REPORT TO THE

UTAH LEGISLATURE

Report No. 2000-06

A Performance Audit
of
Tourism Promotion Funding in Utah

November 2000

Audit Performed by:

Audit Manager	Tim Osterstock
Audit Supervisor	Darin Underwood
Audit Staff	Darren Marshall
	Brian Dean

Table of Contents

Digest of
Tourism Promotion Funding in Utah

Tourism Promotion Can Improve at Both County and State Levels

Utah's tourism promotion program focuses funding and operations at the county level. While few **Utah Code** violations exist in counties' spending of the $46 million tourism tax revenues, overall emphasis on direct tourism promotion spending can improve. The Legislature should be aware that significant portions of county tourism tax revenues are spent on capital improvements, public improvements, and county fair parks and rodeos, rather than on direct tourism promotion.

The spending of $4.8 million in general funds for state-level tourism promotion can also improve. Funds for state-level tourism promotion are administered by the state's Division of Travel Development—better known as the Utah Travel Council (UTC). The UTC can help overall tourism promotion in Utah with improved communication and assistance to counties. Increasing competition from other states, however, may require that Utah direct more funding toward tourism promotion. In this circumstance, the Legislature may wish to address possible methods of performance-based funding mechanisms to maintain Utah's tourism market share.

It is clear that much of the intent to improve recent tourism promotion has been driven by the 2002 Olympic Winter Games and by state and county desires to improve promotional efforts prior to that event. Hence, it is an opportune time to examine state and county promotional efforts, as well as cooperation efforts among counties, travel regions, the UTC, and tourism industry associations.

Audit Findings & Recommendations

The following findings in county-level tourism promotion are addressed in **Chapter II: Counties Use of Tourism Taxes Can be Improved**. Abbreviated versions of full audit recommendations found later in the report, are printed in ***Italics***.

- Ambiguities exist in some **Utah Code** sections that govern the following county tourism taxes: the Transient Room Tax (TRT), or hotel tax, and the Tourism, Recreation, Cultural, and Convention Center Tax (TRCC). (The TRCC in an acronym referring to the county restaurant and car rental taxes, and a special additional TRT tax for Salt Lake County.) These ambiguities may require that some spending be reviewed because emphasis has moved away from spending for direct tourism promotion.

Audit Findings & Recommendations (Continued)

We recommend that the Legislature review sections of the Utah Code to clarify the term "tourism promotion," to clarify capital spending, to consider accountability measures, to consolidate TRT sections, and to address related tourism tax issues.

- Although there are very few spending violations with the TRT, some county spending of the TRCC taxes is used for projects which may not directly relate to tourism, with little of the TRCC being spent on direct tourism promotion. Counties can take steps to improve TRCC spending.

  We recommend that counties consider using tourism tax advisory boards for the TRT and TRCC taxes. We further recommend that county commissions and county councils formalize tourism marketing plans and budgets where they do not exist.

The following findings in state-level tourism promotion are addressed in **Chapter III: State-Level Efforts in Tourism Promotion Can Improve**.

- Currently, state-level tourism promotion is funded primarily by appropriated general funds. The UTC may benefit from trends shown in other states toward more performance-based funding mechanisms which can increase funding levels as state-to-state competition increases.

  We recommend the Legislature study performance-based opportunities for the UTC for state-wide tourism promotion, including a study of the Tourism Marketing Performance Fund.

- To better promote tourism in Utah, the UTC can address issues in communication, education, and technical assistance to counties. The UTC can play a more active role in consulting counties on spending for tourism promotion without preempting local autonomy.

  We recommend the UTC strengthen its implied consultive role to provide tourism promotion assistance to counties. For example, the UTC could provide training and expertise on the tourism tax code, provide tourism marketing plan templates, and communicate a broad-spectrum of suggested tourism promotion strategies.

Chapter I
Introduction to Tourism Promotion Funding in Utah

The important economic role of travel and tourism is recognized both nationally and in Utah. As for states, the key elements of tourism are promotional funding and effectiveness. Both elements are necessary to maintain or gain a state's share of available out-of-state tourism dollars. Utah's Legislature recognizes the importance of funding tourism promotion and the demands placed on the state and its communities to support travel and tourism. Hence, the Legislature has requested an audit of the state's use of legislatively-approved tourism promotion taxes.

While travel and tourism in Utah is vibrant and tourism promotion tax revenues continue to grow, there are issues that the Legislature may wish to address. Foremost would be a review of county spending of tourism promotion monies on tourism-direct advertising and tourism-indirect infrastructure improvements. In some cases, we found county spending trends that focused more on capital projects, local public improvements, and other loosely-related tourism, cultural, or recreation projects than on spending that focused on direct promotion. To assist the Legislature in improving tourism promotion, we make the following recommendations which are addressed in Chapters II and III of this report:

Possible improvements to "tourism promotion" include:
- **Code changes**
- **Advisory boards**
- **Marketing plans**
- **Improved communication**
- **Strengthened industry coalitions**

- The Legislature should consider clarifying the meaning of "tourism promotion" in pertinent **Utah Code** sections as well as reviewing the spending allowances for the Tourism, Recreation, Cultural, and Convention Center Tax (TRCC), which includes the restaurant, car rental and TRT Special taxes.

- County commissions and councils should consider strengthening existing tourism tax advisory boards and implementing them where they do not exist.

- County tourism professionals should improve tourism marketing plans and subsequent marketing-based budgets.

- The Division of Travel Development, or Utah Travel Council, should strengthen its relationship with county tourism professionals in order to maximize the benefit of tourism promotion spending.

- Private tourism industry members should strengthen their associations to improve their visibility before the Legislature as these industry members are involved in decisions of future tourism promotion funding.

Tourism and Tourism Promotion Play Significant Roles in Utah

In 1999, 18.2 million visitors spent $4.2 billion on travel and tourism in Utah.

Just as it does nationally, tourism plays a significant role in Utah's culture and economy. Each year, millions of travelers bring billions of dollars into Utah's economy, providing almost 120,000 direct and indirect jobs. Tourists visit diverse and unique areas of the state being assisted by hundreds of tourism and hospitality stakeholders. However, Utah's strength of diversity among stakeholders is also its challenge because tourism promotion themes and spending can be fractured. Through the suggestions in this report, we believe that the Utah Travel Council (UTC), tourism industry associations, and county tourism stakeholders can improve tourism promotion in Utah.

Tourism Bolsters Economy Nationally and in Utah

One of the recognized authorities on research, analysis, and forecasting for the nation's travel and tourism industry, as well as an industry spokesperson to media, is the non-profit Travel Industry Association of America (TIA). A standard industry definition cited by TIA and other tourism entities when analyzing and reporting is

> *The travel and tourism industry [is] the activities of persons traveling and staying in places outside their usual environment* . . . .

The travel and tourism industry is vast because it comprises so many different employment sectors from so many industries. Travel and tourism activities occur in the following areas of the economy: public transportation, auto transportation, food service, lodging, amusement, entertainment and recreation, general retail and merchandise stores, and travel planning.

Travel and tourism is the fifth largest employer in Utah, accounting for one in every nine non-agricultural jobs.

Based on the above criteria, travel and tourism are a multi-billion dollar national industry which continues to grow each year. According to TIA, travel spending amounts to over $1 billion in 46 of the 50 states, including Utah. The travel and tourism industry is the first, second, or third largest employer in 29 states and fifth largest in Utah, accounting for one in every nine non-agricultural jobs. TIA data gives a flavor of the significant impact travel and tourism have on the U.S. economy. For example, in the United States in 1999, it was projected that travel and tourism-related industries

- Had expenditures totaling $541.1 billion.
- Contributed to a payroll of $157.8 billion.
- Impacted employment by accounting for 7.8 million jobs.
- Generated $14.1 billion in taxes.

Travel and tourism-related spending generated an estimated $336 million in state and local tax revenues in 1999.

Travel and tourism have had a similar economic effect in Utah where travel-related spending generated an estimated $336 million in state and local tax revenues in 1999. Figure 1 summarizes some further economic impacts of travel and tourism in Utah.

Figure 1. Travel and Tourism Industry Positively Impacts Utah. Recent data from the Utah Travel Council summarizes 1999 traveler spending, travel-related employment, tourism tax impacts, and visitation indicators in Utah.

Travelers Spent Billions in Utah in 1999

- Travelers to Utah spent $4.2 billion in 1999 with Salt Lake County accounting for $2 billion, or almost half the total.
- Since 1994, annual statewide growth in traveler spending has averaged 2.4 percent.

Travel-Related Employment Accounted for 119,500 Jobs in Utah

- Direct travel-related jobs for 1999 totaled 67,000.
- Indirect travel-related jobs for 1999 totaled 52,500.

Traveler Spending Contributed to Tax Payer Relief in Utah

- In 1999, state and local tax collections from traveler spending totaled $336 million.
- Tax collections from traveler spending provided tax relief of $158 per Utah resident in 1999.

Overall Visitation to Utah Has Increased

- Non-resident visitation to Utah totaled 18.2 million in 1999, a 2 percent increase from 1998.
- However, visits to national parks, Utah Welcome Centers, ski resorts and traffic at the Salt Lake International Airport are slightly down.

Source: 2000 State and County Economic & Travel Indicator Profiles, Utah Division of Travel Development (Utah Travel Council), September 2000.

Utah Has Several Stakeholders in Tourism Promotion

Travel and tourism helps Utah's economy grow, provides numerous jobs, and contributes to tax payer relief.

As the above tourism statistics show, the sheer size and nature of the tourism industry make it difficult to maintain a unified approach in advertising and promotion. In Utah, a number of entities are stakeholders in the tourism industry. Each of these entities is vying for its share of advertising and for its share of the tourist trade. The state's main goal is to attract out-of-state visitors, while the counties attract visitors from other parts within the state as well as out-of-state visitors. The major tourism promotion stakeholders we talked to throughout the course of the audit are listed in Figure 2.

Figure 2. Utah Has Several Stakeholders in Tourism Promotion. The opinions of stakeholders in some of the organizations shown herein are introduced in the chapters to follow.

Stakeholder Group	Affiliation
Utah Division of Travel Development, or Utah Travel Council (UTC)	State government
Board of Travel Development (UTC Board)	State government / tourism industry
Utah Tourism Marketing Performance Fund Committee	State government / tourism industry
Utah Tourism Industry Coalition (UTIC)	Tourism industry
Utah Hotel & Lodging Association	Tourism industry
Utah Restaurant Association	Tourism industry
Ski Utah	Tourism industry
Bicycle Utah	Tourism industry
County Commissioners and County Council Members	County government
County Tourism Councils	County government
County Tourism Tax Advisory Boards	County government / tourism industry
Tourism Tax Restaurant Boards	County government / tourism industry
Convention and Visitor Bureau (CVB) Boards	Non-profit entity / tourism industry
Chambers of Commerce Boards	County / local non-profit entities
Travel Region Boards and the Utah Travel Region Association	County / regional cooperatives

Utah's Promotional Approach May Lose Some Effect From Non-directed Funding

The high number of travel and tourism stakeholders must assure that Utah's tourism funding and promotion are cohesive.

It is clear that there are a number of entities involved in tourism promotion and that, as a result, funding and promotional efforts may not be fully cohesive. A best practice approach suggests that tourism promotion for a state needs to be consistent and directed from one entity to another. In effect, there needs to be a consistent joint message from the state and from the counties. As will be shown in Chapter III, the UTC and tourism industry associations can improve their role in this process. However, since the greatest portion of tourism promotion funding has been given to the counties, for tourism promotion to be effective, it is the counties who must re-emphasize and re-focus tourism funding efforts to the original legislative intent of promoting tourism.

Local Taxes Dominate Utah Funding for Tourism Promotion

Utah governments had access to over $50 million in tourism funding for state-wide and county-level promotions.

Utah supports a decentralized tourism promotion philosophy which gives county governments the majority of tourism promotion tax revenues, recognizing counties as both the taxing entity and the tourism promotion provider. Thus, a state-wide tourism promotion strategy begins with a central "come to Utah" message, provided by the state and tourism industry coalitions, coupled with more specific decentralized promotional efforts of counties and predetermined travel regions. Utah's 29 counties collected and spent $46.4 million in tourism-related taxes in 1999. Utah's centralized promotional element is administered by the state Division of Travel Development, commonly referred to as the Utah Travel Council (UTC), which had an operating budget of $4.8 million from mostly state general fund monies in fiscal year 2000.

UTC Receives Funding to Promote Utah State-wide

The Travel Council promotes Utah as a destination area for those wishing to rejuvenate and relax.

As mentioned, Utah's tourism promotion efforts begin with a central message provided by the UTC. Of the current legislative appropriation of $4.8 million, the UTC spends about 60 percent on marketing, which includes advertising, publications, and direct contact marketing efforts. One objective of the UTC's multi-year marketing plan is to focus on the state's unique qualities to get destination-oriented visitors to Utah. A UTC position statement shows the intent to market the restorative and rejuvenating abilities of Utah's unique and diverse atmosphere to individual and family travelers:

For active, destination-oriented individuals and families seeking rejuvenation and relaxation, Utah has world-class red rock and alpine beauty, diverse activities and adventures in an accessible and friendly Western atmosphere (Utah Travel Council Action Program, Marketing Plan: Part 3, June 1998, p. 4).

UTC officials told us that their strategy is to market these broad types of tourism messages in connection with counties and travel regions, who can then promote the more specific "restorative" areas of the state.

Most Tourism Promotion Revenues Are Local Taxes

Although the UTC maintains a state-wide tourism promotion program, the bulk of the tourism promotion funding in Utah—almost $47 million in tax revenues—is administered at the county level. The Legislature has authorized several user taxes to generate revenues to spend on tourism promotion. The taxes, taken together in this report, are termed "tourism taxes" and consist of the following taxes:

The major tourism taxes at the county level are the:
•Transient Room Tax (TRT)
•Restaurant Tax
•Car Rental Tax
•TRT Special Tax

1. Transient Room Tax (TRT), or "hotel tax."

2. Prepared Food and Beverage Tax, or "restaurant tax."

3. Short-term Leased Vehicle, or "car rental tax."

4. TRT Special Tax, an additional transient room tax allowed for Utah's First Class counties (which currently includes only Salt Lake County).

All counties participate in the 3 percent TRT, with Salt Lake County, as the state's only First Class county in size, participating in an additional 0.5 percent TRT Special Tax. Twenty-four counties have adopted the 1 percent restaurant tax, but only eight counties have adopted the car rental tax. As in **Utah Code** 59-12-603, the restaurant, car rental, and TRT Special Tax will be collectively referred to, in this report, as the Tourism, Recreation, Cultural and Convention Center Tax, or TRCC, as it appears in the **Utah Code** heading. A summary of the tourism taxes is shown in Figure 3 which follows:

Figure 3. State of Utah Allows Four Major County-Option Tourism Taxes: Transient Room, Restaurant, Car Rental and TRT Special Tax.

Tourism Tax	Tax Rate	Adopting Counties
Transient Room Tax (TRT)	3%	29 counties
Prepared Food and Beverage (Restaurant) Tax	1%	24 counties: All counties except Beaver, Emery, Millard, Piute, and San Juan
Leased-Vehicle (Car Rental) Tax[1]	3%	8 counties: Davis, Duchesne, Grand, Salt Lake, Sevier, Uintah, Washington, and Weber
TRT Special Tax	0.5%	1 county: Salt Lake County

1. Beginning in January 1999, a 4 percent car rental tax was available for counties to adopt in addition to the existing 3 percent tax. Five of the eight counties that collect the car rental tax have adopted the new 7 percent rate.

Figure 4 shows the detail of the 1999 revenues realized by Utah's counties from the TRT and TRCC taxes, which represents an 18 percent increase from the previous year.

Figure 4. Tax Commission Data Show County Tourism Tax Revenues Totaled Over $46 Million Dollars in 1999.

Tourism Tax	1999 Revenues
Transient Room Tax (TRT):	
TRT collected by Tax Commission for 28 counties and Grand County collections[1]	$ 17,461,825
Tourism, Recreation, Cultural and Convention Center Tax (TRCC):	
1% Prepared Food and Beverage (Restaurant) Tax	20,044,794
3% Leased Vehicle (Car Rental) Tax	8,900,000
0.5% TRT Special Tax for Salt Lake County	(incl. in TRT above)
TRCC Subtotal	28,944,794
Total Tourism Taxes (TRT and TRCC)	**$ 46,406,619**

1. Since 1996, Grand County has opted to collect and administer its own TRT.

Utah counties had $46.4 million in revenues from the TRT, Restaurant, Car Rental, and TRT Special Tax in 1999.

State Has Long-Supported Tourism Promotion Through Taxation

State-supported tourism promotion through taxes dates back to 1965. In that year, the Utah Legislature first passed the TRT, allowing counties additional funding for promoting tourism. Since that time, both legislative intent and funding sources have evolved. Over the years, both the TRT and TRCC have gravitated toward allowing counties to acquire, lease, and bond for a variety of facilities that are loosely related to tourism. A brief history of major changes in Utah's tourism tax laws is outlined below:

- 1965 TRT enacted allowing counties to collect 1.5 percent transient room tax for "the purpose of establishing, financing and *promoting* recreational, tourist and convention bureaus." No capital facility language existed in original code.

- 1975 TRT rate raised to 3 percent.

- 1979 For select counties, one-third of the TRT could now be used to acquire, lease, construct, furnish, maintain, or operate tourism facilities and acquire land for related purposes. One-third of the TRT could be used in bonding for tourism facilities. (Note: to date it is unclear if this is the same one-third or a total of two-thirds.)

- 1989 Ability to use one-third TRT to acquire, lease, construct, furnish, maintain, or operate tourism facilities extended to all counties.

- 1990 TRCC (**Utah Code** 59-12-601) enacted with only one tax (the car rental tax), which allowed counties to collect 3 percent on leased vehicles. The funds may be used to finance tourism promotion and to develop, operate, and maintain tourism, recreation, and convention facilities.

- 1991 TRCC amended to include two additional taxes: a collection of 1 percent tax on prepared food and beverage (restaurant) and a special 0.5 percent TRT collection for First Class counties (Salt Lake County).

Code is also amended to include cultural activities and cultural facilities as valid projects for the TRCC tax.

- 1996 TRT was amended to allow for one-third of revenues (the same one-third allowed for acquisition, leasing, etc.) to be used to mitigate the impact of recreational, tourism, or convention activities in counties of the fourth, fifth, and sixth classes, by paying for solid waste operations, emergency medical services, search and rescue activities, and law enforcement activities.

Over the years, the Legislature has allowed for more tourism promotion funds to be spent on capital projects.

In the 1990s, with the amendment of the TRT and the addition of the TRCC, the focus of tourism tax revenues moved more toward tourism facilities. This shift is evident in the legislative purpose statement attached to the Tourism, Recreation, and Convention Facilities Tax statute. This statement called for the development of tourism, recreation, cultural, and convention facilities throughout Utah to insure continued growth in the tourism, recreation, and convention industry. Existing facilities were seen as obsolete and counties could not, by themselves, afford new facilities. Furthermore, other states were lending support for similar facilities so that the playing field could be leveled.

The addition of 0.5 percent to Salt Lake County's TRT is a good example of the Legislature's desire to keep Utah competitive with other states. The bill's 1991 sponsor says that the additional 0.5 percent TRT had the specific intent of aiding Salt Lake County in the expansion of the Salt Lake Convention Center. However, the intent for the usage of the restaurant tax portion of that 1991 bill was clearly for direct tourism promotion.

With the 2002 Winter Olympic Games just 16 months away, now is an opportune time to examine Utah's tourism promotion efforts.

It is clear that much of the intent for recent tourism promotion has been driven by the 2002 Olympic Winter Games and for state and county desires to increase promotional efforts prior to that event. Hence, it is an opportune time to examine state and county promotional efforts, as well as cooperation efforts among counties, travel regions, the UTC, and the tourism industry associations. In so doing, recommendations to refine legislation to better meet state and county needs can be followed in a timely manner.

Diverse County Record Keeping Makes Tracking Tourism Tax Spending Difficult

In the simplest terms, Utah's tourism tax system in divided into two parts: the tax collection and distribution process and the spending of tax revenue. We found that the collection/distribution process is well controlled and documented but that spending of tax revenues, and the necessary accounting for the spending, is far more difficult to address.

Tax collection and distribution begin with counties establishing the necessary ordinances and service providers in the counties applying the tax. In all but one county (Grand County for the TRT), the taxes are sent to the Utah State Tax Commission for processing where the various taxes are broken out. Once the amounts are determined, funds are credited to each counties' Treasurer through a public transfer of funds from the State Treasurer.

Grand County collects its own TRT but has the Tax Commission collect other tourism taxes. It claims to receive revenues quicker and save money.

Grand County, as the exception, has opted to collect its own TRT while the Tax Commission collects its restaurant and car rental taxes because the county collection option does not exist for the TRCC. In 1996, the Grand County Council believed they could benefit by saving the TRT administrative fee charged by the Tax Commission and could receive TRT revenues quicker from hotels and motels. Grand County has used an existing employee in their travel council to receive TRT revenues and transfer them to the county treasury, thus keeping costs down.

In a similar manner, other counties favor using their current collection system: the Tax Commission. Feedback we received from some of the counties using the Tax Commission for the TRT, were positive. Based on this information, we did not proceed with a full audit of TRT collections by the county versus the state. Furthermore, the audit emphasis required us to concentrate our time on how counties *used* the actual revenues, rather than on collection.

The diversity of tourism tax record-keeping in 29 counties and 9 travel regions made a completely compatible analysis very difficult.

County *use* of TRT and TRCC funds is far more difficult to examine than the *collections* process. Counties do not have common accounting systems, nor do they have similar tourism promotion programs. The various systems and programs made it extremely difficult to identify how funds are being used.

Overall, we are confident in our analysis of how counties spend revenues from tourism taxes but also caution the reader that not all information is completely comparable. Financial records on Utah's tourism tax revenues come from 29 counties and 9 different travel regions. Often a single county's information had to be reconciled using information from numerous sources, such as county tourism councils (governmental and non-profit), chambers of commerce, convention and visitor bureaus (CVBs), restaurant tax boards, and travel regions.

Audit Scope & Objectives

This audit is the result of a legislative request to review specific questions regarding Utah's tourism taxes and tourism promotion. Requesters asked us to

1. Determine if counties and cities use available tourism taxes (i.e., transient room tax, prepared food tax, and leased-vehicle tax) in accordance with legislative intent to "promote tourism."

2. Determine how other states finance state-level tourism promotion efforts, and whether Utah can utilize any of these other financing methods.

Chapter II of this report includes our discussion and findings pertaining to county use of tourism tax revenues. Chapter III includes a discussion of state-level tourism promotion funding used by the UTC—inclusive of a review of selected other states' tourism promotion funding. It also contains ways the UTC can better assist counties in their tourism promotion efforts.

Chapter II
Counties Use of Tourism Taxes Can be Improved

Most counties comply with the **Utah Code** regarding the spending of approximately $46 million in annual tourism taxes with a few noted violations. However, the Legislature should be aware of a trend by some counties toward more spending on capital projects which may be moving spending away from the original legislative intent of promoting tourism. The Legislature may need to revisit sections of the tourism tax law to clarify its emphasis on tourism promotion. Counties can also work toward this emphasis by improving or implementing tourism tax advisory boards and strengthening tourism marketing plans and budgets.

Utah laws on tourism taxes can be streamlined and reviewed for consistency with and clarification of original intent. The original intent of all tourism taxes was to promote tourism. While some efforts have been made to preserve the intent with the TRT, similar efforts can be made with TRCC taxes to assure revenues intended for tourism promotion are not spent entirely on capital projects. In addition, audit requesters are concerned that the tourism tax revenues are not used in the most effective manner. Tax revenues meant to directly benefit tourists by such means as better tourism marketing of visitor centers, tourism advertisement, and tourist brochures appear to fund items that are more typically general fund items such as improvements to municipal facilities.

County TRT Expenditures Appear to Largely Follow Legislative Intent

Counties follow the TRT law with few violations of the one-third spending rules for capital projects and bonding obligations.

As intended in the original legislation, the majority of TRT expenditures appear to go toward tourism promotion and marketing. In several cases, following legislative intent is accomplished because counties use marketing plans that emphasize direct tourism promotion through brochures, familiarization tours, trade shows and other forms of advertising. Counties also use some portions of the TRT to receive promotional services provided by Utah's nine travel regions (groups of counties which share a common geographic or historic theme). Taken in aggregate, counties follow the **Utah Code** and limit capital project spending to under one-third of the total. Still, some counties exceeded the limit and need to review their capital project expenditures. The Legislature also needs to be aware of related tourism tax issues that involve ambiguity in the Resort Communities Tax and discussion to divert some TRT revenues to municipalities.

Counties Use TRT Funds for Tourism Promotion

The majority of the TRT, 63 percent, is spent on tourism promotion.

For 1999, counties in total spent 63 percent of the combined TRT on tourism promotion and on the salaries and benefits of county employees who are largely tourism promoters and marketers. In addition, most counties spent under the allotted one-third of TRT totals on capital projects. Figure 5 shows these two categories along with four other major TRT expenditure categories.

Figure 5. TRT Expenditures and Percentage Rank Order Show Most of the 1999 Tourism Tax Revenues Went to Tourism Promotion in the Counties.

Expenditure Category	Percentage	Amount
Tourism Promotion	39.6%	$ 6,738,317
Salaries and Benefits of Tourism Employees	23.4	3,977,963
Capital Projects & Bonding	21.4	3,639,463
Office and Miscellaneous	7.4	1,254,420
Retained to Fund Balance	6.1	1,040,032
Visitor Center or Fair Park Operations and Maintenance	2.2	369,039
Total 1999 TRT Expenditures[1]		**$17,019,234**

1. *Note that the total does not exactly match the TRT total reported in Figure 4 of Chapter I. There are two reasons for this discrepancy: (1) The $17,461,825 total from Chapter I is the TRT revenues to the Tax Commission, which include the TRT Special Tax collected by Salt Lake County, while the above total is an expenditure total for counties and does not include the TRT Special expenditures reported in the TRCC section. (2) Year-to-year carry-over and retention also affect the balance.*

Counties Benefit When Giving Some TRT to Travel Regions

Several of the counties transfer either all or portions of their TRT revenues to their respective travel region and appear to gain benefit from this co-operative. In this arrangement, counties that have little tourism tax revenue join in a co-operative organization with other counties through one of Utah's nine travel regions and produce brochures and other forms of marketing.

Utah has nine travel regions that encompass 27 counties. Wayne County contracts with its own non-profit travel council, and Kane County, though not a member, affiliates with a travel region. The travel regions and the counties they encompass are show in Figure 6.

Figure 6. Utah has Nine Travel Regions Which are Grouped by a Shared Geographic or Historic Theme.

Travel Region	Counties Included
Bridgerland	Cache, Rich
Canyonlands	Grand, San Juan
Castle Country	Carbon, Emery
Color Country	Beaver, Garfield, Iron, Washington
Dinosaurland	Daggett, Duchesne, Uintah
Golden Spike Empire	Box Elder, Davis, Morgan, Weber
Great Salt Lake	Salt Lake, Tooele
Mountainland	Summit, Utah, Wasatch
Panoramaland	Juab, Millard, Piute, Sanpete, Sevier

Counties benefit through the Utah Travel Region Association which facilitates cost sharing at tourism trade shows.

One of the greatest benefits of pooling TRT funds in travel regions is that their active association, the Utah Travel Region Association (UTRA), facilitates county cost sharing for several consumer tourism trade shows. In 2001, tourism professionals from Utah travel regions plan to attend ten trade shows throughout the United States to promote Utah. Instead of each travel region sending a representative, the association splits up the shows between each region's representatives. Each region attends up to three shows, instead of ten. Then, the representatives assigned to a specific show take the advertising materials for the remaining travel regions in order to undertake direct consumer marketing for the entire state.

Estimates from the UTRA show that it costs about $1,000 to send a representative to a trade show. For a longer show (about a week long) 4 representatives are needed. Additional costs for show fees, shipping and handling of advertising hand-outs, booth utilities, and miscellaneous materials total about $1,500 per show. UTRA representatives state that having co-operatives allows each county to save the costs of staffing and stocking seven shows, which would amount to almost $40,000, yet they receive the marketing benefits by having colleagues represent their regions in the shows.

Travel regions also maintain regular contact with Utah's travel and tourism industry associations.

While there is always the potential for overlapping of resources between the counties and travel regions, they appear to play a beneficial role in Utah. In addition to cooperating on trade shows, travel regions come together through association to work toward aligning their marketing efforts with the central message of the Utah Travel Council (UTC). They also interface with the Utah Tourism Industry Coalition (UTIC), which is the major association for travel and tourism professionals. This interaction takes place at monthly meetings of the UTIC/UTRA, where Utah Travel Council officials also attend.

Few Violations Exist in TRT One-third Spending Rules

Another aspect that supports the conclusion that counties focus TRT revenues toward tourism promotion is the fact that almost all counties adhere to the statutory limits on capital projects. In our review of 1999 data, there were few violations of TRT spending rules. However, there is still potential for additional capital project spending when counties supplement TRT capital funds with portions of the TRCC. In order to cover capital project expenditures or bonding requirements, in some counties, the one-third TRT is transferred to a fund containing TRCC revenues. Some counties do not even use one-third of the TRT for capital because they just use the TRCC.

Only two counties violated the one-third TRT spending rule which limits capital projects, facility operation, and bonding obligations.

Only two counties are directly in violation of the TRT statutory provisions. A third county may be in violation as well, depending on the interpretation of the statute. **Utah Code** 17-31-2 states:

(2) Counties may use not more than 1/3 of the proceeds of the transient room tax provided in Section 59-12-301 either:

(a) to acquire, lease, construct, furnish, maintain, or operate convention meeting rooms, exhibit halls, visitor information centers, museums, and related facilities, and to acquire or lease land required for or related to these purposes; or

(b) as required to mitigate the impacts of recreation, tourism, or conventions in counties of the fourth, fifth, and sixth class, to pay for:

(i) solid waste disposal operations;

(ii) emergency medical services;

(iii) search and rescue activities; and

(iv) law enforcement activities.

(3) (a) The county legislative body may:

(i) issue bonds or cause bonds to be issued, as permitted by law, to pay all or part of any costs incurred for the purposes set forth in Subsection (2) that are permitted to be paid from bond proceeds; and (ii) use up to 1/3 of the proceeds of the transient room tax as provided in Section 59-12-301 to make the annual payment of principal, interest, premiums, and necessary reserves for any of the aggregate of bonds issued.

(b) When the proceeds of the transient room tax provided in Section 59-12-301 are not needed for payment of principal, interest, premiums, and reserves on bonds issued as provided in Subsection (3), the county legislative body shall use those proceeds as provided in Subsections (1) and (2).

Utah Code for the TRT is unclear whether one-third or two-thirds are allowed for all capital projects, operations, bonding obligations, and tourism mitigation expenditures.

In short, this provision allows counties to spend up to one-third of the TRT for either capital projects or to mitigate the effects of tourism in less populated counties. The law also states that one-third can be used for bonding for the above purposes. What is unclear is whether one-third was allowed for capital projects and tourism mitigations, with an additional one-third allowed for bonding (totaling two-thirds), or if all three purposes are to be taken together (totaling one-third).

Two Counties Exceeded One-third TRT Rule. One of the two counties that violated the one-third rule spent 54 percent of its TRT expenditures on capital projects and an additional 24 percent on operations and maintenance of its county fair. Another county spent 42 percent of its TRT expenditures on capital projects and on offsetting the impact of tourism.

In addition to these violations, another county spent 19 percent of its expenditures to pay off a bond on its visitor center and 27 percent on the operation and maintenance of the visitor center, totaling 46 percent. This is an instance where, depending on interpretation of the statute, this county has exceeded the maximum of one-third TRT which can be used for bonding, tourism mitigation and operations. However, this county is *not* in violation if the two sections in question are taken together to total two-thirds.

One non-qualifying county improperly spent TRT funds to mitigate the effects of tourism.

One County Violated One-third Rule For Offsetting the Impact of Tourism. One county, which is one of the counties already in violation of the one-third rule mentioned in previous paragraphs, further violated the statute because it does not qualify to spend TRT to offset the impact of tourism because it is larger than a fourth-class county. Only fourth, fifth, and sixth class counties (based on population size) qualify to use the one-third portion for mitigating circumstances to offset the impact of tourism.

This county's auditor stated the county had been following an outdated copy of the **Utah Code** and that there would be no future violations. This problem, however, illustrates that there may be a need for training on both the compliance use and effective use of tourism promotion funds in the counties.

Related Tourism Tax Issues Need Legislative Attention

In the course of the TRT review, a few related tourism tax issues arose that time constraints kept us from fully reviewing. This section discusses two such issues that may need further review:

- Potential for local control of the portions of TRT generated within their municipal borders, and
- Ambiguities in the municipal Resort Communities Tax that have resulted in questionable applications of this taxing statute.

Some Municipalities Want to Control Share of TRT. A few municipalities have expressed concern that their counties have marketing plans which do little for travel and tourism in their direct municipal areas. These municipalities suggest that TRT revenues generated within their borders ought to be kept under the direction of the municipality.

For example, at a recent meeting of the Legislature's Revenue and Taxation Interim Committee, an official from the town of Alta testified that the marketing efforts of the Salt Lake County Convention and Visitors Bureau (CVB) do little for the town of Alta because the CVB's focus is on attracting groups to the downtown Salt Lake area. The town of Alta claims that, in 1999, they generated about $311,000 in TRT revenues from lodging facilities within their borders; they would like to have kept the revenues for their own travel and tourism promotions.

The Town of Alta wants TRT revenues of approximately $300,000 per year, collected in Alta, for its own tourism promotion rather than participate in a county-wide promotional program.

We discussed this issue with several officials at the Salt Lake CVB who responded that they are aware of Alta's concerns and claim they have directed tourism benefits to Alta and the other Cottonwood Canyon ski areas. The CVB supplied information which shows evidence of their use of TRT funds to benefit the Cottonwood Canyon ski areas. In a letter sent to the mayor of the Town of Alta, the CVB highlighted several TRT benefits in 1999:

- Alta received $91,413 in ski lift business for the interchangeable vouchers among the four Cottonwood Canyon ski resorts.

- Alta received $618,000 in media coverage from articles initiated through CVB media staff.

- Alta lodging properties rented 1,284 room nights resulting from one of CVB's convention bookings.

- Alta benefits from the *Cottonwood Resorts 2000-01 Vacation Planner* which is printed and distributed at a cost of $50,000 to the CVB.

Clearly, both sides see different intents for TRT funding. The CVB uses the funds in ways that indirectly benefit Alta, while Alta wants the funds directly to use as the local community sees fit. This scenario affects relationships between other counties and municipalities, such as Tooele County and Wendover City, and Iron County and the town of Brian Head, as well. In these two scenarios, the counties have transferred an agreed-upon portion of TRT revenues to the municipalities. However, our contacts in these areas still say that problems exist. Some tourism professionals believe that having the TRT administered by municipalities would dilute spending, thus leading to some missed marketing opportunities.

The Utah League of Cities and Towns (ULCT) recently became involved in the issue of a local-option TRT. In June 2000, the ULCT Legislative Policy Committee passed a motion to deal "with the issue of a local option on the transient room tax" and will support future study of the issue. Our contact at the ULCT said that the examples cited show there could be problems with the sharing of TRT revenues and that additional work needs to be done.

Ambiguity of Resort Communities Tax has also resulted in questionable statute applications by some municipalities.

Municipal Resort Tax Mirrors Some TRT Problems. We also conducted a limited review of the Municipal Resort Communities Tax in answer to public concerns. It appears that just as with the TRT, the municipal-based Resort Communities Tax (**Utah Code** 59-12-401) has ambiguities that have resulted in questionable applications of this taxing statute. In addition, minimum state-level controls within the statute have furthered the confusion as no state agency sees it has oversight responsibility.

It appears that communities have used questionable information to support taxing eligibility. The primary criterium for allowing the use of the resort tax is a requirement that the community have a transient room capacity greater than or equal to 66 percent of the community's permanent census population. It appears that communities, without further clarification in the **Utah Code**, have taken a liberal interpretation of what constitutes room capacity and census population.

Currently, 11 Utah communities collect resort communities sales taxes. These communities collected $6.6 million in resort taxes in 1999. All were identified by the Office of Planning and Budget as possible candidates for the tax in 1998, depending on how transient room capacity was calculated. The most current study done on room capacity, however, identified two communities as not meeting the capacity criterium under any circumstance and four as questionable.

In fact, the original submission of facts for these municipalities identified a total of 7,931 available rooms and a total permanent population of 17,125. The more current Tax Commission review identifies only 5,340 total rooms available and a total population of

20,563. Clearly, discrepancies exist in room counts and population counts which, in some circumstances, raises a question about the application of the resort tax.

Our discussion with Tax Commission staff and complainants identified that even in the Tax Commission's study, some communities have included recreational vehicle and camping spaces in room capacity calculations to arrive at a transient-to-permanent population ratio above 66 percent. While the **Utah Code** does not define room capacity in 59-12-401, it does define public accommodations in 59-12-351 for calculating room capacity in the closely allied TRT. Recreational parking and campsites are clearly not included. Transient public accommodations include

- motels,
- hotels,
- motor courts,
- inns,
- bed and breakfast establishments,
- condominiums, and
- resort homes

We found that state-level control of the Resort Communities Tax has been minimal. The only state-level control exerted over this tax is an administrative rule (R865-12L-15) that requires communities to submit a copy of their tax ordinance and a certification of facts establishing eligibility. The Tax Commission sees that its only responsibility is to accept the submission of the municipality. The Tax Commission is not charged with verification of the facts submitted or enforcement of the requirements.

Further reviews of a municipal opt-out of the TRT as well as the Resort Communities Tax seem appropriate.

As demonstrated above, the Tax Commission does have concerns with the information it is receiving and has done some work to validate the information submitted. They have contacted the State Auditor and requested that audits of municipalities include a review of Resort Communities Tax information. We believe a further review of this tax would be appropriate.

Although we cited a few violations and concerns that exist with the TRT and related taxes, we are more concerned with the expenditure findings and condition of the TRCC. Counties' use of the TRCC tax, in comparison to the TRT tax, has more expenditures that need to be reviewed, as shown in the next section of this chapter.

Refocusing of TRCC Expenditures Could Improve Tourism Promotion

The TRCC makes up 63 percent of all tourism taxes yet has significantly fewer spending guidelines than the TRT.

The majority of Utah's tourism tax revenues actually come from lesser controlled TRCC taxes. In 1999, TRT taxes totaled $17 million while TRCC taxes totaled $29 million, yet there has been less focus on TRCC direct tourism promotion spending from either the Legislature or the counties, and there has not been legislative oversight of spending.

Capital projects absorb the majority of TRCC funding because the **Utah Code** sets no limit on funding use like the one-third rule for capital projects, operations and maintenance, and bonding of tourism facilities as it does for the TRT. As a result, less of the TRCC revenues are actually used for tourism promotion than are TRT revenues. Rather, several counties use TRCC on expenditures that appear to go toward public improvements or county rodeos and fairs rather than direct tourism promotion expenditures. While all of these expenditures are allowed under the TRCC rules, and most can be considered either tourism, recreation, cultural, or convention center expenditures, they lessen the funding available for direct tourism promotion and impact potential future growth. Clearly, counties' interpretations of the **Utah Code** vary, indicating that some usage clarification may be beneficial in prioritizing TRCC expenditures.

The original intent of the TRCC tax was to help the travel and tourism industry grow through direct tourism promotion.

As mentioned earlier, the legislative intent of the TRCC tax was that revenues be used to promote tourism. A review of discussions on the House and Senate floors in March of 1991 shows this emphasis on tourism promotion to be fairly clear. Several legislators in favor of the restaurant tax addition to the TRCC saw it as a means to further travel and tourism. One legislator stated, "The [tax] dollars will more than come back in a geometric proportion to the food industry." It was stated further that counties and restaurant owners would be put at a disadvantage by the tax unless the intent was for "tourism promotion." Finally, the bill sponsor summarized that the Utah Restaurant Association (URA) would support the bill if the intent was for the tax revenues to be used for tourism promotion. We acknowledge that the TRCC legislation also allowed for revenues to be used for county capital projects in tourism, yet spending may be out of balance.

The industry says that with Utah on the verge of the 2002 Olympics, it is the time to maximize tourism promotion and advertising spending.

According to the URA, now is the time to devote advertising dollars to tourism because the state and counties have very few months to promote travel and tourism prior to the 2002 Winter Olympic Games. After the games start, the time to advertise will be over. While using TRCC revenues on capital projects may indeed draw tourists, it is debatable whether some projects benefit local residents more than adding to the promotion of tourism.

Capital Projects are Largest TRCC Expenditure

Over half of the TRCC is being used on capital projects and carry-over for future capital projects.

In 1999, the majority of county TRCC expenditures was for capital projects. The second most common use of the TRCC monies was as carry-over for capital intensive future projects. In total, 52 percent of expenditures were for capital projects or held in reserve for such projects.

Because the TRCC includes Salt Lake County's unique 0.5 TRT Special Tax—which was directly intended for the Salt Lake Convention Center expansion—and because Salt Lake County's TRCC revenues are so much greater than other counties, we excluded their county's TRCC from the aggregate analysis. Nearly all of Salt Lake County's 1999 TRCC revenues go to pay off bond debt to the Salt Palace, the South Towne Expo Center, or other capital related projects.

Figure 7 depicts the breakdown of 1999 TRCC expenditures, identifying capital projects as the largest expenditure despite excluding Salt Lake County.

Figure 7.[1] **TRCC Expenditures Rank Order Breakdown Shows That a Large Amount of 1999 Revenues Went to Capital Projects.** Salt Lake County is included as a separate sub-total because its use of the TRT Special Tax inflates the overall use of capital project dollars.

Expenditure Category	Percentage	Amount
Capital Projects	35.1%	$ 4,057,035
Retained to Fund Balance	17.1	1,974,890
Tourism Promotion	13.0	1,503,978
Visitor Center or Fair Park Operation and Maintenance	12.1	1,395,641
Parks, Recreation, and Cultural	12.0	1,386,203
Salaries, Benefits and Overhead	6.8	788,527
Offset Impact of Tourism or Other Questionable Expenditures	4.0	464,086
Salt Lake County TRCC Expenditures (mostly bonding and capital projects)	n/a	21,793.154
Total 1999 TRCC Expenditures[2]		**$ 33,363,514**

1. *This figure contains data from 23 counties, excluding Salt Lake County. There are five counties which do not have the restaurant tax: Beaver, Emery, Millard, Piute and San Juan. Further, only eight counties have adopted the car rental tax: Davis, Duchesne, Grand, Salt Lake, Sevier, Uintah, Washington, and Weber.*

2. *Note that the total does not exactly match the TRCC total reported in Figure 4 of Chapter I. There are two reasons for this discrepancy: (1) The $28,944,794 total from Chapter I does not includes the TRT Special Tax to Salt Lake County, which amounts to $1.3 million of the line item shown for Salt Lake County. (2) The remaining balance to add to $33.3 million is due to expending previous years' TRCC revenues.*

Some counties use TRCC funds to meet capital project obligations which cannot be met alone with one-third of their TRT revenues.

TRCC Capital Projects and Bonding Supplement TRT One-Third Rule. While most all counties comply with the TRT one-third rule for capital projects and bonding expenditures, several counties use portions of the TRCC revenues to supplement TRT capital projects or bonding expenditures, or use TRCC revenues for capital projects and bonding outright. The statute clearly allows for TRCC funds to be used for capital purposes and does not limit the amount as the TRT jurisprudence does. **Utah Code** 59-12-603 states:

(2) The revenue from the imposition of the taxes provided for in Subsections (1)(a) through (c) [car rental, restaurant, and TRT Special] may be used for the purposes of financing, in whole or in part, tourism promotion, and the development, operation, and maintenance of tourist, recreation, cultural, and convention facilities as defined in ***Utah Code*** *59-12-602.*

The Legislature could consider whether the TRCC law needs language which would limit capital spending similar to the TRT.

It may be beneficial to add language similar to the TRT which limits capital projects and bonding so that direct tourism promotion spending can increase.

Use of Carry-over Balances Needs Review. Another practice which may need review is the carrying-over of fund balances. Some counties are accruing large portions of monies to fund big projects such as convention centers. One county for example, has over $1 million in fund balance to be used for bonding, yet, some county officials doubt that the convention center will be built. It could be argued that the opportunity cost of holding the money in fund balance rather than spending it on tourism promotion is significant. Smaller counties argue that they need to be able to carry over fund balances in order to save for significant projects rather than try to fund several, less meaningful smaller projects. While this may be valid, representatives from tourism industry associations counter by saying that the money could be used for direct tourism advertising, which should occur on an on-going basis, with no carry-over.

TRCC Does Not Appear to Emphasize Tourism Promotion

Several stakeholders would like to see tourism promotion spending increase from only 13 percent of the TRCC.

Tourism promotion is intended to aid in the potential growth of county businesses and general economic development. When TRCC revenues are concentrated in areas other than tourism promotion, counties can miss out on increased tax revenues. According to our categorizations, only 13 percent of the 1999 TRCC went to tourism promotion expenditures, and most of this total was from only two counties. Due to the loosely written language of the TRCC legislation in the **Utah Code**, counties have been left to interpret what expenditures would be tourism, cultural, recreational, or convention-center related. Therefore, in some instances, counties may use revenues for capital projects or bonding not directly associated with tourism promotion, or may use revenues for local public improvement projects. In the end, the issue of TRCC spending, which applies also to TRT spending, becomes an issue of prioritizing tourism-related expenditures and a question of whether direct tourism promotion should receive top priority.

Some travel and tourism industry associations think tourism promotion spending should be at least 50 percent of the TRCC total.

Most tourism professionals we spoke with believe county commissioners and council members should assure that TRCC revenues go to fund more direct tourism promotion efforts than current efforts do. Many suggest that the Legislature should decide whether changes to the TRCC law are needed to assist counties in directing tourism promotion funding efforts without becoming overly prescriptive. Some representatives from tourist industry associations believe that at least 50 percent of TRCC funds should go toward direct tourism promotion.

In analyzing the uses of the TRCC funds in the 24 counties that have adopted one of the three taxes, the following conclusions were reached which illustrate a possible need for spending clarifications:

- 14 counties used TRCC funds for capital projects or bonding.
- 12 counties used TRCC funds for operations and maintenance of facilities.
- 12 counties used TRCC funds for tourism promotion.
- 9 counties used TRCC funds in the construction or maintenance of parks or monuments.
- 7 counties used TRCC funds on their county fair park or rodeo operation and maintenance.

The following sub-sections detail potential concerns in how 1999 TRCC revenues were spent for some capital projects, recreation and cultural projects, local city celebrations, and fair parks and rodeos.

Although the TRCC allows for spending on recreational and cultural projects, some public improvements do not appear to significantly address the priority of promoting tourism.

Some Counties Spent Portions of the TRCC on Recreational and Cultural Projects Which Could be Reviewed. Some 1999 public improvement projects were funded from TRCC revenues and do not seem to address the priority of tourism promotion. They appear to benefit local residents and do not represent a major reason why tourists would come to Utah. This emphasis on public improvement projects could affect the potential return-on-investment of would-be tourism promotion funds. Examples of such projects include

- An expansion of a local area golf course.

- Renovations of community-related ball fields, bike paths, and public parks.

- Construction, maintenance, operation, and improvement of municipal swimming pools.

In addition, two rural counties spent TRCC funds on local airports, which was of concern to some area tourism professionals. One of these rural counties spent their entire 1999 revenues on their local airport. It could be questioned whether or not these expenditures are the most appropriate use of TRCC monies because airports are used primarily for local residents.

Two counties also use their TRCC funds to offset the impacts of tourism. One county spent money on its fire and ambulance station building, and the other spent money on its emergency services. These expenditures are more than likely attributed to lack of understanding of the statute since TRT monies may be used toward offsetting the impact of tourism, but this allowance is not specified for TRCC funds.

TRCC spending which could be reviewed includes
•Airports
•Golf courses
•Park improvements
•Library funding
•Municipal pools
•A bookmobile

Finally, one county spent over $100,000 on its Bookmobile service. The Bookmobile expenditure is difficult to count as tourism promotion as it clearly serves local residents. Another county spent $100,000 on its library which was justified by the county because the library is a cultural facility which contains tourism pamphlets. However, we were told by county officials that this money was later paid back to the tourism fund in the year 2000.

A recent Salt Lake County Attorney legal opinion illustrates the need for cultural and recreational projects to contribute to tourism in order to qualify for TRCC funds and TRT funds, as well. The attorney was asked whether revenues could be used to "fund the activities of the Utah Symphony or of similar arts groups." The attorney concluded that the county could indeed make donations and contributions but from "sources other than the TRT and TRCC resources."

Some believe that TRCC revenues used for local city celebrations and community spirit events should actually come from county general funds.

Local Celebrations are Funded by TRCC Taxes. Some counties gave portions of the TRCC directly to county municipalities. While not widespread, there were instances when TRCC funds were used to finance portions of local city celebrations. A recent Attorney General opinion sent to one of Utah's counties stated that tourism tax revenues could be shared with municipalities *if* the funds were used to promote tourism and *not* to “meet the expenses of their annual city celebrations.” Several counties believe that city celebrations and county fairs attracted residents from nearby cities and counties. No widespread information, however, is available to verify that a significant number of out-of-state tourists attend such events.

One county commission directed its tourism council not to fund community spirit events with the TRCC because few tourists receive any benefit.

In fact, one county commission has recognized this very matter and has directed its tourism council not to fund local celebration events with tourism tax revenues. This directive includes rodeos and fairs because such items offer more value to residents than to tourists. The tourism professional we spoke with in this county said a struggle occurs at the local level because citizens want community spirit events. Decision-makers involved agree that while these are important events, they ought to be funded from the county general funds.

TRCC Use For Fair Parks and Rodeos Could be Reviewed. A portion of the expenditures for county rodeos and fairs is paid out of TRCC revenues in seven counties. Building and maintaining county fair parks, rodeo grounds, and equestrian centers are large, on-going expenditures. Currently, Utah has several prominent county fairs and rodeos which are significant yearly events. The question to the Legislature, as posed about city celebrations, is whether tourism promotion money should be spent on operating county fairs and rodeos when they exist so few days of the year. The question is also what priority such expenditures should receive in relation to direct tourism promotion expenditures.

TRCC is used for rodeos and fair parks although the events draw mostly local crowds.

One county chamber of commerce executive concludes that county fairs and rodeos mainly draw local crowds, so using tourism promotion funds amounts to taxing out-of-town tourist who may never use the benefit of the rodeo or fair. As with local city celebrations, he stated that this type of outlay ought to be funded out of the county general funds.

It is clear that opinions vary on what should and should not be allowed and/or prioritized under the TRCC statute. We believe this is ultimately a decision left to the Legislature, but that direct tourism promotion should be considered a major focus for these funds.

Legislature and Counties Can Remedy Tourism Tax Usage to Re-emphasize Promotion

Suggested ways to re-emphasize tourism promotion spending of the TRCC include:
•Law changes
•Advisory boards
•Marketing plans and budgets

County tourism promotional efforts may benefit from clarification of legislative intent, particularly on TRCC spending guidelines. To better assist counties, a legislative review and consolidation of tourism tax sections could outline acceptable uses of the tax revenues and better identify legislative intent. Further, counties may benefit from accepting some best practices found here in Utah and some other states. Specifically, counties could increase the oversight of tourism taxes by improving or implementing tourism tax advisory boards and improve travel and tourism marketing plans and budgets.

Utah Code Sections on Tourism Taxes Can be More Specific

Counties could benefit from TRCC statutory language which more directly emphasizes tourism promotion without disallowing capital project spending.

As mentioned, the TRT statute has specific guidelines on tourism tax revenue spending through the one-third rules while the TRCC is less specific. Counties may benefit from statutory language which more specifically directs a portion of tax revenues to be spent on tourism promotion, while limiting, but not disallowing, spending on capital projects. Such a change would follow the original legislative intent and would be supported by county tourism professionals. These changes would be intended not to take funding from counties, but rather, to increase future county funding sources.

In addition, it may be useful if tourism tax laws were amended to require some accounting of spending so that benefits stemming from tourism could be measured for effect. This would enable the Legislature and counties to determine if the most beneficial spending was occurring and determine whether a return on investment was being realized on tourism promotion and capital projects. Ultimately, this would help counties prioritize tourism tax spending.

Even with the addition of performance measures, tourism professionals generally favor language in the TRCC statute that would limit spending for capital projects. Select comments covered the following points:

- Emphasis should be on how tourism promotion dollars can be spent to give the industry a return on investment. This same emphasis could apply to return on investment connected with tourism-related capital facilities.

- The law is open to too much interpretation. Sections of the statute should be more specific so county commissioners and council members can get a better feel of how to best spend the dollars.

- More precise language about spending revenues on direct tourism promotion and advertising is needed.

These comments do not apply to the 0.5 percent TRT Special Tax (included in the TRCC) which is reserved for tourism capital projects in Utah's one First Class county, Salt Lake County. Our review of legislative intent at the time the TRT Special Tax passed, in 1991, shows that revenues would be used for a Salt Lake Convention Center expansion. TRT Special Tax revenues continuing for this purpose seem appropriate.

Counties Could Gain From More Emphasis on Direct Tourism Promotion. As shown above in the TRCC analysis, a portion of the revenues were spent on projects or items only loosely associated with tourism promotion. One county tourism professional summarized the concern that many in the industry have that the original intent of the tourism taxes was to promote tourism and that over the years the purposes have been watered down by so much allowance for facility building and other capital projects. Another tourism professional was concerned that some tourism tax revenues were being proposed to fund county stop lights rather than tourism promotion. While the building of tourism, recreation, cultural, and convention facilities is no doubt important, it should not replace actual promotion. Current application of these revenues does not address the original intent of tourism promotion and advertising which is intended to bring additional sales tax revenues into the counties through tourists.

Other states' tourism promotion programs mandate minimum tourism promotion spending levels and influence spending through matching grants.

In examining programs in other states, we also found many that require a certain percentage of tourism taxes to go toward promoting tourism. For example,

- Missouri and Oregon mandate that at least 25 percent of revenues go toward direct tourism promotion and advertising.

- Arizona requires that 50 percent of revenues be for tourism promotion.

- Idaho and Montana influence tourism promotion spending by providing matching grants to local governments that have appropriate promotion projects.

Some representatives of tourism associations, such as the Utah Restaurant Association (URA), believe that the TRCC needs to be amended to require more "hard" advertising—a minimum of 50 percent. They believe that the tourism taxes, particularly the restaurant tax because it most directly affects them, should be used to "sell" tourism. They further believe that the law could go as far as requiring the use of tourism tax advisory boards, which would emphasize tourism promotion and advertising, as a precursor to receiving tourism tax revenues.

No stakeholders we talked to believed that county commissions and councils should give up ultimate control of TRCC or TRT revenues.

While promoting advisory boards, none of the representatives, including the legislative audit team, believe county commissions and councils should give up ultimate control of the tourism tax revenue spending. The concept of advisory boards is discussed in further detail later in this chapter.

TRCC Law Could Limit Capital Project Spending. To indirectly influence more TRCC emphasis on tourism promotion, the Legislature could limit counties' use of TRCC funds for capital projects, such as they did for the TRT and the Tourism Marketing Performance Fund.

Most stakeholders we spoke with seem to agree that a rule capping spending at one-third of the TRCC total is reasonable, as it mirrors existing guidelines in other tourism sections. As mentioned, in **Utah Code** 17-31-2, counties are limited to spending one-third of the total TRT on capital projects, bonding, or services to mitigate the effects of tourism. Likewise, in another section, **Utah Code** 9-21-704, additional general funds which the UTC can receive due to good performance of the tourism industry are to be allocated as follows: "75 percent of the funds allocated to marketing and 25 percent of the funds allocated to infrastructure . . . ." Perhaps the best method of assuring tourism taxes are spent for promotion, however, is to involve the tourism industry in decision-making.

Like the TRCC law, the TRT law needs to be clarified and consolidated by the Legislature.

Legislature Could Clarify and Consolidate TRT Law. As with the TRCC statute, there are portions of the TRT law that need review. Specifically, the intent of the one-third rules mentioned earlier in the chapter.

A review of legislative history, together with the opinion of the Office of Research and General Council, shows that the intent of the combined one-third TRT rules is inconclusive. However, because the activities surrounding capital projects are typically done through bonding, the audit team believes that capital projects, tourism mitigation, **and** bonding taken together can only constitute one-third of the TRT total expenditures per county. Although there were only a few violations, we feel the Legislature needs to clarify the intent of these statutory sections.

At the same time, moving this TRT governance language in **Utah Code** 17-3-2 back with the other tourism taxes in **Utah Code** 59-12-301 and 59-12-601 may be beneficial. This way all the law which addresses tourism taxes including the TRT, TRCC, Resort Communities Tax and Municipal TRT tax, are together.

The Legislature may further consider addressing the issue of county accountability for violating TRT spending rules. Currently, there is nothing in the law that would keep counties from exceeding the limits of the one-third rules.

Use of Advisory Boards For TRCC Can Better Guide Decision-making

While 90 percent of counties use TRT advisory boards, only 25 percent do for the TRCC.

Increased use of tourism tax advisory boards would provide input from county tourism professionals and stakeholders and would provide a consistent decision-making tool as a precursor to final county legislative approval. Ninety percent of the counties currently use advisory boards for the TRT, but only 25 percent of counties use TRCC advisory boards. Some other states believe in the value of advisory boards and have codified their use in connection with their state and local tourism promotion funds.

Other States and Utah's TRT Structure Show Advisory Board Precedent. Most counties use an advisory board in connection with the TRT because most TRT revenues are transferred to another entity within the county for tourism marketing purposes, and these entities have advisory boards. Earlier, Figure 5 showed that 63 percent of 1999 TRT expenditures were for marketing and promotion. This use of funds was overseen by several tourism boards such as county tourism boards, CVB boards, chamber of commerce boards, and travel region boards.

Advisory board members believe that board oversight positively affects direct tourism promotion spending.

Executives of advisory boards we spoke with said there is a correlation between direct tourism promotion spending and advisory boards giving them direction. These boards, including a few which also oversee TRCC funds, are shown in Figure 8.

Figure 8. Ninety Percent of Counties (26 of 29) Have Some Form of Advisory Board Reviewing TRT Revenues, But Only Twenty-Five Percent (6 of 24) Have Advisory Boards Reviewing TRCC Revenues.

Tourism Tax	Organization Which Board Represents	Number of Known Boards
TRT	Chamber of commerce	3
	County travel council board	14
	Convention and visitor center board	4
	Travel region board	9
	Sub-Total	**30** [1]
TRCC	Chamber of commerce board	1
	County travel council board	3
	Restaurant owners' board	2
	Sub-Total	**6**
Total Advisory Boards Over TRT & TRCC Revenues		**36**

1. There are more than 26 boards listed here because a few counties split funds between two boards, such as a county travel council board and a travel region.

A majority of surrounding states' laws show use of advisory boards to guide tourism tax spending.

Evidence in other states' laws also shows that advisory boards are used in connection with tourism tax spending. Seven of ten states we examined show advisory board language in their state statutes. This information is summarized in Figure 9.

Figure 9. Surrounding States Discuss Use of Tourism Tax Advisory Boards in Law. Seven of the ten selected states below discuss the use of advisory boards in statute, while Utah does not.

State	Law Mentions Board?	Highlight
Arizona	Y	Tourism tax advisory board created at each municipality
Colorado	Y	Board made up of tourism industry representatives administers revenues
Idaho	Y	State-level advisory board of industry representatives
Missouri	N	No statutory mandate for tourism tax advisory boards
Montana	Y	Local nonprofit tourism corporations or CVBs oversee spending of grants
Nevada	Y	County has the option of creating a County Fair and Recreation Board
New Mexico	Y	Local government elected officials are the board
Oregon	N	No statutory mandate for tourism tax advisory boards
Utah	N	**No statutory mandate for local tourism tax advisory boards but has the UTC board**
Washington	Y	Public facility district boards are used
Wyoming	Y	Local municipal elected officials are the board

Tourism Tax Advisory Boards
•Formulate spending policies
•Monitor expenditures
•Recruit employees
•Promulgate rules
•Oversee budgets
•Approve capital projects

We found one final area of advisory board criteria in examining the legislative history of the TRCC taxes. Early legislative action on advisory boards contained language which would be relevant today. TRCC boards could be used

1. To formulate and recommend policies to the county governing body regarding expenditures and revenues of tourism facilities.

2. To assist in monitoring expenditures.

3. To help recruit and select a tourism facility manager [if applicable].

4. To promulgate and adopt by-laws, rules and regulations which are appropriate for a tourism facility.

5. To prepare and recommend an annual budget, quarterly reports, capital improvement plans and the like.

These advisory duties can help TRCC spending be more effective and can serve to strengthen existing TRT advisory boards.

Summit County Provides Model for TRCC Advisory Board. Several years ago, Summit County commissioners authorized a restaurant tax advisory board. We believe its decision-making process could be emulated by other counties. In fact, the chairperson of the only other county with a restaurant tax advisory board, Carbon County, said that their board is patterned after this board, the Park City Area Restaurant Tax Advisory Committee (PCARTAC) in Summit county.

Summit County's restaurant tax board provides a decision-making model for effective tourism promotion spending.

The Park City board is made up of tourism individuals including representatives from the lodging industry, restaurant industry and other hospitality industries. Seven members, selected by the county commission, meet once per year to decide which projects to fund with the restaurant tax.

The board takes applications of proposed projects and reviews them using a power-ranking system based on several weighted criteria. One of the criteria is future return on investment, or the likelihood that the project will get people back into the restaurants.

After selecting the projects, the proposals are given to the county attorney for an independent review of whether projects match the tourism promotion expectation in the **Utah Code**. Then, the county commissioners have the final say on which proposals, if any, are to be funded. The chairperson says that having this procedure in place takes some of the politics out of the process and assures stakeholder input from the travel and tourism industry.

Carbon County adopted the Summit County model and limits TRCC capital expenditures to one-third.

The other currently existing restaurant tax board also recognizes the need to prioritize restaurant tax spending and the need to focus on "big picture" tourism promotion activities. Their chairperson said they limit capital project expenditures to about one-third of the total restaurant tax revenues. We believe the recommendations, taken as a whole in this section, would bring more benefit to tourism in counties using the TRCC.

Use of Marketing Plan Also Furthers Tourism Promotion

The use of tourism marketing plans can assist counties in meeting objectives and strategies for tourism promotion.

While statutory changes and advisory boards can aid counties' compliance in tourism tax revenue spending, the use of tourism tax marketing plans provides focused vision and strategies for effective spending. Several quality marketing plans exist in county CVBs and in most travel regions in Utah. Although we did not review all plans, we identified seven or eight marketing plans we believed were sufficient—plans that had strategies outlined to achieve one or two major tourism promotion goals. Still, some counties do not have marketing plans and, as such, have no specific spending guidelines.

Some counties have tourism marketing plans, and others express willingness to formulate them.

A number of counties are either working on plans or want to formulate them. Formulating a plan can be beneficial to counties in helping them prioritize tourism promotion expenditures. Some specific benefits of tourism marketing plans and budgets include

- A clearer funding direction and connection to an overall objective.
- Increased oversight of tourism tax revenue spending.
- The ability to measure, from year-to-year, the results and economic benefits of tourism tax revenue spending.

In our review of industry marketing principles and in discussions with tourism marketing professionals in Utah, we found common aspects which could help such counties and improve existing county tourism marketing plans.

For example, the American Marketing Association (AMA) recognizes that it is rare for one business to provide all the needs of a tourist in a given area, so tourism-related agencies should work together with a plan to align, package, and promote tourism efforts. The AMA provides a basic template for a successful tourism marketing plan, which should include

1. An overall tourism promotion **objective**.
2. An **assessment** of the tourism market environment, which includes a business and community profile of available resources as well as challenges.

Overall tourism marketing objectives vary from county to county:
•To attract large groups of visitors
•To maximize ROI on tourism taxes
•To fill the local area with skiers
•To promote the area as a travel destination

3. Marketing **strategies and implementation** with methods for **evaluation**, change and improvement.

4. A corresponding marketing **budget** to guide actual spending.

Many of these elements, which we discuss in further detail below, are in existing tourism marketing plans and have been applied within the structure of the **Utah Code** and county ordinances.

Number One - Tourism Promotion Objective: Counties Should Begin With An Overall Tourism Promotion Objective. Some counties with more sophisticated marketing plans, such as Cache, Ogden, Salt Lake, Summit, and Wayne Counties, agree that counties need to choose an overall tourism promotion goal such as a marketable concept or venue in their area. They need to market their best asset.

For example, Summit County's marketing plan is driven by the goal to maximize return on investment (ROI) of the tourism taxes. Although the Salt Lake CVB also seeks ROI, its unifying goal is to attract groups to the Salt Lake area for conventions, lodging, dining and other tourism activities. The Ogden CVBs "focus is to fill our community with skiers." Finally, the non-profit tourism council that contracts with Wayne County has a mission statement to promote the county as a travel destination for individuals and groups

> *The mission of the Wayne County Travel Council (WCTC) is to enhance the Wayne County economy by increasing room night bookings by actively promoting Wayne County as a travel destination to individual consumers and other groups.*

Number Two - Situational Analysis: Counties Should be Aware of Tourism Strengths and Weaknesses. When performing a situational analysis, the Salt Lake CVB looks at tourism strengths, weaknesses, opportunities, and threats (or challenges). This analysis is based on the well-known Harvard analysis model for strategic planning. In so doing, the Salt Lake CVB seeks to find ways it can add value to the community and increase the quality of life for residents and visitors. The Ogden CVB and Cache County also have respective comprehensive lists of current strength and weakness trends in their marketing plans. Other counties can adopt this analysis step in their marketing plans to aid development of strategies.

A common feature of more developed county tourism marketing plans is the use of diverse tourism advertising strategies.

Number Three - Strategies, Implementation, and Evaluation: Counties Need to Implement Specific Tourism Promotion Strategies. A common feature of Utah's more developed county tourism marketing plans is the use of diverse advertising strategies. Furthermore, these strategies are agreed-upon by corresponding advisory boards. In one county's plan, there are 68 business representatives that agree on the specific marketing strategies.

Some common strategies include meetings and conventions, international marketing, advertising in trade publications, public relations, video distribution, direct mail, business partnering, and trade shows.

Further marketing elements suggested by the strategic planner at the UTC are better advertisement "placement" to areas outside of Utah, familiarity tours for tourists and residents, hospitality training for travel and tourism industry employees, education of county elected officials on tourism promotion, and the use of consultants.

Tourism professionals in counties should tie marketing strategies to a budget so that decision-makers can allocate resources and forecast for future needs.

Number Four - Marketing Budget: Counties Should Tie Tourism Promotion Efforts to a Marketing Budget. In reviewing counties and travel regions that have current marketing plans, the audit team reviewed corresponding budgets on promotion strategies, which accompanied the marketing plans. One CVB director told us that tying strategies to a budget sets the priority of each marketing and promotion strategy. The budget also helps decision-makers determine if enough resource is given to a specific strategy, and allows for forecasts of future needs.

The audit team believes that counties who do not currently rely on the marketing plan process can benefit from suggestions offered in the above four steps. Taken together with suggested changes to the **Utah Code**, improvement or implementation of advisory boards, and increased training, we believe that county governments, and the travel and tourism industry stakeholders with whom they collaborate can more effectively use TRT and TRCC revenues for tourism promotion in Utah. These suggestions are summarized in the following "Recommendations" section.

Recommendations

Recommendations to the Legislature

1. We recommend the Legislature consider clarifying intent and language within the tourism tax sections of the **Utah Code**. For example,

   - If the term “tourism promotion” needs to be further defined.

   - Whether a certain percentage of both TRT and TRCC revenues should be spent on direct tourism marketing, promotion, or advertising.

   - What return-on-investment measures could be used by counties to determine which county tourism promotion or capital spending projects are most beneficial.

   - Whether TRT one-third spending limits for capital projects, mitigation of tourism, and bonding are to be taken as a one-third maximum or a two-thirds maximum of the TRT total revenues.

   - If language is needed to hold counties accountable when they violate spending requirements of the tourism tax law.

   - If the language of the TRT law should be moved from **Utah Code** 17-31-2 and be combined with the related-TRT language in **Utah Code** 59-12-301.

2. We recommend the Legislature consider the following for further interim study:

   - Review of a local option TRT.

   - Review of the municipal Resort Communities Tax, including methods used to calculate eligibility.

Recommendations to the Counties

1. We recommend that counties consider using tourism tax advisory boards for the TRT *and* TRCC taxes.

2. We recommend that county commissions or councils who have authorized existing TRT and TRCC tax advisory boards improve them by

   - Including members of travel and tourism industry.

   - Incorporating a decision-making model such as is currently used by Summit County's restaurant advisory board.

3. We recommend that county commissions and councils formalize marketing plans to include

   - An overall tourism promotion **objective** statement.

   - An **assessment** of the tourism market environment, which includes a business and community profile of available resources as well as challenges.

   - Marketing **strategies and implementation** with methods for **evaluation**, change and improvement.

   - A corresponding marketing **budget** to guide spending.

This Page Left Blank Intentionally

Chapter III
State-level Efforts in Tourism Promotion Can Improve

While Utah funds most of its tourism promotion from decentralized county operations, it may also be advantageous to increase tourism promotion activities at the state-level, where the Utah Travel Council (UTC) focuses on attracting out-of-state tourists. National trends indicate that states are turning away from set general fund appropriations for tourism promotion offices and are relying more on funding mechanisms that can dramatically increase funding levels.

Given Utah's decentralized system, the distribution of funds becomes a major issue. Lack of funding for state-wide tourism promotion may have a dramatic effect on the state's tourism industry. Most sources agree that state funding increases, based on performance gains, will be needed to maintain market share. Just as important, for the effects of tourism promotion to be maximized, the level of cooperation and coordination between tourism promotion stakeholders needs to increase.

At the state-level, tourism promotion funding is not based on performance. Funding is a direct appropriation from the general fund.

Foremost in these new funding mechanisms are various renditions of performance-based funding. Performance-based funding is defined as a mechanism which ties funding to the performance of a designated entity. Performance-based funding implies that organizations will have measurable goals that, when reached, ensure a proportional increase in funding. In this specific case, funding for state-level tourism promotion would be tied to the performance of the tourism promotion entity for the state, the Utah Travel Council. One example of a performance measure for the UTC and tourism would be market share.

At the county-level, performance-based funding is already a reality since counties in Utah get the tourism tax portion of sales taxes on lodging, restaurants and leased vehicles. So naturally, as local sales increase, county tourism promotion funding increases. At the state-level, the performance of tourism promotion provided by the UTC has not been tied to funding. Almost all of the UTC's $4.8 million in funding comes as a direct appropriation from state general funds, which has remained constant over the past several years. Utah does have a small tourism performance-based funding element through the Tourism Marketing Performance Fund, but it only amounts to $200,000.

Nationally, states have identified coordination and cooperation of the various tourism promotion stakeholders as key to increasing performance. It is believed that the value derived from strengthening relationships between entities that promote tourism includes

- An increase of available resources
- Better utilization of available resources
- Elimination of duplication
- A mechanism to ensure use of industry "best practices."

Utah May Need to Follow National Performance-based Funding Trend

Recent national tourism promotion funding trends support a move away from fixed general fund allocations toward performance-based funding. These variable funding mechanisms are usually general fund allocations tied to performance measures and/or dedicated taxes that are directly related to operational performance. Most surrounding states have opted for state-level performance-based funding, using a portion of the Transient Room Tax (TRT).

Utah's tourism promotion programs rely on its performance-based TRT and TRCC (Tourism, Recreation, Cultural, and Convention Center) county taxes. Moderate state-level funds going to the UTC act in a supporting role to the counties' programs. Although the county funding of tourism promotion has grown dramatically over the years, funding at the state-level has remained fairly constant. This lack of state-level funding growth could, in the coming years, cost Utah market share in tourism.

Research suggests that additional state-level funding may be necessary to maintain tourism market share in an increasingly competitive field.

Research compiled from the Travel Industry Association of America (TIA), Travel and Tourism Research Association (TTRA), and the National Conference of State Legislatures (NCSL) shows that today fewer than half of all state tourism offices are funded solely by fixed general fund revenues. Research also suggests that additional state-level funding may be necessary to maintain market share in an increasingly competitive field.

Most Western States Use Performance-based Funding

The funding sources for state tourism offices in the western states show a move toward the use of a dedicated tax credit and/or the institution of performance-based mechanisms to determine the level of funding available to state tourism offices. Western state tourism office directors support this movement as essential to providing the necessary resources to unify promotions and to maintain market share for their states.

For Utah, performance-based funding at the state-level would mean altering the existing funding system for the UTC. A performance measure would need to be identified and could be as simple as citing TRT growth state-wide or identifying tourism market share. The established measure would then be indexed to a funding growth factor that starts at a pre-set funding base. Part of the existing funds could be part of the performance aspect, as would, in all likelihood, additional funding. Utilizing general funds would probably be found to be acceptable given Utah's current system.

Only Three Western States Rely Solely on General Fund Allocations. Three western states are funded solely through general funds. The other seven western states surveyed use either performance-based measures and/or a dedicated tax credit to fund their state tourism office operations.

Sole reliance on general funds to fund tourism promotion at the state-level has declined over the years.

Direct comparisons between different states' tourism promotion and funding efforts are difficult because each states' natural and cultural resources are different. For example, the method employed in California to help fund tourism promotion would not be prudent for Utah because California assesses a fee on any tourism-related business which generates over $1 million per year. Utah's tourism attractions do not generate similar volumes of revenue. Still, a study of other states shows that sole reliance on general funds to finance tourism at the state-level has decreased significantly over the years. Efforts to develop innovative methods to aid in the funding of tourism promotion at the state-level have increased as well.

The reason for this change in funding patterns is two-fold: First, tourism activity fluctuates over time, and performance-based mechanisms and/or the dedication of a tax credit allow a tourism promotion office's

Performance-based funding benefits include:
•Higher level of accountability
•Budgets which better reflect market changes.

budget to grow as performance of tourism indicators increases. Second, performance-based mechanisms and/or the dedication of a tax credit forces accountability on a state's tourism promotion office because the level of funding it receives will be a direct result of its success or failure to enhance the economy from tourism-related activities.

Four Western States Fund State Tourism Promotion Operations From a Percentage of TRT. Four western states share tourism-related sales tax revenues with counties in an effort to unify statewide programs. The remaining western states believe performance-based funding can be helpful, but they have elected not to take the funding from revenues earmarked for county programs. States that have elected not to take revenues from counties, or fund solely out of general funds, have found other innovative ways to supplement funding of tourism promotion at the state-level. Such innovations include

- California's state tourism promotion office which receives funding from general funds and a dedicated business assessment program. This business assessment program assesses a fee on for-profit, tourism-related businesses that generate over $1 million a year.

- New Mexico's state tourism promotion office which receives most of its funding through general funds but also has an enterprise fund that supports itself and provides most of its domestic advertising through a state magazine.

- Oregon's tourism promotion office which receives half of its budget from lottery revenues and the other half from private businesses who contract for involvement in the state tourism office's promotional efforts.

- Washington's tourism promotion office which receives most of its budget from general funds, but whose state legislature just recently instituted a performance measure that allows the office to request more funding based on the performance of the TRT.

Missouri's state tourism promotion office receives a percentage of sales tax revenues generated from specifically identified tourism-related businesses.

We also reviewed Missouri's tourism promotion program which is regarded as one of the more advanced programs in the county. It has caught the attention of Utah's tourism industry and individual legislators. Missouri's state tourism promotion office receives a dedicated percentage of sales tax revenues generated from businesses registered under 17 of the numerous Standard Industrial Classification (SIC) Codes. It has determined that 17 of the SIC codes relate to travel and tourism, such as eating and drinking establishments, hotels, motels and tourist courts, trailering parks and camp sites, and amusement parks. Figure 10 summarizes, using fiscal year 2000 data, how Missouri and several other states currently fund their state tourism offices.

Figure 10. States Are Relying Less on General Funds for Funding Tourism Promotion at the State-level. Western states, following a national trend, have selected other supplemental funding mechanisms. This is shown through fiscal year 2000 data.

State	Main Source of Funding	Amount	Additional Sources	Amount
Arizona	Percent of TRT	$8.9 million	None	$0
California	General fund	$7.3 million	Business assessment program	$5 million
Colorado	General fund	$6 million	None	$0
Idaho	Percent of TRT	$5.8 million	None	$0
Missouri	Percent of sales tax from 17 SIC codes	$16.4 million	None	$0
Montana	Percent of TRT	$6.5 million	None	$0
Nevada	Percent of TRT	$13 million	None	$0
New Mexico	General fund	$8 million	Enterprise fund	$5 million
Oregon	Lottery revenue	$3 million	Private investments	$3 million
Utah	**General fund**	**$4.6 million**	**Tourism Performance Marketing Fund**	**$200,000**
Washington	General fund	$3.8 million	Performance based % of TRT (optional)	Optional amount each year
Wyoming	General fund	$4.7 million	None	$0

State tourism directors believe that performance-based funding allows their offices to survive on the fruits of their labor—the growth of tourism.

Some state tourism directors believe that the trend away from reliance on general funds promotes accountability and allows tourism offices to survive on the fruits of their labor—the growth of tourism. They believe that because tourism is so important to the state's overall economy, efforts to promote tourism should be founded on a guaranteed funding source. The positive effect of state-level tourism promotion on effort unification and cost-sharing is difficult to measure, however this difficulty comes from the high number of stakeholders and the inability to attribute success to any single one.

Much of the interest in performance-based funding appears related to the damage—suffered recently by Colorado's tourism industry—attributed to the loss of state-level promotional funding. In 1993, residents of Colorado chose not to re-authorize the 10-year-old tourism tax levied on restaurants, ski lift tickets, lodging, and attractions. This tax raised approximately $12 million annually which funded the Colorado Tourism Board and its programs to advertise and promote the state.

The loss of Colorado's state funding coincides with a 30 percent loss of tourism market share from 1992 to 1997.

According to one study, the loss of Colorado's state funding coincided with a 30 percent loss of tourism market share from 1992 to 1997. Overall, tourism spending in Colorado dropped $847 million in these years. Reportedly, the areas most hurt were smaller towns where tourism plays a critical part in their economies.

Utah Uses Performance-based Funding at the County Level

Utah's decentralized system of tourism promotion is primarily a performance-based system. Most promotional funding is found at the local level where increases in tourist-paid taxes result in increased local funding. Conversely, the UTC, at the state-level, receives a set general fund appropriation not tied to any significant performance measure.

The Legislature has chosen to fund tourism promotion at the state-level out of general funds because of the recognition that when the tourism industry is enhanced, the economy grows. In addition, the general welfare and employment opportunities of citizens are strengthened and personal and corporate tax revenues are increased.

The Tourism Performance Marketing Fund is an attempt to tie a small portion of the UTC's budget to performance measures.

The state tourism office also has a minor performance-based funding element. In 1997, Utah's Legislature created a general fund restricted account known as the "Tourism Marketing Performance Fund." The annual appropriation for the fund is determined by measuring the economic growth in the travel and tourism industry in excess of the previous year's taxable sales. The annual appropriation is not allowed to exceed $200,000. This appropriation, if allocated to its maximum-level, only represents about 4 percent of the UTC's total budget.

Utah's Limited Funding Sources Makes Tourism Competition With Some States Difficult

Utah ranks sixth in ten western states for tourism promotion funding, but ranks below competing states.

As shown in Figure 11, Utah ranks sixth in ten western states for the total amount of funding available for tourism promotion and development. This ranking is appropriate given Utah's population, but this ranking does not show a complete picture when considering competition for tourism market share. For example, to attract skiers Utah must compete with states such as Colorado and California which have much more available tourism promotion funding. Likewise, Utah is at a funding disadvantage when competing with New Mexico and Arizona to provide a "western-theme" tourism experience, because these states receive more funding. Simply put, Utah cannot compete with all of the western states in one-on-one spending. All of the states that ranked higher than Utah in available funding have populations 1.2 to 18 times higher than Utah's population. For example, it is quite obvious that Utah cannot compete dollar for dollar with California's tourism promotion budget of $905 million.

Reviewing the ratio of tourism promotion spending to GSP ranks Utah fifth among western states.

Instead, a state's commitment to promoting tourism may be better displayed by a review of tourism spending compared to gross state product (GSP). Reviewing the ratio of tourism promotion spending to GSP ranks Utah fifth in western states. Even in this comparison, states vary in their commitment with the high, Nevada, relatively spending 50 times more than the lows, Idaho and Washington.

Figure 11 shows the amount of money available for tourism promotion and development in the western states. This data shows total monies available for tourism, but it does not distinguish between state and local control over those resources, nor does it show use. Western states reported that taxes on lodging (TRT), restaurants, and car rentals were the main contributors to funding tourism promotion and development along with general fund expenditures. The states are listed by availability of fiscal year 2000 tourism promotion funding in descending rank-order.

Utah utilizes the same taxes for tourism promotion and development as other western states. But in Utah, control over most of these resources is maintained at the county level.

Figure 11. Total Funding Available for Tourism Promotion and Development in the Western States is in the Millions. Utah ranks sixth among western states in total money available for tourism purposes. Use of revenues at the state-level versus the county-level varies from state-to-state. This is shown using fiscal year 2000 data.

State	TRT	Restaurant	Car Rental	General Fund (Other)	Totals
California	$893.5 m	N/A	N/A	$12.3 m	$905.8 m
Nevada	$221.0 m	$383.0 m	$34.0 m	$0	$638.0 m
Arizona	$100.0 m	$298.8 m	N/A	$0	$398.8 m
Colorado	$50.9 m	$304.4 m	$31.6 m	$6.0 m	$392.9 m
Oregon	$54.1 m	$0	$0	$6.0 m	$60.1 m
Utah	**$17.5 m**	**$20.0 m**	**$8.9 m**	**$4.8 m**	**$51.2 m**
Washington	$20.0 m	$0	$23.5 m	$3.8 m	$47.3 m
Wyoming	$16.5 m	$15.5 m	$1.0 m	$4.7 m	$37.7 m
Montana	$10.9 m	$0	$0	$0	$10.9 m
Idaho	$5.8 m	$0	$0	$0	$5.8 m

Notes: New Mexico has not been included in this figure because its numbers were inconclusive.

Arizona shows an "N/A" under Car Rental because they group all taxable properties under one category, and these funds are not used specifically for tourism. Even with rough estimates figured into the equation, Arizona's ranking does not change.

California shows an "N/A" under Restaurant and Car Rental taxes because taxes from these sources are lumped into general sales tax for state and local governments and not used specifically for tourism.

Utah utilizes the same taxes for tourism development and promotion as other western states do. There is a significant difference in how each state diversifies its funding use between state- and local-level tourism promotion offices. In Utah, more so than in some other states, control over most funding is maintained at the county-level. Utah's only state-level funding is the $4.8 million listed under "General Funds (Other)" in Figure 11, which is the operating budget for the UTC.

In Utah, altering the distribution of these taxes for the purpose of funding tourism promotion at the state-level would take funding away from counties. In fact, the message of Chapter II is for counties to improve tourism promotion, not for tourism tax revenues to be diverted to the state-level. Currently, there are no studies available that support or

Taxes should not be taken from the counties for state-level promotion. Rather, counties should improve tourism promotion, as mentioned in Chapter II.

validate the concept that the state can utilize these resources better than the counties, or vice-versa. It does appear that Utah's current system works as well as any system used in the surrounding states.

Utah's position in the future, however, is less certain. Increasing state-level budgets in other states may threaten Utah's tourism market share. In such an event, Utah's Legislature may find it desirable to explore the issue of increased state program funding using some form of performance-based funding. There are some primary steps that can be taken currently within Utah's system to help improve the efforts of all stakeholders in the tourism industry.

Level of Communication Between UTC and Counties Can Improve

State tourism office directors from western states reported that cooperation and coordination between *all* stakeholders in the tourism business are essential to maximizing tourism promotion efforts. While Utah cannot compete with some western states in the amount of money available for tourism endeavors, they can take measures to maximize the effectiveness of current funding for tourism-related purposes.

Decentralized Tourism Promotion Presents Some Communication Problems

The travel and tourism industry must improve its:
•Communication
•Recognition of different entity needs
•Unified voice
•Lobbying efforts
•Sharing of ideas and resources

Coordination is essential for entities trying to accomplish similar goals. While the scope of our audit did not include an in-depth analysis of the UTC or travel and tourism-related industries, our field work with the UTC, counties, and other tourism stakeholders revealed some challenges that accompany a decentralized tourism promotion program in the state of Utah. In order for tourism stakeholders to maximize their efforts to promote Utah, a greater level of coordination between the UTC, counties, and tourism industries such as lodging, restaurant, skiing, and biking must take place.

Areas of Utah's decentralized tourism promotion program that can improve include

- Communication

- Understanding of the needs of different entities

- A unified voice for the tourism industry
- Lobbying efforts
- Opportunities for sharing ideas and resources.

A higher level of coordination and cooperation between these entities, through a medium like the UTC, will result in a more concentrated and unified message. A unified message can help prove the travel and tourism industry's value to the state economy. Ultimately, efforts in this field could help tourism promotion entities secure more funding.

New Mexico shows an example of the benefits of a unified tourism industry.

New Mexico provides an excellent example of the benefits of a unified tourism industry. The director for the New Mexico State Tourism Office attributes the significant increases in their budget over the last few years to greater cooperative and communication efforts made by the tourism entities in the state. State and local revenues generated over this time period have been increasing, and its state legislature has said that it will tie the state tourism office's budget to performance measures in the next couple of years.

Relations Between UTC and Counties Can Improve

Counties want increased UTC assistance in the following areas:
•Communication
•Education
•Technical assistance

The primary concerns presented by the counties with regard to relationships with the UTC centered around communication, education and technical assistance. Currently, the UTC seeks to have some influence on the counties' tourism promotion spending through its matching grants program. But this program amounts to less than $200,000 per year, and thus, the UTC must interface with counties through additional means.

County staff consider UTC personnel to be the experts in the tourism promotion business in Utah. However, county staff believe efforts could be made to increase the sharing of that expertise with localities striving to promote their areas in the most efficient and effective way. Officials from the UTC have acknowledged that the level of communication between them and the counties could be improved.

Efforts to redistribute money away from counties would be counter-productive to tourism in Utah.

The director at the University of Utah's Bureau of Economic and Business Research believes that any effort to redistribute money away from the counties would be counterproductive to tourism in Utah. Clearly, changes can be made without redistributing funds. In order for this change to happen, the resources and expertise of the UTC should be utilized more efficiently and effectively so that all of the stakeholders in the promotion and development of tourism have more access to UTC expertise.

Drastic change does not appear necessary because the organizational structure to facilitate the strengthening of relationships is already in place. Because the structure already exists, only incremental changes—such as those discussed below—are needed to increase tourism promotion effectiveness.

By adopting a consultive role, the UTC can influence tourism promotion in the counties without preempting local decision-making privileges.

UTC Can Offer More Tourism Expertise and Training. The tourism expertise possessed by UTC officials could serve to maximize the promotion and development of tourism throughout the state of Utah. This maximizing can be done through increased efforts to educate and provide technical assistance to local officials in charge of administering the tourism tax funds. By this education and assistance we do not mean to imply that the UTC should in any way preempt local decision-making, but rather, the UTC could act in a consultive role as state-level tourism promotion experts offering suggestions to the counties.

While the UTC has made attempts in the past to recognize and address the needs of localities, we found that there is room for improvement in this area. For example, in Chapter II we mentioned that some counties need updated training on **Utah Code** compliance with the TRT and TRCC taxes. The UTC could play a more proactive role in assisting counties with questions about the tourism tax code. More importantly, the UTC could advise counties in deciding how to most effectively use tourism tax revenues, in a consultive role, such as providing tourism marketing plan templates to counties that have not yet adopted plans.

Several county tourism professionals we contacted in connection with the TRT and TRCC mentioned that they would appreciate more UTC assistance in tourism promotion. One UTC employee provided the audit team with a suggested list of ways counties could improve tourism promotion. The following list of examples should be widely shared with counties by the UTC:

- Use more co-branding (shared-advertising) opportunities with the UTC.

- Concentrate on brochure and advertising placement *outside* of Utah, rather than just stocking local visitor centers with brochures.

- Offer to provide hospitality training to local tourism employees.

- Offer to provide tourism promotion education to county commissions and councils.

UTC Could Communicate More Promotion Opportunities to Counties. The UTC has been encouraging counties to utilize its advertising agency in sharing advertisements in tourism industry trade magazines. To date, UTC officials report that no counties have incorporated local advertising into general theme ads created by the UTC's advertising agency. UTC officials are unsure why the counties have not taken advantage of this advertising strategy known as co-branding. From discussions with county tourism promotion professionals, the audit team discovered that some county agencies would like to use the UTC's advertising agency, but they did not have remaining funds for the year. One travel region is planning to use UTC services, however. This is just one example that illustrates the need for improved communication between the UTC and counties.

The UTC can use the existing travel regions to improve its communication, training, and education efforts to county tourism stakeholders.

UTC Can Offer Increased Communication and Expertise to Counties Through Travel Regions. The nine travel regions could play an important role in strengthening the relationship between the UTC and the counties because the travel regions can act as a mechanism to increase the level of communication between tourism stakeholders in their jurisdiction and the state (the UTC). Because there is no existing association of tourism councils at the county-level, it seems reasonable that the travel regions, through their association which represents most counties, be the conduit which the UTC uses to influence tourism promotion in the counties.

Although there are some exceptions, most travel regions maintain some form of communication and coordination with their member counties. They also conduct on-going communications through their monthly association meetings of the Utah Travel Region Association (UTRA). We have observed members of the UTC staff attending UTRA meetings, as well as representatives from the Utah Tourism Industry Coalition (UTIC). The UTC , UTRA and UTIC should use such opportunities to improve efforts in working toward cohesive tourism promotion goals for Utah. This way tourism promotion funding can be more effective at both the county- and state-levels in Utah.

Recommendations

1. We recommend the Legislature study performance-based funding opportunities for the Utah Travel Council and state-wide tourism promotion. This study could include an examination of the Tourism Marketing Performance Fund addressed in **Utah Code** 9-2-1701 to 9-2-1705.

2. We recommend that the Utah Travel Council strengthen its implied consultive role to provide tourism promotion assistance to the counties by

   - Providing more training and expertise, such as training on **Utah Code** guidelines for the use of TRT and TRCC tourism tax revenues.

   - Offering tourism marketing plan templates to counties who ask for them.

   - Improving its communication of suggested TRT- and TRCC-funded tourism promotion strategies, such as co-branding, advertisement placement, hospitality training, and tourism promotion education of public officials.

This Page Left Blank Intentionally

Agency Responses