CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

Promoting honest, efficient, and fully accountable government

AN ANALYSIS OF PHILADELPHIA'S

DESTINATION MARKETING INFRASTRUCTURE

AND ITS ROLE IN THE HOSPITALITY SECTOR

September 2014

City Controller
ALAN BUTKOVITZ

EXECUTIVE SUMMARY

Why the Controller's Office Conducted This Analysis

As the City's financial watchdog, our Office is responsible for ensuring that tax dollars are spent wisely in the interests of the citizens of Philadelphia, as well as the local and regional economy. Leisure and Hospitality is among the largest sectors of our City's economy, responsible for 64,000 jobs, $2 billion in economic activity, and $83 million in tax revenues annually. The City's destination marketing – the promotion of large meetings and conventions as well as the promotion of individual leisure tourism – are handled by two separate Destination Marketing Organizations (DMOs), the Philadelphia Convention and Visitors Bureau (PHLCVB) and Visit Philadelphia (VP), respectively. Both organizations get the bulk of their funding via the Hotel Tax, a multi-part levy of 8.5% added to every hotel bill.

Recent accounts in the media portray a Destination Marketing infrastructure that is dysfunctionally riven by personality conflicts and lack of coordination. In an editorial this spring, the Inquirer called on our office to perform an independent evaluation of the City's "tourism machinery."[1] Our analysis digs beneath the surface to ascertain whether the revenues derived from the Hotel Tax are being utilized to their maximal efficiency by the two official DMOs, in the interests of growing this vital sector of our local economy.

[1] Inquirer Editorial, "Visitor groups need revisiting," May 20, 2014 (http://articles.philly.com/2014-05-20/news/49951625_1_convention-and-visitors-bureau-visit-philadelphia-philadelphia-convention).

What has our analysis found?

- Philadelphia is the only City among those studied for this report with two Destination Marketing Organizations of comparable size and budget. Under the current fiscal arrangement, each DMO receives an appropriation based on a formula determined by city ordinance, rather than according to the strategic priorities of the sector as a whole. Several peer cities – NYC – Houston, Chicago – have consolidated their destination marketing into a single organization in recent years with improved results.
- The annual revenue produced by the Hotel Tax, which in 2013 was about $49 million, is split 3 ways, with 58% to the Pennsylvania Convention Center Authority, primarily for operating expenses; 25% to the PHLCVB for convention center marketing; and 17% to VP for leisure tourism promotion.
- Of the four major market segments within the hospitality sector – leisure, group/convention, business, and international – only leisure tourism has seen consistent growth in the past 2 decades. Much of this growth can be attributed to the promotional strategies of Visit Philadelphia.
- Business travel has been essentially flat since 1997, comprising less than 15% of market share. Part of this is undoubtedly related to the local economy's failure to attract and retain large corporate headquarters in Philadelphia, as well as the emergence of technological alternatives to small face-to-face meetings. Yet other major cities such as Atlanta, Chicago, Los Angeles, Houston, and NYC attract a larger proportion of business travelers. PHLCVB's innovative Life Sciences Congress represents an intriguing model for expanding business travel.
- Center City room bookings grew by over 100% from 1993 to 2013. The hotel industry and its overnight guests generate more than $200 million in tax revenue for the City and Commonwealth each year. Since 2003, hotels' internal marketing teams have booked more rooms than PHLCVB, which booked 100,000 fewer rooms in 2013 than in 1997.
- In 2013 PHLCVB booked 568,000 Room nights for conventions and groups. A convention visitor's economic impact per room night is estimated at $1,600, yielding a total convention economic impact for 2013 of $909 million. PHLCVB received $12.4 million in revenue from the Hotel Tax in 2013, thus its Return on Investment was $74 per tax dollar.
    - The economic impact of the Convention and Visitors Bureau lagged peer cities: the national average room impact per night for a convention attendee is $2,500, while in Philadelphia it is only $1,600
- In 2013, Center City hotels booked 926,280 leisure room nights. A leisure tourist's economic impact is estimated at $908 per room night, yielding a total leisure economic impact of $841 million. We estimate that roughly 67% (623,524) of these leisure room nights can be attributed to Visit Philadelphia's promotional efforts, for an impact of $564 million. Visit Philadelphia

received $8.2 million from the Hotel Tax in 2013, thus its Return on Investment was roughly $69 per tax dollar.

- Studies suggest that the performance of the Pennsylvania Convention Center has not met expectations. According to a report produced for the Greater Philadelphia Hotel Association by Econsult, the underperformance has cost the City over $900 million in economic impact, about $40 million in tax revenues, and over 2,000 jobs between 2009 and 2012.
- Two recent developments at the PCC represent significant steps toward repairing the PCC's damaged reputation, namely: the hiring in 2013 of SMG, a respected, private convention management firm to run the PCC; and a new Customer Satisfaction Agreement designed to make Philadelphia's center far more competitive with peer cities. These changes are attributable to forward-looking leadership on the part of both organized labor and the Convention Center Authority. There is evidence that the proverbial corner may have been turned, with several major organizations choosing the PCC after vowing never to return.
- Both PHLCVB and VP are selling essentially the same product – Philadelphia – to two different audiences, with different messages. When 'mission creep' and inter-organizational sniping are held at bay, the two organizations contribute much to the City's destination marketing efforts. Nevertheless, under current leadership, both in City Hall and at the level of each organization, consistent cooperation and collaboration seem unlikely.
- Lack of coordination has often led to sub-optimal allocations of resources. The current structure makes strategic allocation of resources very difficult and has created significant diseconomies of scale. Our research suggests that at least $1 million could be saved annually by attaining efficiencies in contracted out services, rent, office and administrative expenses, and information technology, among others.
- In recent years, the Mayors Hospitality Advisory Board – the successor to the Mayors Hospitality Cabinet – has met infrequently and has failed to provide adequate leadership and coordination necessary to achieve maximum efficiency.

What the Controller recommends:

- Achieving efficiencies and savings by consolidating agencies and streamlining functions. Specifically, the Controller recommends:
  - Creating a strategic plan to consolidate all tourism promotion and marketing under the auspices of a single agency. A consolidated and streamlined Board of Directors, composed primarily of leaders from hospitality and closely related sectors, should be formed to oversee the agency. We estimate that at least one million dollars could be saved annually, funds that could be redeployed strategically to enhance promotion of historically weak segments, such as international and business travel.
  - In the interim, strong mayoral leadership will be required to keep each existing organization focused on core mission and competencies. The phase-in period will allow PHLCVB, in particular, to demonstrate its acumen in convention marketing unencumbered by the PCC's past problems.
  - A strategic planning process, under mayoral leadership, to determine long-term priorities for the sector as a whole, as well as the most efficient structure for the new consolidated agency, including clear divisions of labor for convention sales and marketing, business travel, domestic leisure, and international leisure.
- Once a consolidated agency has been established under the guidance of a strong Board of Directors comprised of key stakeholders in the hospitality space, including cabinet-level representation from the administration, the Mayors Hospitality Advisory Board will become redundant and should be dissolved.
- Close monitoring of the impact of the new Customer Satisfaction Agreement on the performance of the Pennsylvania Convention Center and PHLCVB. Since the City is a key stakeholder in the PCC, and since tens of millions of dollars in economic impact are at stake, City Council should require an annual report documenting progress on convention attraction, post-convention customer satisfaction, and so on. Since state law already requires such a report every three years, producing an annual report should not represent a major challenge.

BACKGROUND

In 1993 the City of Philadelphia, in partnership with the Commonwealth of Pennsylvania, made a major investment in the hospitality sector when it replaced the old West Philadelphia-based Civic Center with the modern Pennsylvania Convention Center (PCC), making Philadelphia among the first major cities with a convention center in the heart of its Central Business District. In 2011 the City and Commonwealth doubled down on this investment by dramatically expanding the size of the PCC. To help finance the new building as well as the marketing of conventions and the promotion of tourism more broadly, the City levies several dedicated taxes on every hotel room night. That tax revenue is split three ways: about 55% goes to the Pennsylvania Convention Center Authority (PCCA); the remaining 45% or so is split between the Philadelphia Convention and Visitors Bureau (PHLCVB) and Visit Philadelphia (VP). It is our goal in this report to determine whether the hotel tax apportioned to these agencies is efficiently working to maximize the potential of the City's hospitality sector as a whole, and to determine if the structure of the Destination Marketing infrastructure is optimal.

One cannot understand the hospitality sector without understanding the context in which it operates. In the past 25 years the City has invested substantial resources in improving Center City for both residents and visitors. The founding of Center City District (CCD), one of the nation's largest and oldest Business Improvement Districts, helped organize and spur the transformation of a moribund, post-industrial central business district into a vibrant downtown residential and commercial corridor. In 1993, Mayor Edward G. Rendell designated South Broad Street "the Avenue of the Arts," and slowly but surely, restaurants theaters, galleries, and boutiques sprang up along the major streets in Center City. The ten-year tax abatement spurred the construction of thousands of new residential units and an influx of tens of thousands of new residents. Upgrades to the "most historic mile in America" on the eastern edge of Center City began in the late 1990s, and in the first decade of the 21st Century, Philadelphia's already-strong museum row along the Ben Franklin Parkway saw the renovation of the Franklin Institute and the relocation of the world-class Barnes Foundation to the City from the suburbs. With the completion of the new Dilworth Park along the apron of City Hall, and planned upgrades to the Market East section, over the course of 25 years Center City has been almost completely transformed.

Along with the attention directed toward the City's quality of life, hospitality and leisure institutions, and the supporting public investment, there has been a concerted push to increase the number of hotel rooms. Before these public investments and the relocation of the convention center from West Philadelphia in 1993, there were fewer than 6,000 hotel rooms and no major hotel chains in Center City. Today, there are more than 11,000 rooms available in Center City, including three major convention hotels. Even with this expansion, Philadelphia lags major competitors substantially.[2]

The hospitality industry comprises 4 general submarkets – groups/conventions, business/commercial, domestic leisure, and international leisure. In 2013, Greater Philadelphia hosted nearly 40 million visitors.[3] These visitors came for a variety of reasons from all over the globe. However the overwhelming majority (>85%) came for leisure and their travel originated in a state bordering the Atlantic Ocean.[4] The number of total visits to the region increased by 47% from 1997-2013, almost entirely a result of increased leisure visits, which accounted for nearly 12 million additional visitors. While leisure visits have seen dramatic increases, visits for business purposes – for example, a sales representative attending a meeting at the "home office" – have increased only slightly in absolute terms. In 1997 business trips comprised about 15% of total market share; while business visits increased from 3.9 million in 1997 to 4.7 million in 2013, market share decreased to 14%. There are about 35,000

---

[2] By comparison, Houston has 55,000 rooms, Los Angeles has 40,000 rooms, Chicago has 30,000 rooms, NYC has 91,000 rooms, and Boston has 21,500 rooms.

[3] Greater Philadelphia comprises the City of Philadelphia and the eleven surrounding suburban counties in Southeastern PA and southern NJ. A "visit" as defined by the US Travel Association (USTA) is one person-trip of 50 miles or more, one way, away from home, or staying overnight. It is important to note that a large majority of visitors that stay overnight find accommodation outside of the hotel industry; in trade parlance, this group is called "Visiting Friends and Relatives" (VFRs).

[4] This definition includes West Virginia and Vermont; GPTMC 2014 annual report

hotel rooms in Greater Philadelphia and on average 23,600 (67%) are filled each night; the occupancy rate in the City itself is considerably higher, running around 73% in 2013. Philadelphia's occupancy rate in 2013 was considerably higher than peer city Baltimore (64%), on par with New Orleans (72.6%), and behind Chicago (75.3%) and Washington, DC (76.4%).[5]

Visitors to the region generate tremendous revenues for both business and government, at the same time as they create and sustain employment opportunities in multiple sectors. The tourism industry produced over $10 billion in economic activity for the region and generated $626 million in state and local taxes. The economic activity supported by visitors to the Greater Philadelphia region sustains more than 90,000 jobs.[6] In Philadelphia, overnight visitors provide the most substantial economic impact for the City, supporting numerous industries, creating employment and generating tax revenue. Hospitality and leisure is the second largest employment sector in the city, supporting 64,508 jobs, and is one of only four sectors to increase employment since 2001. The hotel industry directly employs more than 7,500 individuals and directly supports an additional 19,000 jobs through its $735 million in operating expenditures.[7]

In 2013 nearly 4.2 million hotel rooms were booked in Philadelphia – 3 million in Center City and another 1.2 million in other neighborhoods – generating nearly $50 million in Hotel Tax revenue. Estimates suggest that overnight hotel guests spent at least $567 million in the city in 2012. In all, the

[5] Visit Philadelphia 2014 annual report; Baltimore Business Journal, "Maryland hotel demand, occupancy dip in 2013," February 13, 2014 (http://www.bizjournals.com/baltimore/news/2014/02/13/maryland-hotel-demand-occupancy-dip.html); New Orleans City Business, "NOLA hotel occupancy nearly unchanged from 2013," May 20, 2014 (http://neworleanscitybusiness.com/blog/2014/05/20/nola-hotel-occupancy-nearly-unchanged-from-2013/); Choose Chicago Market Analytics, "Hotel Performance Chicago Central Business District 2013," January 20, 2014 (http://www.choosechicago.com/includes/content/docs/media/Hotel-Performance-2013.pdf); Hotel Managers Group Blog, "US Hotel Occupancy and Performance in 2013," (http://hmghotelsblog.com/2013/07/26/us-hotel-occupancy-and-performance-in-2013/).

[6] Visit Philadelphia 2014 Annual Report; Tourism Economics

[7] Bureau of Labor Statistics 2013 Data, NAICs Code 721; Econsult, "Fulfilling The Pennsylvania Convention Center's Potential Will Mean Billions in Economic Activity and Thousands of Jobs for the Common Wealth of Pennsylvania," May 2014.

hotel industry and its overnight guests generate more than $200 million in tax revenue for the City and Commonwealth each year. [8]

GETTING THEM HERE

Unlike most of its peer cities, Philadelphia has two nearly co-equal agencies devoted to increasing the volume of visitors to the City – the Philadelphia Convention and Visitors Bureau and Visit Philadelphia. Both organizations are run by strong and experienced leaders in the Philadelphia hospitality world, Jack Ferguson and Meryl Levitz, respectively. The bulk of each organization's revenue derives from a dedicated funding stream, the Hotel Tax; each has a budget in excess of $10 million and a staff in excess of 50 full-time employees. As the official marketing arm of the Convention Center, PHLCVB is responsible for driving convention business. As the regional tourism promotion agency, VP is responsible for promoting Philadelphia as a fun and interesting destination for individuals and families. Over time each agency has developed 'mission creep,' occasionally encroaching upon the turf of the other. This is, perhaps, a predictable response on the part of each agency to the fact that tourism promotion dollars are assigned by a formula to each organization; as the overall volume of tourism has grown, so have the dedicated tax revenues that have flowed to each organization.[9] One can imagine an alternative structure, in which, for example, an overarching tourism board allocated Hotel Tax proceeds based on strategic priorities.[10] Many of Philadelphia's peer cities – Chicago, Houston, NYC – have consolidated tourism promotion functions in recent years. These cities have seen greater coordination,

[8] "Fulfilling The Pennsylvania Convention Center's Potential."

[9] This is not meant to imply that each organization's actual budget has grown; one victim of the Great Recession has been state-level support for Tourism Promotion, which was essentially zeroed out by Governor Corbett. We avoid characterizing these entities as "publicly funded" since the Hotel Tax exists exclusively to fund tourism promotion, and the stakeholders in the industry, particularly the hoteliers, have lobbied for its existence and occasional augmentation. Its disposition is determined entirely by a formula enshrined in law.

[10] A similar structure was proposed in a report done by Arthur Anderson in June 2000, "City of Philadelphia Hospitality/Tourism Sales & Marketing Infrastructure Redesign."

alignment of branding, marketing, and resource use. Chicago estimates savings of $1.3 million a year, for example, which have been plowed back into recruitment of international tourists.[11]

In most cities, convention business is the foundation of the hospitality industry, responsible for the plurality of room-nights, particularly weekday room-nights, while leisure tourism fills in the gaps, so to speak. In Philadelphia, however, since the mid-2000s, leisure tourism has driven the market and the convention sector lags well behind. In 1997, about 2.5 convention/group rooms were sold in Center City hotels for every 1 individual leisure room; after ten years of double-digit growth in leisure and barely 1% growth in the convention/group segment, by 2013, there were 1.5 leisure rooms sold for each convention/group room. An estimate of the Return on Investment for the Hotel Tax suggests that the leisure segment returns at least twice as much annually as the convention/group segment.[12] The fact that leisure tourism has outperformed the convention submarket has led some prominent Philadelphians to propose consolidating the two agencies into one.[13] Over the course of our investigation, we have come to believe that this proposal has substantial merit, done strategically.

The Convention Center and Visit Philadelphia have similar overall objectives but utilize very different methods. PHLCVB was created by the Philadelphia Chamber of Commerce in 1941 and is a membership organization. It is the official tourism promotion agency for the City globally and the primary sales and marketing agency for the Pennsylvania Convention Center. PHLCVB's mission is to generate economic impact and job growth by increasing the region's hotel occupancy and hospitality-derived revenues, primarily by booking major conventions.[14] To leverage some of the region's strengths, in the past two decades the PHLCVB created specialized "congresses" with dedicated

---

[11] Chicago Tourism Board, "Planning for Growth in Chicago Tourism," 2011.

[12] Visit Philadelphia, "Hotel Tax ROI for Leisure and Convention/Group Segments," August 2014.

[13] Former Philadelphia Mayor and PA Governor Ed Rendell is the most prominent champion of Visit Philadelphia, which he helped to create, and has argued that VP should expand at the expense of the PHLCVB. See Francis Hilario, "Ed Rendell talks taxes, Wolf and DeSean Jackson," Philadelphia Business Journal, July 21, 2014 (http://www.bizjournals.com/philadelphia/morning_roundup/2014/07/exclusiveed-rendell-talks-taxes-wolf-and-desean.html?page=all).

[14] Philadelphia Convention and Visitors Bureau FY 2013 Annual report

marketing teams, most notably the Life Sciences Congress (PHL-Life), which aims to make Philadelphia a prime destination for biotech meetings. Despite a prime location and facilities that have been upgraded and expanded in the past 20 years, and despite the valiant efforts of the PHLCVB, the PCC has consistently failed to live up to expectations.

Visit Philadelphia's initial incarnation, the Greater Philadelphia Tourism Marketing Corporation, was created at the behest of Mayor Rendell in 1996 to address the City's "woeful failure to promote itself to tourists."[15] VP's mission is to bring independent leisure visitors to Philadelphia from throughout North America, but focused primarily on those within 200 miles. VP aims to increase the number of nights that visitors stay and the number of things they do while they are in the city.[16] Since the launch of its first advertising campaign in 1997, the number of leisure visitors coming for the day or staying the night has been steadily growing, with only two years of declining numbers. A variety of factors have created the leisure tourism boom, including destination marketing. While the audiences the two agencies are seeking to attract are different, their missions distinguishable and the manner which they advertise mutually exclusive from one another, in recent years, there has been a failure to coordinate messaging and brand promotion.

Competition between the two organizations has occasionally turned into more overt and counterproductive tension. Most recently, this occurred when the CVB launched a new marketing campaign, rebranding itself as **PHL**CVB and advancing new slogans, "The PHL Effect" and "PHL: Here for the Making." According to PHLCVB officials, the new campaign was driven by the group's business members and is aimed at rebranding the City to the business and international communities by connecting Philadelphia's historical legacy as the "workshop of the world" with the contemporary burgeoning "makers movement"; it also utilizes the airport's three-letter IATA code, "PHL" as a symbol of global stature. However, Visit Philadelphia had been running its "With Love, Philadelphia" campaign

[15]"Visitor Groups Need Revisiting" Philadelphia Inquirer Editorial, May 20,2014
[16] GPTMC 2014 annual report

since 2009, heavily promoting the City throughout the region. The "With Love" campaign won several major industry awards and was generally considered to be quite successful; a study by Longwoods International assigned a very high ROI to the promotion dollars spent on the campaign.[17] According to several news reports, the launch of the PHL campaign took Visit Philadelphia by surprise and made it seem as if Philadelphia lacked a unified approach to tourism promotion. Thus far no evidence exists to suggest that the dueling slogans have negatively impacted tourism numbers, especially since the target audiences and marketing strategies are quite distinct; nevertheless, the public display of acrimony between the two leading organizations and the ostensible lack of coordination has certainly raised eyebrows locally and has led some to question spending scarce, publicly-authorized money on competing branding efforts.[18]

It is outside the purview of our Office's expertise to perform a rigorous analysis of the impact of either organization's marketing strategy, so we will confine our analysis to trends within the destination marketing industry, how they affect the hospitality sector and the other industries it supports, as well as revenues generated for the City. The overt competition compels us to look beneath surface level phenomena and seek to discover how these agencies, which share the same revenue source, are working toward a common goal, increasing the economic activity in the City. The remainder of this report, then, will analyze the trends and where each agency fits in the market, and will offer recommendations as to how to streamline tourism promotion so that the substantial public and private investments in this critical sector of the economy are maximized and not jeopardized.

[17] In 2010, Visit Philadelphia won the Platinum Adrian Award from Hospitality Sales & Marketing Association International (http://www.phillyadclub.com/gptmc-wins-international-platinum-award-for-with-love-philadelphia-xoxo.html); in 2011 it won a Destiny Award from the U.S. Travel Association (http://www.ustravel.org/member-services/award-programs/destiny-awards/past-winners); Longwoods International, "The power of Destination Marketing: Pure Michigan and Philadelphia With Love case studies," 2011.

[18] Chris Hepp, Philadelphia Inquirer, "Tale of two visitor agencies will likely continue," March 10, 2014 (http://articles.philly.com/2014-03-10/business/48054961_1_new-slogan-meryl-levitz-greater-philadelphia-tourism); Karen Heller, "Philadelphia: Straining for a Slogan," Philadelphia Inquirer, May 1, 2014 (http://articles.philly.com/2014-05-01/news/49526425_1_branding-new-slogan-philadelphia-convention)

HOW WE GOT HERE

Official destination marketing has been around since the early 20th century, but Pennsylvania become actively engaged in the field in the 1980s, in response to successful marketing campaigns by Virginia ("Virginia is For Lovers") and New York City ("the Big Apple," "I Love New York"). Tourism promotion in Pennsylvania had generally been a function undertaken by local Chambers of Commerce, but under Mayor Bill Green in the early 1980s the City began its own marketing campaigns. At the same time, statewide leaders made the case to the Commonwealth that it needed to jump on the tourism bandwagon, leading to the birth of the Tourism Promotion Program. The initial beneficiaries were the Convention and Visitors Bureaus in the Poconos, Philadelphia, and Pittsburgh. The Philadelphia PHLCVB was by far the state's largest Tourism Promotion Agency in this period, led by Thomas Muldoon. Governor Thornburgh became convinced that Philadelphia needed a convention center, and got the Commonwealth to authorize construction in the early 1980s; the project would not come to fruition until the early 1990s, however.

Philadelphia has numerous inherent cultural assets, not the least of which is the historical legacy as the birthplace of the Republic. In addition to its historic significance, it has also been a prime destination as a center of regional commerce. Nevertheless, prior to the 1990s, the number of annual visitors to Philadelphia was stagnant and attendance at significant landmarks had plateaued. During the administration of Mayor Edward G. Rendell (1992-2000), concerted efforts were advanced to change that, and to generally improve the external reputation of Philadelphia. In the wake of severely negative international publicity surrounding the City's 1985 bombing of a West Philadelphia neighborhood and Philadelphia's nationally renowned chronically high rates of violent crime, civic leaders essentially decided to double down on Center City, in part by creating a modern hospitality infrastructure to attract and support arriving visitors.

Located off the beaten path, tucked behind the hospital district in University City, the Philadelphia Civic Center was seen as the antithesis of a modern hospitality infrastructure and was mothballed in 1993, replaced by the new, state-of-the-art, centrally-located Pennsylvania Convention Center. At the same time, the City undertook a major effort to develop South Broad Street into the Avenue of the Arts, along with a dramatic increase in the number and quality of Center City hotel rooms. The initial efforts were geared at increasing the traditional convention business. However, with much of the infrastructure still in the planning stages, in 1996 Mayor Rendell responded to a Pew Report decrying the moribund leisure tourism segment and the apparent unwillingness or inability of the Philadelphia Convention & Visitors Bureau to attract leisure visitors, by creating the Greater Philadelphia Tourism and Marketing Corporation and apportioning to it part of the room occupancy tax.

Rendell understood that to increase the number of visitors, a city must improve itself. Tourist destinations are most robust when the local quality of life is also considered. To improve quality of life, at least in Center City, Rendell turned to the newly created Center City District, which used its authority as a Business Improvement District to raise funds for dedicated streetscape and public safety improvements. At the same time, Rendell worked with City Council to push for a ten-year tax abatement to spur residential construction and with the Philadelphia Industrial Development Corporation (PIDC) to incentivize mixed-use commercial development in the central business district. Prior to these investments, Philadelphia was seen as a 'bridge and tunnel' destination, a place to check off on the list of what one industry professional called the "list of American national tourist obligations" – bring the family to the Liberty Bell and Independence Hall for a few hours, grab a cheese steak, and drive back home. According to the 1995 Pew Report, of the people who spent the night in Philadelphia's hotels, few stayed for more than one night and a mere 12% came for leisure.[19]

[19] Pew Charitable Trusts, "Philadelphia Tourism Assessment Analysis & Recommendations," July 1995.

Pew recommended that a new organization be created to change the perception that the City was both dangerous and dull, worthy of only a few hours on the standard East Coast driving tour of historic sites. In 1995 there were several organizations tasked with attracting visitors but none focused specifically on the leisure segment; visitors generally came to town only to see the popular historic sites. Interestingly, Pew found that very visitors to Philadelphia reported that they had come because others had said great things about the City. As sites like Trip Advisor would make abundantly clear a decade later, the Pew study noted that word-to-mouth and peer-to-peer communications are among the most effective marketing tools: 'I had a great time there, you will too.' Visit Philadelphia, then, seeks to dramatically expand the universe of attractions that visitors could explore in the region, thereby maximizing the amount of time and money spent in the City, and attempted to create marketing platforms that seemed more authentic and grassroots.

This approach seems to have paid major dividends: Since the inception of Visit Philadelphia, all of the numbers related to leisure travel have increased at a faster rate than other visitor types. As is generally the case in assessing the efficacy of marketing, it is hard to say precisely how much of this can be attributed to VP's efforts, but it seems reasonable to conclude that VP's role at the nexus of a set of new initiatives in the late 1990s was significant. At the same time, the opening of the new Convention Center in 1993 was initially a tremendous success. The number of "Citywide" conventions dramatically increased, with the PCC hosting 23 of these in its fourth year open; citywide numbers fluctuated between the upper teens and mid-twenties until 2003.[20] Flush with initial success, City and state leaders made plans to expand the PCC, and by 2007 a major expansion had begun. The significantly expanded PCC opened in 2011; while the number of citywides declined during the expansion, they increased in the

[20] In industry parlance, a "citywide" refers to a major convention attracting more than 5,000 individuals.

following years. However, the PCC has seen 20 citywides only once since 2002. Issues with the performance of the Convention Center have been well documented.[21]

As the City's official tourism agency and primary sales and marketing arm of the Pennsylvania Convention Center Authority (PCCA), the PHLCVB's performance is measured by conventions and hotel rooms booked. Since 2003 the quantity of hotel rooms the PHLCVB has booked has declined; excess capacity has largely been filled by the hotels' own marketing departments, which themselves have grown in response to both the decline in convention business and the increase in leisure business. The drop in PHLCVB-booked rooms along with the projected decline of citywide conventions in future years have been a cause of great concern. The hotel industry depends on major conventions to set the occupancy and room rate floor. Conventions buy rooms years in advance, and when convention hotels are full, business spills over into the other hotels around the City, raising room rates. When convention attendance is low or nonexistent, hotels must rely on their internal sales teams to increase demand. Though this causes more uncertainty, the Center City hotels have done an increasingly solid job of self-promotion; as a measure of this, ever since the Center City hotels began to outsell the PHLCVB, the industry's standard performance metric, Revenue Per Available Room (RevPAR), has increased by almost $40 a night; it had increased less than $30 a night in the previous decade. During the earlier period occupancy had been above 70% for only three years, while after 2003 it dropped below 70% only once.[22]

Aside from weakness in the convention segment, there is cause for concern in the business travel segment as well. Business travel to the City remained almost entirely flat between 1997 and 2013. Over this 14 year period, the number of business visitors staying the night has increased by a mere 700,000, but almost none of that increase can be plausibly attributed to the efforts of the PHLCVB: 344,000 are attributable to hotels' own bookings and 290,000 to individual bookings. In 2013 the

[21] Econsult, "Fulfilling The Pennsylvania Convention Center's Potential."
[22] "Philadelphia: Smart City. Smart Choice for Hotel Development" PIDC 2013

PHLCVB booked 100,000 fewer rooms than in 1997, with the bookings expected to continue to decline.[23] Additionally, business day trips have increased only marginally, up only 100,000 since 1997.

It is in this context and toward the goal of increasing business visitation that the PHLCVB rebranded itself and launched the "PHL: Here for the Making" campaign. This campaign came three years after the award-winning "With Love, Philadelphia" campaign by Visit Philadelphia. While the PHLCVB and VP market to different audiences and are responsible for attracting different types of visitors, some have expressed concern that the agencies and their messages are competing with each other, wasting scarce resources. The City is financially invested in the success of both missions, whether through its continued support of the Convention Center, the number of jobs supported and created, or investment in downtown economic development. In 1995 there was no ceiling to the number of potential visitors the city could receive because of how few leisure visitors were actually coming. Now that the City seems to have developed a strong foundation in leisure tourism, with its national reputation on the upswing, policies ought to reflect the evolution of the sector to ensure continuing growth. Clearly, the major areas for expansion include conventions, business, and global travel, all of which lag peer cities. For example, although Philadelphia has improved its position from 21st, it still ranks only 13th in international tourism, and is the only major East Coast city that fails to attract at least 1 million international visitors a year.[24]

We now turn to an examination of the changing character of visitors coming to Philadelphia and the two agencies which are tasked with attracting them and share in the different parts of the room occupancy tax. How effective they have been in applying the revenue in attracting new and repeat visitors along with connecting visitors to a wide variety of attractions? Our analysis is based on a wide variety of data and interviews with stakeholders along with experts in tourism marketing and the

[23] The difference is comprised of non-Center City bookings and business travelers staying with friends or colleagues.

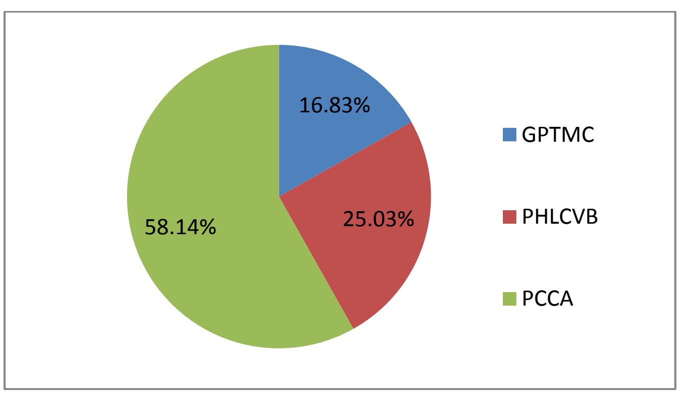
[24] Jane Taylor, "A Report on Philadelphia's International Visitation: Submitted to the Mayors Hospitality Subcommittee for International Visitation," March 19, 2013.

hospitality industry, in order to produce a realistic assessment of the current state of both the leisure and business segments.

Dedicated Revenue Streams from Room Taxes

In addition to the 7% Sales Tax, every hotel room night incurs three dedicated taxes totaling 8.5%: a 6% Hotel Tax; a 1% Tourism Promotion Tax, created in 1999 to fully fund the GPTMC after its initial three-year proof of concept, with full support of the City's hotels; and a 1.5% Hospitality Promotion Tax, increased in 2008 as expansion costs for the convention center continued to rise.[25] The three hospitality taxes are apportioned among three different agencies, the PCCA, the PHLCVB, and Visit Philadelphia. The Hotel Tax is split between the PCCA (4.26%) and the PHLCVB (1.74%), with the stipulation that annual growth in revenue from the Hotel Tax beyond 6% goes to the PCCA. The Tourism Promotion Tax goes entirely to Visit Philadelphia, while the Hospitality Promotion Tax is split between all three, with PCCA getting 0.44% and PHLCVB and VP each receiving 0.53%. In FY 2013 the City collected $49 Million is revenue from the various room occupancy taxes, apportioned per Figure below:[26]

Figure 1: Distribution of Hotel Tax 2013 ($49.1 million)



[25] Visit Philadelphia "15 milestones in 15 years"
[26] City Tax records

In 2010 the Commonwealth, PCCA and the City signed a new operating agreement extending through 2039. Until 2010, hotel tax revenues received by PCCA were dedicated to debt service on the bonds issued by the Commonwealth to build, expand and renovate the convention center; in addition the City supplied a $15 million direct subsidy and an additional $22 million to cover operating deficits.[27] Under the new operating agreement, the hotel tax goes to PCCA to cover expenses and depreciation, and the $15 million subsidy is dedicated to debt service on the bonds.[28] The total cost of the current PCC was roughly $1.3 billion - $523 for initial construction, $786 million for the expansions.[29] The initial construction was funded by bonds, a grant from the Commonwealth, the hotel tax, and an appropriation of $42 million from the City's General Fund.[30] Once the bonds issued by the Commonwealth are retired, the City of Philadelphia will own the convention center.

Two Destination Marketing Agencies

As a result of particular historical circumstances, Philadelphia finds itself with two agencies designed to attract visitors and promote the city, the PHLCVB and VP. The two agencies are tasked with attracting different segments of the market. However as the type of visitor and marketing that attracts those visitors evolves to reflect a more technologically sophisticated consumer, the two agencies have taken distinct approaches to branding the City that may or may not complement each other.

The PHLCVB is the primary tourism agency for the City of Philadelphia globally and the primary sales and marketing agency for the Pennsylvania Convention Center. It is a membership organization with over 800 dues-paying businesses, including the hotel industry. Inside the PHLCVB there are three

---

[27] This had been closer to $33 million before the old bond was rolled into the new bonds and retired; "Labor Issues heat up again at Convention Center" Marcia Gelbart. Philadelphia Inquirer September 2010; City Council Bill 070994-A, Signed 12/21/07

[28] Operating Agreement by and among between the City of Philadelphia, Convention Authority and Commonwealth; Dated and Effective April 20, 2010

[29] 2013 PCCA financial Statements

[30] Bond issue $277 million; City of Philadelphia, $42million; Commonwealth of Pennsylvania Grant, $185 million; Hotel tax revenues, $19million. From 2013 PCCA financial Statements.

divisions that work closely with PCCA to market, plan, and operate conventions. Also, there are three congresses which seek to attract specific types of events and conventions, the Life Science Congress, the Multicultural Congress, and the Sports Congress. These congresses are widely considered to be innovative. There is also a division dedicated to tourism promotion, primarily geared toward marketing the City to international visitors along with domestic group visitors.[31]

In FY 2013 PHLCVB's revenues totaled $17.3 million: $12.4 million from the room occupancy taxes, $1 million in corporate sponsorships, and an appropriation from the City of Philadelphia. Its expenses totaled $16.9 million: $10 million was spent on convention sales and the congresses, and other large budget items were communications, tourism, general administration, and international sales. As a sales and marketing entity 93% of PHLCVB's expenditures were devoted to promoting, marketing, and selling Philadelphia.[32]

In 2013 PHLCVB had a total of 57 full time employees receiving over $5.69 million in wages and compensation. Sixteen employees earned over $100,000 in 2013. The PHLCVB spent more than $2 million on outside contracts for advertising, rent, internet, and lodging; $3.3 million was spent on advertising and promotion and $1.15 million on conferences, conventions and meetings.[33] In early 2013 the PCVB rebranded itself the **PHL**CVB, at the same time as it launched a major campaign to identify the airport's three-letter code, "PHL," with the City, ostensibly in much the same way that many younger Atlantans have come to call their city "The ATL." Since 2013, the PHL mark has been heavily promoted by City officials and business leaders, and it is rare to see the lapel of a civic leader's jacket without a PHL pin. Interestingly, the PHLCVB declined to trademark the symbol or its new marketing tag lines, "The PHL Effect" and "PHL: Here for the Making," making it an 'open source' set of tools available to any local business or group. According to PHLCVB marketing officials, a major trend in travel is buying local

[31] Philadelphia Convention & Visitors Bureau FY13 Annual Report+ FY14 Business Plan

[32] PHLCVB 2013 Annual Report

[33] Staffing figure was derived from counting the staff listed on the PHLCVB's website, verified by PHLCVB CFO Wanda Paul; other revenue and expenditure data from the PHLCVB's 2013 IRS Form 990

products, and so the thrust of the “Here for the Making” campaign attempts to connect Philadelphia’s growing “maker movement” with the City’s Franklinesque history as the birthplace of the nation’s “start-up” culture.[34] Initial reaction to the PHLCVB campaign was mixed at best.[35]

Visit Philadelphia was created as the Greater Philadelphia Tourism and Marketing Corporation in 1996, in the wake of a study by the tourism strategy consulting firm Parter International, commissioned by the Pew Charitable Trusts, which found that Philadelphia’s tourism industry was performing well below its potential. The Parter report concluded that much of the underperformance could be explained by the fact that existing tourism promotion agencies had focused exclusively on attracting visitors for convention and business and had ignored marketing for extended stay vacationers.[36] This image of the City as a leisure destination was weak, and this manifested itself in all areas of visitor attraction, including trade travel. In short, many leisure travelers were coming to the City but would not stay overnight, perceiving Philadelphia as a City only worth a few hours of their leisure time and a small proportion of their leisure dollars. The new organization was created to attract more leisure visitors to the City, and once they arrived, to get them to stay longer.

In FY 2012 Visit Philadelphia’s revenues totaled $11.2 million dollars: $8.2 million from the room occupancy tax, the bulk of the remainder from joint marketing revenues and grants and contributions.[37] Visit Philadelphia had $11.3 million dollars in expenditures: wages and compensation of $4 million for 50 fulltime employees, $1.5 million for information technology, $600,000 for advertising and promotion. It spent $6.5 million on advertising, $2.8 million and public relations and $0.3 million on research. Management and general expenses cost $1.3 million and development $0.4 million. It had six employees earning over $100,000. VP has its own in-house research, advertising, and public relations

[34] Philadelphia Convention & Visitors Bureau FY12 Annual Report+ FY13 Business Plan. Interview with senior PHLCVB staff, 8/7/2014.

[35] Hepp, “Tale of two visitor agencies”; Heller, “Philadelphia: Straining for a Slogan.”

[36] Philadelphia Tourism Assessment Analysis & Recommendations, July 1995.

[37] $1.0 and $1.3 million respectively; GPTMC 2012 990.

units. It paid $3.5 million in outside contracts for media buying, advertising and consultants, as well as a representative to the American Automobile Association.[38]

Created as a response to the Parter report, which urged Philadelphia to create a cohesive consistent message promoting itself, VP has run several multi-year ad campaigns since its inception. After a year of market research, the kickoff campaign in 1997 drew upon Philadelphia's inherited advantages as the birthplace of the Republic. As tourism in the City evolved so too did the ways in which VP promoted the City and the ways it interacted with potential visitors as well as residents. VP's campaigns have tended to evoke play, fun, and romance, perhaps subtly drawing upon Philadelphia's unofficial slogan as the "City of Brotherly Love." In 2001-02 VP launched "Philly is more fun when you sleep over," in coordination with the Art Museum and other major cultural institutions. In 2007, VP took a major leap into social media, launching the uwishunu® campaign, at the core of which was a blog called uwishunu.com. The site aimed to build a "reputation as an authoritative and trusted source for people looking for insider information about Philly's newest and best experiences." In 2010 uwishunu's blog attracted 1 million hits and in 2011 achieved the 2 million mark, largely by providing a real-time stream of 'happenings' from every corner of the City's burgeoning arts, culture, and 'foodie' scenes. More recently, following the lead of other markets such as Boston and Florida, the organization rebranded itself as Visit Philadelphia in 2009, as the "With Love" campaign.[39]

Visitor Growth

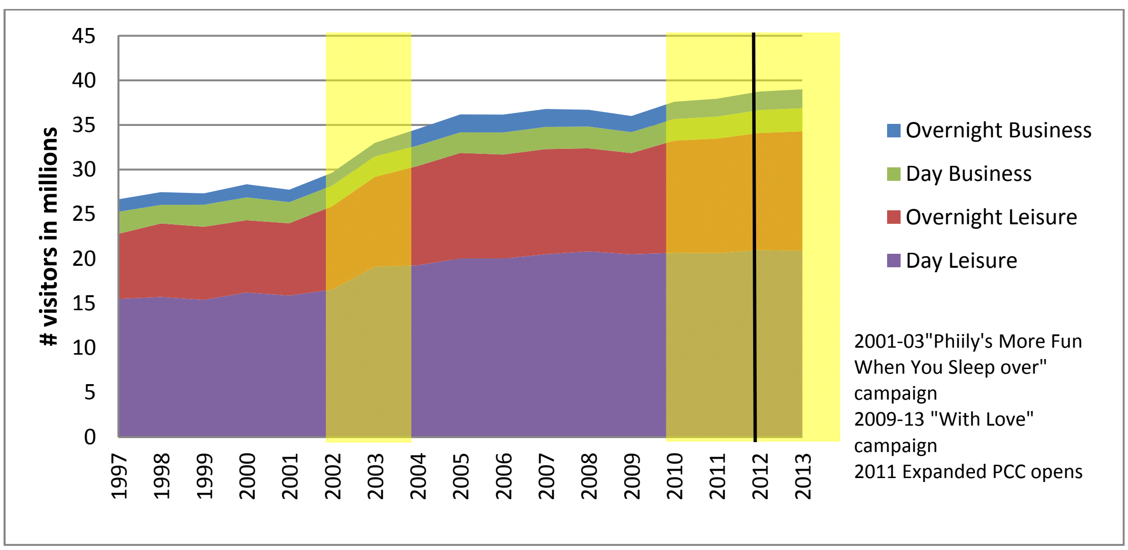
Since 1993, Philadelphia has experienced explosive growth in the number of visitors to the City and the region. The aggregate growth is impressive, but the mix of visitors that are choosing to come to the City has also changed dramatically. In short, more visitors are coming and they are staying longer,

[38] Information provided by GPTMC during interview with senior staff on 8/5/14

[39] "Visit Philadelphia" 2014 Annual Report; "uwishunu.com, Philly's Insider Blog, Launches "Philly 101" Video Series," March 15, 2012, Philadelphia Business Journal (http://www.bizjournals.com/prnewswire/press_releases/2012/03/15/PH71172).

doing more while they are here, and spending more money. In 1995 the average visitor was a day-tripper who spent just three hours in Philadelphia; overnight visitors spent less than two days in the City, 43 hours on average.[40] By contrast in 2013 the average overnight visitor spent three days in town. In 1993 Center City had just 1.3 million room nights booked; in 2013 that figure had more than doubled to just under 3 million. Total visits to the region climbed from 26.7 million to 39 million. As shown in Figure 2 below, growth was driven by overnight leisure visitors – soaring 84%, from 7.3 million in 1993 to 13.4 million in 2013. Important for the local economy, visitors who come to the region in recent years spend considerably more money than they once did. According to an analysis of the return on investment from Philadelphia's destination marketing spending done by Longwoods International, much of this increase in spending can be attributed to marketing campaigns like "Philly's more fun when you sleep over" and blogs like uwishunu that steer visitors to 'cool' local restaurants and events. Longwoods estimated that visitor spending per advertising dollar increased from $55 in 1997 to $116 in 2002.[41]

Figure 2: Visitors by type to Greater Philadelphia



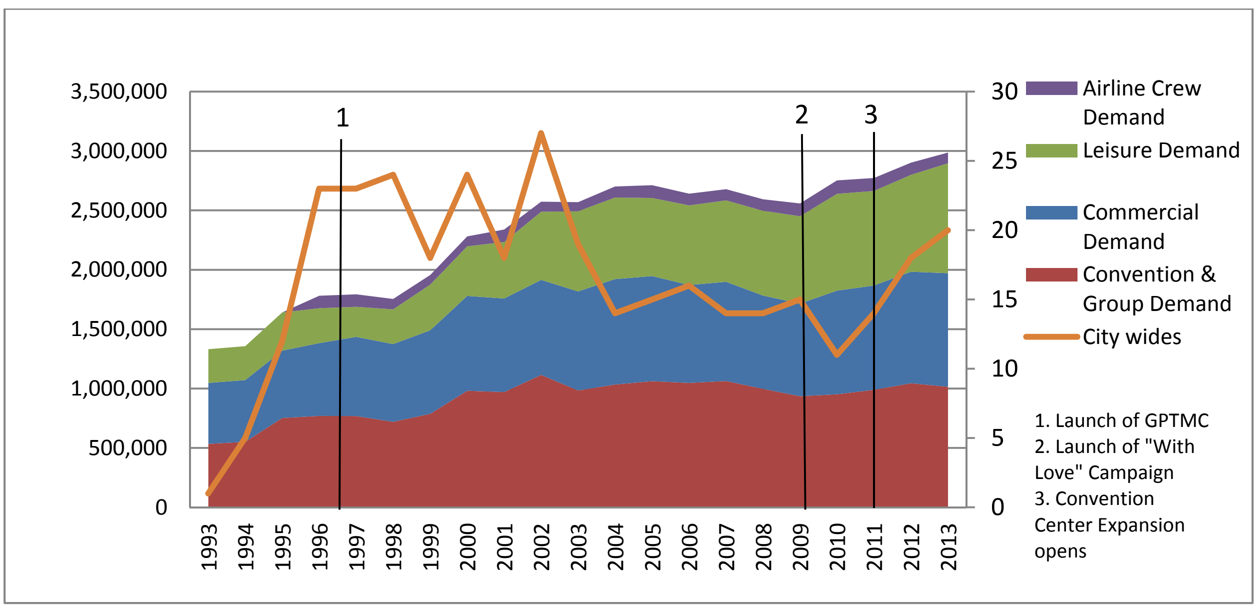
[40] Pew, "Philadelphia Tourism Assessment Analysis & Recommendations."

[41] "The power of Destination Marketing: Pure Michigan" and Philadelphia With Love case studies," Longwoods International, 2011

Since 1997, when tracking of regional visitor data began, the number of leisure visitors arriving into the region has consistently increased, while the number of visitors coming for business purposes has remained relatively flat.[42] As the figure above demonstrates, two of the most significant spikes in leisure visits occurred in the periods 2001-03 and 2009-13, corresponding to major VP advertising campaigns.

As depicted in Figure 3 (below), the number of Center City hotel bookings has more than doubled since 1993, from 1.3 million annual room nights to nearly 3 million in 2013. Interestingly, after a relatively small decline in the first year of the Great Recession of 2008-11, room bookings spiked upward after 2009 – again, in the wake of VP's "With Love, Philadelphia" campaign.[43] According to the Longwoods report, that upsurge in visitation led to additional spending of $432 million, increased leisure hotel nights in Center City by 10%, and generated an additional $22 million in local tax revenues.[44]

Figure 3: Center City Hotel Bookings



[42] The Parter report also noted that, aside from hotel room nights, there was no data being tracked about visitors coming to Philadelphia.

[43] Visit California cites the "With Love, Philadelphia" campaign as a success and a reason to invest in marketing; "Visit California's Strategic Visit Business Plan 2011-2016"

[44] Longwoods, "The power of Destination Marketing."

The Economic Impact of Visitors to Philadelphia

Visitors arriving to Philadelphia have a substantial economic impact on the city and region; the longer a visitor stays the larger the impact. The driving principle behind the "retail" segment of destination marketing is to educate the visitor about additional experiences that could lengthen the visit. With the increasing number of visitors and their increasing propensity to extend their stays, the number of hospitality and leisure employees has increased commensurately. In fact, from 2001 through 2013 employment in hospitality and leisure, the second largest sector of the City of Philadelphia's economy, increased by nearly 7,000 jobs; during this period only three other sectors increased employment in Philadelphia. It is estimated that visitors who stay in hotels spend $567 million per year along with $735 million spent by the hotels themselves. This combined expenditure supports 19,000 jobs per year.[45]

Beyond the jobs supported by direct expenditures, indirect expenditures resulting from visitors coming to the Greater Philadelphia region support more than 90,000 jobs, with an aggregate payroll of $3.05 billion. The spending inside the Philadelphia region generated $636 million in state and local taxes. Of course, these indirect expenditures are not a product of visitors alone; construction projects for hotels, museums, and streets are major public works projects that have shaped both the economy and the geography of the city.[46] For example, the planned headquarters hotel at 1441 Chestnut Street is projected to create 1,800 construction jobs over a three-year period, paying $31.8 million in wages and $1.3 million in wage taxes.[47] Combined with the City's largest industry, the relatively recession-proof education and healthcare ("eds-and-meds") sector, the strong performance of hospitality in the mid and late-2000s helps to explain the Philadelphia economy's better-than-anticipated performance during and

[45] Bureau of Labor Statistics; Econsult, "Fulfilling The Pennsylvania Convention Center's Potential Will Mean Billions in Economic Activity and Thousands of Jobs for the Common Wealth of Pennsylvania," May 2014.

[46] Visit Philadelphia 2014 Annual Report

[47] PIDC, "Economic Analysis of W Hotel," 2013

after the Great Recession. In sum, the very strong growth in leisure tourism has almost certainly had a significant impact on Philadelphia's economy in the past decade.

The Hotel Market

When Philadelphia began concerted efforts to attract and support visitors in the early 1990s, the City lacked the requisite hotel inventory. In 1993 there were just 5,613 hotel rooms in Center City – fewer than Little Rock, Arkansas, as economic development officials were wont to note – with a nightly occupancy rate of 65% and average nightly room rates of $91. Not only was there a lack of inventory in general, but the existing hotel stock was of mediocre quality, without a single national flag in the market. The City has been quite intentional in changing this, with the Marriott beginning the expansion opening in 1995. Mayor Rendell established a goal of 10,000 rooms in Center City by 2000; by 2001, there were 10,654 rooms in Center City, under many national flags.[48] Since 2001, hotel inventory has grown another 10% or so, and currently there are about 11,500 rooms; Mayor Michael Nutter has set a goal of 12,110 rooms by FY16.[49] It has been, essentially, a case of 'build it and they will come': despite protests by some hotel operators that the market has gone from scarcity to glut, except for 2009, the nightly occupancy rate in Center City has remained above 70% since 2004. By the RevPAR metric, the Center City hotel market is generally doing quite well, as shown in Figure 4 below.[50]

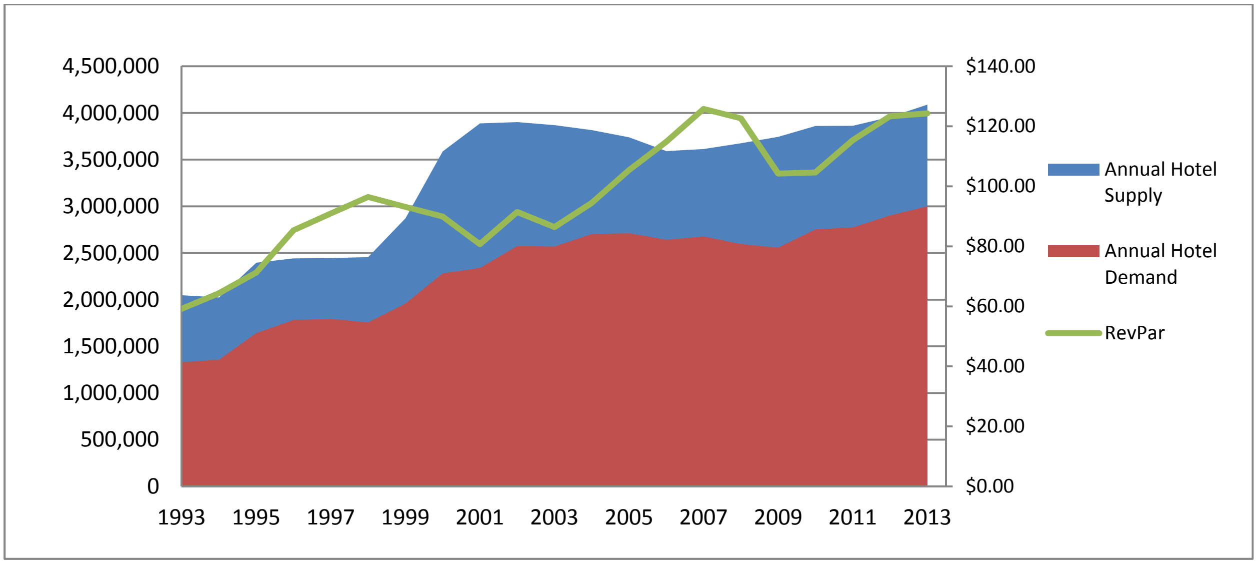
---

[48] "Marriott Considers Expansion to City Hall Annex the Firms is Already Looking at the Reading Terminal Headhouse. It could wind up with Three Hotels in Prime Center City Locations" Philadelphia Inquirer January 14, 1997; "Philadelphia: Smart City. Smart Choice for Hotel Development" PIDC 2013.

[49] The number of rooms fluctuates as hotels take some rooms out of commission for renovations. Mayor's 5-Year Plan, FY 2015-19.

[50] Figures on occupancy and RevPAR are from PKF Consulting, "Overall Center City Philadelphia Lodging Market," report for Greater Philadelphia Hotel Assn, March 30, 2013.

Figure 4: Annual Hotel Supply and Demand in Center City Compared to RevPAR

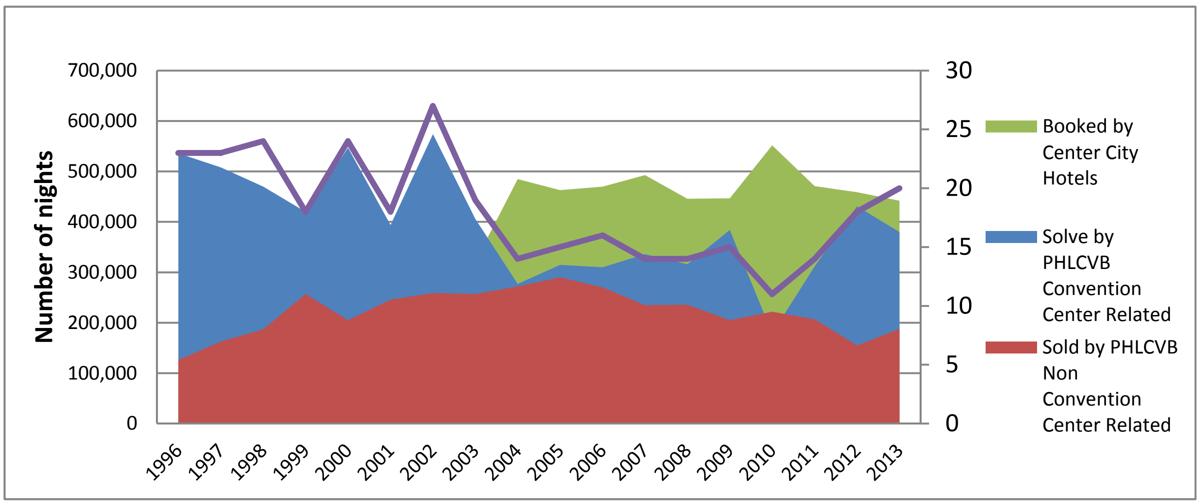


Because they are typically planned at least 5 years in advance and because they provide a guaranteed number of occupied rooms, convention bookings provide predictability to hoteliers and represent the most stable demand segment. There are three convention hotels in Center City, the Marriott with 1,408 rooms, the Sheraton with 757 rooms and the Loews with 581 rooms.[51] Each citywide convention essentially fills these hotels and any overflow, along with visitors in other market segments, gets pushed to other hotels. Increased demand and diminished supply allow non-convention hotels to increase nightly rates. Conversely, without major conventions, it is left to the hotels themselves to fill their rooms. While conventions typically lock in somewhat lower group room rates, they also lock in guaranteed demand; with convention demand falling, there is greater supply and less stable demand. In years where convention demand has been strong, such as 2007 and 2012, average room rates have been commensurately high, particularly on weeknights, which are typically nights for less price-sensitive commercial demand; in years with weak convention demand, rates have generally been lower. Interestingly, Saturday nights, typically dominated by leisure travelers, saw the highest

[51] "Philadelphia: Smart City. Smart Choice for Hotel Development" PDIC 2013

levels of occupancy from 2007-12, ahead of the heavily commercial and convention nights of Tuesday and Wednesday. Consequently, as a 2013 report by PKF Consulting done for the Greater Philadelphia Hotel Association notes, the margin between weekday and more price-sensitive weekend average room rates has been closing,[52] suggesting that increasing demand in the leisure segment has been picking up much of the slack from lackluster convention bookings and business travel.

Figure 5: Convention Hotel Nights Booked by Organization



Major national hotel chains generally have their own sales and marketing departments, and as the presence of these national flags has grown in Philadelphia, it is not terribly surprising that in the face of uncertain or stagnant convention and business demand, the number of rooms booked by the hotels themselves would grow; in 2003 Center City hotels booked as many rooms as PHLCVB for the first time. Since that time a majority of the hotel rooms in Center City generally have been booked by the hotels themselves and both occupancy rates and nightly rates have increased. The number of rooms booked by PHLCVB is down by roughly 100,000 since 1993, while Center City hotel bookings are up 344,000.[53]

---

52 PKF Consulting, "Overall Center City Philadelphia Lodging Market."

53 "Philadelphia: Smart City. Smart Choice for Hotel Development" PDIC 2013; "State of Center City 2014" Center City District & Central Philadelphia Development Corporation, 2014

Return on Investment

As Figure 6 below demonstrates, in 2003 leisure demand outstripped convention demand for Center City hotel rooms. As Figure 7 below demonstrates, the vast bulk of growth in Center City hotel demand since 2000 has come from the leisure sector. Since 2000 leisure tourism has accounted for 508,280 of the 706,000 or 72% of the demand increase for Center City hotel rooms. Leisure tourism increased from 18% of Center City hotel nights in 2000 to 31% in 2013. As Figure 8 demonstrates, from the vantage point of 1993-96, this was a somewhat unpredictable turn of events. The trend line from 1993-96 demonstrated flat, even negative growth in leisure demand, despite generally favorable national economic conditions during the “dot-com” boom. This fact led Mayor Rendell, among others, to characterize Philadelphia’s leisure tourism promotion efforts as a “woeful failure” and to commission a study – the Parter Report – that would recommend the creation of a new agency devoted solely to this function.

In the 17 years from the inception of Visit Philadelphia in 1996 through 2013, leisure demand grew at a rapid clip. Our regression analysis suggests that it is plausible to attribute an additional 36,662 room nights per year to the efforts of Visit Philadelphia. Over 17 years, this adds up to 623,524 additional room nights in 2013 than would have existed based on the 1993-96 trend line; in other words, we attribute roughly 67% of the 926,280 Center City leisure room nights booked in 2013 to Visit Philadelphia’s efforts. According to the US Travel Association, a leisure tourist’s economic impact is estimated at $908 per room night, yielding an economic impact for Visit Philadelphia of $564 million. Since VP received $8.2 million from the Hotel Tax in 2013, its Return on Investment was roughly $69 per tax dollar.

The trend lines for the PHLCVB-booked convention segment of the Philadelphia market show much slower and more uneven growth. In 2013 PHLCVB booked 568,000 room nights for conventions and groups. According to PHLCVB’s 2013 annual report, a convention visitor’s economic impact per room night is $1,600, yielding a total convention economic impact for 2013 of $909 million. Since PHLCVB received $12.4 million in revenue from the Hotel Tax in 2013, its Return on Investment was roughly $73 per tax dollar.

Figure 6: Center City Hotel Night Bookings

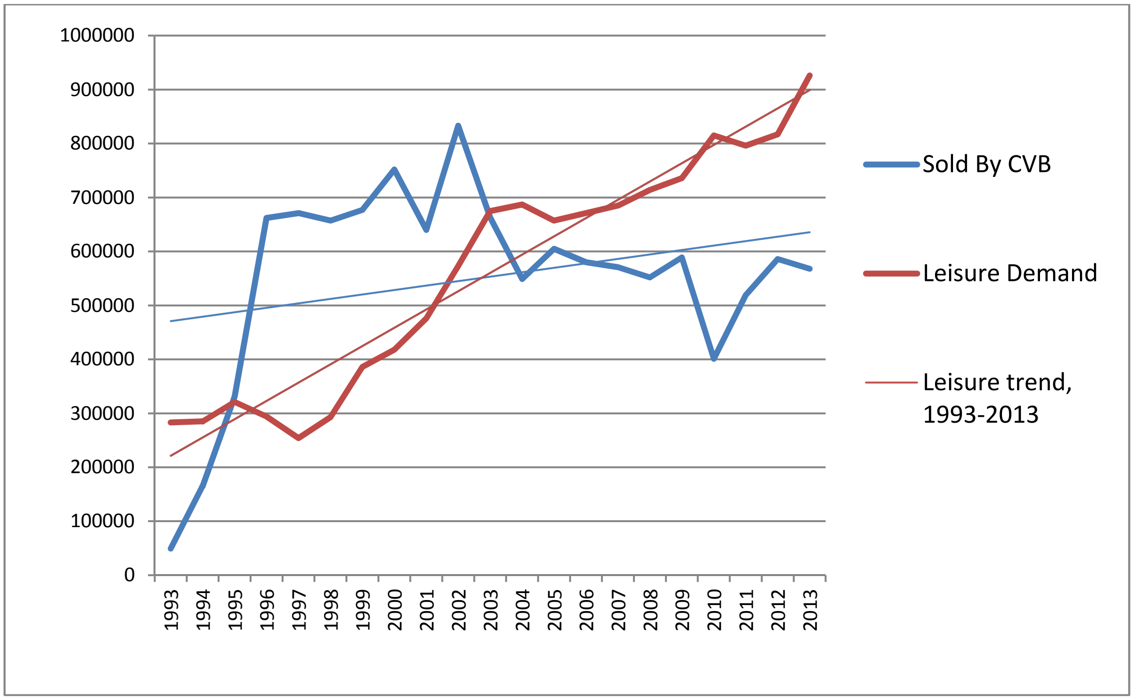


Figure 7: Share of Growth of Center City Room Nights by Category since 2000

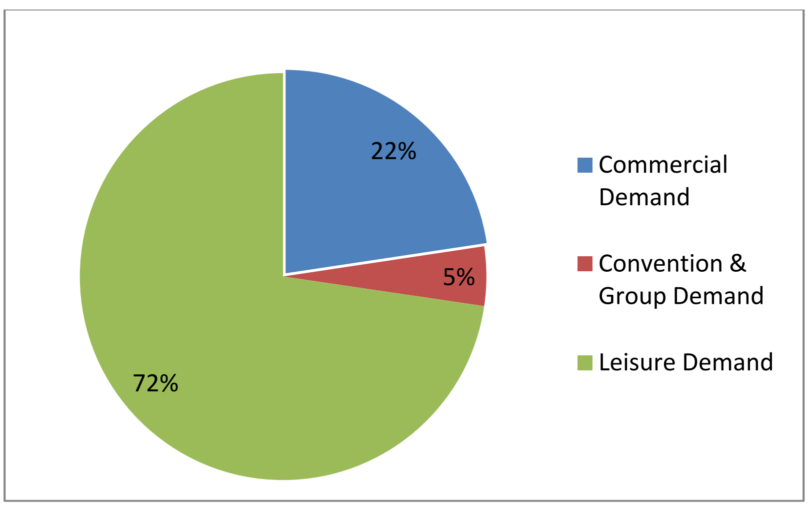
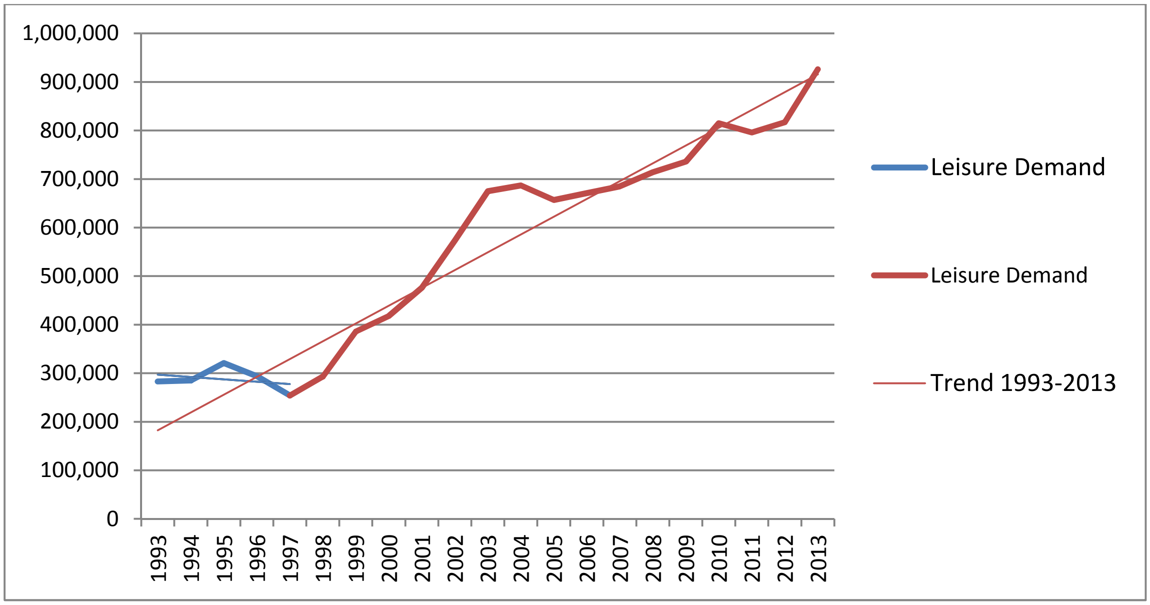


Figure 8: Center City Leisure Demand Pre and Post-Visit Philadelphia's Creation



The Pennsylvania Convention Center's Impact on the Hotel Market

In 1993 the Pennsylvania Convention Center opened in the heart of Center City as a cornerstone of downtown revitalization. In its opening years it was heralded as a huge success, booking a significant number of citywide conventions in its 'honeymoon' period. Despite the PCC's excellent physical plant and desirable location, the convention rebooking rate was subpar. Since its banner year in 2002, when there were 27 citywide conventions, the PCC has averaged 15 citywides a year, reaching a low of 11 in 2010. According to a recent performance audit, the rebooking rate is 47%, below most peer cities.[54]

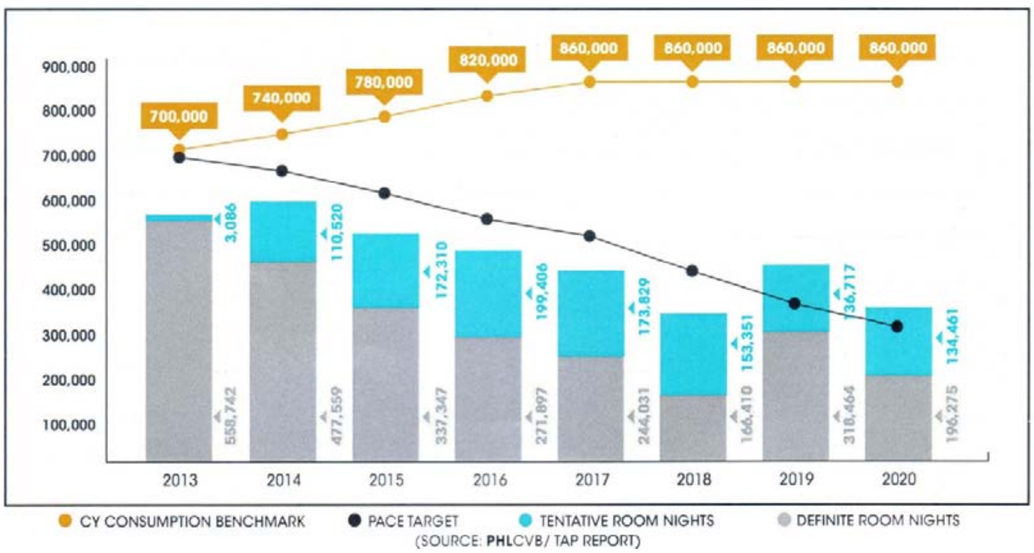
A 2014 report prepared by Econsult for the Greater Philadelphia Hotel Association estimated that the PCC's underperformance compared with projections cost the City over $900 million in economic impact and 2,000 jobs between 2009 and 2012.[55] While the PCC achieved 20 citywide bookings in 2013, the number of definite citywide bookings is on a downward trajectory thereafter: as of February 2013,

[54] PFM Consulting, "Pennsylvania Convention Center Authority, Performance Audit: Final Report," March 2013.

[55] Econsult, "Fulfilling The Pennsylvania Convention Center's Potential."

just 11 citywides are booked for 2015 and 2017, and 8 each for 2016 and 2018; assuming a 40% conversion rate for the tentative bookings, it is unlikely that the PCC will crack 15 citywides through 2019.[56] PHLCVB has set a goal of 860,000 room-nights and a pace for booking convention room nights each year through 2020. As of now they have only met the pace mark in 2019 and 2020 if tentative rooms are combined with definite room nights. In all other years, the room nights are well behind the required pace to meet the set goal, as shown in Figure 9 below.

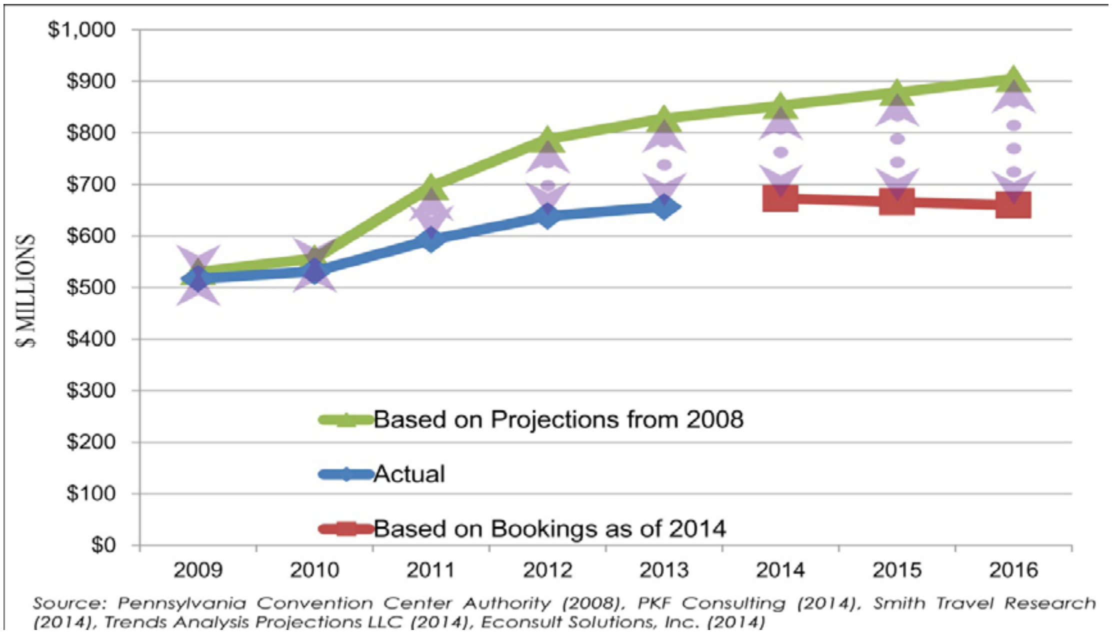
Figure 9: PHLCVB Goal and Pace Report



The lack of definite convention bookings has a negative economic impact going into the future as well. In 2008 PCCA projected that hotel room revenues would increase from $531 million in 2009 to $788 million in 2012 to $903 million in 2016. However projections have not come to fruition: the growth from 2009 to 2012 went from $517 million to $639 million, while 2016 projections have been revised downward to $660 million.[57]

[56] Ferrick, "PA Convention Center in Financial Trouble"; PKF Consulting, "Overall Center City Philadelphia Lodging Market."
[57] Econsult, "Fulfilling The Pennsylvania Convention Center's Potential."

Figure 10: Economic Impact Projections Compared to Actual



However, due to a recently re-negotiated Customer Satisfaction Agreement between the new private management company at the Convention Center, SMG, and its stakeholder unions, PCC work rules and costs are now in line with competitor convention centers such as Chicago and Boston. In a sign that the new CSA is having the desired impact on bookings, several organizations that had reportedly sworn off the PCC forever decided to give Philadelphia another chance.[58] The significance of the new CSA has been noted in the trade press, helping to stoke the all-important positive 'buzz' in the tight world of convention managers, exhibitors, and planners. Though only time will tell, the combination of strong management working with the enlightened leadership of the stakeholder unions and a supportive PCCA bodes well for the future of the PCC. Philadelphia's economy stands to gain significantly, with a reinvigorated convention segment supplementing a strong leisure tourism segment to drive hotel bookings to new heights, in turn providing numerous indirect economic benefits.

[58] Jane von Bergen, "Changes at PCC are luring groups back to the city," Philadelphia Inquirer, August 21, 2014 (http://www.philly.com/philly/business/labor_and_unions/20140821_Changes_at_PCC_are_luring_groups_back_to_the_city.html).

The Critical Role of Mayoral Leadership

In August of 1994, Mayor Rendell issued executive order 3-94 creating the Mayor's Hospitality Cabinet. Its premise: "notwithstanding the high quality of the current tourism/hospitality product produced by the plethora of departments and agencies involved in this activity, there is a need for better coordination among those departments and agencies." Composed of about 25 members drawn from City government, the Convention Center Authority, the PHLCVB, and a variety of other economic development and cultural promotion entities, Rendell gave it this charge: "Recommend to the Mayor a long-term structure for the coordination of efforts by the City of Philadelphia to develop and promote a quality hospitality/tourism product." Convened and managed by Rendell's Chief of Staff David L. Cohen, it was by most accounts a very effective body. According to one industry leader interviewed for this report, the Rendell Hospitality Cabinet met frequently, holding regular subcommittee and special event meetings as well. It kept stakeholders focused on "big event wooing and planning."

Under Rendell's successor, John F. Street, the cabinet was not used as aggressively at first; nevertheless, it helped to prod Philadelphia's tourism sector to adopt modern communications technology and enter the nascent world of social media. The Street administration appropriated $5 million to support the creation of the pioneering Uwishunu blog by Visit Philadelphia. Additionally, Visit Philadelphia's website, visitphilly.com, became the City's visitor website, linked directly to the City's homepage at www.phila.gov.

At its best, in a City with a destination marketing sector that is notoriously divided, mayoral leadership is critical. According to industry leaders, mayoral leadership expressed through a well-functioning Cabinet is of paramount importance when there is a need to finance, execute, or assess projects that are beyond the scope of any single organization's mission or capacity – such as an Olympic bid, a national convention like the RNC or DNC, a visit by the Pope or other major dignitary, and so forth. The Cabinet has also been incredibly useful for conducting industry-wide research – like the Parter

Report – that cuts across organizational boundaries, for establishing relationships and camaraderie among industry leaders, and developing funding mechanisms for the industry that are not zero-sum. It is also a mechanism for connecting with services that are essential to a good visitor experience, such as transit agencies, the taxi industry, the Sanitation Department, agencies that deal with the homeless, the Police Department.

By most accounts, Mayor Nutter's attempt to refashion the Cabinet into the Mayors Hospitality Advisory Board via Executive Order 10-11 was well-intentioned but ineffectual. Nutter attempted to shrink the size of the Cabinet and restructured it to include a near-equal number of industry leaders and administration officials. According to some industry professionals, personality conflicts and inter-organizational squabbles hampered the Advisory Board's ability to solve collective action problems. It has also met infrequently, less than half a dozen times over the course of the past 7 years, according to key participants.[59] Since the creation of Visit Philadelphia, each mayor seems to have favored one or the other organization. What has been lacking, generally speaking, has been a "referee," in the words of a hospitality leader. Without strong, strategic leadership focused on the good of the sector as a whole, Philadelphia's hospitality sector has not yet achieved its potential.

Conclusion: Planned, Strategic, Gradual Consolidation

The art of attracting and growing the number of visitors to a potential tourist destination does not rely solely on traditional advertising. Research suggests that most visitors, particularly in the leisure segment, choose their destinations based on recommendations or word of mouth.[60] This does not mean that advertising is a waste of money: research has also shown that sharp reductions in advertising spending are significantly related to decreases in visitor numbers.[61] But advertising needs to play a

[59] Notes from interviews with Jack Ferguson and Meryl Levitz.
[60] Travelsat, 2011; Pew, "Philadelphia Tourism Assessment."
[61] Longwoods International, "What happens When you Stop Marketing: The Rise and Fall of Colorado Tourism," 2009.

specific role: It ought to help the prospective visitor draw connections from major attractions to other, more ‘boutique’ and unusual experiences. Trends in destination marketing all point to an increasing affinity on the part of travelers for ‘authentic’ and ‘local’ experiences. Marketing campaigns and tools that facilitate these connections allow prospective visitors to seek additional experiences beyond those visited by the stereotypical ‘tourist.’ This is, in fact, how visitors come to extend their stay, turning a day trip into an overnight, and an overnight into multiple nights.[62] This has been Visit Philadelphia’s particular strength.

In an era characterized by resource scarcity, we need to ask whether it makes sense to have two virtually co-equal agencies promoting this critical sector of our economy. We have seen a lack of collaboration and coordination between Visit Philadelphia and PHLCVB. For example, a convention attendee utilizing the PHLCVB’s website would be hard pressed to discover Visit Philly’s uwishunu blog or its website in general. By the same token, a leisure tourist on VP’s site has to scroll to the bottom right corner of the home page and choose the “Convention and Meeting Planners” link to access the PHLCVB’s site. Visitors to both websites would be excused for their confusion about who is really in charge, since the PHLCVB’s discoverphl.org bills itself as “Philadelphia’s official global convention and visitors site” while VP’s visitphilly.com claims to be the “official visitor and travel site.” There is nothing to be gained by this lack of coordination.

In sum, while the sector as a whole could probably continue to make incremental gains with a few marginal changes in Philadelphia’s destination marketing infrastructure, we believe the incredible economic importance of this sector along with the evidence presented herein suggest a more structural solution. After two decades of concerted effort on the part of civic, business, and labor leaders, Philadelphia is finally poised to achieve its potential in the hospitality sector. Assuming the recent changes at the Convention Center represent the beginning of a new paradigm, the convention segment

[62] Jason Stienmetz and Daniel Fesenmaier, “Assessing the Economic Value of Tourism Attractions: Using a Network Approach,” 2013.

may finally begin to pull its weight and join the booming leisure segment. The fragile potential of this moment makes ‘getting it right’ ever more urgent.

We believe it is time to begin the process of consolidating all tourism promotion and destination marketing under one roof, to achieve the economies of scale that such a combination would bring, freeing up millions of dollars for the core mission. It is beyond the scope of this report to detail specific changes; nevertheless, the combined budget and payroll of Visit Philadelphia and the Philadelphia Convention & Visitors Bureau is considerably larger than peer cities, especially adjusted for population. The two organizations combined employ about 120 people, with total compensation averaging close to $85,000; each occupies office space in a Class A building in Center City, spends money on information technology, contracted out services, and office and administrative expenses. We estimate that consolidation would create at least $1 million in annual, savings, all of which could be spent directly on promotion. Additionally, without intra-market competition, philanthropic funders could more efficiently devote resources to the sector.[63]

Therefore, in addition to carefully monitoring the implementation of the new Customer Satisfaction Agreement, we recommend that the Mayor pull together a small team of key players from the industry and develop a strategic plan to create a single destination marketing organization, along the lines of what has been achieved in recent years in New York City, Chicago, and Houston. These cities have seen greater coordination, alignment of branding, marketing, and resource use.[64] The general outlines of this new organization are clear: two general divisions, a “retail” side run by the proven, internationally recognized creative talent of Visit Philadelphia in the leisure tourism segment and a “wholesale” side run by the experienced convention marketing team from the Convention & Visitors

[63] These estimates are derived from both organization’s annual reports and IRS Form 990 filings. Chicago expects to save $2 million annually from consolidation.

[64] Chicago Tourism Board, “Planning for Growth in Chicago Tourism,” 2011; Office of the Mayor of Chicago, Press Release, February 1, 2012. Chicago estimates that consolidation saves $1.3 million a year, funds which are re-invested in promoting international tourism.

Bureau. Given Visit Philadelphia's far stronger track record in converting day-tripping visitors into overnight guests, the international leisure segment should be folded into the retail side. All convention center marketing, including shorter-term bookings, should be handled by the wholesale side of the shop, while responsibility for converting convention attendees into leisure tourists should reside on the retail side. A compact and efficient Board composed of no more than 15 members, drawn from the hospitality industry and key partners, must be created to maintain strategic focus. A global search should be held to find the best possible CEO for the new organization, someone with a national reputation and experience in both the retail and wholesale sides of the industry. Strong mayoral leadership will be critical to the success of the enterprise. The mayor or a key cabinet-level official, such as the Deputy Mayor for Economic Development, should take personal responsibility for this critical sector of the local economy and should attend all Board meetings. This new Board would make the Mayors Hospitality Advisory Cabinet redundant, so it should be dissolved.

Consistent messaging from a unified tourism sector will almost certainly produce a more coherent brand ID for the City. Economies of scale will create new resources to be spent on destination marketing in traditionally weak segments, such as business and international. Partnerships with our vibrant educational and healthcare institutions, as well as major City-based corporations with national and global should be deepened or created to bolster the business and international segments. With near- and medium-term leadership changes in both organizations, as well as in City Hall, the time is right for intelligent succession planning toward a restructuring that will more efficiently utilize the resources generated by the Hotel Tax and maximize the potential of Philadelphia's critical hospitality sector.

Acknowledgments

City Controller's Office Contact

Bill Rubin, First Deputy City Controller, (215) 686-6696, bill.rubin@phila.gov

Staff Acknowledgements

Jeffrey Hornstein, Ph.D., Director of Financial and Policy Analysis was the project manager for this report; Policy Analyst Lief Erickson did most of the research and statistical analysis.

Additional Acknowledgements

The Controller's Office wishes to thank the staff at the Philadelphia Convention and Visitors Bureau, Visit Philadelphia, and the Pennsylvania Convention Center for their courteous cooperation during this project. Particular thanks to Jack Ferguson, Julie Coker, Wanda Paul, and Danielle Cohn at PHLCVB, Meryl Levitz and Cindy Ray at Visit Philadelphia, and John McNichol and Lorenz Hassenstein at PCCA. Special thanks also to Peter Tyson of PKF Consulting and Ed Grose of the Greater Philadelphia Hotel Association for sharing data and thoughts on the hotel industry, and to Professor Daniel Fesenmaier of Temple University's School of Tourism and Hospitality Management for his expert advice. And thanks to Paul Levy, Tom Muldoon, Nick DeBenedictis, and Manny Stamatakis for sharing their tremendous knowledge.

City Controller's Office Mission Statement

The City Controller's Office is the independent watchdog agency of the City of Philadelphia that strives to promote honest, efficient, effective, and fully accountable city government. We address this mission by: providing timely and objective analysis on the availability of funds for all city contracts; preventing inappropriate spending of public funds; and providing objective, timely, and relevant information to city officials, the public, and other interested parties about financial operations of the city, and on ways to improve city operations and the use of public resources.

Obtaining Copies of City Controller's Office Reports

The fastest and easiest way to obtain copies of the City Controller's Office reports is through the City Controller's Web site at (www.philadelphiacontroller.org).

To Report Fraud, Waste, and Mismanagement of Your City Tax Dollars

Contact information
Website:
http://www.philadelphiacontroller.org/report-city-fraud-waste-corruption.asp
(215) 686-8888 or (215) 686-3804 (automated line)
Download the Free Fraud Reporting app for iPhone, iPad, iPod Touch and Android devices