

Best Practices among Certain Classes of Pennsylvania Destination Marketing Organizations (DMOs)

A White Paper Produced by
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Background

The researchers originally became aware of the existence of DMOs (previously known as tourism promotion agencies or TPAs) when reading materials in the *Gettysburg Times*. The two student-authors plan to work in local government following graduation, and they were curious about perspectives shared in the *Gettysburg Times* about the local DMO. Thereafter, a representative from the Gettysburg Borough Council approached the faculty-author about conducting research on DMOs' policies, procedures, and practices, and, relatedly, the "pillow tax," a hotel room occupancy tax that is administered by counties and disbursed to DMOs, among others. Specifically, the Borough Council representative was curious about best practices with respect to allocation of the pillow tax; how DMOs use pillow tax revenue; and how DMOs account for such use. The Borough representative also was curious about general business practices among DMOs. The faculty-author applied for and obtained approval from the Gettysburg College Institutional Review Board for research among Pennsylvania DMOs and their representatives on these issues. This white paper briefly summarizes the history of the relationship between Pennsylvania DMOs and the pillow tax then describes the researchers' methodology. Next, the white paper describes what Study DMOs appear to believe are best practices, or most commonly accepted practices, in six categories: Boards of Directors; Revenue; Grant Making; Spending; Assessment; and Future Planning. All data are reported in aggregate to minimize the risk of revealing individually identifiable data. These findings may inform DMO, community, and county decision-making.

History

Beginning in the 1950s and through several legislative iterations thereafter, the Pennsylvania General Assembly has created a statutory scheme to help "tourism promotion agencies" (TPAs)¹ – now referred to as "destination marketing organizations" (DMOs) – "serve the traveling public at the local level by promoting unique tourism assets in their respective areas."² There are more than 50 DMOs active in Pennsylvania, with the majority operating at the county level. A few others act on behalf of larger, multi-county regions.

¹ https://www.legis.state.pa.us/cfdocs/legis/CH/Public/ucons_pivot_pge.cfm?session=1961&session_ind=0&act_nbr=0050.&pl_nbr=0111

² <https://www.visitpa.com/pa-tourism-office>

Most DMOs predominantly are funded by a hotel occupancy tax, also known as a “pillow tax,” collected by the hotel operator, then transferred and administered by the county.³ DMOs receive the bulk of pillow tax revenue, somewhere in the neighborhood of 75% - 98% of all pillow tax dollars, depending on the county.⁴ Division of pillow tax revenue has been the subject of much debate for more than 20 years, and so has the ways in which DMOs use those dollars. Some contend that DMOs, by law, must receive all of the pillow tax money after the county deducts a modest administrative fee. Others maintain that counties have discretion over what to do with pillow tax money. At least one county divides its pillow tax dollars between its DMO and certain municipalities within its jurisdiction based on criteria established by ordinance. The debate is robust and quite specific to each locality. However, there have been a few mileposts along the way that warrant review.

After a series of legislative actions in the latter part of the twentieth century, including 2001 enabling legislation that allowed counties to collect the pillow tax, State Representative Robert Godshall wrote what has now come to be known in the industry as the Godshall Letter, to share his opinion on the meaning of the law concerning third- through eighth-class counties⁵ collection of the pillow tax. Representative Godshall wrote this letter to respond to what he described as “mistaken interpretation of the act’s language” and to “clear up the legislative intent.” In that letter, he explained that, despite what some perceive as potentially ambiguous language, the law is “clear” that “the [pillow tax] money must be distributed to the TPA [DMO] not the local chamber of commerce or to some other public or private agency” after the county deducts its administrative fee. Subsequent legislation and local ordinances have modified pillow tax law somewhat, allowing certain counties to distribute a percentage of the pillow tax to municipalities that have full-time police forces and increasing the permissible pillow tax rate, for example.⁶ Subsequent 2016 pillow tax legislation expanded protections for DMOs because of the gray area in the 2001 legislation. The 2016 law addressed pillow tax revenue usage and addressed decertification processes for DMOs. Today, DMOs are subject to a variety of state and local level rules on how much they receive from the pillow tax, but there is no statewide organization that enforces pillow tax laws. The standards continue to be a point of contention among local-level entities. The Godshall letter remains emblematic of one perspective on the matter that survives to this day.

DMOs likewise are subject to a variety of rules and regulations about how they use those pillow tax dollars. There is greater legislative consistency on the use of pillow tax dollars than on distribution. Generally speaking, DMOs must use pillow tax funds for externally-focused (targeting audiences outside of the county) promotional activities that are designed to get “bodies into beds” as one interviewee explained. Those activities include, but are not limited to, web-based and television promotions; conference presentations; social media campaigns; publications

³ 72 P.S. § 7210; 61 Pa. Code § 38.1, 38.2, 38.3

⁴ These percentages were confirmed with interviewees in this study.

⁵ <https://www.pacounties.org/PAsCounties/Pages/Counties-by-Class.aspx>.

⁶ [https://www.legis.state.pa.us/cfdocs/legis/LI/uconsCheck.cfm?txtType=HTM&yr=2016](https://www.legis.state.pa.us/cfdocs/legis/LI/uconsCheck.cfm?txtType=HTM&yr=2016&sessInd=0&smthLwInd=0&act=0018) &sessInd=0&smthLwInd=0&act=0018; <http://www.adamscounty.us/Dept/Treasurer/Documents/HotelRoomRentalTax/OrdinanceNo.2of2018.pdf>

in newspapers, magazines, and web-based publications; and static displays such as billboards and kiosks.

Even before the COVID-19 pandemic ran roughshod over the tourism industry, stakeholders had begun to scrutinize how DMOs were using their pillow tax dollars. Given that pillow tax dollars are inherently public funds, it makes sense that interested persons would want to know how those dollars can be used most effectively and what DMOs understand to be the best practices with respect to management and use of pillow tax revenue. This white paper provides insights into what DMOs themselves perceive to be common and/or best practices in the categories identified above.

Methods

The authors began this research by identifying 12 DMOs that are comparable to the DMO in their county of interest, either in population size or in gross revenue. Specifically, because the authors' home county has a population that fits in the range of 90,000 and 144,999, it is a class five-county.⁷ Therefore, the authors collected data on DMOs in other class five counties in Pennsylvania. They also looked at counties that are comparable in tourism activities, what they call "tourism-alike counties" based on the 2018 Economic Impact of Travel and Tourism report in Pennsylvania.⁸ They identified six Class Five Counties and six Tourism-Alike Counties as the subjects for this analysis. Because two counties share a DMO, the authors examined 11 DMOs.

The authors conducted a two-step inquiry into the areas of interest. First, they collected the DMOs' Internal Revenue Service (IRS) Form 990s as available through GuideStar (one did not have 990s available through GuideStar and declined to provide those documents to us following our email request). They reviewed and analyzed 990s for three years, 2016, 2017, and 2018, and then they averaged their reported numbers for six categories: Boards of Directors; Revenue; Grant Making; Spending; Assessment; and Future Planning.

Next, they requested interviews with representatives from all of the DMOs. Eight responded. Two declined to be interviewed but commented upon one or more issues via email. Six agreed to be interviewed. The authors held Zoom interviews with each respondent and engaged in follow-up telephone calls. At least two members of the research team participated in each interview. The authors asked interviewees to look back to pre-COVID-19 times as they responded to questions. The extraordinary adverse impacts of the pandemic upon DMOs would render discussion of current revenues and best practices meaningless, as they reflect profoundly depressed circumstances and emergency responses to unpredictable exigencies. Therefore, the interviews reflect data and opinions related to 2016-2019.

Collectively, the entire group of DMOs in this analysis are referred to as Study DMOs. However, a natural break among the Study DMOs appeared based on revenue; therefore, further subdivision is appropriate. One group, hereinafter referred to as "Small DMOs" receive total revenue annually ranging from \$253,451 to \$610,090. The other group of "Large DMOs" receive

⁷ <https://www.pacounties.org/PAsCounties/Pages/Counties-by-Class.aspx>

⁸ <https://www.visitpa.com/sites/default/files/pdfs/2018-Economic-Impact-of-Travel-and-Tourism-in-Pennsylvania-min.pdf>

annual revenue ranging from \$1,056,832 to \$3,723,627. DMOs 3, 4, 5, and 10 fall into the Small DMO category. DMOs 1, 2, 6, 7, 8, and 9 are Large DMOs. To minimize the risk of de-identification of these findings, and consistent with Gettysburg College Institutional Review Board approvals, all data are reported in the aggregate, and only plural pronouns are used to refer to interviewees. The authors hope that these data will help DMOs benchmark best practices against aggregated data for their comparable DMOs and allow them to engage in information-based planning for the future.

Findings and Discussion

The following summarizes findings in a variety of pre-identified categories of interest.

Mission

All interviewees perceive themselves to be ambassadors for their counties, as advocates for innovative marketing, and as trustees or fiduciaries of all of the revenue they receive. All concur that their mission is to work with their colleagues across the tourism industry spectrum to develop and implement efficient and effective marketing of their communities. All concur that they should be “totally transparent” in all that they do as part of their mission to be accountable partners to other tourism stakeholders. As one said, DMOs should “always look at who your target audience is and make sure you are constantly aware of their needs. Assessment, polling, [and a] fully integrated marketing message is the most important and most compliant use of tax dollars. We owe it to [our community] to be stewards.”

Boards of Directors

Because DMOs are nonprofit organizations recognized under Section 501(c) of the Internal Revenue Code, they are required to have governing boards of directors.

Board Membership. On average, Study DMOs have 16.8 voting members (as identified in their IRS Form 990s), with DMO 8 an outlier with an average of 39.6 voting members. Members of the boards generally hold three- to five-year terms. At least four include a county commissioner on their boards, but one has bylaws that prevent a county commissioner from serving on its board. At least one includes the executive director (ED) as a non-voting member on their boards. However, several interviewees said that they (as ED) would not serve on their boards and thought that the ED being on a board “creates a conflict of interest.” When asked if it would be acceptable if the ED were on a board but restricted to non-voting status, one interviewee said “that’s a hard no.” Another explained that, because EDs are “direct reporters” to boards and because board members “are my bosses,” it is not appropriate for EDs to serve on boards. Apparently, there is a strong difference of opinion among the Study DMOs about whether EDs should serve on the board of directors, with the majority saying that it is best practice for the ED *not* to serve on the board due to potential conflicts of interest.

DMOs require or prefer, depending on their bylaws, diversity among board members in several respects: (1) geographic diversity, particularly in larger counties; (2) gender and racial

diversity; and (3) professional diversity. They get quite specific with respect to this last point. For example, one board's bylaws require representation from a local amusement park, a historical attraction, a heritage expert, a local bank, two hoteliers with regional and/or national experience, and a construction company. Another board's bylaws require representation from the local manufacturers' association. Others require inclusion of the community foundation's CEO, an arts and culture representative, and a local restaurateur. Yet another DMO requires inclusion of a representative from the local college, a resort, an assisted living representative, the local historical society, the local chamber of commerce, a winery, and an environmental advocacy group. Several interviewees said that a "global perspective" is critical on their boards. One interviewee had conducted their own strategic branding project and looked at 7-8 DMOs across the Commonwealth to assess best practices. That person said that the optimal board membership is diverse as describe above, with no less than 7 and no more than 16 members. That particular interviewee voted for an 11 member board based on the needs of their county. As another interview said, "more than about 20 and you are herding cats."

Board Responsibilities. Study DMOs' boards of directors execute traditional duties of fiscal and managerial oversight common to standard nonprofit management. Interviewees shared some specifics about board oversight of spending that reveal a fairly consistent understanding of best practices for DMO boards. For example, all Study DMO boards should engage in capital development and oversee the conduct of the executive director.

Reports. All interviewees prepare annual budgets that they submit to their boards for approval. All of them also present audited financial statements to their boards annually. It appears that most Study DMOs also provide their audited financial statements and budgets to their county commissioners, but some do not share them with the general public. At least two DMOs make their budgets publicly available, however. As one interviewee said, "we are not required to share our budget, but we believe very strongly in transparency, particularly since we are using public dollars and in compliance with Act 18." Another interviewee said "these are tax dollars. This is people's money. We owe it to them to tell them how we are spending it."

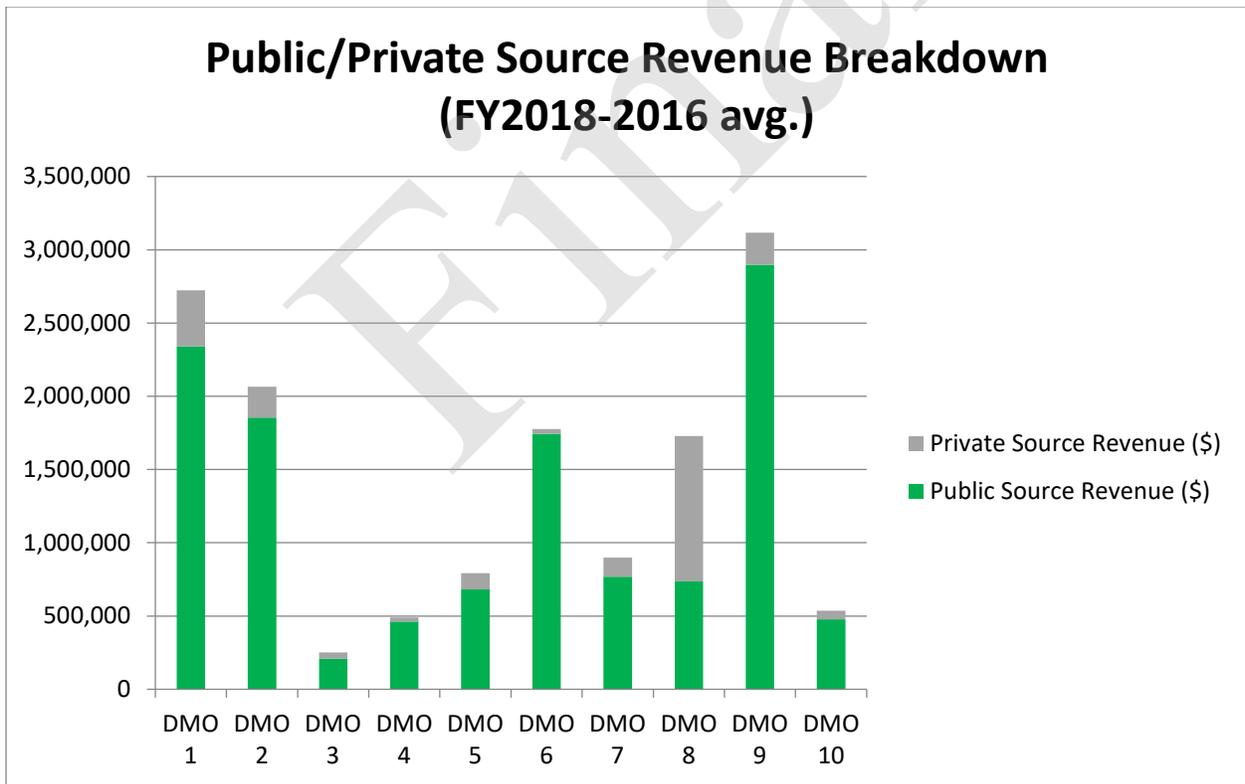
One DMO with robust rules about transparency explained the process as follows: "Every year we have an audit by an external CPA. And then every year [it goes] to [the] county commissioners. [We] close fiscal year 7/1. Within 30 days we have auditors come in – for 2 days or longer. [Then we] send it to the county and the board. The county is represented on the board as part of the bylaws. So [it is] privy to the financials that are distributed at board meetings, which meets 9 times per year." Another explained that, at each board meeting, "the internal budget is also available and handed out" with no restrictions on whether board members can share it with others in the community.

Outside of the annual budgets and financial statements, the periodicity and nature of other reports to the boards vary a bit among Study DMOs. Some provide multiple reports on a monthly basis, others only provide the two annual reports mentioned above. For example, one DMO prepares profit and loss statements each month that are approved by the executive committee then by the entire board each month. Another DMO submits an annual marketing plan for board approval.

Spending Authority. All interviewees reported that there are restrictions on their spending authority. Small DMOs have lower thresholds for when board approval is required for spending. For example, one small DMO requires two signatures on checks up to \$5000. Anything over \$5000 requires full board approval. The ED for a large DMO reports that “anything over about \$15K can be spent without approval.” But that is because of an extraordinary amount of transparency and trust. If something is not line itemed or will blow that line, it goes to the board. Anything over 15 grand needs approval regardless.” Two DMOs give their managerial staff and/or department heads individuals credit cards and discretion to make purchases.

Revenue

All interviewees concur that the overwhelming majority of Study DMOs’ revenue comes from the pillow tax. All respondent DMOs collect dues from members, and a few sell merchandise, offer co-op advertising, or collect rent for properties owned or subleased. But the pillow tax accounts for approximately 90% to 95% of the Study DMOs’ total revenue.



All but one DMO reported that they receive “most” of the pillow tax dollars collected by their counties. One external consultant who works with DMOs explained that “they [counties] have to deliver those dollars” to DMOs per the [statutes described above] after deducting their administrative fee that is set by law.” Notably, at least one county in Pennsylvania allocates

some of their pillow tax revenue to municipalities with police forces and to itself in excess of the administrative fee provided by law. All interviewees were aware of the law that allows for this allocation, and several commented upon it as “an anomaly” or “home cooking” in comparison to how most counties conduct business with their DMOs. One respondent said that it reflected “over-reach” by the county because the county “takes way more than what is statutorily allowed.” However, this respondent acknowledged that “there is law out there that allows it.” Respondents said that they had heard of several counties doing similar allocations that are “not consistent” with the law, but all but one respondent said that they did not think their county made these types of alternative allocations. All interviewees said that it is a “best practice” for counties to direct all pillow tax revenue to the DMOs, minus the small, statutorily established administrative fee. This statement may reflect neutral opinions, or it may be colored by their natural affinity for the DMOs for which they work.

Grant Making

All respondents provide funds to other nonprofits in some fashion, but there is a great deal of variety in how much they provide and the means by which they distribute funds to external organizations. Some DMOs do so through a formal grant application process. Others report that they “keep their finger on the pulse” and “keep their eyes out” for opportunities that will bring people into town “for at least two days.” Thus, they do not fund “day-to-day” or “operational” things, such as site management or staffing. Instead, all interviewees said that they are required by law only to fund “outward-focused” opportunities, with a few exceptions. However, all concurred in spirit with the ED from a large DMO who said “No investment in anything other than soft investments, other than social media marketing. Nothing of a tangible nature would be allowed.” Or as one DMO explains in their application materials, grants are only awarded to “marketing & advertising programs” and that “advertising campaigns must be targeted to non-county residents. The grant partnership will not fund advertisements in local publications, including other destinations’ Visitor’s Guides, as well as any forms of sponsorships. The grant partnership will not fund any investments with other CVBs⁹/DMOs marketing campaigns or programming.” It goes on to say that “grants cannot be used for standard operational expenses (payroll, insurance, travel, and utilities)” and that “priority will be given to organizations that have a proven record of generating overnight stays.”

Grant Processes and Amounts. Among the DMOs that award grants, there appears to be a relatively simple application process involving a web-based application form and review by a committee. One large DMO administers its grants through a three-person grants committee. They award \$30,000 per year to an average of 7 501(c) (3) organizations for “tourism-related attractions that produce a marketing plan [and] that has potential to generate overnight stays.” They added the overnight stays requirement in 2010 to emphasize the focus on generating tax revenue.

Another large DMO appears to have the most formal grant program. That DMO reached an agreement with their county government that “20% of room tax revenue has to go to a grant

⁹ Convention and Visitors Bureaus

program with a grant review committee of 5 people, with commissioners having two seats, a nonprofit organization holding one seat, a hotel representative having one seat, and the ED of the DMO holding one seat.” They meet one time per year to make awards and amounts obviously vary based on revenue from the preceding year. That ED explained that the “biggest [award] was \$50K, down to a few thousand.”

Another DMO designates “\$10,000 to be distributed to events as matching funds for programs for marketing—tourism-related grants.” Consistent with what other DMOs reported, applicants for this matching grant must demonstrate that the funds “will generate overnight stays.”

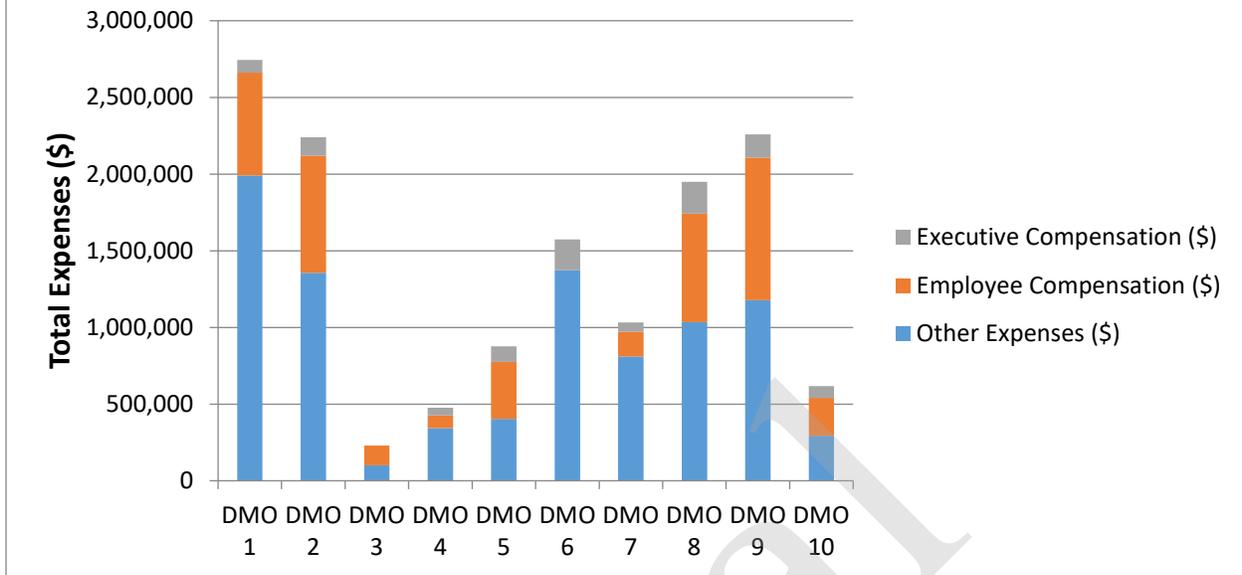
Non-Grant Awards. DMO 2 says that it does not award grants, but it distributes, on average, approximately \$80,000 per year to local entities, such as the garden club. Another DMO says that they have “a destination marketing expense line” in their budget. They “have the latitude to use those dollars with like-minded organizations in the county based on track records for return on investment. Maybe \$10K annually - used for signature events.” Again, they explained that their “underlying premise is overnight stays.”

Employees and Volunteers

Study DMOs have, on average, 11.52 employees. Small DMOs employ an average of 8.35 people, and Large DMOs employ on average 13.63 people. The number of volunteers ranges from 0 to 200, so reporting on the mean number of volunteers would not be helpful. In fact, there does not appear to be any consistency across Study DMOs on the use of volunteers, and interview data suggest that some DMOs include members of their boards of directors in this reporting category on their Form 990s, while others do not. Therefore, no meaningful conclusions about volunteers in Study DMOs can be drawn from this analysis.

Salaries and Benefits. On average, Small DMOs report \$206,902 on employee salary and benefits or 42% of total revenue. Large DMOs report \$646,469 for employee salary and benefits or 28% of total revenue. The top earner, usually the Executive Director, earns on average \$76,590 (13% of total revenue) in Small DMOs and \$137,573 (7% of total revenue) in Large DMOs. Please note that one DMO reported no salary or benefits for an Executive Director in any of the three years, and one DMO reported no employee salary or benefits in the study period. Those DMOs were excluded from the calculations. These findings may reflect efficiencies of scale longitudinal improvements in operations as older, larger, more established DMOs and their employees learn how to work more efficiently.

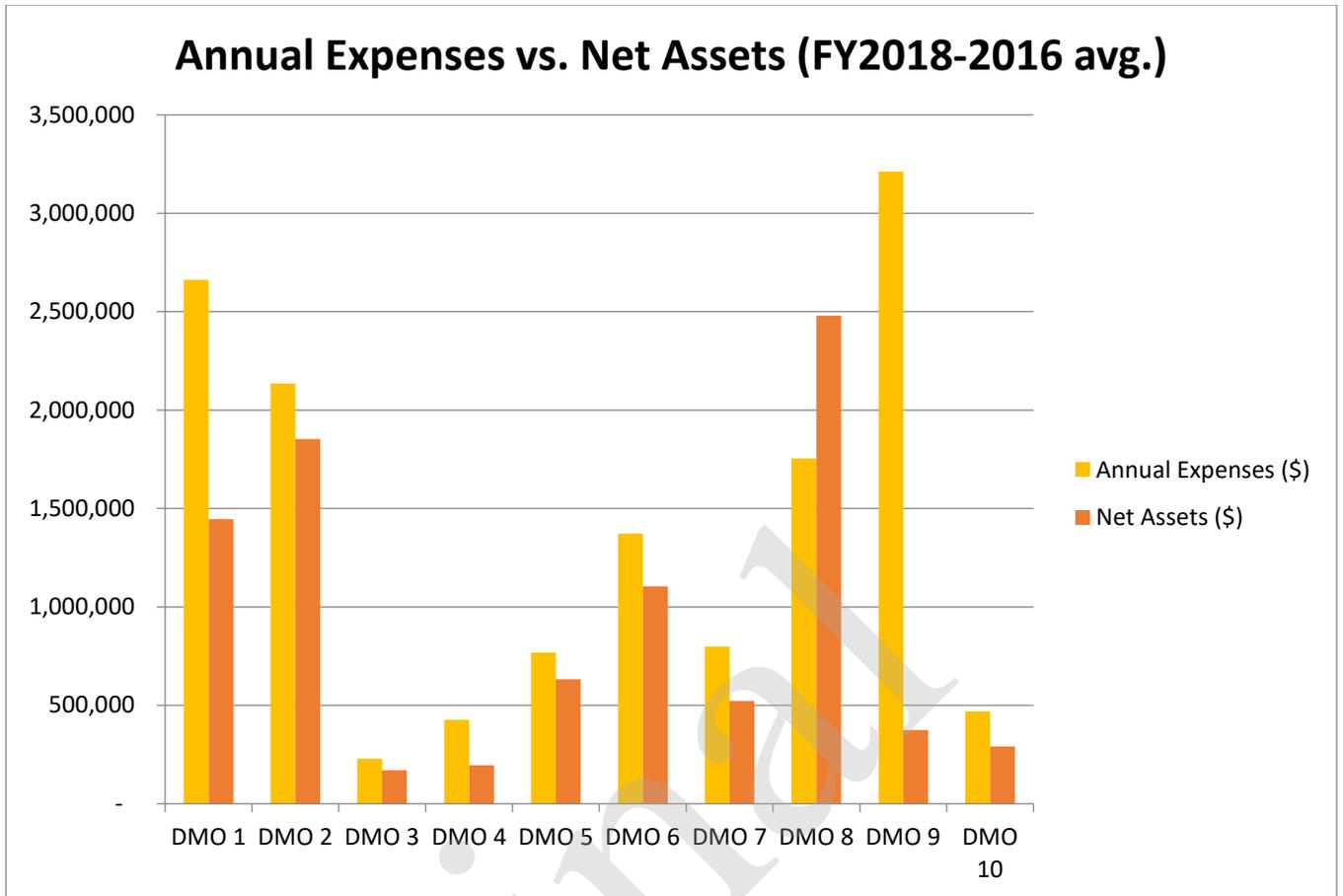
Executive and Employee Compensation from Total Expenses (FY 2018)



All interviewees said that they pay for some expenses for employees, such as conference travel and professional development. Only one DMO that responded provides cars or transportation for their employees, and three respondents expressed that, as one person explicitly said, providing cars for employees “would definitely NOT be a best practice!” Most of the interviewees’ DMOs provide health, eye, and dental insurance, and many provide a 3% of salary match to retirement plans. Others provide access to SIMPLE IRAs. All said that they pay for professional development, which is a line item in many of their budgets. At least one provides additional educational benefits for employees through its local community college. Some provide year-end bonuses “when things go well, but not in 2020!” Most conduct annual reviews and make pay increases as appropriate.

Spending

Nature of Expenditures. Spending by DMO staff is subject to the constraints described above under Boards of Directors. Interview data reveal a few additional spending policies. All interviewees sounded the same tune about spending, as described several times above. They do not pay for any operational role in any events “We have enormous interaction with them [event planners] and sometimes even have a staff person on the planning committee. But we stay out of logistics. A few interviewees said they might have a static display or a tent at an event to advertise upcoming events, but they “would stay out of operations.”



Special Event Spending. All interviewees said that they hold annual events, such as holiday parties, and that such events are “always” held at member organizations’ facilities as a matter of best practices. One interviewee said that they “would consider” holding an event at a non-member business if they were trying to entice them into joining the DMO. One interviewee said that they “had heard” about another DMO holding an annual event at a non-member business that was outside the DMO’s geographic region and said “that would not fly” with their board. “Not a good idea. We would never do that,” said another. A third explained, “we always hold our holiday parties and events at a member business. Better for budget, too. [We] put out an email to all businesses that can handle our size event and ask for interest.” Emphasizing again that DMOs operate with the use of public funds and are meant to be stewards of the community, all interviewees said that choosing to patronize the businesses they represent for special events is a matter of best practice.

Petty Cash. DMOs’ petty cash policies are not consistent across organizations. Some do not allow for any cash to be kept on the premises. Others set the limit at \$50 or \$200.

Auditing and Accounting

All interviewees said that all DMO should employ external auditors to conduct annual audits that are shared with the boards of directors. All interviewees also said that DMOs should use external accounting firms.

Concerns about Counties

According to interviewees, DMOs are “in the public eye” and “do a good job of being transparent.” However, “the same cannot be said about the county,” according to words that one interviewee said and several others echoed. These respondents said, in turn, that the counties’ shares of pillow tax dollars “go into general coffers” and that “counties do not account very well.” Another observed that there is “no reporting where money goes in or goes out” and suggested that we, as researchers, “follow the money.” Another encouraged counties to conduct pillow tax audits “like DMOs do.” “Counties should be audited just like we are – these are tax dollars, and they have a duty” to be transparent. There appears to be a fair amount of tension between counties and DMOs, and from the DMOs’ perspective, that tension arises from counties’ lack of transparency and reporting. “Transparency seems to stop at the commissioners’ door,” says one DMO ED.

Assessment and Planning

All interviewees concurred that internal and external assessments are key to success, but they approach assessment in a variety of ways. At least two rely upon DCED¹⁰ Tourism Economics. They “partner heavily with the state tourism department, which is housed in DCED.” They also look at Smith Travel Research statistics. One DMO, who is frustrated by peers who do not use data in their management, said it “blows my mind” that some DMOs “don’t consult Smith¹¹ data.” Interviewees also referred the researchers to the annual economic impact report at www.VisitPA.com under the Industry Resources tab.

One interviewee shared a story about their journey to data-driven management. “Prior to 2016, we did not invest in any hotel stats. It became very clear very fast that we needed data. . . . Aggregate data comes from a global provider . . . should always be thinking globally.” They also “keep a pulse on [data from] Smith weekly and definitely monthly.” This same ED also subscribes to services that track data on DMOs comparable to theirs and check those figures regularly

When asked for their advice on what some best practices for DMOs and data would be, interviewees offered that EDs should “look at [the] number of hotels built each year.” Another said “things are changing extremely fast in this industry. Lots of discussion about how we’re spending money. Lots who think that technology and the ability to get info on their smartphones are making [us] obsolete. We need to work hard and fast to maintain relevance.”

¹⁰ Department of Community and Economic Development

¹¹ <https://str.com/>

Another shared that, in their mind, DMOs “should be spending 4-5% on research – who is your visitor? What are your major theaters? Hotel occupancy rates each month? Number of visitors to each attraction?” They said that someone should be able to “go to the research site on [the DMO] website – see visitor profile data, economic impact data. How many people are employed in the industry in your area?”

Finally, interviewees offered closing thoughts on some best practices that are easy to adopt and yield helpful information. They encourage all DMOs to prepare after-action reports following all events they promote; improve tracking of the number of people who come from more than 50 miles away to your community; “put pressure” on event coordinators to track data and share it with DMOs; track every person who contacts the DMO; “real-time surveys” among visitors; looking at the number of people who come to stay, not just tax revenue (one room can hold up to four people); and because of the pandemic, perhaps expanding DMOs’ focus to promote “backyard tourism.”

Conclusion

From the outset of this project, the researchers sought to identify best practices across Pennsylvania DMOs. Inspired by local discourse over the DMO close to them, the researchers wanted to gain a better perspective on DMOs operating under similar size and revenue conditions. After identifying 12 DMOs – Study DMOs – that fit within these constraints, the researchers employed a two-step method of inquiry; first collecting relevant business operations data from the Study DMOs’ Form 990s and then interviewing the Executive Directors from as many of the Study DMOs as possible. Data from the Form 990s and interviews were then synthesized so that the researchers could identify best practices that were consistent across the Study DMOs. Some best practices that arose included maintaining a diverse board of directors, representative of the constituent businesses under a DMO’s jurisdiction; operating with transparent financial operations, especially because tax dollars are involved; and acting as fiduciaries and stewards in all respects, prioritizing ‘home’ businesses whenever possible. This paper is a first step towards understanding how DMOs operate and how pillow tax dollars are being used in communities.