FUNDING OPTIONS FOR VISIT FLORIDA:

Alternatives to the Rental Car Surcharge
For Florida’s Tourism Promotion Organization

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BY

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Mr. Peter Guptill
Chair, VISIT FLORIDA Board of Directors
Vice-Chair, Florida Commission on Tourism
661 East Jefferson Street
Suite 300 Tallahassee, FL 32301

Dear Mr. Guptill,

I have the honor to submit to you Funding Options for VISIT FLORIDA: Alternatives to the Rental Car Surcharge. The report is the product of extensive research over the summer months of 2004. Tourism promotion is quite vital to the economic success of Florida. As you are aware of, tourism is our number one industry in the state and is responsible for the quality of life Floridians have grown accustomed to. However, VISIT FLORIDA has experienced drastic cuts to their budget due to a decline in their sole revenue source, the rental car surcharge.

After examining several alternative policies, my recommendation is that VISIT FLORIDA should become exempt from the 0.7% general revenue service charge. This policy is recommended based on the use of three evaluative criteria: stability, equality, and political feasibility. A different method of funding promotions, such as a statewide tax scores highly when considering stability. The creation of a rainy day fund, a supplemental fund, scores quite moderately, when taking all three criteria into consideration. It was not found that funding VISIT FLORIDA through general revenue would create the stability your organization is looking for, so this alternative is not suggested.

To reduce the costs of your organization by exempting VISIT FLORIDA from the 0.7% would raise revenues of approximately $1.2 million, based on revenues for, the 2004-05 fiscal year. Such savings would enable this vital organization to pursue activities previously unmanageable due to lack of funding.

This option has the potential to improve the potential of the tourism market for Florida, which its citizens rely so heavily upon. The answer to the current decline in tourists to Florida is increased promotions, which will be made possible through a more stable funding source. Stabilization of funds to the state’s promotional organization will only help to increase the vitality of our state.

Respectfully,

Claire Feagley
EXECUTIVE SUMMARY

Tourism is Florida’s number one industry, comprising 20 percent of our state’s budgeted general revenue. It generates more that $50 billion in economic impact every year, and employs more than 870,000 people. In order to support the quality of life of Florida’s 16 million residents, we must pay close attention to the ongoing viability of tourism.

VISIT FLORIDA is a public private organization, which helps to promote and educate potential travelers on the attractiveness of Florida. The organization conducts research on tourism trends to better promote the state according to what the most recent trends are in travel, such as beaches, theme parks, cultural and or nature-based activities. The organization is funded through private partners, as well as the state. The state supports VISIT FLORIDA through a portion of a state-administered surcharge on rental vehicles.

Though more recently, this surcharge has continued to decline for various reasons within the industry. Such declines have prohibited VISIT FLORIDA from promoting the state to it’s full potential, as well as being forced to terminate as many as 26 positions within the organization. VISIT FLORIDA is need in of a stable funding source.

The following paper offers four funding options for the organization. These options were researched through popular media, surveys, academic literature and interviews with significant policy-makers throughout local and state government. Policy options were analyzed through three evaluative criteria: stability, equity, and political feasibility. These options are, a different method of funding, such as
a “rainy day fund”, a different funding source, such as the state’s general revenue budget, a statewide tax, or reduce administrative costs.

All four of the alternatives would provide possible funding options for the VISIT FLORIDA organization. The management policy options discuss the fact that each alternative would benefit the funding mechanism for the organization as a whole. However, some options may prove to be less politically controversial, more equitable and stable than the next. The instability of the current funding scheme is a serious problem, which not only has short-term repercussions but long term as well. The current funding scheme inhibits growth for the promotional organization of Florida. Florida should concentrate on strengthening the option, which, rates the highest on the evaluative criteria used in this report, which is reducing costs of the organization.
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I. PROBLEM STATEMENT

VISIT FLORIDA, the state’s tourism promotional organization relies quite heavily on car rental activity as the primary source of state funding. As other tourism components have recovered from the tragedies of 9/11/01, car rental activity has continued its decline. The reasons for the change are not clear. It could be fewer transactions, shorter lengths of transactions, or some combination of both. This decline in revenue could prove to be a marketing challenge for the organization or possibly a structural change in the behavior of our visitors.

It is certain that the state is need of a more stable source of revenue to continue to promote, such an important part of Florida’s economy. From the current financial dilemma the organization faces, it is clear that the rental surcharge is not stable enough to support the organization. This paper will propose funding alternatives for VISIT FLORIDA.

Since this deficit was a highly debated issue during the 2004 legislative session in the Transportation and Economic Development Committee, it proves to be a policy issue worth examining. Research will delve into the organization of this public-private partnership and explore its activities and finances. Specifically, exactly how much of VISIT FLORIDA’s revenue comes from car rental surcharges and taxes. Another important facet to study is the possibility that there may be other funding opportunities for this effort, which is essential to the vitality of Florida’s economy. The main method of research was interviews with policy-makers; subsequent analysis estimated the revenues that would accrue from different options.

For this report, research was conducted on three specific questions directed to policy-makers. The first of these three questions is “What do you see the problem is with
the current funding scheme?” “Are there any funding options you would recommend?” “Would your recommended option be equitable, politically feasible, and stable?” These questions were helpful in determining relevant policy options.

It will be quite relevant to look into how other states fund this activity, as well. The top five states, which also depend quite heavily upon the tourism industry, will be closely examined to compare and contrast funding options as well as marketing techniques.

This issue is highly important to public policy in our state. Tourism is Florida’s number one industry and generates 20 percent of our state’s budgeted general revenue. It generates more than $50 billion in economic impact every year, and employs more than 870,000 people. Our state has become the leader in internet – based travel, which helps us to maintain our status as the world’s premier travel destination. (Office of the Governor, 2003)

It is safe to say that the future of tourism holds in its hand the future of Florida. Without a state income tax, Florida’s government and citizens, rely on this revenue a great deal to fund the state’s responsibilities. The way in which we promote our state to the rest of the nation and world directly affects our economy, the lifestyle of Florida’s citizens and our state’s livelihood. In order to continue to receive the reputation Florida has endured for many years as one of the world’s most anticipated destinations, we must keep promoting Florida as such.

VISIT FLORIDA, strives to keep Florida’s reputation as one of the most alluring destinations in the world. However, if this organization does not receive the funding necessary to continue such promotion, our state could possibly see a decline in travel. The effects of decreasing travel are felt all over the state, not just in heavily visited areas.
Policies should be put in place, which guarantee this organization steady revenue in order to assure our state is promoted in the best way possible. The purpose of this Action Report is to examine alternative solutions to fund Florida’s tourism marketing organization, VISIT FLORIDA.

II. Background and Literature Review

Tourism is Florida’s number one industry, comprising 20 percent of our state’s budgeted general revenue. It generates more than $50 billion in economic impact every year, and employs more than 870,000 people (Office of the Governor, 2003). Since Florida does not levy a state income tax, the government, as well as its citizens, relies heavily on this revenue to fund the state’s responsibilities.

Since this industry is so vital to our state’s economy it is essential to promote the state effectively and to educate the people of the state, the nation and rest of the world about the special attractiveness of Florida. During the 1996 session, the Florida Legislature voted to dismantle the state’s Department of Commerce and to transfer the responsibility of promoting and marketing Florida tourism to the Florida Commission on Tourism. The Florida Commission, which works in partnership with the Office of Tourism Trade and Economic Development, created the Florida Tourism Industry Marketing Corporation or VISIT FLORIDA. This group markets Florida tourism worldwide with the FLAUSA trademark.

VISIT FLORIDA is a public-private partnership and serves as an umbrella organization under which Florida’s tourism marketing campaigns are coordinated. Its mission is to market and to facilitate travel to and within Florida for the benefit of the state’s residents, its economy, and the travel and tourism industry. The corporation’s primary responsibilities include running domestic and international advertising.
campaigns designed to market the entire state as a tourism destination, managing the state’s welcome centers, and conducting research on tourism and travel trends (Nilson, May 27, 2004).

Public-private partnerships are quite common for promotion of state tourism. For example, both California and Hawaii have such partnerships for tourism promotion. In Florida, private business partners must match the funding the state appropriates annually from the Tourism Promotion Trust Fund. The source of money from this trust fund is a single tax on a combination of car rentals and leases from the prior year. Private members match funds by paying annual membership fees in exchange for advertising and marketing opportunities, a hyperlink on the website, a listing in the Florida Vacation Guide, and access to a partner-only website.

VISIT FLORIDA currently has partners from 3,400 private businesses throughout the state. According to VISIT FLORIDA’s 2002-03 annual report, more than 80% of these private partners are small businesses and these are highly valued by the organization (June 2003). The biggest private partners are airlines such as Airtran Airways, and car rental companies such as, the Hertz Corporation. VISIT FLORIDA has established partnerships with a wide variety of businesses and government within the tourism industry. These businesses and government entities include visitor bureaus, travel agencies, attractions, hotels and motels, campgrounds, restaurants, and state agencies.

VISIT FLORIDA is made up of four units. The advertising unit develops print, television and radio messages that target particular audiences. The unit strives for the most cost-effective means of advertising to large numbers of potential visitors. The promotions unit represents the state at various consumer shows and targets top domestic markets. The public relations unit comprises journalists who write press releases, attend
media receptions and events, and develop media tactics to endorse the state. The
research unit monitors state, national and international travel trends. This group
produces visitor estimates and profiles to track the “potential” traveler and exactly what
travelers are currently interested in, such as beaches, theme parks, heritage or nature
based activities.

The organization receives a substantial portion of its funding through a designated
share (15.75%) of the state’s per day rental car surcharge. In recent years, this
appropriation has been reduced due to a continued decline in proceeds from car rental.
Thus, this tax is no longer able to sustain all of the organization’s needs. As a result of
reduced funding, VISIT FLORIDA has been forced to reduce its staff from 127 positions
to 101 positions. Programs have also been reduced in the organization (VISIT FLORIDA
Annual Report, 2003). The result of this is likely to be significantly reduced
effectiveness.

Several recent serious events have conspired to create the shortfalls in the revenue of
both the state and the tourism marketing organization. As if the tragic events of
September 11, 2001 were not enough, the nation’s economy has also slowed
considerably. The SARS (Serious Acute Respiratory Syndrome) scare of 2001 was an
additional negative influence. Such events have choked international travel to the United
States and this, of course, has had great repercussions upon Florida’s economy.

The majority of people who pay the rental surcharge are those international visitors
who must rent a car to be mobile. Thus, VISIT FLORIDA’s main source of revenue
depends predominantly dependent upon sustaining the numbers of international travelers
who come to rent cars (Nilson, 2004). According to the Chicago Sun Times, “more than
half of overnight visitors to Miami-Dade county travel by air, and more than half of those
are international travelers. The number of international passengers flying into Miami International Airport between January and June of 2002 were down 12.4 %” (Alex Veiga, 2002).

Another factor which has lead to a decline in revenue for the VISIT FLORIDA organization is the decline in leased automobiles. A surcharge is applied to leased vehicles around the state. This surcharge is deposited into a fund along with the rental surcharge fees. Because the economy has experienced a slight downturn, interest rates are lower and this makes buying a vehicle more cost-effective than leasing it. “Zero or low interest rates on new cars are converting drivers into car owners” (Gov. Jeb Bush, 2004). This reaction to the economy is another negative effect on the potency of the state tourism promotional organization.

The accessibility and convenience of shuttles, vans, and buses from the airport to hotels is yet another contributing factor to the decrease in the number of car rental surcharges to benefit VISIT FLORIDA. Hotels and resorts have started a new trend within the tourism market to make travel as convenient as possible. By offering transportation to their visitors, hotel and resorts are promoting their interests but simultaneously diverting potential funding from the state’s promotional activities.

Nicki Grossman of VISIT FLORIDA’s board and president and CEO of the Greater Fort Lauderdale Convention and Visitor’s Bureau stated on June 16, 2004, “What we learned in 2001 is that you can’t always count on somebody making a decision to come to Florida and rent a car…There has to be some place in the state budget, and I don’t pretend to know where, that there exists a responsible, reliable funding source” (Bradenton News, 2004).
On May 13, 2004 during National Tourism Week, Governor Jeb Bush said “it is vital to keep up funding for Visit Florida, the state’s tourism marketing program, given tourism’s place as the state’s No.1 industry.” “Tax dollars spent on tourism promotion yield high dividends. For example, Minnesota estimates that every tax dollar spent on tourism in 1981 generated $43.29 in sales and two dollars in new revenue for the state” (Richter, 1985). Governor Jeb Bush stated also during National Tourism Week, “that he wants additional permanent funding sources for Florida’s tourist promotion efforts because revenue from the rent-a-car surcharge is declining and legislative maneuvering is diverting other state money aimed at tourism.” Therefore, the state’s tourism promotional organization is currently in need of alternative funding options. Alternative funding options would enhance the organization’s independence. Promotional activities for the industry, upon which our state relies so heavily, should have a more secure funding source.

**Literature Review**

The pertinent literature on this topic will address two themes: the history of tourism promotional programs handled by the state and the current status of the tourism market. Literature regarding the current status of tourism in Florida is taken from the latest news releases and data released from VISIT FLORIDA.

In order to understand any issue fully, the historical background is always relevant. In 1985, from an article titled, “State-Sponsored Tourism: A Growth Field for Public Administration,” Linda K. Richter from Kansas State University states, “This is an examination of a relatively new and nontraditional governmental responsibility: state-sponsored tourism development.” In her opinion, although tourism is the second largest industry in the United States, research of this phenomenon has really been
underestimated. Though Richter surveyed articles over the 10-year period prior to 1985, in leading public administration and policy journals, she found no articles at all dealing with travel or tourism research. “With miniscule federal help and almost total scholarly neglect, tourism has become the second largest retail industry in the United States” (Richter, 1985).

The impact of tourism differs between states throughout the nation. The south and west are more dependent on tourism as an industry. Nationally, the tourism industry has been more reliable in the past ten years than either agriculture or manufacturing (Richter, 1985). Money spent on tourism is money spent at the whim of those who value leisure, vacations, or travel. “A 1978 study reports that only one in five employees regard work more highly than leisure as a source of satisfaction.” Such a study indicates the enormous potential of tourism, not only as an alternative to increased taxes, but also a means of economic development and growth (Richter, 1985).

Prior to 1950, there were only fifteen states which realized the importance of tourism development and promotion. Since 1985, all states have initiated some means of tourism development with eight of those states starting such programs in 1980. These eight states saw developing a tourism program as necessary at this point, since at this time the national economy was in recession. It seems that the least industrialized states of the nation recognized tourism’s potential and started to market such initiatives before 1960. It is possible that these twelve under-industrialized states favored tourism development over industry, which at that time was the dominant source of revenue for most states (Richter, 1985).

In 1985, “state tourism budgets total more than $140 million, nearly four times as great as in 1972” (US Travel Data Center, 1984). At this time, one-third of the $140
million budget was invested in advertising. Promotional activities used in 1985, were generally the same as we use today. Activities include pamphlets distributed around the state, writers who expound on attractions, and luring film crews to the state for additional promotion.

Historically, even currently, tourism promotion is viewed as a joint effort. This joint effort could be between regions, states and localities, or between the public and private sectors of the economy. Twenty years ago, as many as forty state tourism offices collaborated on promotional activities to help reduce costs and efforts. Forty-two states provided localities, for example within city and county government departments, with readily available expert advice and information on how to pursue tourism development, such as celebrations and conventions, etc. In the mid-80’s, thirty-one states were discovering the potential of tourism promotion could have if public and private entities combined their efforts in the industry. This is the point where governments and businesses were starting to cooperate and to apply the “matching funds” strategy we now see with VISIT FLORIDA. In 1974, “only sixteen states had matching programs with local governments, private associations, or nonprofit organizations.” Ten years later in 1985, “thirty-four states have such programs, and other are considering them” (Richter, 1985).

According to Richter’s study, long range planning of tourism’s effects and trends were sadly neglected twenty years ago. Although thirty-eight states claimed to do some sort of long range planning, it was obvious that such planning was only concerned with “revenues, arrivals, and customer satisfaction.” State governments had also not realized the legal minefield of unlicensed, unmonitored tourist establishments. The potential of visitor bureaus had not yet been discovered, either. Although most of the world at this
time maintained vigorous efforts to augment tourism, the United States lagged behind, despite the fact that they were the second most popular tourist destination.

The reason for such neglect might possibly be the attitude of the population as well as the government to tourism support as a public policy. Housing, criminal justice, and health policy are all deemed absolutely essential. These social issues require debate, appropriations and priority over economic issues such as tourism despite the fact that support, even prioritization of tourism would, by increasing revenue, benefit the social program. If citizen support is there, then it is most likely that the political, as well as the private sector will take heed and participate in a promotional initiative (Richter, 1985).

Competition is not an issue for Florida. Although it might be assumed that Florida competes for tourists with states such as California or Hawaii, there is actually no battle. According to Cliff Nilson of VISIT FLORIDA, the only competition Florida endures is from other eastern or southeastern warm weather destinations. The reasoning behind this is that, Florida offers attractions not found in California or Hawaii. However, if a domestic tourist is really only interested in vacationing at a nearby beach, states such as South Carolina, North Carolina, or Virginia may pose a threat to Florida. This competition for domestic tourists is concentrated on north-eastern states, such as Michigan, Maine, New York, New Jersey, etc (personal communication with Cliff Nilson of VISIT FLORIDA).

III. METHODOLOGY & EVALUATION CRITERIA

Methodology

Information for this report was collected using the following methods:
Investigation of popular media, surveys and academic literature specifically from J-Stor and Economic Literature.

Review of applicable laws, rules, regulations, policies, planning documents and standards, such as the annual reports from VISIT FLORIDA, the Local Government Financial Information Handbook, and the Florida Tax Handbook

Interviews with staff from VISIT FLORIDA (Cliff Nilson), the Legislative Committee on Intergovernmental Affairs (Chuck Hungerford & Steven O’Cain), Staff Director from the Senate Appropriations Subcommittee on Transportation and Economic Development (Cynthia Kelly), Florida State University (Dr. Bob Bradley), Deputy Staff Director of Senate Appropriations (Richard Herring)

Exploration of popular media, surveys and academic literature was essential in determining if there was a public and or business outcry for help and if so, the necessity of outlining policy options. From assessing the most recent news releases of the most popular newspapers from around the state such as the Orlando Sentinel, the Tampa Tribune and the Miami Herald, it was possible to comprehend the severity of the problem. Governor Bush’s latest news releases covering the state’s initiatives and priorities with the Budget gave great insight into how the government is addressing the problem and its form of action.

To gain an informed background on tourism policy, it was important to seek out various governmental handbooks, which explained the history and current regulatory procedures of tourism. The definitive books on these topics are the Local Government Financial Handbook and the Florida Tax Handbook. Both provided similar guidance pertinent to the five different tourist development taxes. Annual reports from VISIT FLORIDA were essential in learning the responsibilities of the organization, how the organization supports itself, and exactly where funds are spent throughout the year.

Interviews of relevant staff were also a key part of the research. Policy experts were able to give invaluable insight into the nature of the funding problem and to clarify the obstacles the organization faced. Suggestions for possible solutions were discussed. All
interviews led to additional contacts with expertise in different areas of research and policy. The researcher’s internship was helpful in obtaining thirty minute interviews with such significant policy coordinators. If additional information or explanation was necessary, e-mail or phone conversations were also utilized.

Evaluative Criteria

Three criteria were used to evaluate the proposed policy options: stability, equity, and political feasibility. Each criterion will be measured using data from the research department at VISIT FLORIDA, the office of Economic and Demographic Research and from information obtained through interviews and discussions with policy experts.

Each criterion will be measured on a decision matrix with a ranking scale of 1 to 5 with 1 being very negative and 5 being very positive. Scores for each alternative option will be summed based on the analyst’s assessment of the extent to which the option meets the criteria.

- Stability will be an index of the strength of a funding alternative or option. The problem with the current funding scheme is that it is unstable. Therefore the organization is in need of a source that fluctuates less and is more dependable. All funding sources should be stable because effectiveness and efficiency of state activities depend upon such monies. In order to evaluate the stability of the three funding options, data from the research department of VISIT FLORIDA, the office of Economic and Demographic Research (EDR) and interviews will be utilized.

- Equity will rate the fairness of an option between the involved groups. Equity is highly important when money is taken from one area and given to fund another area. There should be a balance in such a relationship, so that each participant is sharing in the responsibility as well as the benefit of such an agreement. Government public policy has a priority of promoting equity among its citizens. Equity between participants could be considered to be much like a contract between parties sharing in the responsibility and benefits of funding VISIT FLORIDA. The data sources for equity will be current news releases, research from EDR and interviews.

- Political feasibility will gauge the support an option will receive. This is crucial when evaluating or initiating a change in public policy. In order for an alternative to work in the long run, it must have political support to sustain maneuvering of
funds in the legislature. The data sources for political feasibility will be current news releases, research from EDR and interviews.

These criteria were selected as central to an evaluation of funding options for the tourism promotion organization of the state. Other criteria such as cost, administrative feasibility, and adequacy were not used because of lack of information or data.

A limitation of this study is the absence of a complete survey of all other related participants in the tourism industry. Involved parties that would have been helpful in the evaluation of funding options are The Department of Revenue (which holds revenue from the car rental surcharge), various private partners of VISIT FLORIDA, and localities such as city and county governments. It would also have been beneficial to include those that gain the most and least from tourism promotion. However, the most pertinent policy experts have been polled for ideas, alternatives and background as these should prove to be most valuable to the methodology.

IV. MANAGEMENT POLICY OPTIONS

This section will introduce three of the most appealing funding options for the state’s tourism promotion agency, VISIT FLORIDA. These options are: an auxiliary pot of money to use in times of revenue shortfalls, such as a rainy day fund, a different funding source, such as the state’s general revenue budget, a statewide tax or reduce costs. Each alternative is evaluated using the three criteria listed in the prior section: stability, equity, and political feasibility. The intention of the management policy options is to supply policy makers with the most practical alternatives to resolve the funding dilemma.

Supplemental Fund

The public funding mechanism for promotion of the state’s biggest industry, tourism, has had a decline in revenue which has left VISIT FLORIDA with an estimated
$460,000 deficit this year. This deficit has caused the public-private partnership to delay revamping its consumer website, to postpone the creation of new television advertisements and to dismiss twenty-six employees (Brandenton News, 2004).

Therefore, a precautionary alternative to fund promotions and to create stability within this valuable yet volatile part of our state economy is necessary. A possible solution would be to create a rainy day fund, such as the state’s stabilization fund which is used as a back for the general revenue budget.

**Stability:** This alternative would create a fail-safe mechanism for the organization. Stability of a revenue source is absolutely essential. Such a source would create a backup for economic dips in the rental car market and avoid the type of setback the organization is now experiencing.

According to Cliff Nilson, Governmental liaison for VISIT FLORIDA, although it may not be practical to raise the already steep $15 rental surcharge, it might be possible for VISIT FLORIDA to receive a greater portion of this fee. Currently, 80% of this surcharge goes directly to the Department of Transportation, 4.25% goes directly to the Office of Tourism Transportation and Economic Development (OTTED) for international trade promotion, and the remaining 15.75% goes to into the Tourism Promotion trust fund handled by the Department of Revenue (DOR). The 15.75% of the surcharge handled by the DOR, is what VISIT FLORIDA receives annually (personal communication, May 28, 2004 with Cliff Nilson).

It seems possible that the percentage the organization is currently receiving is insufficient to meet the demands the organization faces. The surcharge is most dependent upon international and business travel. Currently, the numbers of both groups of travelers to Florida are down. According to the research department at VISIT FLORIDA, in the
4th quarter of 2003, domestic visitors were estimated at 92% of total, overseas visitors at 7% of total and Canadian visitors at 1% of total. For calendar year 2003, domestic visitors were estimated at 92% of total, overseas visitors at 6% (this is an overall 14% decline in foreign tourists) and Canadian visitors at 2%. This data shows the volatility of this market and the need for supplemental funding through a rainy day fund.

The most expensive promotion initiatives within the organization are of course, international marketing. In order to promote Florida to this valuable market, the organization must seek a larger portion of the surcharge. An extra 10-15% could be dedicated to a fund, to be used in times of need, to compensate for acute falls in revenue like the present.

**Equity:** This alternative proves to be quite equitable when considering the volatility of the tourism market together with the importance of promotion. One must also consider that the Department of Transportation has other lucrative sources of income; for example, it also receives a substantial amount of funding through the state’s general revenue fund, amounting to $461.5 million in fiscal year 2003-04.

In fiscal year 2001-02, the rental car surcharge created $129.8 million in revenue. The Department of Transportation received $103.4 million of these funds, while VISIT FLORIDA received only $19.4 million. It is important to emphasize that this revenue is generated predominantly from international travelers, that is, from tourism, and that it is not equitably available to tourism marketing.

It is probable that if VISIT FLORIDA received an equitable proportion of this revenue source, tourism promotion would boost international travel. Any increase in the numbers of these travelers would substantially increase the size of this pot of money to distribute among all three beneficiaries. Those paying the surcharge would benefit from
an increase in revenue resulting from making the state more alluring to the international traveler.

**Political Feasibility:** Ultimately, this alternative is highly feasible, although, there will be some resistance, specifically from the Department of Transportation. To divert funds from any organization becomes controversial, especially for the losing organization.

The Department of Transportation must understand that in the end, all parties will benefit from a slight increase in funding to VISIT FLORIDA. The tourism industry is the state’s number one industry and therefore a large contributor to the state’s general revenue, sales tax. “One of the lowest forms of economic development is tourism; tourists bring in more than they take out of the state’s resources” (personal communication with Cliff Nilson, May 27, 2004). Tourists are not deemed a burden but instead a blessing to Florida.

According to Cynthia Kelly, Staff Director of the Senate Appropriations subcommittee on Transportation and Economic Development, during personal communication on June 23, 2004, this alternative is one of the most politically feasible options. It has been extensively discussed during the 2003-04 legislative session for support and planning. The Senate subcommittee on Transportation and Economic Development has suggested a flat fee rather than a percentage be drawn from the 80% that the Department of Transportation receives from the rental surcharge. This $10-20 million flat fee would be dedicated to VISIT FLORIDA.

Another respondent suggested was not to pre-empt funds from the 80% the Department of Transportation receives, but to make adjustments according to growth. In year 2003-04, the Department of Transportation received $94.1 million, which was 80%
of the rental surcharge collected that year. In the year 2004-05, this is expected to grow to an estimated $95.9 million. Instead of funneling additional funding away from the Department of Transportation, funding could be frozen at its current level. Any additional growth could be directed to VISIT FLORIDA for a supplemental fund. These suggestions are quite feasible politically and administratively.

In order to keep tourism as a blessing, which the state has been so fortunate to experience, the state has must invest to maintain the lifestyle Florida citizens now enjoy. Tourism promotion must become a priority for government officials, policy makers and localities throughout the state. Organizations now receiving portions of the rental car surcharge, such as the Department of Transportation, must realize, in their own interests as well as others, the importance of tourism promotion and the necessity of a supplemental fund to create steadiness in times of instability.

**Different Funding Source**

Although not widely known, the state actually has its own small role in generating money for tourism. Local county and city governments throughout the state have five different local option tourism taxes, which they apply as they deem necessary (personal communication, with Chuck Hungerford and Steven O’Cain on June 10, 2004). These local option taxes are: an additional 1 or 2%, professional sports franchise, high tourism impact, tourist impact, and a convention development tax. However, the state benefits the most from local development and promotion through sales tax revenues. “It is estimated that visitors to our state directly pay $3 billion annually in Florida sales and use taxes. Their contribution in other revenue sources, both directly and indirectly, is even more significant, approximately between $5.6 billion and $6.9 billion in general revenues in
From such data, it seems logical to suggest that tourism promotion should be a state responsibility and funded as such. Tourism promotion as a priority could be funded through the General Revenue budget to create a more stable source of revenue than the fluctuating rental surcharge tax. This option would ultimately test the state government’s dedication to promotional efforts. “Despite the state’s size and importance of this industry, Florida ranks sixth among all states in public spending for tourism promotion” (Tax Watch, 2001).

Stability: “Tourism is a strong industry, but tourists can be highly selective about where they go. Destinations that were once mass favorites can become depressed if the factors that attract the tourists are not skillfully integrated into the overall economy” (Richter, 1985). A moderate to large reduction in travel to the state can have large economic repercussions, as we have seen in Florida recently. Fortunately, the government has been able to appropriate supplemental monies to compensate for thesedownfalls, such as the $2.4 million allocated to VISIT FLORIDA in the 2003-04 legislative session. However, with the increasing population and the consequent strain on state finances, this may not be possible in the future.

Though this option may not offer the stability VISIT FLORIDA seeks, it may still prove to be more consistent than the current form of funding. General revenue consists of proceeds for which programs compete. The legislature must anguish over the relative importance of the programs and allocate funds accordingly. Thus, tourism promotion would compete with other state-supported organizations, such as health and human services, criminal justice, transportation and economic development, for appropriate funding.
To participate within this fierce competition could be either difficult or advantageous. If promotional efforts are made a priority among legislators and if the public realizes that tourism is a key income generator, VISIT FLORIDA will successfully secure the appropriate funds necessary to promote Florida’s number one industry. Mr. Nilson of VISIT FLORIDA has declared that the organizations’ main responsibility is to educate the state’s citizens in the importance of tourism and in the promotion of this thriving industry (May 27, 2004). In order for promotion efforts to take precedence, the citizens of the state, must understand “tourism provides our state resources year-round,” that would not otherwise be fundable (May 27, 2004).

**Equity:** “Transactions are what fuel Florida government. The state sales and use tax provides roughly three-fourths of Florida’s general revenue collections. The state sales and use tax together with all transaction taxes (sales, motor fuel, alcoholic beverages, tobacco, etc.) comprise 77% of all state taxation.” In 1999, as stated above, there was an estimate by the Center for Economic Forecasting Analysis at Florida State University and the Florida Tax –Watch that “visitors to our state pay approximately $3 billion annually in Florida sales and use taxes.” Tourism also has indirect incentives to the economy, which are responsible for an extra $2.6 – 3 billion to the Florida economy (Florida Tax Watch, Oct. 2001).

As an alternative to raising State taxes, increased tourism revenues look attractive and equitable to the government as well as to its citizens. To increase revenues, increased promotions, nationally as well as internationally, are absolutely essential. If tourism accounts for such a large portion of the state’s general revenue budget, it would seem equitable that tourism promotion receives the funding.
As mentioned above, the Legislature appropriated $2.4 million in supplemental funding for the 2004-05 fiscal year to cover the shortfall from the rental car surcharge. Rather than the legislature having to appropriate supplemental funding, VISIT FLORIDA could be totally funded by the general revenue budget to increase consistency. According to an article in USA Today, dated April 19, 2004, the “rebounding tourism industry has found a changed customer since the tragic events of September 11, 2001.” Therefore, funding may need to react to such changes and reconsider the rental surcharge as the sole source.

Travel trends have changed since the year 2000. Business travel has reduced considerably due to technological advances in communication such as teleconferences and videoconferences. It is no longer practical to make visits as often when technology has enabled parties from around the nation as well as the globe to interface with each other from home offices. This has hurt the rental and hotel industry considerably.

For example, “Business travelers used to make up about a quarter of the clientele at the upscale Lago Mar Resort and Club in Fort Lauderdale. They now constitute about 18%” USA Today, April 2004). According to the research unit at VISIT FLORIDA, since fiscal year 2000-01, revenues from the rental surcharge have declined by 16%. In fiscal year 2000-01, revenues were $145, 891, in fiscal year 2002-03 the surcharge brought in only $122,909 for the organization.

It is obvious that times are changing. As with any other industry, the tourism industry must respond to these changes in travel and make adjustments as necessary. The first necessary adjustment is a more reliable source of funding as opposed to, sole reliance on the rental car surcharge.
Political Feasibility: Public finance will become a critical issue in the future of Florida. Gains from the “New Economy Boom” in the 1990’s are dwindling fast, and many state budgets are feeling the loss. “Soggy corporate profits, a lousy stock market, nervous consumers, and recently enacted tax cuts are eating away at state budgets. At the same time, soaring health care costs and an insatiable public demand for improved schools are quickly draining public coffers.” (Business Week, May 2001). States around the nation, especially Florida will face tremendous changes.

Florida’s population is growing by leaps and bounds. The growing population as well as the already significant elderly population in Florida will prove to be an enormous financial burden in the near future. Florida has become a retirement haven for an extraordinary amount of baby boomers, which will affect health care costs in the state and more specifically the general revenue budget. Demands for health care, education and aid to low-income families will cause spending to explode. “Double digit hikes in drug spending and overall medical costs are socking it to budgets across the country” (Business Week, May 2001).

The pot of money the state relies so heavily upon to fund necessities such as education, health care, and transportation will be subject to increasingly heavy great strains from more mouths to feed, more children to educate, and a growing need for additional transportation infrastructure. Therefore, when considering political feasibility, this funding option may not prove to be the best alternative for VISIT FLORIDA. The organization would have to compete with essential social programs and these will already be subject to restraints in funding.

Different Method of Funding
It is commonly held that future reliance on the car rental tax will not prove to be sufficient to maintain the quality and sustainability of the tourism industry. A statewide-
tax would be a possible alternative to the current form of funding. This tax would be an additional 0.01 to the 0.33 sin tax to cigarettes which could generate as much as $10 million in revenue throughout the state for promotional development (Dr. Bob Bradley, FSU). Local governments, city and county, would no longer bear the responsibility of tourism development and promotion. Instead, the state would administer a revenue sharing formula, so that the dividends are split more evenly throughout rural and urban areas.

As mentioned above, according to USA Today in an article dated, April 19, 2004, “the tourism industry is finding a changed customer.” It has become evident that travel trends have changed since September 11, 2001. “More visitors arrive by car than airplane, a reversal from four years ago and an important indicator because air travelers tend to spend more money. Visitors spend fewer nights in Florida now than they did in 2000.” This is a problem for Florida because the state relies quite heavily upon the international traveler as an important contributor to the state’s sales and use tax.

The international traveler is the tourist who rents a car, stays for a longer period of time, and spends more money for entertainment, food, and hotels while in the state. In order for an overseas traveler to get around the various attractions, a rental car is essential. The majority of overseas travelers are allotted a longer vacation time than the average American. To make the most of their time in Florida while taking into account the cost of flight, such travelers are more likely to stay a longer number of days. Increasing the number of days therefore increases the amount of sales, use, and bed taxes the state receives.

According to the research department at VISIT FLORIDA, air travel is currently down significantly when compared to travel trends in 2000. The number of non-air
arrivals to Florida in 1999, which are predominantly domestic travelers, was 34,000; air travelers, predominantly international travelers numbered 40,000. More currently, in an analysis from January to December of 2003, only 5.8% of travelers to Florida were from overseas, 2.2% were from Canada and 92% were domestic travelers.

Of the 92% domestic travelers or 69,574 individuals, 37,818 were non-air visitors, using a vehicle as their transportation device. However, the current trend is for these visitors to use their own vehicle rather than renting and the revenues from the car rental surcharge are significantly down. In fiscal year 2000-01 collected revenues from the car rental surcharge were at $145,891, though in fiscal year 2002-03, collections amounted to $122,909, this amounts to a 16% fall in revenues (Research Department, VISIT FLORIDA).

Stability: This alternative would be quite stable. An additional one-cent sin tax to cigarettes in order to promote the state’s number one industry would be quite reliable and valuable to the state. Florida as a whole would benefit. A state tax such as this would secure a reliable source of funds for promotional activity domestically and internationally. The organization would no longer have to rely upon a volatile market such as the car rental business.

Creating an additional state tax would mean that tourism as an industry would be responsible for increased revenues. Chuck Hunger, from the Florida Legislature’s committee on Intergovernmental Relations, has stated, “tourism is easier as a revenue, for the simple fact that it is less reliant on other state programs” (personal communication on 10, 2004).

Equity: A statewide tax such as this would lessen the burden on local governments to raise money for tourism promotion. Funding for tourism promotion
would become a state responsibility and money would be distributed to counties as necessary. The revenue sharing formula, as mentioned above, would distribute the revenues evenly across all 67 counties throughout the state.

Often, counties don’t create enough money to develop the infrastructure necessary for tourism. Any local option tourism tax levied upon this sort of rural county is used for social infrastructure instead, such as a police force. Rather than being able to create attractions that attract visitors, these counties are worried about how to fund citizen priorities and needs (personal communication with Chuck Hungerford and Steven O’Cain).

As recently as July 5, 2004, the Tallahassee Democrat released an article which explained how tourism officials plan to “expand Florida’s draw beyond theme parks and beaches, but now aim to lure visitors to the state’s small towns and downtowns.” In order to facilitate this proposition, the state must obtain a stable revenue source, such as a statewide tax to administer to localities to endorse such efforts.

This alternative would be a great investment for less visited, rural counties. A statewide tax, which distributes proceeds according to a revenue sharing formula, would help to promote the state as a whole. Counties that were once not able to build necessary infrastructure to lure guests, would now be able to compete with more fortunate counties such as Orange County, which is home to Disney World.

**Political Feasibility:** As a state, Florida citizens pay less in cigarette taxes than the average state. The average sin tax on cigarettes around the nation is 0.45 per pack (El Paso County Tobacco Education and Prevention Partnership, 2003). In Florida, citizens pay only 0.33 cents per pack of cigarettes. It would therefore be politically feasible to
increase tax by an additional 0.01 on cigarettes, when considering the average tax for other states and the benefit this extra cent would bring to the tourism industry.

Also, according to Cliff Nilson of VISIT FLORIDA, “tourism is one of the reasons the state’s citizens aren’t submitted to an income tax.” Tourism brings in revenues to Florida, which other states around the nation are just not fortunate enough to have.

Of the 67 counties in Florida, only 15 counties are declared “tourist destinations” by VISIT FLORIDA. These counties are: Bay, Brevard, Broward, Duval, Escambia, Hillsborough, Lee, Miami-Dade, Monroe, Okaloosa, Palm Beach, Pinellas, Sarasota, Volusia, and of course, Orange. These counties account for 80% of revenues collected from tourism-related taxes. Orange-county alone contributes 21% of tourism revenues such as sales, use and bed taxes (Outlook for Florida Tourism, 2003).

These fifteen counties may not support such a tax. A state-wide tax would not seem equitable to them and would thus present a political hurdle for policy and government officials. The reason for this is money these counties bring in would be distributed throughout the state, for other rural, less attractive counties to benefit. The top fifteen counties would have to share revenues they would feel is theirs to keep and which would be used to develop competing tourism centers. The top, “tourist destination” areas may fight tooth and nail to prevent such a tax. It is probable that these counties would prefer to keep their own form of local option taxes rather than give up revenues to help benefit the state as a whole.

Thus, the political problem here is not in administering an extra tax, but in legislating for the sharing of the revenues. State government’s key role would be to educate citizens on the incentives and benefits which would accrue to the state
when localities come together for promotion and tourist development. Otherwise, this would prove to be a huge political hurdle.

**Reduce Costs**

One very simple alternative to increase revenue for VISIT FLORIDA is to reduce the costs of organizing access to funds. Money from the rental car surcharge is deposited into a trust fund, called the Travel Promotions Trust Fund which is managed by the Florida Department of Revenue along with hundreds of other trust funds the state has created. According to Florida Statutes 215.20, “trust funds are required to pay 7% of their income to the General Revenue Fund as, a service charge representing the estimated pro rata share of the cost of general government paid from the General Revenue Fund.” This year the Tourism Promotion Trust Fund, which finances VISIT FLORIDA, earned $18.5 million, and paid approximately $1,295,000 in service charges to general revenue.

**Stability:** This alternative would be extremely stable. An exemption could possibly create more than the $1.2 million that was most recently paid for fiscal year 2003-04. According to how much VISIT FLORIDA gains in revenues, an exemption would mean a 0.07% increase towards the organization rather than general revenue. An exemption would remove one burden for the organization. The $1.2 million the organization paid to general revenue this year could have saved a majority of the jobs that were lost as a consequence of budget cuts.

**Equity:** There are approximately 430 trust funds, which make up 60% of Florida’s budget. In fiscal year 2003-04, these trust funds amounted to $32.3 billion. A majority of these trust funds are subjected to various exclusions, exemptions, deductions, and credits according to the 2004 Florida Tax Handbook. Some funds, listed in s. 215.20(4), F.S., are required to pay an additional 0.3% service charge. A few agriculture
trust funds pay a reduced service charge of 3 %, s.215.2 (2), F.S. and some trust funds, according to need, may become exempt from this service charge altogether.

Given that tourism is responsible for such a great percentage of sales tax that directly benefits the general revenue fund, exempting the Tourism Promotion Trust Fund from the 0.07 % service charge appears to a reasonably equitable alternative. As mentioned above, in 1999 tourism-related taxes accounted for $3 billion of general revenue. It is highly unlikely that other trust funds contribute such a significant amount to general revenue. For this reason alone, this option is equitable when considering exemption for the Travel Promotions Trust Fund.

Political Feasibility: This alternative is politically feasible since there are various other trust funds which are exempt from the service charge and therefore no new precedent is created. A number of trust funds and types of trust fund revenues are exempted from the service charge by s.214.22, F.S. Other trust funds are exempted from the service charge by provisions scattered throughout the statutes and never compiled. A few examples of exempted trust funds, are: student financial aid or prepaid tuition receipts, retirement and employee benefit funds, and the “Save Our Everglades” trust fund. These trust funds are to support good causes within the state, but may not have the financial foundation necessary to make a difference. Such an argument can be deduced from the Tourism Promotion Trust Fund, as well. For this reason, it can be assumed that reducing the costs of VISIT FLORIDA is highly politically feasible.

V. CONCLUSIONS

This report has presented four funding alternatives to the rental car surcharge, which has proved to be unstable for VISIT FLORIDA. Each policy has been evaluated on the basis of stability, equity, and political feasibility. Table 1 summarizes the results.
All four of the alternatives would provide effective financial options for the 
VISIT FLORIDA organization. The management policy options assess whether each 
alternative would benefit the funding mechanism for the organization as a whole. 
However, some options may prove to be less politically controversial, more equitable and 
stable than others. The instability of the current funding scheme is a serious problem, 
which has repercussions not only in the short-term but in the long term as well. The 
current funding scheme inhibits growth of the promotional organization in Florida. For 
this reason, policy options have been analyzed and evaluated. Florida should concentrate 
on strengthening the option which rates the highest on the evaluation criteria used in this 
report.

A different method of funding would rank as the most stable option. A state tax 
would be the most steady, reliable revenue source available. Taxes are the basis of public 
finance. Local, county, state, and federal governments rely upon such a system to fund 
the various necessities, such as health care, education and criminal justice. The 
alternative of a supplemental fund, or a rainy day fund, promotes stability, and would be 
a good decision for the organization to make as a long-term commitment. The
supplemental fund option is more of a funding enhancement, that every organization or business should implement, although it may not offer the transformation the organization currently seeks. A different funding source, such as general revenue, might prove to be even more unstable than the current funding scheme, since VISIT FLORIDA would have to compete with social services for revenue. Reducing costs of the organization or exempting VISIT FLORIDA from the 7% service charge, may not create the additional revenue it needs. Given the fact that volatility is the current problem with funding, stability is the answer. A statewide tax such as the one offered would provide the solution the organization seeks.

Reducing costs scores highly on the equity criterion. There is a balance with this alternative between existing participants, VISIT FLORIDA, and the general revenue budget. As mentioned above, tourism is responsible for as much as $3 billion in sales tax, directly attributable to general revenue. These two sources share a close financial relationship where there is room for an equitable maneuvering of funds, whereas other alternatives do not share such a relationship. The supplemental funding option would require the Department of Transportation to forego funding in order for VISIT FLORIDA to secure necessary funding. If VISIT FLORIDA were to initiate a different funding source, such as general revenue, the organization might possibly lose money, while participating in a political battle for funding through general revenue. Preparing for this annual battle would be expensive in terms of time and resources. An increase in taxes is never viewed by the public as equitable, even if the increase is a sin tax, imposed only on cigarette smokers. The most equitable option reported is to reduce costs of the organization, by exempting VISIT FLORIDA from the 0.7% service fee.
Reducing administrative costs is the most politically feasible option, also. This option would stir up no political controversy at all. Exempting the organization from the general revenue service charge promotes business, an aim which is currently high on the priority list of the predominant republican administration. This option simply does away with a fee which VISIT FLORIDA repays through more sales tax generated from tourists brought by promotions. Since this option does not require additional tax, a significant share of general revenue, or re-direction of funds from another organization, reducing the costs of the VISIT FLORIDA proves to be the most politically feasible option.

Assessment of the alternatives using the three evaluative criteria indicates that reducing the costs of the organization through a service exemption is the most viable policy to provide to Florida’s tourism promotion organization, VISIT FLORIDA. Therefore, reducing the costs of the organization is recommended. Exempting the organization from this cost will enable it to become more financially stable. Even though the scores are very close, it became apparent during analysis that reducing the costs of the organization would be recommended before other options. The only moderate scoring criterion for this option was stability. A statewide tax is obviously more stable since it would secure a clear revenue stream for the organization. However, a statewide tax would be extremely controversial and would not be politically feasible.
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Continue Funding, But Substantiate That Program Activities Increase Florida Tourism. 


