

FISCAL YEAR
2014

Tourism Development Annual Report



DEAR TOURISM INDUSTRY PARTNERS:

Pursuant to Section 5 of Chapter 471 Acts of 1997 (HB 685), I am pleased to present the Fiscal Year 2014 Maryland Tourism Development – Fund Annual Report (Annual Report).

Each year, the Maryland Tourism Development Board (Board) and the Department of Business and Economic Development (Department) report on the contributions the travel and tourism industry make to Maryland's economy. As someone who has been involved in the Maryland tourism industry for more than 20 years, I know firsthand the economic impact visitors have on my bottom line.

This year's annual report highlights the economic impact of Maryland's tourism industry from the recently released *Economic Impact of Tourism in Maryland – Calendar Year 2013 Tourism Satellite Account* report from Tourism Economics, a leading tourism industry research firm. The Tourism Satellite Account reported more than **\$15.4 billion** in visitor spending and close to **\$2.1 billion** in State and local taxes.

Economic Impact is generally reported by **calendar** year; all other metrics in the Annual Report are Fiscal Year 2014 (July 2013-June 2014).

Another measurement highlighted in the Annual Report is the direct result of the passage of the Tourism Promotion Act of 2008 and its performance-based formula. Eight key tourism tax codes are tracked, reported and considered in calculating future tourism budgets. Comparisons by county of Fiscal Year 2014 tourism tax code revenues are included in this report. The Board is also now mandated to submit a report, in cooperation with the Maryland Association of Destination Marketing Organizations (MDMO), on the effectiveness of mandatory funding and the passage of the Tourism Promotion Act in increasing visitor attendance and visitor spending in Maryland. We've included the content of that report in this Annual Report, and will continue to do so in the future.

While the results of a Tourism Satellite Account are only available on a delayed annual basis, many performance metrics—including the tourism tax codes, are available on a more frequent basis. Recognizing the importance of more timely information, the Office of Tourism Development (OTD) distributes an electronic *Tourism Monitor*, which reports tourism trends and key performance metrics on a monthly basis. Included in the Annual Report is a year-end recap of the *Tourism Monitor*, including the metrics tracked in the Department of Budget & Management's Managing for Results (MFR) program and the StateStat performance reporting system.

As a small business owner, I scrutinize every aspect of business with an eye toward return on investment. In order to ensure that we were being the most effective steward of the Maryland Tourism Development Board Fund, the Board commissioned a leading market research company that specializes in tourism advertising effectiveness studies, Strategic Marketing and Research, Inc. (SMARI), to measure the recognition and effectiveness of OTD's 2011 and 2012 advertising placements. SMARI found that OTD's return on invested advertising dollar compared favorably to other states; you'll find further details on this study in the Annual Report. **I am pleased to report that the efforts of the Maryland Office of Tourism in 2011 and 2012 delivered a powerful return on investment of \$5.33 in State sales tax for every dollar invested in tourism funding.**

I am proud of the work of the Board and the OTD, and the positive impact that the tourism industry has on our State and its citizens.

Sincerely,

GREG SHOCKLEY CHAIR > *Maryland Tourism Development Board*
OWNER > *Shenanigan's Irish Pub, Ocean City*

TOURISM: A REVENUE GENERATOR

THE TRAVEL AND TOURISM ECONOMY AND ITS IMPACT IN MARYLAND

Measuring the tourism industry is somewhat difficult, as the industry is not measured in standard economic accounting systems. Most industries are accounted via the supply-side: businesses are categorized into North American Industry Classification System (NAICS) codes and surveyed about jobs, revenues and costs.

But tourism is a demand-side activity: the focus is on what the traveler buys before and during a trip. As a result, tourism touches many industries.

This year's Annual Report reflects the data collected by a Tourism Satellite Account (TSA) – the industry standard now being used by other progressive and competitive states, as well as the U.S. Travel Association.

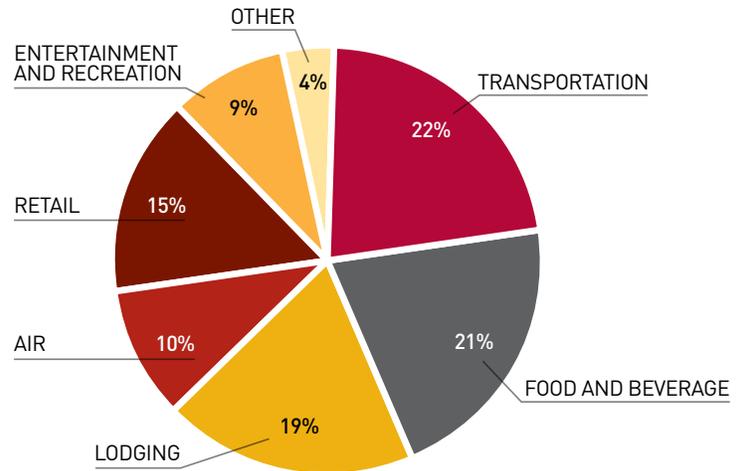
A TSA provides measurements of tourism that are designed to be consistent with the System of National Accounts, which facilitates inter-industry comparisons. It also includes a wider view of tourism demand, such as second home activity, capital investment, and government spending – *not just visitor spending*. This broader measurement is referred to as the tourism economy. The TSA reported that Maryland's total tourism economy generated close to \$16.7 billion in 2013.

While this broader definition is important to track from a comparability standpoint, the key industry statistics will focus on visitor spending – the spending in Maryland by visitors on travel purchases, and will not include capital investment or government spending.

\$15.4 BILLION IN VISITOR SPENDING IN 2013

Maryland tourists and travelers spent \$15.4 billion on travel expenses in 2013, based on the latest TSA conducted by Tourism Economics, an Oxford Economics company. Local transportation, food and beverage, and lodging each represent about 20 percent of tourism industry sales. Retail closely follows, representing 15 percent of direct industry sales. Total spending increased 3.2 percent over 2012.

VISITOR SPENDING CATEGORIES



Economic Impact Study: Tourism Economics

MORE THAN 138,500 DIRECT TOURISM JOBS WITH A PAYROLL OF \$4.6 BILLION

According to Tourism Economics, tourism is the 10th largest private sector employer in the State, supporting 138,682 direct full-time equivalency jobs in 2013 in leisure and hospitality, retail, transportation, and other sectors impacted by visitor spending. For these employees, tourism jobs provided more than \$4.6 billion in wages and salaries in 2013.

VISITOR SPENDING IS AN IMPORTANT REVENUE GENERATOR FOR STATE AND LOCAL GOVERNMENTS

In 2013, visitor spending generated close to \$2.1 billion in State and local taxes, including income taxes from the wages of industry employees, sales taxes for tourism goods and services, hotel occupancy taxes, property taxes, and other corporate taxes.

VISITOR SPENDING HAS GROWN BY MORE THAN THREE PERCENT FOR FOUR STRAIGHT YEARS AND EXPANDED MORE THAN 21 PERCENT SINCE THE RECESSION. VISITOR SPENDING HAS REACHED RECORD GROWTH LEVELS WITH 2013 SURPASSING THE 2006 BASE YEAR BY 24.7 PERCENT.

VISITOR SPENDING (IN MILLIONS)

	2011	2012	2013	% CHANGE 2012-13
TRANSPORTATION	\$3,189.6	\$3,342.7	\$3,435.9	2.8%
FOOD & BEVERAGE	\$2,874.2	\$3,078.4	\$3,233.8	5.0%
LODGING	\$2,721.2	\$2,888.6	\$2,864.2	(0.8%)
RETAIL	\$2,086.8	\$2,204.3	\$2,303.5	4.5%
AIR	\$1,533.3	\$1,536.3	\$1,585.4	3.2%
ENTERTAINMENT & RECREATION	\$1,208.4	\$1,277.1	\$1,344.9	5.3%
OTHER	\$654.7	\$630.0	\$669.4	6.2%
TOTAL	\$14,268.2	\$14,957.5	\$15,437.1	3.2%
PERCENT CHANGE	7.6%	4.8%	3.2%	

Economic Impact Study: Tourism Economics

OFFICE OF TOURISM DEVELOPMENT PERFORMANCE MEASUREMENTS

The performance of the OTD is tracked against a variety of different measures, through the Department of Budget & Management's Managing for Results (MFR) system as well as StateStat. **////** One of OTD's key goals is to influence prospective visitors in targeted markets to plan a trip to Maryland. Marketing activities are then developed with the objective of increasing Web visits and quality leads from potential visitors. **////** However, OTD does not market in a vacuum – its efforts are often overshadowed by the larger budgets of competing tourism destinations such as Virginia. According to the U.S. Travel Association, State Tourism Office budgets increased 15.5 percent on average in FY2014 to \$19 million per state. (U.S. Travel reported Maryland's FY2014 budget at \$11.4 million – increasing 7.8 percent from FY2013). Adjusted for inflation, FY2014's dollar amount has 15 percent less buying power than the FY2007 appropriation, reflecting a loss of \$1.8 million in marketing funds.

THREE PERFORMANCE METRICS ARE TRACKED AGAINST THE OBJECTIVE OF INFLUENCING POTENTIAL VISITORS TO PLAN A TRIP TO MARYLAND:

NUMBER OF UNIQUE WEB VISITORS

Given the positive return on investment from the 2011 and 2012 advertising effectiveness studies and the growing importance of digital marketing, OTD increased its online advertising budget more than 25 percent in FY2014. This led to an increase in overall website traffic from FY2013 levels, although lagging somewhat behind the volume driven by the one-time Star-Spangled Sailabration in FY 2012.

	FY 2012	FY 2013	FY 2014	% CHANGE FY 2013-14
VISITMARYLAND.ORG	1,527,389	1,665,713	1,602,065	(3.8%)
VISITMD.MOBI MOBILE SITE	118,486	45,762	76,709	67.6%
1812 WEB SITE	495,269	67,499	129,934	92.5%
TOTAL TRAFFIC TO ALL WEBSITES	2,141,144	1,778,974	1,808,708	1.7%
ONLINE ADVERTISING BUDGET	\$488,677	\$569,861	\$719,438	26.2%

Google Analytics data

ADVERTISING-GENERATED INQUIRIES

OTD receives requests for travel kits in response to print, radio, outdoor, online and TV advertising. OTD's budget for traditional media (print, radio, outdoor and TV) was 13 percent lower in FY2014 versus FY2013, and its overall advertising budget was down three percent from the prior year. The decline in advertising-generated inquiries is reflective of the fact that more and more travelers now use the Web to gather travel information, instead of requesting printed travel information in advance. This is one of the reasons the Board commissioned an advertising effectiveness study, in order to more accurately reflect OTD's impact.

	FY 2012	FY 2013	FY 2014	% CHANGE FY 2013-14
NUMBER OF ADVERTISING GENERATED INQUIRIES	44,314	54,460	44,038	(19.1%)
NUMBER OF TRAVEL KITS ORDERED VIA WEBSITE	19,904	28,649	22,242	(22.4%)
TOTAL NUMBER OF TRAVEL REQUESTS	64,218	83,109	66,280	(20.2%)
PRINT, RADIO, TV, OUTDOOR AD BUDGET	\$1,244,582	\$1,704,418	\$1,486,231	(12.8%)
TOTAL ADVERTISING BUDGET	\$1,733,260	\$2,274,279	\$2,205,669	(3.0%)

PUBLIC RELATIONS EFFORTS

Public relations activities – press outreach, familiarization tours, and visiting journalists – generated \$9.6 million in advertising value for Maryland tourism products and services. Travel media exposure declined by \$4.2 million from the previous year, directly correlating to a \$4 million placement about Sailabration and the Star-Spangled Banner National Historic Trail that ran in the Wall Street Journal and its news feed in July 2012. Sailabration had accounted for more than \$7 million in advertising equivalency in FY2102.

	FY 2012	FY 2013	FY 2014	% CHANGE FY 2013-14
TRAVEL MEDIA EXPOSURE	\$15,378,375	\$13,868,844	\$9,604,256	(30.7%)

MARYLAND'S TOURISM MARKETING WORKS IN ATTRACTING MORE VISITORS

The OTD has been a highly effective steward of the Board marketing funds, particularly during recent budget reductions. In Fiscal Year 2014, the U.S. Travel Association reported that Maryland's tourism budget was \$11.4 million – \$10.3 million in general funds and \$1.1 million in special and reimbursable funds generated by the Maryland Tourism Development Board through advertising sales as well as the Federal Highway Administration Scenic Byways grant award. Maryland's domestic advertising and sales promotion was reported at \$3.2 million. The states that compete most heavily with Maryland – which have similar beach, urban, cultural heritage or mountain destinations – have historically had larger advertising and sales promotion budgets and have targeted the same prospective visitors: in Fiscal Year 2014, both Virginia and New Jersey allocated more than \$5 million to domestic advertising and sales promotion, in comparison to Maryland's \$3.2 million.

In order to combat this disparity, OTD began to refocus marketing efforts in 2008, targeting the key feeder markets of Washington, D.C., Philadelphia and Baltimore with year-round advertising based on new consumer research that helped crystalize key messaging. The new marketing campaign connected with consumers on an emotional level and aided in Maryland attracting 36.1 million domestic travelers in 2013, an increase of 2.2 percent from 2012 and an increase of 33 percent from 2007's 27.2 million visitors. In 2013, Maryland saw growth in both leisure and business, as well as day trips, while overnights remained flat. Maryland outperformed national trends, and led the region, with the largest percent growth in the business segment, according to an annual national survey of U.S. travelers conducted by D.K. Shifflet and Associates, a leading travel industry research firm.

Maryland realized more growth in visitor volume than any state in the region, both overall and in the leisure and day-trip segments between 2007 and 2013. Maryland's 33 percent increase – representing an additional 8.9 million visitors from 2007 to 2013 – was substantially greater than the 17.2 percent increase the United States saw during that same time period.

Maryland's increase in visitation was significantly greater than the performance of other mid-Atlantic states. Maryland has grown its share of the visitor market 13.3 percent since 2007, outperforming national and regional trends during this challenging economic climate.

USING RESEARCH TO ENSURE ADVERTISING EFFECTIVENESS AND RETURN-ON-INVESTMENT

The Office of Tourism strives to make informed decisions regarding advertising placements and expenditures. Following the 2011 and 2012 Maryland of _____ campaign, the Maryland Tourism Development Board commissioned a leading market research company, Strategic Marketing and Research, Inc. (SMARI) to measure the recognition and effectiveness of OTD's advertising placements. SMARI found that OTD's return on invested advertising dollar compared favorably to other states – and was, in fact, one of the highest return on each dollar that they have ever measured compared to other destinations.

The study concluded that OTD-placed advertisements that included the Maryland of _____ images and content generated \$499 million in visitor spending and \$70.3 million in state and local taxes. 476,184 trips to Maryland can be attributed to this campaign. These trips supported 4,729 jobs.

One dollar spent on the Maryland of _____ campaign by the Maryland Office of Tourism returned \$177 dollars in visitor spending, close to \$25 in state and local revenue, and more than \$5 in state sales tax revenue.

One new tourism job was supported for every \$595 in Maryland Office of Tourism advertising.

2011-2012 ADVERTISING CAMPAIGN EFFECTIVENESS RESULTS

	2011	2012	TOTAL/AVG
INCREMENTAL TRIPS GENERATED	211,117	265,067	476,184
VISITOR SPENDING	\$182 MILLION	\$317 MILLION	\$499 MILLION
STATE SALES TAX GENERATED	\$5.5 MILLION	\$9.5 MILLION	\$15 MILLION
STATE/LOCAL TAX GENERATED	\$25.9 MILLION	\$44.4 MILLION	\$70.3 MILLION
ADDITIONAL JOBS	1,804	2,925	4,729
VISITOR SPENDING per ad dollar	\$220.54	\$159.56	\$177.2
STATE SALES TAX REVENUE per ad dollar	\$6.66	\$4.79	\$5.33
STATE AND LOCAL TAX REVENUE per ad dollar	\$31.32	\$22.34	\$24.97
ADVERTISING DOLLARS SUPPORTING 1 TOURISM JOB	\$458	\$680	\$595
CAMPAIGN SPENDING	\$827,095	\$1,988,518	\$2,815,613

4,729 NEW JOBS, EQUALING ONE JOB FOR EVERY \$595 IN ADVERTISING

TOURISM SALES TAX REVENUES OUTPERFORM OVERALL RETAIL SALES TAX COLLECTIONS

The passage of the Tourism Promotion Act of 2008 enacted the potential for enhanced funding appropriations based on the tourism sector's growth year over year. This funding formula provides a quantitative, policy-backed way to report the impact that visitor spending has on sales tax revenue in Maryland. Eight sales tax codes are tracked and multiplied by a tourism factor – the amount deemed attributable to visitor spending – by the Comptroller. The Board qualifies for additional funding if this tourism tax increment exceeds three percent of the tourism tax revenues from the previous year.

The Bureau of Revenue Estimates reported adjusted tourism expenditures of \$401.3 million for FY 2014, an increase of 2.4

percent from FY2013, outperforming the growth of overall sales tax categories by 14 percent. Seven of the eight performance measures saw increases in FY 2014, with the only decline associated with sales tax category 111, "Hotels, Motels Selling Food (with beer, wine and liquor license)." The 3.1 percent decrease in this one category directly correlates to the government shutdown in October 2013, with the following counties most impacted: Anne Arundel (Fort Meade – down 7.7 percent); Montgomery (NIH, etc. – down 9 percent) and Prince George's (Joint Base Andrews Naval Air Facility, etc. – down 8.5 percent). The total revenues for all categories amounted to more than \$959 million, of which more than \$401 million is directly attributed to tourism.

SALES TAX CATEGORY		TOURISM SALES TAX REVENUES (\$ IN MILLIONS)					
		ATTRIBUTABLE TO VISITOR AND NON-VISITOR SPENDING		TAX FACTOR	ATTRIBUTABLE TO VISITOR SPENDING		% CHANGE
		FY 2013	FY 2014		FY 2013	FY 2014	
111	HOTELS, MOTELS SELLING FOOD <i>w/BWL</i>	\$42.8	\$41.5	100%	\$42.8	\$41.5	(3.1%)
901	HOTELS, MOTELS, APARTMENTS, COTTAGES	\$91.8	\$94.4	100%	\$91.8	\$94.4	2.9%
108	RESTAURANTS, LUNCHROOMS, DELIS	\$323.7	\$337.2	33%	\$107.9	\$112.4	4.2%
112	RESTAURANTS AND NIGHTCLUBS <i>w/BWL</i>	\$247.0	\$249.8	33%	\$82.3	\$83.3	1.1%
306	GENERAL MERCHANDISE	\$156.6	\$165.2	5%	\$78	\$8.3	5.5%
407	AUTOMOBILE, BUS AND TRUCK RENTALS	\$62.4	\$64.6	90%	\$56.2	\$58.1	3.5%
706	AIRLINES — COMMERCIAL	\$0.3	\$0.4	50%	\$0.1	\$0.2	28.4%
925	RECREATION AND AMUSEMENT PLACES	\$6.1	\$6.4	50%	\$3.1	\$3.2	5.2%
TOURISM TAX CATEGORIES SUBTOTAL		\$930.7	\$959.5		\$392.0	\$401.3	2.4%
ALL SALES TAX CATEGORIES SUBTOTAL		\$4,119.1	\$4,206.6				2.1%

SINCE FY2007, SALES TAX REVENUES ATTRIBUTABLE TO TOURISM HAVE GROWN 38.2 PERCENT, FAR OUTPERFORMING THE 22 PERCENT GROWTH OF OVERALL SALES TAX COLLECTIONS. THESE TOURISM REVENUES NOW ACCOUNT FOR MORE THAN 9 PERCENT OF ALL SALES TAX COLLECTIONS.

TOURISM REVENUE GROWTH FAR OUTPACES OVERALL SALES TAX COLLECTIONS

	OVERALL SALES TAX COLLECTIONS	SALES TAX COLLECTIONS ATTRIBUTABLE TO VISITOR SPENDING	% OF TOTAL
FY 2007	\$3,447.9 BILLION	\$290.3 MILLION	8.4%
FY 2008	\$3,748.9 BILLION	\$298.2 MILLION*	7.9%
FY 2009	\$3,851.8 BILLION	\$346.3 MILLION	9.0%
FY 2010	\$3,761.9 BILLION	\$342.0 MILLION	9.1%
FY 2011	\$3,898.0 BILLION	\$359.5 MILLION	9.2%
FY 2012	\$4,095.7 BILLION	\$377.5 MILLION**	9.2%
FY 2013	\$4,119.1 BILLION	\$392.0 MILLION	9.5%
FY 2014	\$4,206.6 BILLION	\$401.3 MILLION	9.5%
% GROWTH FY 07-FY 13	22.0%	38.2%	13.1%

* Adjusted for increase in sales tax ** Adjusted for increase in alcohol tax



Across the State, county to county, no matter the region, visitor spending makes a significant impact. The following chart details how tourism supported the tax base in Maryland's 23 counties and Baltimore City, broken out by geographic region.

FY 2014 DIRECT CONSUMER TOURISM TAX REVENUES

COUNTY	ADMISSION & AMUSEMENT TAXES	ROOM TAXES	TOURISM PROMOTION ACT SALES TAXES*	TOTAL DIRECT CONSUMER TAX IMPACT	% CHANGE TOURISM PROMOTION ACT TAXES FROM FY 2013
ALLEGANY	\$190,223	\$1,327,987	\$4,267,214	\$5,785,424	10.6%
GARRETT	\$808,839	\$2,282,190	\$3,191,705	\$6,282,734	2.5%
WASHINGTON	\$538,808	\$1,930,709	\$7,046,400	\$9,515,917	-1.9%
WESTERN REGION	\$1,537,870	\$5,540,887	\$14,505,319	\$21,584,076	2.5%
FREDERICK	\$591,244	\$1,213,727	\$12,067,159	\$13,872,130	3.7%
MONTGOMERY	\$5,795,079	\$19,245,042	\$67,555,878	\$92,595,999	1.1%
PRINCE GEORGE'S	\$14,913,823	\$20,043,410	\$53,358,655	\$88,315,888	1.8%
CAPITAL REGION	\$21,300,146	\$40,502,179	\$132,981,692	\$194,784,017	1.6%
ANNE ARUNDEL	\$10,023,148	\$16,667,772	\$60,449,395	\$87,140,315	3.5%
BALTIMORE CITY	\$7,748,120	\$31,305,000	\$49,512,266	\$88,565,386	1.8%
BALTIMORE COUNTY	\$5,751,815	\$8,150,000	\$42,845,646	\$56,747,461	1.9%
CARROLL	\$605,127	\$309,992	\$5,439,968	\$6,355,087	2.3%
HARFORD	\$794,882	\$0	\$10,316,653	\$11,111,535	3.4%
HOWARD	\$2,812,488	\$4,587,835	\$16,479,011	\$23,879,334	2.8%
CENTRAL REGION	\$27,735,580	\$61,020,599	\$185,042,939	\$273,799,118	2.5%
CALVERT	\$670,082	\$535,684	\$3,015,770	\$4,221,536	7.1%
CHARLES	\$794,495	\$869,855	\$6,726,310	\$8,390,660	-3.8%
ST. MARY'S	\$223,234	\$704,593	\$4,457,282	\$5,385,109	1.9%
SOUTHERN REGION	\$1,687,811	\$2,110,132	\$14,199,362	\$17,997,305	0.2%
CAROLINE	\$4,649	\$39,216	\$551,739	\$595,604	-2.6%
CECIL	\$155,105	\$412,535	\$3,976,458	\$4,544,098	6.5%
DORCHESTER	\$73,820	\$992,980	\$2,730,426	\$3,797,226	-0.8%
KENT	\$50,177	\$262,377	\$877,198	\$1,189,752	-1.0%
QUEEN ANNE'S	\$166,666	\$424,489	\$2,707,113	\$3,298,268	5.4%
SOMERSET	\$21,459	\$54,772	\$377,548	\$453,779	0.3%
TALBOT	\$116,789	\$1,122,145	\$4,007,833	\$5,246,767	-1.0%
WICOMICO	\$588,353	\$1,294,790	\$5,547,247	\$7,430,390	5.4%
WORCESTER	\$1,911,473	\$14,127,887	\$25,144,920	\$41,184,280	2.7%
EASTERN SHORE	\$3,088,491	\$18,731,191	\$45,920,482	\$67,740,164	2.8%
STADIUM AUTHORITY	\$12,008,940			\$12,008,940	
TOTAL DIRECT CONSUMER TAXES	\$67,358,838	\$127,904,988	\$392,649,794	\$587,913,620	

* Comptroller designated tourism taxes

** Harford County does not have a room tax

DEPARTMENT OF BUSINESS & ECONOMIC DEVELOPMENT

MARTIN O'MALLEY, *Governor*

ANTHONY G. BROWN, *Lieutenant Governor*

DOMINICK E. MURRAY, Secretary of the Department of Business & Economic Development

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The FY2014 Tourism Development Fund Annual Report, published by the Maryland Department of Business and Economic Development's Office of Tourism, is available free upon request, as well as online in the Maryland Office of Tourism section of visitmaryland.org.