 6)

Conventions and trade shows can help target economic development on key industries

Channel of impact: By securing meetings, conventions and trade shows for local facilities, DMOs attract the very prospects that economic development organizations target. Not only do such visits create valuable exposure among business decision makers, they create direct opportunities for economic development organizations to deepen connections with attendees.

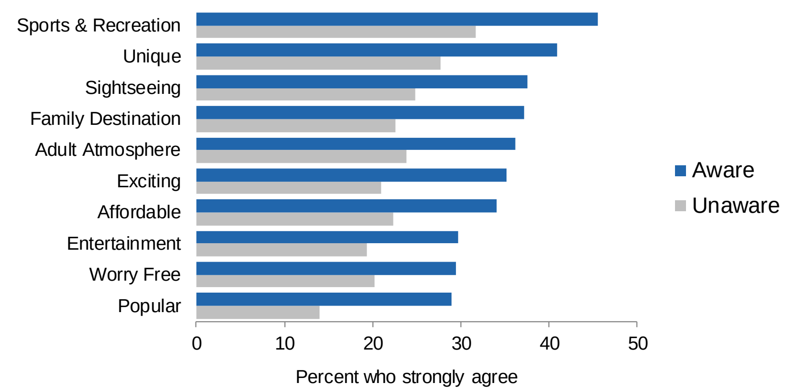
DMOs are typically on the front lines of selling their destinations to meeting and event planners. These conventions and trade shows often attract the very prospects that economic development organizations (EDOs) target. As Steve Moore, CEO of the Greater Phoenix CVB states, “Our EDO doesn’t have to fly to DC or China. The low hanging fruit is coming here for events.” EDOs, such as Cleveland’s Department of Economic Development, regularly host special events, tours, and receptions for attendees of key events. Our research, including discussions with both DMOs and EDOs, yielded many such examples of this channel at work. But the discussions also pointed to the further opportunities that exist in many areas for collaborative targeting.

Today’s knowledge-based and innovation-driven economies benefit from face-to-face connections, and relationships. In this context, industry conventions position an economy to acquire knowledge, innovate, and grow. Knowledge-based workers benefit from greater potential to access and encounter specialized knowledge and sustain social connections, and connections to other markets provide access to a wider base of suppliers and access to new production techniques. This makes existing firms more productive, serves to help attract additional investment, and fuels innovation.

Oxford Economics conducted a national survey of 300 business travelers in 2012 and asked them to score the impact of conferences and conventions across a number of potential benefits. Nearly 80% of respondents rated “industry insights” as an area of high impact, scoring this benefit as a four or five on a one-to-five scale. Industry insights were cited more consistently as a high impact return on conferences and conventions than any other potential benefit.

Marketing positively influences perceptions of a region

Pure Michigan 2014 campaign impact on perceptions of Michigan as a national tourism destination



Source: Longwoods International (2015, July) "Destination Marketing and Economic Development: Creating a Singular Place Brand"

Destination promotion helps drive economic development (3 of 6)

Destination marketing contributes to a “halo effect” as advertising campaigns positively impact perceptions of a region

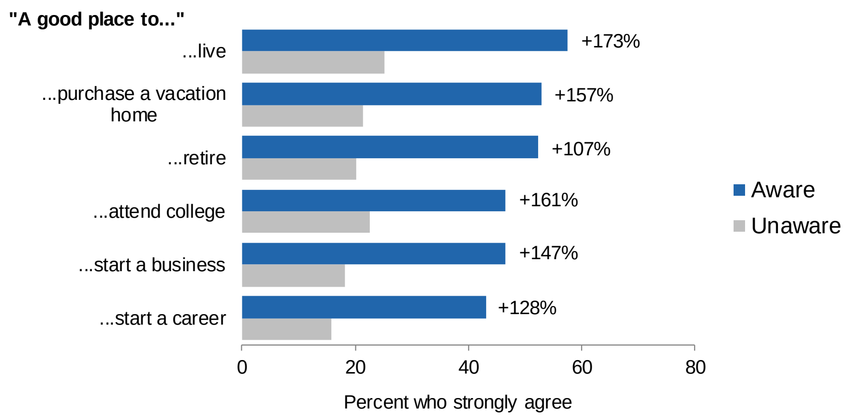
Channel of impact: Destination promotion builds awareness, familiarity, and relationships in commercial networks (institutional, companies, individuals) that are critical in attracting investment. Similarly, destination promotion raises the destination profile among potential new residents, supporting skilled workforce growth that is critical to economic development.

Destination promotion activities support understanding of a destination’s distinct positioning and raise awareness of the destination. Most importantly, by increasing visits, destination promotion activities provide firsthand experience with a destination, resulting in familiarity with a destination that is critically important for economic development. These three components – building a brand, raising awareness, and increasing familiarity – make up the effect which we’ve labeled “raising the destination profile.” As is emphasized in the following sections, these inter-related concepts have the collective impact of supporting economic development efforts to attract investment and build a skilled workforce.

For example, Lake Erie Shores and Island’s 2014 tourism marketing campaign boosted perceptions of the area as a good place to start a career. Among those who were aware of the advertising, 43.2% strongly agreed with the statement that the area was a good place to start a career, representing a 173% increase relative to the 15.8% who strongly agreed among those unaware of the advertising[1].

Marketing influences perceptions on key decision criteria

Lake Erie Shores and Islands 2014 campaign impact on the region's economic development image



Note: Percentages indicate the increase in "ad aware" respondents who strongly agree relative to "unaware".
Source: Longwoods International (2015, July) "Destination Marketing and Economic Development: Creating a Singular Place Brand"

Destination promotion helps drive economic development (4 of 6)

Tourism supports building enhanced transportation networks and connecting to new markets

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

Connectivity to other cities, historically by canal and railways, and more recently by road and air, has been long appreciated for its importance to economic growth. Indeed, face-to-face interactions are as important as ever.

How can a region best support the expansion of its transportation infrastructure, including airports? While public investment certainly has a role, as leading cities have long recognized, airlines ultimately choose to expand service to markets that demonstrate passenger demand. Destination promotion efforts build inbound travel volumes that support expanded service, with greater frequency of connections to a greater number of destinations. Inbound business, leisure and group segments each play a role providing the base of demand that supports airlift. Indeed airline cost structures are such that a route with insufficient inbound leisure demand, and therefore lulls in travel around holidays and off-peak periods, is less profitable, or even unprofitable.

As a result, successful destinations experience greater levels of air service. For example, roughly half of all passenger demand for Cleveland is generated by visitors, according to OAG bookings data for 2013. Frontier Airlines, a low-cost carrier which recently entered Cleveland, has continued to expand its schedule from the city, building on leisure business but offering direct flights on routes that are key for business travelers, such as Dallas Ft. Worth.

In turn, improved air connectivity becomes a marketing point that supports economic development. So it is not surprising that collaboration between DMOs and economic development organizations can be successful.

For example: Phoenix touts its connectivity as one of its key economic development assets. This includes extensive service to Mexico and Latin America. Connectivity to Canada is also a major selling point for economic development and exists almost entirely because of the visitor market. Only 20 direct flights to Canada existed six years ago and Phoenix now has over 100 scheduled flights. The Greater Phoenix CVB and the Community and Economic Development office are seeking increased international service. These routes are needed to dually support the convention and investor markets. While air service development is led by the airport, the Community and Economic Development office and the Greater Phoenix CVB support marketing to airlines with market information. Overall, 60% of current Phoenix airlift is supported by visitors.

This impact is hardly rare, and numerous studies (including those listed below) have confirmed a connection between the long-term impacts of improved air transportation and overall economic development.

Jan Brueckner, “Airline Traffic and Urban Economic Development,” Urban Studies 40, no. 8 (July 2003): 1455–69.

Richard K. Green, “Airports and Economic Development,” Real Estate Economics 35, no. 1 (2007): 91–112.

Michael D. Irwin and John D. Kasarda, “Air Passenger Linkages and Employment Growth in US Metropolitan Areas,” American Sociological Review, 1991, 524–37.

Kenneth Button, Rui Neiva, and Junyang Yuan, “Economic Development and the Impact of the EU–US Transatlantic Open Skies Air Transport Agreement,” Applied Economics Letters 21, no. 11 (2014): 767–70.

IATA, Measuring the Economic Rate of Return on Investment in the Aviation Industry, Aviation Economic Benefits, July 2007

Destination promotion helps drive economic development (5 of 6)

Intelligent tourism development can raise destinations' quality of life and attract investors from other sectors

Channel of impact: The visitor economy that is fueled by destination promotion supports amenities and a quality of life that are integral to attracting investment in other sectors.

Parks and public areas, dining and nightlife in walkable districts, services and transportation along waterfront areas, creative arts and cultural institutions - these are just some of the facilities and services that benefit from the visitor economy but are also valued by residents and—by extension—site locators, investors, and business executives. Research suggests that this occurs as:

- Visitors provide substantial demand for amenities and generate returns in terms of quality of life improvements for residents, helping raise the quality of life.
- Economic research and real-world business location decisions demonstrate that such amenities and lifestyle characteristics are important in driving economic growth.
- Leading practices in economic development leverage these visitor-supported quality of life assets.

Visitor spending helps support a broader and higher quality set of amenities than an area could otherwise sustain. For many businesses, whether on the smaller scale of a restaurant or on the larger scale of a sports facility or National Park, the difference between breaking even or running at a loss can be thin. As an incremental source of business above and beyond what can be supported locally, visitors provide demand for businesses as well as many not-for-profit institutions, such as museums.

Richard Florida, an urban theorist and author of several popular books, provides an introduction to these concepts, noting that economists and geographers have long looked at the role that the availability of talent has played in the location decisions of firms, but have only more recently turned to the factors that attract talent. Florida writes[1]:

> "A growing stream of research suggests that amenities, entertainment, and lifestyle considerations are important elements of the ability of cities to attract both firms and people." The "traditional view offered by economists is that places attract people by matching them to jobs and economic opportunity. More recent research suggests that places attract people by providing a range of lifestyle amenities."
> "If cities are to remain strong, they must attract workers on the basis of quality of life as well as on the basis of higher wages."

For important new investment bids, EDOs will coordinate with DMOs for the best possible pitch. Given the importance of destination characteristics in the decisions of investors and site locators, NTOs and DMOs can provide the marketing content and experiences to visitors to strengthen the bid

All of the EDOs frequently collaborate with the DMOs, including the use of collateral and media originally developed by DMOs. For example, the Cleveland Department of Economic Development has an entire section on its website called "Living Here" that focuses on amenities and attractions including arts, culture, and entertainment.

[1] Florida, Richard (2005). Cities and the creative class. Routledge. New York.

Destination promotion helps drive economic development (6 of 6)

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

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.

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 to http://www.oxfordeconomics.com/engine

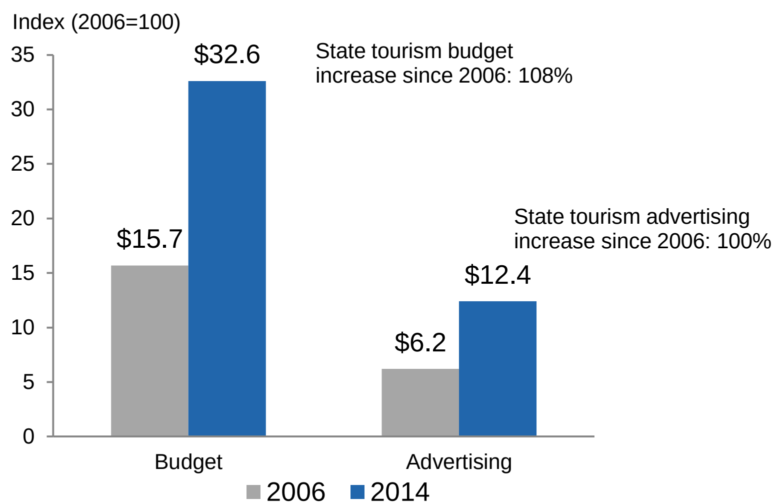
Appendix 3: Case Study Review

Case study: Pure Michigan success (1 of 2)

Michigan successfully invested in destination marketing as part of a strategy to ignite growth.

Budget increases in other US destinations provide case study examples of what has happened when government agencies increase or decrease destination marketing funding. We have summarized several of these case studies in this section, beginning with Michigan and the internationally recognized “Pure Michigan” campaign. While the campaign’s advertisements are visually stunning, less appreciated are the important decisions the state took during a period of economic recession to expand the campaign as an investment in future growth.

Michigan state tourism budget



Source: Longwoods International

Bill Siegel, CEO of Longwoods, recently summarized this success story[1]. The following highlights key points:

- The “Pure Michigan” campaign had its fledgling start in 2006 as a regional campaign in an environment of relatively low funding. In preceding years, Michigan’s state tourism budget had declined, falling to as little as $7.9 million in FY2005 according to US Travel data. For several years, as the campaign ran in regional markets, research demonstrated that it was building equity in the marketplace, impacting Michigan’s image positively and generating positive financial returns.
- In 2009, with the national economy still in recession, and Michigan’s manufacturing base hit particularly hard, the state legislature saw tourism as a potential growth opportunity, and approved a one-time doubling of the Travel Michigan budget to $28 million. This allowed the state to promote itself nationally for the first time, and “Pure Michigan” was well-suited to the opportunity.
- In its first year, the national campaign dramatically increased unaided awareness of Michigan as a place in the Midwest US “you would really enjoy visiting”. Michigan moved to 2nd place among regional competitors in this metric after the campaign, up from 9th place before the campaign. Three out of ten national travelers were aware of the campaign, and the campaign was recognized by Forbes as among the 10 all-time best travel campaigns, and.

[1] Longwoods International (2015) Michigan: 2014 tourism advertising evaluation and image study.

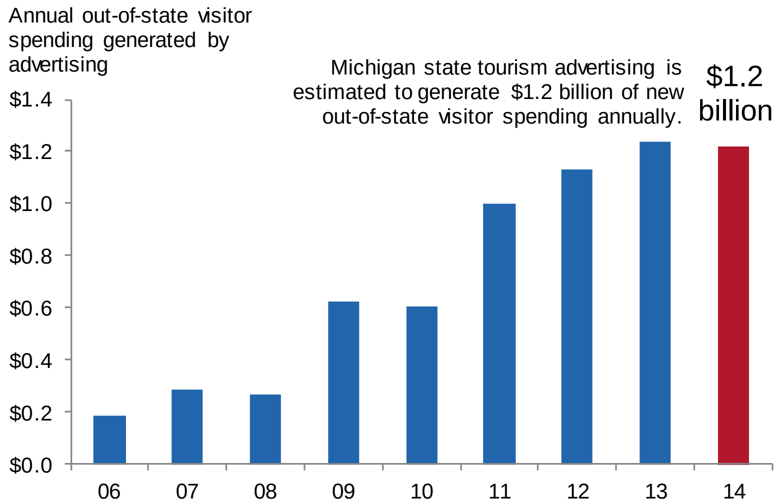
Case study: Pure Michigan success (2 of 2)

Michigan successfully invested in destination marketing as part of a strategy to ignite growth.

- The summer 2009 campaign was estimated to have generated almost two million additional trips to Michigan. As a result, based on a $12.2 million media budget, the campaign is estimated to have generated $588 million of incremental visitor spending and $41.0 million of state taxes, equivalent to $3.36 of state taxes per ad dollar.
- In total from 2006 to 2014, Longwoods estimated that “Pure Michigan” results generated 22.4 million out-of-state trips to Michigan and $6.6 billion of visitor spending at Michigan businesses. This implies a visitor spending return on investment (“ROI”) of $69 based on out-of-state visitors, and a state tax ROI of $4.81.

Michigan built on the initial success by maintaining annual funding slightly ahead of $30 million. From 2006 to 2014, Michigan invested over $95 million in “Pure Michigan” advertising. As a result, “Pure Michigan” has become the singular brand for Michigan, with the state expanding its use across multiple lines of business to promote state objectives, such as economic development.

New visitor spending in Michigan



Source: Longwoods International

Longwoods International (2015) Michigan: 2014 tourism advertising evaluation and image study.

Case study: Influence of DMO content

Visitor information supported by TBID funding consistently influences potential visitors.

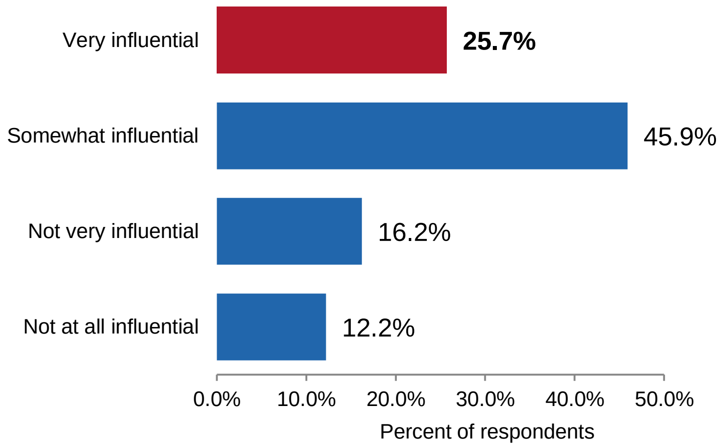
Among respondents who had made an overnight visit to Mendocino County, 25.7% reported that the Visit Mendocino website had been “very influential” in their decision.

Of approximately 160,000 unique website visitors (April 2013 to March 2014), 47.8% made a trip to Mendocino County, of which an estimated 20.2% were influenced to visit by the website.

38% of prospective visitors who received information from Visit Oceanside were influenced by the content and subsequently visited Oceanside.

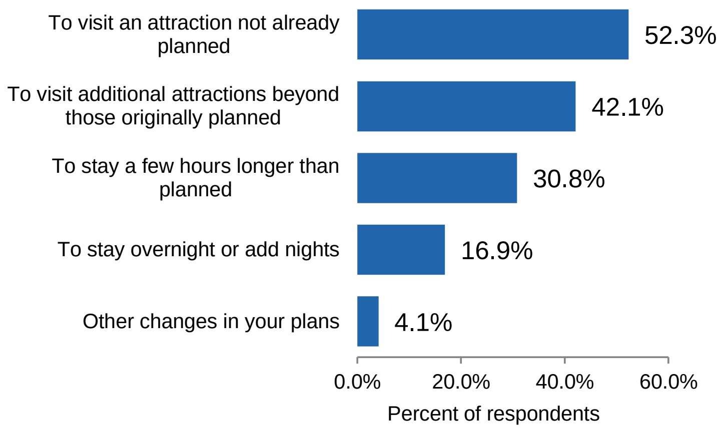
Among those visitors who were influenced by the visitor information, more than half indicated that they decided to visit an attraction or site that they had not already planned to visit and 17% added additional nights to their stay.

Website information influences traveler decisions
Visit Mendocino follow-up survey of website visitors



Question: How influential was the Visit Mendocino website in your decision to take an overnight trip to Mendocino County in the past six months? (Follow-up survey to website visitors, among those respondents who had made an overnight trip to Mendocino County.)
Source: Strategic Marketing Group "DMO Influence/Conversion Study", on behalf of Visit Mendocino/Mendocino County Lodging Association

Visitor information influences visitors to stay longer
Visit Oceanside visitor survey



Question: Which of the following were you influenced to do in Oceanside based on information you received from Visit Oceanside? (Among visitors to Oceanside whose plans were influenced by CWC or Visit Oceanside information.)
Source: Horizon Consumer Science (2013, May) "Visitor Profile/Economic & Fiscal Impacts study - CY2012", on behalf of Visit Oceanside California

Case study: the creation of Brand USA boosts tourism arrivals and spending in the US

Brand USA has maintained a strong ROI and helped revitalize the US as an international destination

Before 2011, the US did not have a national tourism organization. A decade of stagnation of international travel suggested that the lack of an organization that could effectively promote the US' global brand was costing the country billions of dollars in lost potential visitor expenditures.

Brand USA was created to reinvigorate the country's global brand, and positive effects have been realized quickly. The organization has raised the profile of the US as a destination and generated almost one million incremental visitors annually. Spending by these visitors generated $457 million in federal taxes, approximately triple the organizations total operating expenses. In 2015, Tourism Economics estimated an 19:1 ROI on total operating costs.

Summary Results: Brand USA ROI (FY2015)

Region		Investment	Incremental visitors		Incremental Spend	ROI
N America	$	19,392,467	374,195	$	357,230,802	18.4
Europe	$	31,578,844	116,923	$	387,499,367	12.3
APAC	$	29,727,058	198,358	$	1,036,777,492	34.9
LATAM	$	7,520,197	59,165	$	333,653,856	44.4
Other / Global Infrastructure	$	54,974,236	276,542	$	920,917,657	16.8
Total marketing	**$**	**143,192,802**	**1,025,183**	**$**	**3,036,079,174**	**21.2**
Overhead	$	14,483,128				
Total operating	**$**	**157,675,930**				**19.3**
APAC + LATAM	$	37,247,255	257,523	$	1,370,431,348	36.8

Source: Tourism Economics

Case study: Colorado cuts state funding

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

Conversely, budget cuts in other destinations provide case study examples of what has happened when destination marketing spending is reduced. The US state of Colorado represents a particularly 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 spending.
- 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 spending 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).

Case study: San Diego TMD funding frozen by litigation

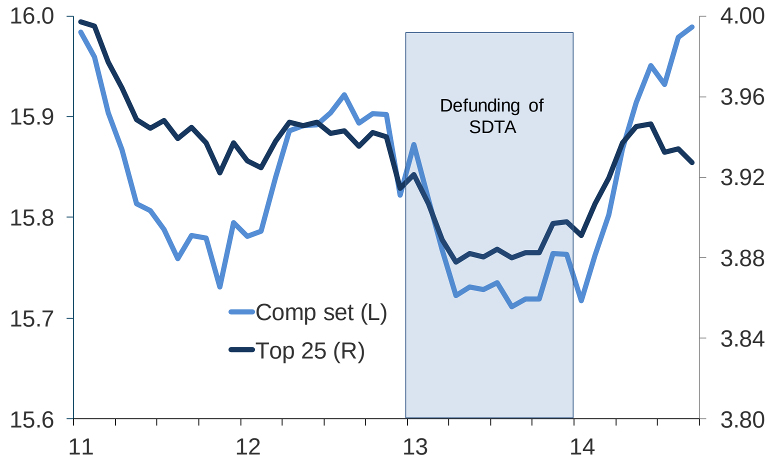
San Diego market share declined when tourism marketing was curtailed in 2013

A series of events in San Diego resulted in a temporary reduction in tourism marketing spending, providing a case study of short-term impacts:

- The San Diego Tourism Marketing District (SDTMD) was established in 2008 with the support of the lodging sector to provide stable funding for marketing and promotion based on a hotel room assessment. For example, in FY2012, the SDTMD allocated more than $25 million in assessment fees.
- As a result of litigation-related risks, funds intended for the SDTDM were held in limbo through much of calendar year 2013, curtailing its funding to local tourism marketing groups.
- The San Diego Tourism Authority (SDTA), the region's primary destination marketing organization, was one of the groups impacted. SDTA depends largely on SDTDM funding and was forced to cancel its important spring 2013 advertising campaign. Later, as the funding challenges persisted, SDTA laid off 40% of its staff in July 2013 and prepared to operate a bare-bones operation with only 15% of the funding that it previously received from SDTDM. SDTDM funding to other groups and events promoting tourism was also curtailed.
- Ultimately, in late-November 2013, the local city council released a portion of the funds previously being withheld and the SDTA restored its advertising in January 2014. As a result, the cutbacks in destination marketing were largely contained in calendar year 2013, and San Diego tourism marketing resumed strongly in 2014.
- The impact of the reduced funding was reflected in the performance of the San Diego hotel industry, as room demand leveled off in 2013, and occupancy rates and price levels increased more slowly than in competing markets. Overall, the city's performance trailed other regional and national destinations that had maintained funding levels and marketing programs.
- The graph below shows San Diego's reduced hotel room demand market share relative to a competitive set (Los Angeles, San Francisco, Anaheim, Phoenix and Seattle) and top 25 US metro markets during the period of reduced funding, and subsequent recovery when marketing was restored.

San Diego room demand market share

San Diego's % of total room nights, relative to...



Sources: STR, Tourism Economics

Case Study: Pennsylvania's cuts DMO budget while NY increases spending; predictable results follow

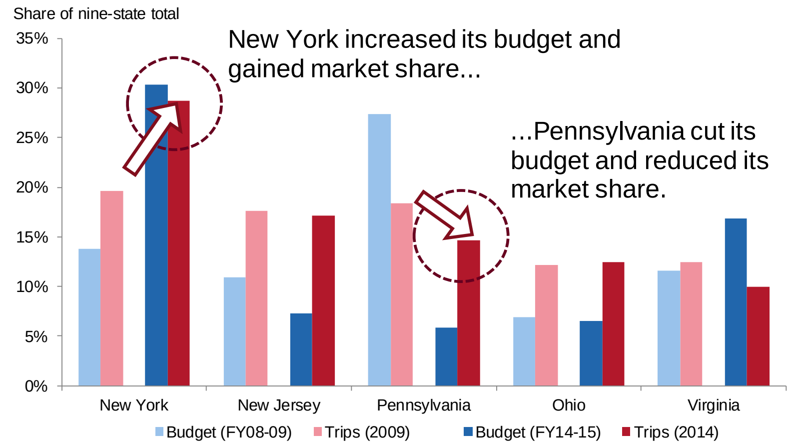
Major budget cuts and increases are followed by corresponding losses and gains in market share

Pennsylvania's DMO saw their budget slashed from $36.3 million in 2007 to $7.3 million in 2015. During this time, Pennsylvania has realized sizable declines in its market share relative to competitive states:

- Pennsylvania's share of overnight marketable leisure trips declined from 17.6% in 2007, to 14.7% in 2014, representing a decline of 16.9% (2.9 percentage points).
- Meanwhile, Pennsylvania's share of day marketable leisure trips declined from 23.2% in 2008 (earliest available data), to 19.4% in 2014, representing a decline of 16.4% (3.8 percentage points).
- In 2008, Pennsylvania was the second most popular state in the US measured on the basis of marketable day trips. By 2014, Pennsylvania had declined to fourth.

Pennsylvania's market share decline is partly attributable to the strong competitive growth of New York State. New York has more than doubled its state tourism budget (from $15.0 million in FY2008-09 to $37.3 million in FY2014-15), and has shown the largest market share gain among competitive states.

Market share and budget share



Note: Trips measured on the basis of marketable overnight trips.
Source: Longwoods International; US Travel Association; Tourism Economics

Between FY2008-09 and FY2014-15, New York increased its state tourism market budget from $15.0 million to $37.3 million, a 148% increase. This funding helped back the successful "I Love New York" campaign, which was relaunched in 2008. This marketing supported New York's substantial gain in market share. Between 2009 and 2014, New York's share of marketable overnight trips in the nine-state region increased 46.1%.

About Tourism Economics

Tourism Economics is an Oxford Economics company with a singular objective: combine an understanding of tourism dynamics with rigorous economics in order to answer the most important questions facing destinations, developers, and strategic planners. By combining quantitative methods with industry knowledge, Tourism Economics designs custom market strategies, destination recovery plans, tourism forecasting models, tourism policy analysis, and economic impact studies.

With over four decades of experience of our principal consultants, it is our passion to work as partners with our clients to achieve a destination's full potential.

Oxford Economics is one of the world's leading providers of economic analysis, forecasts and consulting advice. Founded in 1981 as a joint venture with Oxford University's business college, Oxford Economics enjoys a reputation for high quality, quantitative analysis and evidence-based advice. For this, it draws on its own staff of more than 120 professional economists; a dedicated data analysis team; global modeling tools, and a range of partner institutions in Europe, the US and in the United Nations Project Link. Oxford Economics has offices in London, Oxford, Dubai, Philadelphia, and Belfast.

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