

**A REPORT ON KENTUCKY'S STATEWIDE  
LODGING TAX**

**AUGUST 2007- PERFORMANCE AUDIT**

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The Auditor Of Public Accounts Ensures That Public Resources Are Protected, Accurately Valued, Properly Accounted For, And Effectively Employed To Raise The Quality Of Life Of Kentuckians.

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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

August 14, 2007

Randall Fiveash, Commissioner  
Department of Tourism  
500 Mero St., 22<sup>nd</sup> Floor  
Frankfort, Kentucky 40601

**Re: Performance Audit of Kentucky's Statewide Lodging Tax**

Dear Commissioner Fiveash:

Enclosed, please find our report on Kentucky's Statewide Lodging Tax that offers specific recommendations to ensure that this new source of funding is adequately regulated and monitored. Our Division of Performance Audit conducted this review, and it is our hope that it will benefit your agency and Kentucky tourism.

We will be distributing the final version of this report in accordance with the mandates of KRS 43.090. Additionally, we also distribute copies to members of the Interim Joint Committee on Economic Development and Tourism, as well as other interested parties.

In accordance with KRS 43.090(1), the Department of Tourism must notify the Legislative Research Commission and the Auditor of the audit recommendations it has implemented and of the recommendations it has not implemented, and reasons therefore, within sixty (60) days of the completion of the final audit.

Our Division of Performance Audit evaluates the effectiveness and efficiency of government programs, as well as completing risk assessments and benchmarking of state operations. We will be happy to discuss with you at any time this audit or the services offered by our office. If you have any questions, please call Ellen Hesen, Director of the Division of Performance Audit, or me.

We greatly appreciate the courtesies and cooperation extended to our staff during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

c: Cheryl Hatcher, Deputy Commissioner

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# Executive Summary

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## Background

In 2005 the General Assembly enacted a statewide lodging tax, which has the potential to substantially impact tourism in the Commonwealth. This tax has generated approximately \$8 million in its first year, increasing Kentucky's tourism budget from 33<sup>rd</sup> in the nation in 2005 to 15<sup>th</sup> in the nation in 2006. The increased funding provided by the tax prompted us to review the Department of Tourism's first year experience to determine whether the tax is being properly collected and disbursed and to determine what impact it is having on the tourism economy.

## Conclusion

Tourism is a major factor in Kentucky's economy. The statewide lodging tax and resultant influx of new dollars for marketing and promoting tourism in Kentucky, is a huge step forward for Kentucky's tourism industry. Despite millions of additional dollars, the growth of the economic impact of tourism has actually slowed. Without a comprehensive marketing plan, the Department of Tourism has no way to measure if the goals of the statewide lodging tax are being met. Kentucky needs to build on its experience to monitor what works and what does not, and develop a more strategic approach to spend these funds effectively.

This report offers specific recommendations to build on early experiences and ensure that Kentucky is spending the statewide lodging tax in the most effective ways possible.

## Findings

- 1. Guidelines have not been adopted to dispense the statewide lodging tax revenue.**
  
- 2. A portion of the statewide lodging tax revenue was not spent in accordance with the law.**

## Recommendations

- 1.1 Tourism should revise existing administrative regulations or adopt new regulations that address how the statewide lodging tax is to be distributed, its relation to the Regional Marketing and Matching Fund Program, and what types of state level expenditures are considered allowable.
- 1.2 Tourism should continue to update the Regional Marketing and Matching Fund Program regulations as needed so that the regulations set out all current requirements.
  
- 2.1 A state tourism oversight committee should be developed to review and approve the state level spending of the statewide lodging tax, as well as the allocations to regional and local entities. The members of the committee should be representatives of the nine tourism regions, along with Tourism officials.
- 2.2 Tourism, in conjunction with the state oversight committee, should develop the following:
  - Written guidelines as relating to funding eligible projects at the state level. If research and feasibility studies are acceptable projects, this should be reflected within the adopted guidelines.
  - An overall spending plan for each fiscal year with a detailed explanation of each state expenditure.

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# Executive Summary

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- 2.3 Expenditures determined to be inappropriate should be reimbursed to the lodging tax fund account. Tourism should ensure lodging tax expenditures do not include capital construction projects.
3. **In FY 2006, 38% of the statewide lodging tax funds allotted to regional and local entities was not expended.**
- 3.1 As recommended previously, a tourism oversight committee should be created to provide additional oversight for spending the statewide lodging tax revenue. A function of this committee could be to monitor how unused revenue should be spent.
4. **No specific performance measurements have been developed to monitor the success of the promotional efforts supported by the statewide lodging tax revenue.**
- 4.1 Tourism should develop an overall strategic plan for tourism in the state, to include goals, objectives, and outcome measurements. Within the strategic plan, Tourism should identify specific performance indicators that will be used to assess the effectiveness of the projects funded by the statewide lodging tax revenue.
- 4.2 These performance indicators should be continuously analyzed to determine which statewide lodging tax projects provide the greatest benefit to the economy. In addition, the impact of the state, regional, and local lodging tax projects on the overall economy from year to year should be compared with other states.
- 4.3 Research and feasibility studies should be considered eligible projects to be funded by the statewide lodging tax revenue, to determine the effectiveness of promotion campaigns.
- 4.4 The state tourism oversight committee, whose creation was previously recommended, should review tourism's overall strategic plan, including the specific performance indicators to ensure Kentucky is effectively using the statewide lodging tax revenue to reach stated goals.
5. **Verifying the required supporting documentation for reimbursement under the Matching Program is labor intensive and quickly becoming unmanageable.**
- 5.1 Tourism should create an electronic reimbursement form. This form should require that each reimbursement item have a reference number that will correspond to the attached documentation. The form should also require the requesting entity to categorize the type of project to one of the 13 eligible projects. The electronic form should allow the following:
- Facilitate the completion and updating of the request by the regional and local entities.
  - Calculate the summary costs for the different types of projects reimbursed statewide, as well as by vendor, if properly completed.
  - Maintain an electronic copy of the final reimbursement form, so analysis can be performed to detect questionable request items based on historical information.
  - Store all notes electronically to ensure that they are legible and maintained with the reimbursement requests.

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**6. The completeness of statewide lodging tax collections cannot be verified due to tax reporting issues.**

- 5.2 Matching Program applicants should organize the supporting documentation in a permanent binder that references the documentation to the request item.
- 5.3 Tourism should establish annual seminars to train the regional and local entities on how to complete the reimbursement request form and how the supporting documentation should be organized.
- 6.1 Revenue should collaborate with Tourism on a regular basis to update and maintain the lodging facilities that should be submitting statewide lodging tax revenue.
- 6.2 Revenue should develop a method to ensure all hotels/ motels are reporting and paying the statewide lodging tax, by providing a unique identifier to each taxpayer to verify the facilities are paying the statewide lodging tax.
- 6.3 To maximize limited resources, Revenue should develop an electronic Transient Room Tax Monthly Return (Form 73A850) to avoid paper mailings and returns. Electronic notifications of delinquent accounts could improve the rate of collection.
- 6.4 Revenue should provide Tourism with quarterly tax collection reports, including number of taxpayers registered, number returns filed, number of delinquent returns, and the amount of tax revenues collected.

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## Chapter 1

# Introduction

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### Audit Objective

Kentucky's General Assembly enacted a law imposing a 1% statewide transient room tax (referred to as "lodging tax"), effective June 1, 2005. This tax is levied on the rental costs of hotel/motel rooms and other similar lodging facilities. The purpose of the statewide lodging tax is to provide funding for marketing and promoting tourism. Tourism is the Commonwealth's 3<sup>rd</sup> largest industry, and its 2<sup>nd</sup> largest employment sector.

The statewide lodging tax is collected by the Kentucky Department of Revenue (Revenue) and deposited into the Tourism, Meeting, and Convention Marketing Fund. This fund is administered by the Kentucky Department of Tourism (Tourism) within the Commerce Cabinet.

Tourism allocates the statewide lodging tax revenues based on the following three disbursement categories:

- State Funding - Funding for Tourism to market and advertise on behalf of the entire industry
- Regional Funding - Funding available to the nine tourism regions
- Local Funding - Funding available to local non-profit tourism organizations such as Convention and Visitors Bureaus (CVB), Tourist Commissions (TC), and Designated Marketing Organizations (DMO), festivals, and attractions

Since enacting the law imposing the statewide lodging tax, Kentucky's total tourism budget has grown from 33<sup>rd</sup> (FY 2005) to 15<sup>th</sup> (FY 2006) in the nation. The Travel Industry Association of America (TIA) ranks states' total tourism budgets in its annual Survey of U.S. State and Territory Tourism Office Budgets. According to these reports, Kentucky's tourism budget increased from \$7.5 million in FY 2005 to \$15.7 million in FY 2006. The average state tourism budget reported for FY 2006 was \$13.6 million, which establishes that Kentucky's tourism budget is now above the national average.

The increased funding provided by the statewide lodging tax, along with some tax revenue distribution concerns expressed by tourism associations, prompted the selection of this audit topic. Specifically, the following issues are addressed in this audit:

- Determine how Revenue ensures that the statewide lodging tax is properly collected.
- Determine if the distribution of the statewide lodging tax revenues is efficient and reasonable.
- Determine if the projects funded by the statewide lodging tax comply with prescribed guidelines.

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- Determine if Tourism is utilizing performance measurements to benchmark the success or failure of the projects and the impact on the overall tourism economy.

### Background

Every state imposes lodging taxes, either through a statewide tax, local government taxes, or a combination of both. These lodging taxes are on short-term accommodations (usually 30 days or less) such as hotel/motel room rentals. Lodging taxes are popular with policymakers because out-of-state visitors primarily pay the tax and the revenue can be used to support tourism development and special projects. Examples include new sports stadiums, public parks, and convention centers.

According to a January 2007 briefing paper issued by the National Conference of State Legislatures (NCSL) entitled, *State Lodging Taxes*, twenty-three states, including Kentucky, and the District of Columbia impose a statewide lodging tax. A lodging tax means that short-term accommodations are subject to a tax either in place of or in addition to the general sales taxes. The following table provides the statewide lodging tax rate for each of these twenty-three states.

**Table 1: Statewide Lodging Taxes**

State	Tax	State	Tax
Oklahoma	0.1%	Arizona	5.50%
<b>Kentucky</b>	<b>1.00%</b>	Massachusetts	5.70%
Nebraska	1.00%	Illinois	6.00%
North Dakota	1.00%	Pennsylvania	6.00%
Oregon	1.00%	Texas	6.00%
South Dakota	1.00%	Maine	7.00%
Arkansas	2.00%	Hawaii	7.25%
Alabama	4.00%	Delaware	8.00%
Montana	4.00%	New Hampshire	8.00%
Idaho	5.00%	Vermont	9.00%
New Jersey	5.00%	Connecticut	12.00%
Rhode Island	5.00%	District of Columbia	14.55%

Source: National Conference of State Legislatures' January 2007 Legisbrief entitled, *State Lodging Taxes*

In addition to a statewide lodging tax, most states permit local governments to impose local lodging taxes. In fact, there are states that permit lodging taxes solely at the local level. The few states that do not allow local lodging taxes, do impose a statewide lodging tax. Collective state and local lodging taxes add up to a much higher total tax rate.

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### **Kentucky's Statewide Lodging Tax**

In 2005, Kentucky's General Assembly passed HB\_272 (Tax Modernization Plan) that included a 1% statewide transient room tax (lodging tax) on rented accommodations. The statewide lodging tax requirements were codified in Kentucky Revised Statutes (KRS) 142.400 to 142.408, and became effective June 1, 2005. (These statutes are provided for review in Appendix II.) KRS 142.400 provides the following information as to the obligation of the statewide lodging tax:

- (1) A transient room tax shall be imposed at a rate of one percent (1%) of the rent for every occupancy of any suite, room, rooms, or cabins charged by all persons, companies, corporations, groups, or organizations doing business as motor courts, motels, hotels, inns, tourist camps, or like or similar accommodations businesses. As used in this subsection, rent shall not include any other local or state taxes paid by the person or entity renting the accommodations.
- (2) The tax imposed by subsection (1) of this section shall not apply to the rental or lease of any room or set of rooms that is equipped with a kitchen, in an apartment building, and that is usually leased as a dwelling for a period of thirty (30) days or more by an individual or business that regularly holds itself out as exclusively providing apartments.

The statewide lodging tax payment should be submitted to Revenue monthly, or for other periods as permitted by Revenue, using a form prescribed by Revenue (KRS 142.402-(1)). All tax receipts should be deposited into the Tourism, Meeting, and Convention Marketing Fund. The money in this Fund will not lapse and should be carried forward to the next fiscal year or biennium (KRS 142.406(2)). The Commerce Cabinet is responsible for administering the Fund with the approval of the Governor's Office for Policy and Management (KRS 142.406(1)).

The sole purpose of the Tourism, Meeting, and Convention Marketing Fund is marketing and promoting tourism in the Commonwealth. Allowable expenditures include those to market and promote events and venues related to meetings, conventions, trade shows, cultural activities, historical sites, recreation, entertainment, natural phenomena, areas of scenic beauty, craft marketing, and any other economic activity that brings tourists and visitors to the Commonwealth. Marketing and promoting tourism shall not include expenditures on capital construction projects (KRS 142.406(3)).

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### **Kentucky's Local Lodging Taxes**

At the local level, Kentucky statutes have allowed a local lodging tax since 1968. KRS 91A.390, 91A.392, and 153.440 allow consolidated local governments, county fiscal courts, and cities to impose local transient room taxes under specified circumstances. The local lodging tax is imposed and collected by the local governing entity.

The allowable uses of the local lodging taxes differ depending on the entity that levies the tax and the authorizing statute. The different uses that are authorized for local governments include the following:

- Finance the cost of acquisition, construction, operation, and maintenance of facilities useful in the attraction and promotion of tourist and convention business.
- Funding regional efforts relating to the promotion of tourist and convention business and convention centers.
- Retirement of bonds issued to finance the expansion or construction or operation of a governmental or nonprofit convention center or fine arts center useful to the promotion of tourism located in the central business district.
- Defray operating costs of the Kentucky Center for the Arts.

### **Related Kentucky Administrative Regulations**

The statewide lodging taxes paid into the Tourism, Meeting, and Convention Marketing Fund are used to support Kentucky's Regional Marketing and Matching Funds Program (Matching Program). The Matching Program provides financial and marketing assistance to tourism regions and local nonprofit organizations. The administrative regulations for the Matching Program are codified at 300 KAR 1:010 and have not been revised since 1996. These regulations are included in this report as Appendix III. Prior to the statewide lodging tax, Tourism depended on general fund allocations to fund the Matching Program.

Kentucky's 120 counties are divided into nine tourism regions under 300 KAR 1:010. (Please see Appendix IV for information on the nine regions and the counties represented.) To qualify for matching funds, a tourism region must establish a tourism region committee. The tourism region committee typically consists of a representative from each local government's tourist and convention commission, also known as Convention and Visitors Bureaus (CVB). If a local tourist and convention commission has not been established, the County Judge Executive is requested to appoint a representative from an organization such as the Chamber of Commerce or a governmental body such as the Fiscal Court. This entity is referred to as the county's Designated Marketing Organization (DMO).

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Kentucky currently has 86 local tourist and convention commissions, or CVBs, but there are 46 counties in Kentucky in which a tourist and convention commission has not been established. These two numbers added together are greater than 120 (the total number of Kentucky counties) because there are some counties in which two local tourist and convention commissions have been established.

Tourism determines the amount of state matching funds to be allocated to regional or local projects. Allowable projects could be provided a state fund match of 80% of allowable costs for regional projects, and 50% of allowable costs for local projects. The types of local or regional projects that are eligible for funding under 300 KAR1:010 are the following:

- Tourism publications and videos
- Media advertisements and press kits
- Billboards and signage
- Brochure distribution services
- Postage and freight expenses
- Consumer travel show expenses
- Group tour marketplace expenses

300 KAR 1:010 states the following procedures for the tourism region committees or non-profit local organizations to follow in order to receive match funding from the Regional Marketing and Matching Funds Program:

- Submit a strategic master plan no later than October 1<sup>st</sup>.
- Submit an application on or before October 1<sup>st</sup>.
- Submit recommendations on or before November 30<sup>th</sup>.
- Return project agreements on or before February 15<sup>th</sup>.
- File request for reimbursement on or before May 1<sup>st</sup> for projects that were included on an application and approved by the state matching funds program manager (Reimbursement Request Phase I).
- File request for reimbursement after May 1<sup>st</sup> for projects that are in excess of the allocation designated on the project agreement (Reimbursement Request Phase II).

# Findings and Recommendations

**Finding #1:**  
*Guidelines have not been adopted to dispense the statewide lodging tax revenue.*

There is no regulation governing statewide lodging tax revenues, but there is an administrative regulation governing the Regional Marketing and Matching Funds Program (Matching Program). Instead of adopting a new administrative regulation to set out additional procedures necessary to manage the influx of millions of additional funding dollars as a result of the imposition of the statewide lodging tax, Tourism has been using modified procedures along with the existing Matching Program regulation, 300 KAR 1:010. A significant portion of the statewide lodging tax, however, is spent on state marketing expenditures, which are not addressed in this regulation.

The modified procedures were not determined or implemented prior to the increase in funding in 2005, and procedural changes continue to be made. These changes can be found on the Tourism website, but the actual administrative regulation has not been revised since 1996. The primary reason cited for the procedural changes is the increased workload due to increases in regional and local reimbursement requests.

While Tourism allocates the statewide lodging tax revenues to state, regional, and local funding levels, the current regulation only provides guidance on allowable regional and local expenditures through the Matching Program. The following table illustrates the projected use of the statewide lodging tax for FY 2006 and FY 2007.

**Table 2: Projected Statewide Lodging Disbursements**

	Fiscal Year 2006	Percentage of Total	Fiscal Year 2007	Percentage of Total
<b>Disbursements</b>				
State Funding	\$1,200,000.00	15.00%	\$2,500,000.00	31.25%
Regional Funding	\$800,000.00	10.00%	\$1,000,000.00	12.50%
Local Funding	\$6,000,000.00	75.00%	\$4,500,000.00	56.25%
<b>Total Disbursements</b>	<b>\$8,000,000.00</b>	<b>100.00%</b>	<b>\$8,000,000.00</b>	<b>100.00%</b>

Source: Auditor of Public Accounts based on information provided by the Department of Tourism

Prior to the implementation of the statewide lodging tax, the Matching Program was funded through a much smaller general fund dollar allotment to Tourism’s Media and Advertising budget. State promotional activities were also funded by this same budget. The following table illustrates the funding trends of these three levels of expenditures for the most recent five-year period.

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**Table 3: Five-Year Trend of Tourism Promotional Expenditures**

	2002	2003	2004	2005	2006
<b>General Fund- Media and Advertising Budget:</b>					
Statewide	\$2,539,607.43	\$2,829,035.99	\$1,713,540.99	\$2,504,824.25	\$3,114,362.81
Regional	\$540,000.00	\$540,000.00	\$540,000.00	\$540,000.00	\$0.00
Local	\$260,000.00	\$260,000.00	\$260,000.00	\$260,000.00	\$0.00
<b>Totals</b>	<b>\$3,339,607.43</b>	<b>\$3,629,035.99</b>	<b>\$2,513,540.99</b>	<b>\$3,304,824.25</b>	<b>\$3,114,362.81</b>
<b>1% Lodging Tax Fund- Tourism, Meeting, and Convention Budget:</b>					
State Level	N/A	N/A	N/A	N/A	\$2,418,139.00
Regional	N/A	N/A	N/A	N/A	\$782,076.22
Local	N/A	N/A	N/A	N/A	\$3,457,387.24
<b>Totals</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>\$6,657,602.46</b>
<b>Grand Totals</b>	<b>\$3,339,607.43</b>	<b>\$3,629,035.99</b>	<b>\$2,513,540.99</b>	<b>\$3,304,824.25</b>	<b>\$9,771,965.27</b>

Source: Auditor of Public Accounts based on information provided by the Department of Tourism

Since the inception of the statewide lodging tax, total Tourism promotional expenditures almost tripled (196% increase), with regional and local marketing expenditures increasing 430% and state level expenditures increasing approximately 120%. Regional and local funds went from \$800,000 in general fund dollars to more than \$4.2 million from the lodging tax revenue. State level expenditures increased from \$2.5 million in general fund dollars in FY 2005 to a total of more than \$5.5 million in FY 2006, which includes both general fund and lodging tax revenue dollars.

### Process Changes to the Matching Program Have Not Been Promulgated Into Regulation

The current Matching Program procedures actually used go beyond the procedures prescribed by 300 KAR 1:010. The process for administering the Matching Program was restructured to manage the increased workload caused by the additional reimbursement requests. The primary modification was streamlining the application and reimbursement request into one procedure. These changes have been communicated through Tourism's website and regional tourism meetings, but 300 KAR 1:010 has not been modified to reflect these changes. The key changes to the Matching Program are discussed in the sections that follow. Appendix V illustrates the allowable projects description guidelines, which illustrates examples of eligible projects and describes these projects in detail.

### Local Allocation Methods Have Been Modified.

Previously, state funds for local tourism projects were allotted to each county based on an allocation formula consisting of the average percentage derived from the following three factors: county population, county tourism expenditures, and prior state disbursements to the county. Regional and local allotment procedures are not discussed in the administrative regulations. As of July 1, 2006, disbursements were eliminated from the formula. Disbursements were defined as previous state matching fund awards provided to a county. U.S. Census data provides the information on county population, while the source of county tourism expenditures is the Travel Industry of America. Local funding from the

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# Findings and Recommendations

state is provided to the county's Convention and Visitor Bureaus (CVBs), Tourism Commissions (TCs), or the Designated Marketing Organizations (DMOs), as well as to other non-profit applicants, such as local festivals and attractions. The following table illustrates the amount of local funds available for FYs 2006 and projected 2007, by region. For FY 2005, only \$260,000 was provided through general fund dollars.

**Table 4: Local Allotments by Region**

Tourism Region	Local Funding Allotments Fiscal Year 2006	Local Funding Allotments Percentage of Total Fiscal Year 2006	Local Funding Allotments Fiscal Year 2007 (Projected)	Local Funding Allotments Percentage of Total Fiscal Year 2007
Bluegrass	\$1,212,600.00	20.21%	\$909,450.00	20.21%
Green River	\$312,600.00	5.21%	\$234,450.00	5.21%
Cave	\$445,200.00	7.42%	\$333,900.00	7.42%
Eastern Highlands South	\$350,400.00	5.84%	\$262,800.00	5.84%
Eastern Highlands North	\$421,200.00	7.02%	\$315,900.00	7.02%
Louisville - Lincoln	\$1,731,600.00	28.86%	\$1,298,700.00	28.86%
Northern Kentucky	\$819,600.00	13.66%	\$614,700.00	13.66%
Southern Kentucky Lakes and Rivers	\$183,600.00	3.06%	\$137,700.00	3.06%
Western Lakes and Rivers	\$523,200.00	8.72%	\$392,400.00	8.72%
<b>Total</b>	<b>\$6,000,000.00</b>	<b>100.00%</b>	<b>\$4,500,000.00</b>	<b>100.00%</b>

Source: Auditor of Public Accounts based on information provided by the Department of Tourism

The total allotment of regional funding is distributed equally to the nine tourism regional committees. The following table illustrates regional funds available for fiscal years 2005, 2006, and 2007.

**Table 5: Regional Allotments by Region**

Tourism Region	Regional Allotments 2005	Regional Allotments 2006	Regional Allotments 2007 (Projected)
Bluegrass	\$60,000.00	\$92,571.43	\$111,111.11
Green River	\$60,000.00	\$80,000.00	\$111,111.11
Cave	\$60,000.00	\$92,571.43	\$111,111.11
Eastern Highlands South	\$60,000.00	\$92,571.43	\$111,111.11
Eastern Highlands North	\$60,000.00	\$92,571.43	\$111,111.11
Louisville - Lincoln	\$60,000.00	\$92,571.43	\$111,111.12
Northern Kentucky	\$60,000.00	\$92,571.43	\$111,111.11
Southern Kentucky Lakes and Rivers	\$60,000.00	\$72,000.00	\$111,111.11
Western Lakes and Rivers	\$60,000.00	\$92,571.42	\$111,111.11
<b>Total</b>	<b>\$540,000.00</b>	<b>\$800,000.00</b>	<b>\$1,000,000.00</b>

Source: Auditor of Public Accounts based on information provided by the Department of Tourism

Note: Two tourism regions could not meet the 20% match in funding in FY 2006; therefore, these two tourism regions received less funding.



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## Chapter 2

# Findings and Recommendations

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Eligibility Requirements For County Allotments Have Changed

Convention and Visitor Bureaus (CVBs), Tourist Commissions (TCs), or Designated Marketing Organizations (DMOs) are eligible to receive up to 70% of the county allotment. If a county encompasses two CVBs or TCs, then the allotment is split between the two. However, if one CVB or TC does not utilize all of its funding, then the other CVB or TC may utilize the residual funding. Other applicants, such as festivals or non-profit attractions, are eligible to receive up to 30% of the county allotment. Again, these eligibility requirements and funding percentages are not stated in the administrative regulations.

Applicants No Longer Submit a Strategic Plan, Application, or Project Agreement

A strategic plan, an application, and a project agreement are no longer required prior to the completion of a project, as prescribed by the regulation. After completion of the projects, matching fund participants submit a reimbursement application request. Regional committees may submit reimbursement requests throughout the year. Local CVB's, TC's, and DMO's may submit a reimbursement request four times per year – October, February, April, and August. Other local applicants, such as nonprofit festivals and attractions, may submit a reimbursement request two times per year. The reimbursement deadline for other local applicants is divided into two six-month cycles: the first cycle is July – December with a deadline of February 1<sup>st</sup> and the second cycle is January – June with a deadline of August 1<sup>st</sup>. If the project meets criteria guidelines and funding is available, Tourism submits a reimbursement payment to the applicant.

New Projects Were Added as Eligible Projects

The following types of expenditures and projects were added to the list of eligible projects for reimbursement under the Matching Program:

- Meeting/Convention and Sports Marketing Trade Shows and Expo expenses
- Familiarization Trips/Site Visits
- Sponsorship of Tourism Trade Shows and Events
- Bid Fees to Assist in Bringing Events to State
- Internet Hosting, Design, and Maintenance expenses

Appendix VI contains the list of ineligible projects for reimbursement.

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## Chapter 2

# Findings and Recommendations

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Reimbursement Matching Percentages Have Been Modified

Reimbursement payments are based on a program match. According to 300 KAR 1:010, local projects are reimbursed for 50% and regional projects are reimbursed for 80% of total allowable expenditures. While other local applicants are reimbursed at 50%, the current matching requirement for local CVBs, TCs, and DMOs is 80%.

The nine tourism regional committees are no longer required to provide matching dollars and are reimbursed 100% of the project costs. Previously, regional committees were required to match 20% of the project's costs with the state reimbursing 80%.

### Recommendations:

- 1.1 Tourism should revise existing administrative regulations or adopt new regulations that addresses how the statewide lodging tax is to be distributed, its relation to the Regional Marketing and Matching Fund Program, and what types of state level expenditures are considered allowable.
- 1.2 Tourism should continue to update the Regional Marketing and Matching Fund Program regulations as needed so that the regulations set out all current requirements.

**Finding #2:**  
***A portion of the statewide lodging tax revenue was not spent in accordance with the law.***

In FY 2006, \$303,432 of the statewide lodging tax revenue was spent to cover a budget base deduction in Tourism's FY 2006 budget, an expenditure that is not authorized by law. KRS 142.406 specifically states that the statewide lodging tax revenue is to be used "the sole purpose of marketing and promoting tourism," and "shall not include expenditures on capital construction projects."

The \$303,432 to cover the general fund budget bill does not market or promote tourism. Statewide lodging tax revenue was used to meet the base deduction set forth in the Governor's budget for Tourism. According to Commerce Cabinet staff, the lodging tax account was the only place funds were available. The staff's supervisor and the Office of the State Budget Director directed the removal of the necessary funds from the lodging tax account.

In the absence of administrative regulations, state level expenditures are made at the discretion of the Commissioner of Tourism. The state level expenditures for FY 2006 are provided in the following table.

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**Table 6: FY 2006 State Funding Disbursements**

State Funding Disbursements	Fiscal Year 2006	Percentage of Total
Federation Equestre Internationale (FEI) World Equestrian Games	\$2,000,000.00	82.71%
Funds moved to cover general fund budget bill	\$303,432.00	12.55%
Kentucky Film Office Feasibility Study	\$50,000.00	2.07%
Rhythms of the South Sponsorship	\$25,000.00	1.03%
National Tour Association Sponsorship	\$25,000.00	1.03%
Kentucky State Parks Department Advertising	\$14,707.00	0.61%
<b>Total</b>	<b>\$2,418,139.00</b>	<b>100.00%</b>

Source: Auditor of Public Accounts based on information provided by the Department of Tourism

Other noteworthy state-level expenditures involved the World Equestrian Games and the Kentucky Film Office Feasibility Study. The following paragraphs provide additional information on these expenditures.

On December 6, 2005, a “staging agreement” was entered between the Federation Equestre Internationale (FEI), the National Equestrian Federation, and the World Games 2010 Foundation, Inc (Foundation), a Kentucky non-profit corporation and component unit of the Commonwealth, for the purpose of securing the Kentucky Horse Park as the venue for the 2010 World Equestrian games. Subsequently, on December 14, 2005, a memorandum of understanding (MOU) was entered between the Commerce Cabinet/Department of Tourism and the Foundation. One of the expressed intentions of the MOU was to “promote, market, plan and facilitate the World Equestrian games as well as build and improve necessary infrastructure at the Kentucky Horse Park”. The \$2 million disbursement from the FY 2006 lodging tax went to fund an escrow account that is to be used exclusively for the “staging agreement” obligation. Any expenditure for infrastructure would have violated the no capital construction provision in KRS 142.406.

The \$50,000 spent on the Kentucky Film Office Feasibility Study appears to violate project eligibility requirements of 300 KAR 1:010, which states that research and feasibility studies are ineligible projects for reimbursement. However, this regulation pertains to regional and local reimbursements. There are no regulations for spending the statewide lodging tax funds at the state level, so compliance can only be determined through the statutes. According to the Commissioner of Tourism, this expenditure supported Kentucky’s tourism because it was used to determine the present and potential economic impact of the film industry in Kentucky. State level expenditures projected for FY 2007 also include research expenditures.

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In general, FY 2006 state level expenditures of the lodging tax fund do not appear to market Kentucky outside of the state. FY 2007 expenditures appear to market and promote Kentucky outside of the state. Table 7 provides the actual FY 2007 expenditures reported by Tourism as of July 12, 2007. This information was provided at the end of the audit so no testing or reviews were performed on this data.

**Table 7: FY 2007 State Funding Expenditures as of July 12, 2007**

State Funding Disbursements	Fiscal Year 2007	Percentage of Total
Feeder City Television Advertising-4 weeks- St. Louis, Indianapolis, Cincinnati, Nashville, Knoxville, Louisville	\$434,262.25	19.14%
Pay-Per-Inquiry National Cable Television Advertising-Spring	\$200,000.00	8.82%
Department of Parks Marketing	\$189,390.04	8.35%
University of Kentucky Sports Sponsorship- Radio, Website, Guides, Fan Fare, Magazine	\$135,000.00	5.95%
ESPN Television Spot During Derby	\$125,000.00	5.51%
Newspaper Inserts for Tourism in Northern States Travel Section-IL, MI, WI, OH, IN	\$124,400.05	5.48%
TV Production Expenses, Including Recording, Mixing and Creation	\$122,213.15	5.39%
E-Brains E-Marketing Campaign- Kentucky banner ads and search words on numerous websites	\$120,113.99	5.29%
Rolux 3-Day Event Television Spots and Event Sponsorship	\$100,000.00	4.41%
Pay-Per-Inquiry National Cable Television Advertising-Fall 06	\$100,000.00	4.41%
Lane Report Special KY Tourism Section – 13 pages	\$96,350.00	4.25%
NBC Television Advertisement-World Equestrian Games 06	\$80,000.00	3.53%
Southern Living Magazine – “Great Drives Across the South”- Sponsorship Including Ads and Website Presence with Packages	\$50,000.00	2.20%
New York Press Reception- 103 Journalists Attended	\$47,000.00	2.07%
Newspaper Insert for Tourism in All In-State KY Newspapers	\$45,900.00	2.02%
Conversion Study on Advertising Effectiveness	\$36,950.00	1.63%
Additional Production, Talent Fees and Studio Changes for New Television Spots	\$31,692.50	1.40%
Derby Festival Sponsorship	\$30,000.00	1.32%
KY Meeting Planner Guide Advertising- 13 Pages Sponsored by Dept. of Tourism	\$29,733.00	1.31%
Tour South Advertisement-Ad	\$26,146.00	1.15%
Ryder Cup Full Page Advertisement for Fall 2006 Insert in USA Today	\$25,187.00	1.11%
Nelligan Sports Marketing- University of Louisville Sports Sponsorship, Includes Radio Spots, Program and Website Presence	\$24,000.00	1.06%
Photography and Talent Charges for New Television Spots	\$19,507.32	0.86%
Oprah Magazine Ad (1/2 page)	\$17,568.78	0.77%
Additional Feeder City Television – St. Louis Market	\$15,588.75	0.69%
Woodsongs Old Time Radio Hour Sponsorship	\$15,000.00	0.66%
Media Planning Time for Spring Feeder City Television	\$14,083.75	0.62%
Creative Development for Agritourism Advertising	\$5,985.00	0.26%
Talent Fees for Photo Shoot – Lake Cumberland	\$2,561.25	0.11%
Group Travel Website Development	\$2,489.85	0.11%
Meet in Kentucky Website Development	\$1,618.40	0.07%
News Call – Radio Announcement	\$850.00	0.04%
<b>Total</b>	<b>\$2,268,591.08</b>	<b>100.00%</b>

Source: Auditor of Public Accounts based on information provided by the Department of Tourism

### Recommendations:

- 2.1 A state tourism oversight committee should be developed to review and approve the state level spending of the statewide lodging tax, as well as the allocations to regional and local entities. The members of the committee should be representatives of the

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- nine tourism regions, along with Tourism officials.
- 2.2 Tourism, in conjunction with the state oversight committee, should develop the following:
    - Written guidelines as relating to funding eligible projects at the state level. If research and feasibility studies are acceptable projects, this should be reflected within the adopted guidelines.
    - An overall spending plan for each fiscal year with a detailed explanation of each state expenditure.
  - 2.3 Expenditures determined to be inappropriate should be reimbursed to the lodging tax fund account. Tourism should ensure lodging tax expenditures do not include capital construction projects.

**Finding #3:**  
*In FY 2006, 38% of the statewide lodging tax funds allotted to regional and local entities was not expended.*

Tourism allotted \$6.8 million of the statewide lodging tax revenue to be spent at the regional and local level, but only a little over \$4.2 million was actually expended in FY 2006. Even though funds were available, the regional and local tourism entities spent only 62% of the allotted funds. Potential mismanagement could occur without any regulations on how the statewide lodging tax should be distributed and how unused portions should be used.

KRS 142.406 states that funds from the statewide lodging tax shall not lapse but shall be carried forward to the next fiscal year or biennium. There are no regulations, however, that discuss the use of the unused funds that are carried forward, which means that these funds can be used at the discretion of the Commissioner of Tourism.

The following three tables illustrate the allotted funds, disbursed funds, and unused funds for regional, local (each county’s information rolled into the 9 tourism regions), and a combination of regional plus local for FY 2006. Appendix VII provides this same information for each specific county.

**Table 8: Regional Allotments, Disbursements, and Unused Funding for FY 2006**

Tourism Region	Regional Allotments	Regional Disbursements	Regional Unused Funds
Bluegrass	\$92,571.43	\$86,385.00	\$6,186.43
Green River	\$80,000.00	\$79,149.42	\$850.58
Cave	\$92,571.43	\$92,571.43	\$0.00
Eastern Highlands South	\$92,571.43	\$92,571.43	\$0.00
Eastern Highlands North	\$92,571.43	\$92,571.43	\$0.00
Louisville - Lincoln	\$92,571.43	\$81,684.66	\$10,886.77
Northern Kentucky	\$92,571.43	\$92,571.43	\$0.00
Southern KY Lakes and Rivers	\$72,000.00	\$72,000.00	\$0.00
Western Lakes and Rivers	\$92,571.42	\$92,571.42	\$0.00
<b>Total</b>	<b>\$800,000.00</b>	<b>\$782,076.22</b>	<b>\$17,923.78</b>

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Source: Auditor of Public Accounts based on information provided by the Department of Tourism

**Table 9: Local Allotments, Disbursements, and Unused Funding for FY 2006**

Tourism Region	Local Allotments	Local Disbursements	Local Unused Funds
Bluegrass	\$1,212,600.00	\$672,435.24	\$540,164.76
Green River	\$312,600.00	\$112,360.23	\$200,239.77
Cave	\$445,200.00	\$259,901.74	\$185,298.26
Eastern Highlands South	\$350,400.00	\$113,781.08	\$236,618.92
Eastern Highlands North	\$421,200.00	\$135,484.75	\$285,715.25
Louisville - Lincoln	\$1,731,600.00	\$1,278,559.75	\$453,040.25
Northern Kentucky	\$819,600.00	\$546,591.15	\$273,008.85
Southern KY Lakes & Rivers	\$183,600.00	\$58,837.89	\$124,762.11
Western Lakes & Rivers	\$523,200.00	\$279,435.41	\$243,764.59
<b>Total</b>	<b>\$6,000,000.00</b>	<b>\$3,457,387.24</b>	<b>\$2,542,612.76</b>

Source: Auditor of Public Accounts based on information provided by the Department of Tourism

**Table 10: Combined Regional and Local Allotments, Disbursements, and Unused Funding for FY 2006**

Tourism Region	Regional and Local Allotments	Regional and Local Disbursements	Regional and Local Unused Funds
Bluegrass	\$1,305,171.43	\$758,820.24	\$546,351.19
Green River	\$392,600.00	\$191,509.65	\$201,090.35
Cave	\$537,771.43	\$352,473.17	\$185,298.26
Eastern Highlands South	\$442,971.43	\$206,352.51	\$236,618.92
Eastern Highlands North	\$513,771.43	\$228,056.18	\$285,715.25
Louisville - Lincoln	\$1,824,171.43	\$1,360,244.41	\$463,927.02
Northern Kentucky	\$912,171.43	\$639,162.58	\$273,008.85
Southern KY Lakes & Rivers	\$255,600.00	\$130,837.89	\$124,762.11
Western Lakes & Rivers	\$615,771.42	\$372,006.83	\$243,764.59
<b>Total</b>	<b>\$6,800,000.00</b>	<b>\$4,239,463.46</b>	<b>\$2,560,536.54</b>

Source: Auditor of Public Accounts based on information provided by the Department of Tourism

Local funding was the source of the highest amount of unused funding. Table 9 illustrates that 42% of local funding was not utilized; while Table 8 illustrates that only 2% of regional funding was not utilized.

No projects were denied funding due to the lack of available funds. Sixteen projects were denied funding for not meeting one of the following guidelines: statewide association ineligible, required documentation not submitted, non profit status incorrect, request under required \$1,000 amount, project submitted ineligible, project submitted in wrong cycle, and project submitted for local audience only.

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The original allotment for FY 2006, illustrated in Table 2, was developed by Tourism prior to knowing the amount of expenditures that would be incurred at all three levels. According to Tourism, there were two desired goals of the statewide lodging tax revenue: 1) more money for state promotions and 2) more money for the communities. While the funds were not spent on the local and regional levels, a larger portion than allotted was spent at the state level. The following table illustrates the actual use of the statewide lodging tax for FY 2006.

**Table 11: Actual Statewide Lodging Tax Activity for FY 2006**

	Fiscal Year 2006	Percentage of Total
<b>Transient Room Tax Collected</b>	\$7,526,491.14	
<b>Disbursements</b>		
State Funding	\$2,418,139.00	36.32%
Regional Funding	\$782,076.22	11.75%
Local Funding	\$3,457,387.24	51.93%
<b>Total Disbursements</b>	\$6,657,602.46	100.00%
<b>Carry Forward Amount</b>	\$868,888.68	

Source: Auditor of Public Accounts based on information provided by the Department of Tourism and the Department of Revenue

Projected allotments were adjusted for FY 2007. As shown in Table 2, Tourism decreased the amount allotted to local projects and increased the amounts to regional projects. Regional and local actual expenditures for FY 2007 will not be available until after August 1, 2007, which is the deadline for sending in reimbursement requests for the January 2007 through June 2007 cycle.

**Recommendation:**

- 3.1** As recommended previously, a tourism oversight committee should be created to provide additional oversight for spending the statewide lodging tax revenue. A function of this committee could be to monitor how unused revenue should be spent.

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**Finding #4:**  
*No specific performance measurements have been developed to monitor the success of the promotional efforts supported by the statewide lodging tax revenue.*

Although Tourism possesses a variety of research information and statistics, it has not ensured that Kentucky's promotional activities have goals, objectives, and outcome measurements that determine the effectiveness of those promotional activities. There exist no specific performance indicators, or a strategic plan, by which to gauge and monitor the effectiveness of the expenditure of the additional state funds provided by the statewide lodging tax. Kentucky may not be achieving the best return on its investment, and more needs to be done to monitor its effectiveness, so that different strategies can be used, if necessary.

Tourism utilizes numerous sources to compile research data, statistics, and information. Tourism contracts with the Travel Industry Association, DK Shifflet, and Smith Travel for the following information: tourism and travel economic impact data, visitor information, lodging information, and U.S. trends and forecasts. Tourism also collects the number of travel information inquiries from a variety of advertising campaigns. Tourism uses this information to produce *The Road Ahead: Report to the Travel and Tourism Industry*, which illustrates the variety of marketing and advertising efforts of Kentucky and presents tourism statistics.

No additional plans or goals have been established, however, to gauge the effectiveness of the millions of dollars of additional funding. When asked what performance measurements and/or benchmarks Tourism utilizes to determine the success or failure of the local, regional, and state projects, a Tourism official responded as follows:

The performance measurement that we utilize to determine the success or failure for local, regional, and state projects is our commissioned research through Smith Travel Reports by County, Regional and State, and the Travel Industry Association of America's Economic Impact reporting of Tourism by County, Region, and State. Each of these companies do comparisons annually to determine if we are moving the tourism needle. In addition, we evaluate all inquiries from Website, Call Center, and Advertising on a monthly basis and compare to the prior year's results.

When asked what indicators are used to determine the impact of the statewide lodging tax revenue on Kentucky's overall tourism, Tourism provided the following response:

The indicators we utilize to determine the impact of the lodging tax is again the commissioned research and the advertising effectiveness research we perform at the end of our campaigns for print, broadcast and e-marketing messages.



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One measurement that Tourism publicly advertises is the growth in tourism spending. The following table illustrates Kentucky's Economic Impact from Travel and Tourism.

**Table 12: Kentucky's Economic Impact from Travel and Tourism**

	2003	2004	2005	2006	Growth 2003- 2004	Growth 2004- 2005	Growth 2005- 2006
Direct Expenditures	\$5,432,600,000	\$5,867,800,000	\$6,385,400,000	\$6,810,700,000	8.0%	8.8%	6.7%
Indirect Expenditures	\$2,702,900,000	\$2,861,400,000	\$3,058,200,000	\$3,258,300,000	5.9%	6.9%	6.5%
<b>Total Expenditures</b>	<b>\$8,135,500,000</b>	<b>\$8,729,200,000</b>	<b>\$9,443,600,000</b>	<b>\$10,069,000,000</b>	<b>7.3%</b>	<b>8.2%</b>	<b>6.6%</b>
Direct Employment	84,010	85,680	87,000	87,340	2.0%	1.5%	0.4%
Indirect Employment	86,800	88,700	89,200	89,500	2.2%	0.6%	0.3%
<b>Total Employment</b>	<b>170,810</b>	<b>174,380</b>	<b>176,200</b>	<b>176,840</b>	<b>2.1%</b>	<b>1.0%</b>	<b>0.4%</b>
Direct Payroll	\$1,566,800,000	\$1,641,600,000	\$1,662,500,000	\$1,679,000,000	4.8%	1.3%	1.0%
Indirect Payroll	\$1,577,200,000	\$1,659,500,000	\$1,670,300,000	\$1,684,400,000	5.2%	0.7%	0.8%
<b>Total Payroll</b>	<b>\$3,144,000,000</b>	<b>\$3,301,100,000</b>	<b>\$3,332,800,000</b>	<b>\$3,363,400,000</b>	<b>5.0%</b>	<b>1.0%</b>	<b>0.9%</b>
<b>Federal, State, and Local Tax Revenue</b>	<b>\$874,900,000</b>	<b>\$918,400,000</b>	<b>\$952,800,000</b>	<b>\$987,100,000</b>	<b>5.0%</b>	<b>3.7%</b>	<b>3.6%</b>

Source: Auditor of Public Accounts based on information provided by the Department of Tourism from research compiled by the Travel Industry Association

While there was growth in the total expenditures for 2006, the rate of growth decreased from previous years' levels, even though Kentucky's promotional expenditures increased dramatically with the statewide lodging tax revenue. According to these statistics, tourism spending growth was 7.3% in 2004, 8.2% in 2005, and 6.6% in 2006. The years prior to the implementation of the statewide lodging tax had higher growth rates in tourism spending.

Also, the percentage of growth in federal, state, and local tax revenues decreased in 2006. Tax revenues increased 5% in 2004, 3.7% in 2005, and 3.6% in 2006. Therefore, tax revenue growth has stalled since the implementation of the statewide lodging tax.

### Recommendations:

- 4.1 Tourism should develop an overall strategic plan for tourism in the state, to include goals, objectives, and outcome measurements. Within the strategic plan, Tourism should identify specific performance indicators that will be used to assess the effectiveness of the projects funded by the statewide lodging tax revenue.
- 4.2 These performance indicators should be continuously analyzed to determine which statewide lodging tax projects provide the greatest benefit to the economy. In addition, the impact of the state, regional, and local lodging tax projects on the overall economy from year to year should be compared with other states.
- 4.3 Research and feasibility studies should be considered eligible projects to be funded by the statewide lodging tax revenue, to determine the effectiveness of promotion campaigns.

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- 4.4** The state tourism oversight committee, whose creation was previously recommended, should review tourism’s overall strategic plan, including the specific performance indicators to ensure Kentucky is effectively using the statewide lodging tax revenue to reach stated goals.

**Finding #5:**  
*Verifying the required supporting documentation for reimbursement under the Matching Program is labor intensive and quickly becoming unmanageable.*

To be eligible for funding, projects must meet certain criteria requirements, and applicants must verify eligibility by submitting supporting documentation with their requests for reimbursement. Tourism reviews the reimbursement request, along with supporting documentation to verify project eligibility. Examples of supporting documentation for a tourism brochure publication include: invoice, copy of check, and tear sheet (example of project). See Appendices VIII and IX to view the reimbursement request forms and Appendix X for the types of documentation required for each type of project.

Tourism staff then reviews the detailed supporting documentation to determine whether a project is eligible for reimbursement. While Tourism appears to be diligently reviewing this documentation, the following factors made it difficult for us to audit the process:

- Reimbursement requests did not provide a numbered reference for each item so that the supporting documentation could be cross-referenced to that item. Documentation was simply attached without any identification of project it supported.
- Reimbursement requests do not require a project category description. Such a description would facilitate the review process, as well as provide reimbursement data for tracking purposes.
- The forms are not electronic, which means that they can not be submitted, reviewed, stored, or returned electronically, with follow-up notes.
- There was no standardized organization for the supporting documentation.
- The handwritten notes for each item on the reimbursement form provided the only information as to what was reimbursed.

**Recommendations:**

- 5.1** Tourism should create an electronic reimbursement form. This form should require that each reimbursement item have a reference number that will correspond to the attached documentation. The form should also require the requesting entity to categorize the type of project to one of the 13 eligible projects. The electronic form should allow the following:
- Facilitate the completion and updating of the request by the regional and local entities.
  - Calculate the summary costs for the different types of projects reimbursed statewide, as well as by vendor, if properly completed.
  - Maintain an electronic copy of the final reimbursement form, so analysis can be performed to detect questionable request items based on historical information.

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- Store all notes electronically to ensure that they are legible and maintained with the reimbursement requests.

- 5.2 Matching Program applicants should organize the supporting documentation in a permanent binder that references the documentation to the request item.
- 5.3 Tourism should establish annual seminars to train the regional and local entities on how to complete the reimbursement request form and how the supporting documentation should be organized.

**Finding #6:**  
*The completeness of statewide lodging tax collections cannot be verified due to tax reporting issues.*

Revenue does not have a separate and unique tax registration number for each lodging facility. Multiple lodging facilities may be registered under one tax account number. For instance, a taxpayer who owns multiple lodging facilities - a consolidated filer - may be filing multiple facilities within one sales and use tax account number. Therefore, Revenue cannot separately identify each individual facility responsible for the statewide lodging tax, as well as determine the amount of statewide lodging tax generated by county or tourism region.

There are 1,098 statewide lodging tax accounts registered by Revenue and 91 of those accounts have not filed a lodging tax return for at least one filing period. The total dollars associated with the 8% of delinquent accounts is unknown. Some of the delinquent accounts had not submitted any lodging tax payments during the period from July 2006 to January 2007.

The businesses registered as lodging facilities must file the Transient Room Tax Monthly Return (Form 73A850) and any amount due with the Department of Revenue. Form 73A850 is a paper form, not an electronic form, that is manually mailed to each of the registered businesses. KRS 142.402 states that a taxpayer shall submit a return and any tax due on or before the 20<sup>th</sup> day of every month, unless another tax period has been approved by Revenue. Of the 1,098 registered taxpayers, only 807 are filing monthly. There are 59 filing annually in December and 232 filing quarterly in September, December, March, and June. The tax period for the lodging usually corresponds with the approved tax period for the businesses sales and use tax.

Tax receipts are transferred/uploaded nightly to EMARS, the state's accounting system; however, there is a 1-2 day lag in the information. The following table represents monthly-accumulated tax receipts for the statewide lodging tax for 2005-2006 and 2006-2007 as of March 15, 2007. Between July of 2005 and February of 2007, approximately \$12,782,983.97 had been collected. As illustrated, August was the only month in 2007 in which there were lower collections than the previous year's monthly total.

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**Table 13: Monthly Statewide Lodging Tax Receipts**

Month	Fiscal Year	
	2006	2007
July	\$677,782.31	\$751,734.67
August	\$750,346.42	\$746,701.34
September	\$688,208.99	\$763,415.41
October	\$670,421.98	\$769,856.36
November	\$688,088.66	\$739,362.55
December	\$574,336.46	\$602,881.21
January	\$426,477.22	\$435,932.88
February	\$410,805.35	\$446,608.41
March	\$510,956.14	*
April	\$623,122.88	*
May	\$691,738.80	*
June	\$814,205.93	*
<b>Total</b>	<b>\$7,526,491.14</b>	<b>\$5,256,492.83</b>

Source: Auditor of Public Accounts based on information provided by the Department of Revenue

\* This information was not available at time of request.

Revenue considers the statewide lodging tax as a minor tax compared to Revenue’s other tax collections, so very limited resources have been assigned to its collection. Only one employee reviews compliance issues with the statewide lodging tax accounts. This person reviews the returns for mathematical accuracy and manually enters the tax paid into a spreadsheet to determine the number of delinquent accounts. If a taxpayer is registered, but has not previously filed a return, it is difficult for Revenue to determine the estimated amount due without a previous history of payment. If a taxpayer is not registered and has not previously filed a return, the taxpayer cannot be identified as delinquent.

**Recommendations:**

- 6.1** Revenue should collaborate with Tourism on a regular basis to update and maintain the lodging facilities that should be submitting statewide lodging tax revenue.
- 6.2** Revenue should consider developing a method to ensure all hotels/motels are reporting and paying the statewide lodging tax, by providing a unique identifier to each taxpayer to verify the facilities are paying the statewide lodging tax.
- 6.3** To maximize limited resources, Revenue should develop an electronic Transient Room Tax Monthly Return (Form 73A850) to avoid paper mailings and returns. Electronic notifications of delinquent accounts could improve the rate of collection.
- 6.4** Revenue should provide Tourism with quarterly tax collection reports, including number of taxpayers registered, number returns filed, number of delinquent returns, and the amount of tax revenues collected.

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**Survey Results:**

Survey responses from Matching Program recipients were positive as to the management of the statewide lodging tax revenue, but did recommend that state level allocations be spent to promote Kentucky outside of the state.

The APA emailed 119 surveys to each member (with a deliverable email address) of the nine tourism regional committees to obtain feedback on the statewide transient tax Regional Marketing and Matching Funds Program. The APA received 34 responses, which included at least one response for each of the nine tourism regions.

Appendix XI provides a summary of the multiple-choice responses. The following are some highlighted responses.

- The majority of survey respondents stated the distribution of the statewide transient tax revenues is efficient and reasonable.
- Approximately 63% of survey respondents stated the county allotment formula for distributing the local portion of statewide transient tax revenues was fair and equitable.
- Approximately 75% of survey respondents stated it was not difficult to meet the matching percentage.
- Approximately 72% of survey respondents stated the matching percentage should not change.
- The majority of survey respondents stated unused local funds should be rolled over to the next year rather than moved to the regional or state funding level.
- Survey respondents overwhelmingly stated there was good communication with Tourism staff and that they were pleased with their overall experience.

Survey respondents suggested the following items should be considered as an allowable/eligible project:

- Research studies and membership dues should be eligible.
- Distance/ radius requirements should be decreased and local advertisements should be eligible for funding.

The following tables summarize other unique and reoccurring strengths and recommendations provided by the respondents to our survey.

**Table 14: Strengths Reported by Lodging Tax Survey Respondents**

STRENGTHS
The increase in funding has allowed applicants the opportunity to increase marketing and advertising to increase tourism promotion.
Applicants have noticed an increase in information request and visitors.
Kentucky's brand is more recognizable due to all applicants utilizing the same cohesive advertising brand.
The increase in funding has allowed smaller counties the ability to advertise tourism opportunities.
The increase in funding has allowed more applicants to participate in Coops.
The increase in funding allows the opportunity to utilize professional services for higher quality products to improve image.
The smaller match is helpful to applicants.
The less restrictive guidelines are helpful to expand programs.
The stream lined application/ reimbursement request process with additional filings assisted with a quicker turnaround to increase cash flow.
Tourism answers questions timely.

Source: Auditor of Public Accounts based on information received from the nine tourism regional committees' survey responses

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**Table 15: Recommendations Suggested by Lodging Tax Survey Respondents**

<b>RECOMMENDATIONS</b>
The formula for determining county allocations should be changed. Counties' promotion budgets could be considered.
TIA formula should be tailored. The formula should represent the typical Kentucky traveler rather than on the national model. Percentages applied to hotel, restaurants, and airports should be adjusted. This would improve the percentage of allocation.
If a county has more than one CVB or TC, funding should not be split equally. Population should be considered when dividing the funding.
The 30/70% split between CVB, TC, DMO and other applicants should be changed.
Tourism should provide funding levels as soon as possible.
To help applicants meet match, counties should be allowed to cross promote and/or funding should be provided up front rather than after the completion of a project. Partnerships with neighboring states should be eligible.
Matching percentages should be based on where visitors are staying and generating the tax revenue rather than where attractions are located.
All projects or no projects should be pre-approved.
Bid fees should not be allowed because they open the door for misuse of funds.
Smaller communities should be allowed to sponsor state meetings.
Projects allowable in local areas/ counties should be increased. The mileage radius/ distance requirements should be decreased for print media, radio, and billboards.
Dues to national organizations and associations should be eligible.
In house postage meters should be allowed.
Local maps, directional signs, and welcome signs should be eligible. Posters should be eligible. Promotional items should be eligible.
Travel, hotel, and food costs should be eligible.
Operating expenses such as staff should be eligible.
Visitors in hotel rooms should be surveyed. Surveys should be eligible projects.
Research projects such as the economic impact of marketing efforts on attendance, and local market analysis should be eligible projects.
Per diem should be increased.
State should form more co-ops.
Reimbursement of funds needs to be faster or at least approval of submitted items.
The amount of documentation required should be decreased.
Projects completed in 1 cycle, but not paid for until next cycle should be eligible for funding.
Any excess county allotment should be divided between counties within the same region that utilize all of their funding.
State expenditures should be utilized to market Kentucky outside of state to compete with other states. State expenditures should be utilized for effective TV/radio ads in feeder states.
Marketing dollars need to be increased to compete with other states.
A committee should provide Frankfort guidance.
Calculation of county assessments should be clarified.
The process should not be so complicated.
Changes should not be implemented mid-cycle.
Matching funds staff needs more help.
A manual should be developed.
The development of tourism attractions should be eligible.

Source: Auditor of Public Accounts based on information received from the nine tourism regional committees' survey responses

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## Scope

The Auditor of Public Accounts (APA) conducted this performance audit to determine if the goal of the statewide lodging tax is being achieved. The APA concentrated on the statewide lodging tax projects for FY 2006, since the statewide lodging tax was implemented June 1, 2005. In order to develop findings, the scope of the audit focused on the following sub-objectives:

- Determine how the Revenue Cabinet ensures that the statewide lodging tax is properly collected.
- Determine if the distribution of the statewide lodging tax revenues is efficient and reasonable.
- Determine if the projects funded by the statewide lodging tax dollars abide by prescribed guidelines.
- Determine if the Commerce Cabinet is utilizing performance measurements to benchmark the success or failure of the projects and the impact on the overall tourism economy.

This audit was conducted in accordance with generally accepted *Government Auditing Standards* promulgated by the Comptroller General of the United States.

## Methodology

Our research began with a review of Tourism's website and Tourism's allowable project description for information about Kentucky's 1% statewide transient tax. Next, we reviewed the relevant sections of Kentucky Revised Statutes and Administrative Regulations. Finally, relevant bills and budget information were reviewed.

To determine how Kentucky's total tourism budget compares to other states, the APA reviewed the Travel Industry Association of America's annual Survey of U.S. State and Territory Tourism Office Budgets. *State Lodging Taxes* by the National Conference of State Legislatures' was reviewed for other states' statewide and local lodging tax information. Various other states' performance audits, such as Montana's Lodging Facility Use Tax report, relating to tourism were reviewed to assess national trends and issues involving tourism.

The following tourism publications provided by Tourism were reviewed:

- *2006-2007 The Road Ahead: Report to the Travel & Tourism Industry*
- *KY Tourism Tracker*, Summer 2006 and Winter 2007

We interviewed staff from the Department of Tourism, the Department of Revenue, and Kentucky's Tourism Council.

Tourism provided the APA with lodging tax activity for FY 2006 and projections for FY 2007. The tax activity included disbursements for statewide, regional, and local project expenditures. Tourism also provided the APA with Kentucky's Economic Impact from Travel and Tourism. Revenue provided the APA with statewide lodging tax accumulated receipts, the number of taxpayers registered along with filing frequency, and the number of delinquent accounts.

To obtain feedback on the statewide lodging tax Matching Funds and Regional Marketing Program from members of the nine tourism regional committees, the APA developed an electronic survey. The survey was emailed to each member of the nine tourism regional committees with a deliverable email address on March 21, 2007. The response rate was approximately 29%; the APA received 34 responses from the 119 surveys emailed.

The APA briefly reviewed a random sample of local and regional reimbursement requests and supporting documentation to verify if supporting documentation meets project eligibility requirements. This review was inconclusive due to the record keeping issues discussed in Finding #5.



**142.400 Statewide transient room tax -- Rate -- Exclusions from tax.**

- (1) A transient room tax shall be imposed at a rate of one percent (1%) of the rent for every occupancy of any suite, room, rooms, or cabins charged by all persons, companies, corporations, groups, or organizations doing business as motor courts, motels, hotels, inns, tourist camps, or like or similar accommodations businesses. As used in this subsection, rent shall not include any other local or state taxes paid by the person or entity renting the accommodations.
- (2) The tax imposed by subsection (1) of this section shall not apply to the rental or lease of any room or set of rooms that is equipped with a kitchen, in an apartment building, and that is usually leased as a dwelling for a period of thirty (30) days or more by an individual or business that regularly holds itself out as exclusively providing apartments.

**Effective:** June 1, 2005

**History:** Created 2005 Ky. Acts ch. 168, sec. 67, effective June 1, 2005.

**142.402 Transient room tax due monthly -- Returns -- Extension for filing -- Assessments -- Refund or credit -- Interest and penalties due.**

- (1) On or before the twentieth day of every month, a taxpayer subject to the tax provided in KRS 142.400 shall submit a return and the tax due for the preceding month to the Department of Revenue, in a form prescribed by the department. To facilitate administration, the department may permit or require returns or tax payments for other periods. Upon written request received on or before the due date, the department may extend the filing or tax payment due date up to thirty (30) days.
- (2) The Department of Revenue shall examine and audit each return as soon as practicable after it is received. If the tax computed by the department is greater than the tax paid by the taxpayer, the department shall assess the excess within four (4) years from the filing deadline, including any extensions granted. If the taxpayer failed to file a return or filed a fraudulent return, then the excess may be assessed at any time.
- (3) A taxpayer may request a refund or credit for any overpayment of tax under KRS 142.400 within four (4) years after the tax due date, including any extensions granted. The request shall be made to the Department of Revenue in writing and shall state the amount requested, the applicable period, the basis for the request, and any other information the department reasonably requires.
- (4) Any tax not paid on or before its due date shall bear interest at the tax interest rate provided in KRS 131.183 from the date due until the date of payment. If an extension is granted, and the tax is not paid within the extension period, then interest shall accrue from the original due date.

**Effective:** June 1, 2005

**History:** Created 2005 Ky. Acts ch. 168, sec. 68, effective June 1, 2005.

**Legislative Research Commission Note (6/1/2005).** 2005 Ky. Acts chs. 11, 85, 95, 97, 98, 99, 123, and 181 instruct the Reviser of Statutes to correct statutory references to agencies and officers whose names have been changed in 2005 legislation confirming the reorganization of the executive branch. Such a correction has been made in this section.

**142.404 Officer and member liability for taxes due.**

Notwithstanding any other provision of law to the contrary, the president, vice president, secretary, treasurer, manager, partner, or any other person holding any equivalent office or position in any corporation, limited liability company, limited liability partnership, or limited liability limited partnership subject to KRS 142.400 and 142.402 shall be personally and individually liable, both jointly and severally, for the tax imposed under KRS 142.400. Dissolution, withdrawal of the corporation, limited liability company, limited liability partnership, or limited liability limited partnership from the state, or the cessation of holding any office shall not discharge the liability of any person. The liability shall attach at the time the tax becomes or became due. No person shall be held liable under this section if the person did not have authority to collect, truthfully account for, or pay over the tax at the time it became due. "Taxes" as used in this section shall include interest accrued under KRS 131.183 and all applicable penalties imposed under this chapter or KRS 131.180, 131.410 to 131.445, and 131.990.

**Effective:** July 12, 2006

**History:** Amended 2006 Ky. Acts ch. 149, sec. 205, effective July 12, 2006. -- Created 2005 Ky. Acts ch. 168, sec. 69, effective June 1, 2005.

**142.406 Tourism, meeting, and convention marketing fund -- Creation and fund sources -- Authorized investments -- Use of funds -- Annual report to Legislative Research Commission and to Governor.**

- (1) There is hereby created and established in the State Treasury a trust and agency account to be known as the tourism, meeting, and convention marketing fund. The fund shall be administered by the Commerce Cabinet, with the approval of the Governor's Office for Policy and Management.
- (2) All tax receipts from the tax imposed under KRS 142.400 shall be deposited into the tourism, meeting, and convention marketing fund, and shall be appropriated for the purposes set forth in subsection (3) of this section. The fund shall also contain any other money contributed, allocated, or appropriated to it from any other source. Money in the fund shall be invested by the Finance and Administration Cabinet in instruments authorized under KRS 42.500. Investment proceeds shall be deposited to the credit of the fund. Money in the fund shall not lapse but shall be carried forward to the next fiscal year or biennium.
- (3) The tourism, meeting, and convention marketing fund shall be used for the sole purpose of marketing and promoting tourism in the Commonwealth including expenditures to market and promote events and venues related to meetings, conventions, trade shows, cultural activities, historical sites, recreation, entertainment, natural phenomena, areas of scenic beauty, craft marketing, and any other economic activity that brings tourists and visitors to the Commonwealth. Marketing and promoting tourism shall not include expenditures on capital construction projects.
- (4) By September 1 of each year, the secretary of the Commerce Cabinet shall report to the Governor and the Legislative Research Commission concerning the receipts, expenditures, and carryforwards of the fund for the preceding fiscal year.

**Effective:** June 1, 2005

**History:** Created 2005 Ky. Acts ch. 168, sec. 70, effective June 1, 2005.

**Legislative Research Commission Note (6/1/2005).** 2005 Ky. Acts chs. 11, 85, 95, 97, 98, 99, 123, and 181 instruct the Reviser of Statutes to correct statutory references to agencies and officers whose names have been changed in 2005 legislation confirming the reorganization of the executive branch. Such a correction has been made in this section.

**142.408 Short title for KRS 142.400 to 142.408 -- Kentucky Tourism, Meeting, and Convention Marketing Act.**

KRS 142.400 to 142.408 may be cited as the Kentucky Tourism, Meeting, and Convention Marketing Act.

**Effective:** June 1, 2005

**History:** Created 2005 Ky. Acts ch. 168, sec. 71, effective June 1, 2005.

## 300 KAR 1:010. Procedure for Regional Marketing and Matching Funds Program.

RELATES TO: KRS 148.522, 148.525

STATUTORY AUTHORITY: KRS 148.525(3)

NECESSITY, FUNCTION, AND CONFORMITY: KRS 148.525(2) provides that the Division of Marketing and Advertising Services shall be responsible for the state matching fund tourism advertising program. KRS 148.525(3) authorizes the Commissioner of the Department of Travel Development to promulgate administrative regulations in accordance with the provisions of KRS Chapter 13A in order to carry out the provisions of KRS 148.525. This administrative regulation establishes uniform and consistent administration of the application, participation, and reimbursement requirements of the Regional Marketing and Matching Funds Program.

Section 1. Definitions. (1) "Allowable local promotional project" and "allowable regional promotional project" mean a promotional project that is not a state agency, federal agency, or state-wide project that:

- (a) Meets eligibility requirements established by this administrative regulation; and
- (b) Is or will be completed and documented in a matching funds program cycle.

(2) "Local promotional project" means a project that promotes a specific local tourism event, attraction, or geographic area to markets outside the local area.

(3) "Matching funds program cycle" means the period of time between May 1 of a calendar year and April 30 of the succeeding calendar year.

(4) "Regional promotional project" means a project that promotes tourism opportunities throughout a tourism region to markets outside the tourism region.

Section 2. Subject to the availability of funds, the regional marketing and matching funds program shall provide financial and marketing assistance to promotional projects of tourism regions and local nonprofit organizations.

Section 3. Tourism Regions. There is established nine (9) tourism regions, as follows:

- (1) Tourism Region 1, Western Lakes and Rivers, shall consist of the following counties:  
(a) Ballard;(b) Caldwell; (c) Calloway;(d) Carlisle;(e) Christian (f) Crittenden; (g) Fulton;(h) Graves;(i) Hickman;(j) Livingston;(k) Lyon;(l) Marshall;  
(m) McCracken; (n) Todd; and(o) Trigg.(2) Tourism Region 2, Green River, shall consist of the following counties:(a) Daviess;(b) Hancock;  
(c) Henderson;(d) Hopkins; (e) McLean;(f) Muhlenberg;(g) Ohio;(h) Union; and(i) Webster. (3) Tourism Region 3, Cave, shall consist of the following counties:(a) Allen (b) Barren;(c) Butler;(d) Edmonson;(e) Hart;(f) Logan;(g) Metcalfe;(h) Monroe;(i) Simpson; and (j) Warren.
- (4) Tourism Region 4, Louisville-Lincoln, shall consist of the following counties:(a) Breckinridge;(b) Bullitt;(c) Grayson;(d) Hardin;(e) Henry;  
(f) Jefferson;(g) Larue;(h) Marion; (i) Meade; (j) Nelson; (k) Oldham;(l) Shelby;(m) Spencer; (n) Trimble; and (o) Washington.
- (5) Tourism Region 5, Southern Kentucky Lakes and Rivers, shall consist of the following counties:(a) Adair;(b) Casey;(c) Clinton;(d) Cumberland;  
(e) Green;(f) McCreary;(g) Pulaski;(h) Russell;(i) Taylor; and (j) Wayne.(6) Tourism Region 6, Northern Kentucky, shall consist of the following counties:(a) Boone;(b) Bracken;(c) Campbell; (d) Carroll;(e) Fleming;(f) Gallatin; (g) Grant;(h) Kenton;(i) Lewis;(j) Mason;(k) Owen;  
(l) Pendleton; and (m) Robertson.(7) Tourism Region 7, Bluegrass, shall consist of the following counties:(a) Anderson;(b) Bourbon;(c) Boyle;  
(d) Clark; (e) Fayette;(f) Franklin;(g) Garrard; (h) Harrison;(i) Jessamine;(j) Lincoln;(k) Madison;(l) Mercer;(m) Nicholas;(n) Scott; and(o) Woodford.
- (8) Tourism Region 8, Eastern Highlands-North, shall consist of the following counties:(a) Bath;(b) Boyd; (c) Carter;(d) Elliott;(e) Floyd;(f) Greenup;  
(g) Johnson;(h) Lawrence;(i) Magoffin;(j) Martin; (k) Menifee;(l) Montgomery; (m) Morgan;(n) Pike; and(o) Rowan.
- (9) Tourism Region 9, Eastern Highlands-South, shall consist of the following counties:(a) Bell;(b) Breathitt;(c) Clay;(d) Estill;(e) Harlan;(f) Jackson;  
(g) Knott;(h) Knox;(i) Laurel; (j) Lee;(k) Leslie;(l) Letcher;(m) Owsley;(n) Perry;(o) Powell;(p) Rockcastle;(q) Whitley; and (r) Wolfe.

Section 4. Tourism Region Committees. (1) To qualify for state tourism matching funds, a tourism region shall establish a tourism region committee.

(2)(a) Each tourist and convention commission established pursuant to KRS 91A.350 in a tourism region shall appoint a person to serve on the tourism region committee established for its tourism region. (b) If a tourism and convention commission has not been established pursuant to KRS 91A.350 by the local governing bodies of a county, or cities within a county, in a tourism region, the county judge/executive of each county shall appoint a person to serve on the tourism region committee established for the county's tourism region.

(3) A member of the tourism region committee:

- (a) Shall serve a two (2) year term; and
- (b) May be reappointed for successive two (2) year terms.

(4) A tourism region committee shall be:

- (a) Incorporated as a nonprofit, nonstock corporation, pursuant to KRS Chapter 273; and
- (b) Established as a tax-exempt entity, pursuant to Section 501(c)(6) of the Internal Revenue Code of 1976, as amended.

(5) A tourism region committee shall:

- (a) Elect a chairperson, vice chairperson, secretary, and treasurer;
- (b) Establish bylaws that shall include:
  - 1. Purpose, mission, and limitations of committee;
  - 2. Composition and duties of the board of directors and officers;
  - 3. Procedures for election, removal of directors and officers, and filling of vacancies;
  - 4. When meetings shall be held;
  - 5. Quorum and voting requirements;
  - 6. Financial and contractual procedures;
  - 7. Preparation of annual budget and financial report; and
  - 8. Procedure for amendment of bylaws.

Section 5. Types of Promotional Projects. (1) The types of local or tourism region promotional projects eligible for funding shall be:

- (a) Tourism publications and videos;
- (b) Media advertisements and press kits;
- (c) Billboards and signage;
- (d) Brochure distribution services;
- (e) Postage and freight expenses;
- (f) Consumer travel show expenses; or
- (g) Group tour marketplace expenses.

(2)(a) Promotional projects shall meet the requirements of, or be the type specified by Section 6 of this administrative regulation.

(b) Brochures, videos, tourism region media advertisements and press kits shall not be eligible for reimbursement unless they have been reviewed and approved by the state matching funds program manager prior to submission of a "Reimbursement Request" form for expenditures relating to these items.

Section 6. Requirements for and Types of Promotional Projects; Allowable Costs and Bid Requirements. (1) Tourism publications and videos.

(a) Travel related brochures and videos that highlight the attractions, facilities, and special events of the tourism region or local area and would encourage travelers to stop and visit:

1. Tourism region and local area visitor's guides;
2. General festival brochures;
3. Group tour publications; and
4. Brochures and videos promoting tourist attractions that are open to the public for regular hours.

(b) Except as provided by paragraph (k) of this subsection, brochures, other publications, and videos shall not be eligible for state matching funds if they contain advertising sales.

(c) Brochures, other publications, and videos shall include the following information, as applicable:

1. A description of points of interest, recreational opportunities and listing of services, including food, lodging, and camping facilities;
2. Landmarks that relate to the history or tradition of the area, or of architectural interest, such as buildings listed on the state or national register;
3. Attractions open to the public, such as theaters and museums, including the time and date when they are open to the public, the admission fee if any, location, mailing address and telephone number for additional information if available;
4. Information relating to recreational activities and attractions, such as fishing, water sports, and hiking, and required fees;
5. A list of tourism region or local area events that are tourism-related;
6. The telephone number of the state travel information office; and
7. Current maps of the tourism region, with major highways and access routes into the area clearly marked, and a chart listing mileage from major cities outside the immediate local area or tourism region;

(d) If possible, the title of a brochure shall be placed at the top of the publication for placement in a brochure rack.

(e) The text of a brochure shall be informative, interesting, free of typographical or other errors.

(f) A brochure shall be professionally typeset.

(g) If feasible, to save costs, brochures shall:

1. Consist of the lightest possible paper weight and cover stock, and the least number of pages possible;
2. Be manufactured from recycled paper; and
3. Be designed as self-mailers.

(h) The front or back cover of a brochure shall include the Kentucky state official tourism advertising theme, which may be obtained from the state matching funds program manager.

(i) A tag line stating "Printed in cooperation with the Kentucky Department of Travel Development" shall be included in a brochure.

(j) In addition to the requirements established by this subsection, a tourism region brochure shall also comply with the requirements established by this paragraph:

1. A brochure cover shall be four (4) color;
2. The telephone number and address of the state travel information office shall be included;
3. A brochure shall include a map of the tourism region that shall be:

a. Prominently placed in the brochure;

b. Of sufficient size to be easily read;

c. In sufficient detail to show major traffic arteries, primary cities and towns, lakes and other natural attractions, and keyed to the major attractions addressed in the brochure; and

4. The emphasis of the brochure shall be on the tourism region as a whole, and shall not favor a particular area of the region.

(k) An advertisement may be sold to a business and included in a tourism region brochure to supplement the cost of a tourism region brochure if the:

1. Ratio of advertising to editorial space does not exceed 2:3;
2. Advertiser provides a tourism-oriented service directly to travelers; or
3. Theme and content of advertisements promote tourism in the region.

(l) Distribution plan and services. A distribution plan for the distribution of brochures to potential tourists shall be developed with the following distribution sources:

1. Tourist commissions;
2. State and local welcome centers;
3. State travel department;
4. Consumer travel shows; and
5. Other similar distribution sources.

(m) A distribution plan shall include a method for responding to inquiries resulting from state, tourism region, and local area tourism advertising campaigns.

(n) If the total printing cost of a publication, excluding layout and design expenses, exceeds \$1,000, three (3) written bids shall be obtained. Bids shall not be required for reprints made with only minor changes.

(o) A publication or video shall be submitted to the state matching funds program manager for his review and approval, prior to completion.

(p) The state matching funds program manager shall review submissions within five (5) business days after receipt.

(2) Media advertisements and tourism region press kits.

(a) A media tourism advertisement may be placed in a newspaper, magazine or other periodical, on radio, television, video tape travelogue, and electronic media such as the Internet.

(b) A media tourism advertisement shall include:

1. An address or telephone number to be contacted for more information;
2. If possible, use the official state advertising theme; and
3. Contain general information about the tourism region in addition to specific information relating to an event, attraction, or geographic area that is promoted in the advertisement.

(c) Media costs.

1. Costs for tourism media advertisements, including media time, production costs, and media placement, shall be eligible for reimbursement.
2. Except as provided by this subsection, advertising placed with media located within a forty (40) mile radius shall not be eligible for reimbursement.
3. All media advertisement costs placed in a tourist oriented publication shall be eligible for reimbursement.
4. Fifty (50) percent of media costs for advertising placed with media located within a forty (40) mile radius shall be eligible for reimbursement if the:
  - a. Organization is located within a forty (40) mile radius of a major media market listed in paragraph (d) of this subsection; and

- b. Media cost is not a type listed as excluded in paragraph (e) of this subsection.
- (d) Major media markets shall be:
1. Cincinnati, Ohio: Cincinnati Post Enquirer, WLW-AM, WEBN-FM, WCPO-TV, WLWT-TV, WKRC-TV, WXIX-TV;
  2. Evansville, Indiana: Evansville Courier, WSTO, WBKR (Owensboro), WTVW-TV, WEHT-TV, WFIE-TV;
  3. Huntington, West Virginia: Huntington Herald Dispatch, WTCR-FM (Ashland), WSAZ-TV, WOWK-TV, WCHS-TV;
  4. Louisville, Kentucky: Louisville Courier Journal, WHAS-AM, WAMZ-FM, WAVE-TV, WHAS-TV, WLKY-TV, WDRB-TV;
  5. Lexington, Kentucky: Lexington Herald Leader, WVLC-AM and FM, WLAP-AM and FM, WKYT-TV, WLEX-TV, WTVW-TV, WDKY-TV, WYMT-TV (Hazard); and
  6. Paducah, Kentucky: WKYZ-FM, WDDJ-FM, WPSD-TV.
- (e) Media advertisement costs shall not be eligible for reimbursement if they are incurred for advertisements that are:
1. Placed in meeting planners and convention trade publications;
  2. Sponsored or advertised by tourism organizations in tourism region brochures that have been allocated state tourism matching funds; or
  3. Funded through other cooperative advertising programs of the Kentucky Department of Travel Development.
- (f) Costs associated with media press kits and media relations programs shall be reimbursable only for tourism region committees.
- (3) Brochure distribution services. Rental of rack space for the distribution of eligible promotional materials shall be eligible for reimbursement.
- (4) Postage and freight costs. Postage and freight costs shall be eligible for reimbursement if they are incurred in:
- (a) Response to general tourist requests, or media or group tour operator inquiries; or
  - (b) Shipping tourism promotional literature and displays for use at consumer travel shows and group tour marketplaces.
- (5) Billboard and signage costs. Rental of a billboard, tourist oriented directional signage (TODS), fifth legends or attraction logos, including related artwork, design and production costs shall be eligible for reimbursement if it:
- (a) Promotes specific attractions, events, availability of food, lodging, camping or other services;
  - (b) Is placed on interstates or other major access highways; or
  - (c) Does not consist solely of language welcoming visitor to a community or region.
- (6) Consumer travel show and group tour marketplace costs.
- (a) Expenses related to attendance at consumer travel shows and group tour marketplaces shall be eligible for reimbursement if they:
1. Promote an attraction, event, or geographic area;
  2. Are not county fairs, festivals, or other local events;
  3. Are not expended for booth space costs at industrial solicitation events, or convention trade and meeting planners functions;
  4. Are expended for consumer travel shows and group tour marketplaces that are located more than forty (40) miles from the event, attraction, or geographical area that is promoted;
  5. Are expended for the purchase and maintenance of exhibits such as display assembly, artwork, transparencies, photographs, brochure racks, consumer travel show or group tour marketplace booth space or furniture rental;
  6. Registration fees imposed for the interview of prospective group tour operators;
  7. Shipping costs of displays and promotional material; or
  8. Rental fees for audio-visual equipment and material.
- (b) A tourism region group shall be eligible for reimbursement of membership dues for major tourism associations, if:
1. Membership is required to participate in advertising or promotional ventures; and
  2. The state matching funds program manager has approved the expense.
- (c) A tourism region group shall be eligible for a seventy (70) dollars per diem for a maximum of two (2) persons who serve as staff for tourism region travel booths at a consumer travel show or group tour marketplace if:
1. Booths are manned consistently; and
  2. The header, transparencies, photos, and region or local tourism brochures are representative of the tourism region or local areas within the tourism region.
- (d) The per diem shall be paid to the tourism region committee, and the tourism region committee shall not be required to match the per diem.
- (e) Transportation costs related to a tourism region's attendance at a consumer travel show or group tour marketplace shall not be eligible for reimbursement.
- (7) The following items shall not be eligible for reimbursement:
- (a) Meeting planner guides;
  - (b) Industrial incentive brochures;
  - (c) General community relocation and development brochures;
  - (d) City or county, or city-county maps or directories that list businesses and services;
  - (e) Items related to theatrical productions, such as programs, playbills, posters;
  - (f) Table tents;
  - (g) Material related to membership and subscription solicitation;
  - (h) Registration and entry forms;
  - (i) Event and contest category or regulation material;
  - (j) Entertainment expenses;
  - (k) Excluding group tour marketplaces, registration expenses for conferences and meetings;
  - (l) Research projects such as marketing or feasibility studies;
  - (m) Except for those approved for tourism region organizations, bumper stickers, posters, banners, flags, postcards, lapel pins, bags, or other types of specialty advertising;
  - (n) Prizes, trophies, plaques, decorations, paint supplies, and poster board;
  - (o) Items for resale;
  - (p) Amounts paid for Kentucky sales tax;
  - (q) Except for tourism region organizations, stationery, letterhead, envelopes, and other such general office supplies and material;
  - (r) Salaries or other compensation for the staff or personnel of a tourism region committee;
  - (s) General operating and administrative costs;
  - (t) Finance charges or late payment fees;
  - (u) Sponsorship or seed money used to bring special events or performers to an area;
  - (v) Other quick-print material such as flyers, handbills, or circulars; and
  - (w) Expenditures in violation of law.

Section 7. Tourism Region Strategic Master Plan; Coordination of Efforts. (1) A tourism region committee shall:

- (a) Adopt a strategic master plan for its tourism region for each matching funds program cycle;



- (b) Update the strategic master plan every two (2) years;
  - (c) Transmit a copy of the master plan:
    - 1. To the state matching funds program manager;
    - 2. No later than October 1 of the matching funds program cycle to which the plan relates; and
  - (d) During the matching funds program cycle, utilize the master plan in reaching its decisions concerning the feasibility and desirability of marketing strategies.
- (2) Organizations planning tourism promotions shall:
- (a) Work with the tourism region committee and tourist commission to prevent duplication of projects and to consolidate tourism promotions;
  - (b) Inform the county representative of the tourism region of local plans.
  - (3)(a) Organizations shall comply with the Americans with Disabilities Act.
  - (b) Information on the Americans with Disabilities Act may be obtained from:
    - 1. Office on the Americans with Disabilities Act, Civil Rights Division, U.S. Department of Justice, P.O. Box 66118, Washington, D.C. 20035-6118; and
    - 2. Governor's ADA Initiative, ADA Special Advisor to the Governor, Capitol, Room 126-A, 700 Capital Avenue, Frankfort Kentucky 40601, 502-564-2611.

Section 8. Matching Funds Distribution and State Match. (1) A tourism region shall be eligible to receive matching funds for specified allowable promotional projects.

- (2) The department shall determine the amount of matching funds that will be allocated to regional and local projects.
- (3) Subject to the availability of funds, the department shall set aside an amount of the program's matching funds sufficient to provide a state match of up to:
  - (a) Eighty (80) percent of the costs of an allowable regional promotional project; and
  - (b) Fifty (50) percent of the costs of an allowable local promotional project.

Section 9. Application for Tourism Regional Marketing and Matching Funds. (1) An application may be submitted by a tourism region committee or a local organization that is a nonprofit entity for eligible:

- (a) Projects that have been or will be completed during the matching funds program cycle; and
- (b) Expenses totaling at least \$1,000 for a project, or a number of projects.
- (2) Applications shall be submitted to the state matching funds program manager on or before October 1.
- (3)(a) An application shall be submitted on a "Tourism Regional Marketing & Matching Funds" application and signed.
- (b) An application shall include a detailed list of eligible tourism projects that will be completed during the current program cycle, and the following information for each project:
  - 1. Its direct relation to the promotion of tourism;
  - 2. Its ability to attract visitors from outside the immediate area;
  - 3. Its potential to enhance local, tourism region, or state economies;
  - 4. A list of funds, other than state matching funds, that the applicant can obtain;
  - 5. The cost estimates; and
  - 6. The completion date.
- (4) An applicant shall submit proof of its nonprofit status with its application as follows:
  - (a) A tourism region committee shall submit a copy of its:
    - 1. Federal determination of tax exempt status;
    - 2. Articles of incorporation as a nonprofit, nonstock corporation pursuant to KRS Chapter 273; and
    - 3. Bylaws.
  - (b) A local tourism commission shall submit a copy of the ordinance establishing it.
  - (c) Other local organizations shall submit a copy of its:
    - 1. Federal or state determination of tax exempt status; or
    - 2. Articles of incorporation as a nonprofit, nonstock corporation pursuant to KRS Chapter 273.

Section 10. Approval of Applications. (1) Between October 1 and October 15, the state matching funds program manager shall:

- (a) Review each timely filed application and determine its eligibility; and
- (b) Transmit copies of eligible applications to the members of appropriate tourism region committees.
- (2)(a) Between October 15 and November 30, the state matching funds program manager or assistant state matching funds program manager shall hold allocation meetings in each of the nine (9) tourism regions with the tourism region committee for the region.
- (b) Allocation meetings shall be held to:
  - 1. Discuss the regional marketing and matching funds program;
  - 2. Review and establish priorities for local organization applications;
  - 3. Screen local applications for eligibility;
  - 4. Discuss each project's:
    - a. Direct relationship to tourism promotion;
    - b. Ability to attract visitors into the tourism region;
    - c. Impact on local, tourism region, and state economies; and
    - d. Compatibility with the marketing goals of the tourism region;
  - 5. Establish priorities for funding projects by determining which projects have the greatest potential to increase tourism and stimulate the tourism region and state economies;
  - 6. Recommend the distribution of local funds; and
  - 7. Review and discuss the tourism region application.
- (3) On or before November 30, a tourism region committee shall submit its recommendation for each applicant within its tourism region to the state matching funds program manager.
- (4) Between December 1 and December 31, the state matching funds program manager shall:
  - (a) Review tourism region committee recommendations; and
  - (b) Determine the allocation of matching funds that will be granted to tourism region applicants and local applicants.
- (5) The state matching funds program manager shall base his allocation determination on:
  - (a) The items specified in subsection (2)(b) of this administrative regulation;
  - (b) If applicable, an applicant's successful completion of similar projects; and
  - (c) The availability of funds.

(6) On or before January 31, the state matching funds program manager shall mail to each applicant and the chairperson of each tourism region committee a:

- (a) "Project Agreement" form to each approved applicant stating the amount of the state matching funds allocation for the matching funds program cycle; or
  - (b) Letter stating why an applicant's projects have been denied funding; and
  - (c) Copy of the "Application For Regional Marketing And Matching Funds" submitted by each applicant, indicating the approved and disapproved projects.
- (7) On or before February 15, an applicant shall sign and return the "Project Agreement" form to the state matching funds program manager.

Section 11. Reimbursement. (1)(a) A local project shall be eligible for reimbursement for fifty (50) percent of its total expenditures that do not exceed the amount allocated by the state matching funds program.

(b) A tourism region project shall be eligible for reimbursement for eighty (80) percent of its total expenditures that do not exceed the amount allocated by the state matching funds program.

(2) Requests for reimbursement shall not be made until at least \$1,000 has been expended.

(3) Reimbursement shall be limited to projects that;

- (a) Were included on an application;
- (b) Were approved by the state matching funds program manager; and
- (c) Have been completed.

(4) In-kind contributions shall not be reimbursed, and shall not be included as part of an applicant's match.

(5) Requests for reimbursement shall be made on the "Reimbursement Request - Phase I" form. The "Reimbursement Request - Phase I" form shall:

(a) Be filed with the department on or before May 1;

(b) Be signed; and

(c) State the federal identification number of the organization.

(6) Checks submitted as documentation shall:

(a) Not be dated prior to May 1 of the current program cycle;

(b) Have been issued by the organization that applied for matching funds, unless otherwise approved by the state matching funds program manager.

(7) The following information shall be attached to the "Reimbursement Request - Phase I" form:

(a) Two (2) copies of each vendor's invoice;

(b) Two (2) copies of the front and back of each canceled check;

(c) For local projects, proof of payment of all expenditures;

(d) For tourism region projects, proof of payment of twenty (20) percent of expenditures;

(e) Four (4) completed brochures;

(f) For publications or videos, two (2) copies of invoices, with a breakdown of layout and design costs, the number of copies printed, and other related expenses;

(g) If printing costs exceed \$1,000, a copy of three (3) written bids;

(h) One (1) duplicate of a completed video;

(i) One (1) original tear sheet of advertisements as they appeared in the print media including date of issue, and for regional projects a cover of the publication;

(j) One (1) typed transcript or a tape of a radio, television, or video-tape travelogue advertisement;

(k) For a tourism region, two (2) copies of tourism region press kit;

(l) Documentation of the distance of media from the event, attraction, or area promoted;

(m) One (1) photograph of a completed billboard and signage advertisement;

(n) Documentation of the location and dates of service for billboard and signage rentals;

(o) Documentation of the location, distribution routes, and dates for distribution services;

(p) Documentation of postage expenses, including postage invoices or paid receipts, list of names, addresses, and material mailed;

(q) Verification of attendance at consumer travel shows or group tour marketplaces, including signed agreements or contracts;

(r) Verification of regional travel show or group tour marketplace per diem, including a completed and signed "Per Diem Reimbursement Form"; and

(8) For tourism region projects, proof of payment of the remaining eighty (80) percent of expenditures shall be submitted after receipt of state matching funds; and

(9) The state matching funds program manager may request additional documentation, if the submitted documentation is incomplete or unclear.

Section 12. Forfeited Funds. (1) Funds allocated to an approved project shall be forfeited if:

(a) Documentation required by the provisions of this administrative regulation is not submitted before May 1;

(b) A project approved by a tourism region committee is not eligible for tourism matching funds;

(c) An approved project does not materialize;

(d) A completed project did not remain in compliance with program requirements; or

(e) Funding is denied because the expenses of an approved project are improperly documented.

(2) Forfeited funds shall be redistributed by the state matching funds program manager to other approved projects pursuant to the provisions of Section 13 of this administrative regulation.

Section 13. Reimbursement: Phase II. (1) On or before May 1, applicants may request reimbursement for the costs of a project that was approved for the current matching funds program cycle that are in excess of the allocation designated on the "Project Agreement" form for the project.

(2) Requests for reimbursement for projects or costs specified in subsection (1) of this section shall be submitted on a "Reimbursement Request-Phase II" form.

(3)(a) Documentation for reimbursement shall not be dated prior to May 1 of the current matching funds program cycle for which reimbursement is sought.

(b) Documentation shall be made pursuant to the provisions of Section 11 of this administrative regulation.

Section 14. Audits. The department may request the State Auditor to audit a tourism project governed by this administrative regulation.

Section 15. Incorporation by Reference. (1) The following forms are incorporated by reference:

(a) "Application, Tourism Regional Marketing and Matching Funds, (Form Rev '96)";

(b) "Reimbursement Request - Phase I - Initial Allocation, Tourism Regional Marketing and Matching Funds, (Form Rev '96)";

(c) "Reimbursement Request - Phase II, Tourism Regional Marketing and Matching Funds, (Form Rev '96)";

- (d) "Project Agreement, Tourism Regional Marketing and Matching Funds, (Form Rev '96)";
- (e) "Reimbursement Checklist, Tourism Regional Marketing and Matching Funds, (Form Rev '96)";
- (f) "Tourism Region Per Diem Reimbursement Form, Tourism Regional Marketing and Matching Funds, (Form Rev '96)";
- (g) "Summary of Program Cycle, Tourism Regional Marketing and Matching Funds, (Rev '96)";
- (h) Tourism Regions map, Tourism Regional Marketing and Matching Funds, (Rev '96)"; and
- (i) Samples of Forms (Rev '96), which includes completed examples of the forms incorporated by reference in paragraphs (a), (b), and (c) of this subsection.

(2) These documents may be inspected, copied, or obtained from the Department of Travel Development, Division of Marketing and Advertising, Capital Plaza Tower, 500 Mero Street, Room 2200, Frankfort Kentucky 40601, (telephone (502) 564-4930, fax (502) 564-5695), Monday through Friday, 8 a.m. to 4:30 p.m. (22 Ky.R. 635; Am. 1828; eff. 4-5-96.)

# Counties Within the Nine Tourism Regions

Tourism Region Name	Marketing Tourism Region Name	Number of Counties	Counties
Bluegrass	Bluegrass	15	Anderson, Bourbon, Boyle, Clark, Fayette, Franklin, Garrard, Harrison, Jessamine, Lincoln, Madison, Mercer, Nicholas, Scott, and Woodford
Green River	Bluegrass, Blues, and Barbeque	9	Daviess, Hancock, Henderson, Hopkins, McLean, Muhlenberg, Ohio, Union, and Webster
Cave	Caves, Lakes, and Corvettes	10	Allen, Barren, Butler, Edmonson, Hart, Logan, Metcalfe, Monroe, Simpson, and Warren
Eastern Highlands South	Daniel Boone Country	18	Bell, Breathitt, Clay, Estill, Harlan, Jackson, Knott, Knox, Laurel, Lee, Leslie, Letcher, Owsley, Perry, Powell, Rockcastle, Whitley, and Wolfe
Eastern Highlands North	Kentucky Appalachians	15	Bath, Boyd, Carter, Elliott, Floyd, Greenup, Johnson, Lawrence, Magoffin, Martin, Menifee, Montgomery, Morgan, Pike, and Rowan
Louisville - Lincoln	Kentucky's Derby	15	Breckinridge, Bullitt, Grayson, Hardin, Henry, Jefferson, LaRue, Marion, Meade, Nelson, Oldham, Shelby, Spencer, Trimble, and Washington
Northern Kentucky	Northern Kentucky	13	Boone, Bracken, Campbell, Carroll, Fleming, Gallatin, Grant, Kenton, Lewis, Mason, Owen, Pendleton, and Robertson
Southern KY Lakes & Rivers	Southern KY Lakes & Rivers	10	Adair, Casey, Clinton, Cumberland, Green, McCreary, Pulaski, Russell, Taylor, and Wayne
Western Lakes & Rivers	Western Water Lands	15	Ballard, Caldwell, Calloway, Carlisle, Christian, Crittenden, Fulton, Graves, Hickman, Livingston, Lyon, Marshall, McCracken, Todd, and Trigg



## Allowable Projects – Description

The Matching Funds program is administered by the Kentucky Department of Tourism. This program offers reimbursement for projects, which are in direct support of the promotion and marketing efforts of a **non-profit** tourism event, attraction, or geographic area. Projects eligible for funding consideration include only those directly related to the promotional efforts targeted to markets outside your immediate area.

### PROGRAM CYCLE

Application/Reimbursement Request due February 1, 2007 for eligible projects completed from July 1, 2006 – December 31, 2006. Only one copy of documentation is required.

Application/Reimbursement Request due August 1, 2007 for eligible projects completed from January 1, 2007 - June 30, 2007. Only one copy of documentation is required.

**Funding is distributed based on a formula to calculate county allotments. Convention & Visitors Bureau's and Tourist Commissions are eligible to receive up to 70% of the county allotment. Applicants other than CVB's and Tourist Commission are eligible to receive up to 30% of the county allotment.**

**The program match will be 80/20 for Tourist Commissions, CVB's or designated marketing organization and a 50/50 match will be available to other applicants such as festivals or non-profit attractions. Tourist Commissions, CVB's or designated DMO's can submit Reimbursement Requests 4 times a year - October, February, April and August.**

Please note - Federal agencies, state agencies or statewide promotions are not granted funding through this program. Non-profit organizations receiving funds from the Department of Tourism, including the Kentucky Sports Authority, for the purpose of sponsorship and/or advertising are not eligible for additional matching funds for projects or events in which already received funding.

Examples of eligible projects include:

- Tourism Publications, Videos, CDs and DVDs
- Media Advertisements
- Billboards and Signage
- Brochure Distribution Services
- Postage and Freight expenses
- Consumer Travel Show expenses
- Group Tour Marketplace expenses
- Meeting/Convention & Sports marketing Trade Shows and Expo expenses
- Familiarization Trips/Site Visits
- Media Press Kits
- Sponsorship of Tourism Trade Shows and Events
- Bid Fees to Assist in Bringing Events to State
- Internet Hosting, Design and Maintenance expenses

Please refer to the section below that describes these projects in detail.

## Tourism Publications, Videos, CDs and DVDs

Tourism Matching Funds are available for the production and printing of travel-related brochures and videos. Included in definition are area visitor's guides, general festival brochures, group tour publications, meeting/convention publications, sports marketing publications, brochures, CDs, DVDs and videos promoting tourist attractions open to the public for regular hours.

To ensure that publications, videos, CDs and DVDs are of the best possible quality, organizations should solicit the aid of professional services. A distribution plan should be developed to ensure that brochures are reaching potential tourists. Suggested distribution sources include area tourist commissions, state welcome centers, inquiries resulting from state, regional, and local advertising campaigns, brochure distribution services, consumer travel shows, meeting planning expos, events right holders conferences and packaged travel marketplaces.

**All publications and videos submitted for matching funds must be reviewed and approved by the State Manager before going to final print or production.**

When total printing costs of a publication exceed \$1,000, three written bids must be obtained. Layout and design expenses are exempt from the bidding requirement. It is not necessary to obtain bids for reprints when only minor changes are being made.

Printed items not eligible: industrial incentive brochures, general community relocation and development brochures, city/county maps or directories listing businesses and services, program, playbills, posters, table tents, membership and subscription solicitation material, registration and entry forms, event and contest category or regulation materials, and other quick print materials such as flyers, handbills, circulars, bags.

**Starting July 1, 2006 -Advertising sales will be allowed in brochures. Only the amount above advertising sales will be eligible for reimbursement. Ad sales affidavit report will need to be submitted with reimbursement form. Any brochure listing another state's attractions, businesses or facilities will only be eligible for 40%\* reimbursement or 25% \* as long as the brochure has 80/20 ratios. (80% of the publication must be Kentucky) (\*reimbursement based on 80/20 or 50/50 match )**

The front or back cover of all brochures must include the current official advertising brand of Kentucky (shown below) in accordance to the Kentucky Brand Graphics Standard Manual. Videos, CDs and DVDs are included in this requirement. The brand must be included in a reasonable proportion to the overall publication or project. Up-to-date logo should be obtained from the State Manager as needed. The Kentucky Brand Graphics Standards Manual is available at [www.kentuckytourism.com/industry](http://www.kentuckytourism.com/industry)



In addition, a tag line stating, "Printed in cooperation with the Kentucky Department of Tourism" must be included.

## Media Advertisements

Tourism Matching Funds are available for costs incurred for media press kits, newspaper, magazine, radio, television tourism advertisements, meeting/convention media outlets, sports related media, as well as videotape travelogue presentations. Charges for media time, production costs, and media placement are eligible. **The department requires the brand to be used on all advertising to remain eligible.**

To be eligible for funding, advertising must be directed toward areas other than the immediate location of the event, attraction, or geographic area being promoted.

This grant program will not pay for advertising placed with most media located within a 50-mile radius. However, to prevent penalization to organizations located within close proximity to major media markets, groups located within a 50-mile radius and advertising in pre-approved media markets will be eligible to submit 25 or 40 percent of these costs for funding consideration instead of the 50 or 80 percent. (Reimbursement based on 80/20 or 50/50 match).

Please note – advertisements appearing in videotape travelogue presentations or tourist oriented publications are exempt from the 50-mile radius requirement.

Advertisements not eligible include:

- Tourism organizations sponsoring or advertising in regional brochures (which have already been allocated Tourism Matching Funds)

**The Department of Tourism reserves the right to review an audio or videocassette tape copy of advertisements placed by individual applicants**

## Consumer Travel Shows, Group Marketplaces, Meeting/Convention and Sports Marketing Trade Shows and Expos

Tourism Matching Funds are available for various expenses associated with attendance to applicable consumer travel shows, group tour marketplaces, meetings/conventions and sports marketing trade shows and expos to promote an attraction, event, or geographic area. Various local events, such as county fairs, festivals, etc. are not included in this definition. Also, booth space costs for attendance at industrial solicitation events or functions are not considered eligible.

A list of the specific shows applicants will be attending must be included in the application for review and approval by the State Manager. In addition, before expenses associated with these shows can be submitted for reimbursement, documentation verifying attendance must be provided. Specific expenses eligible for reimbursement include:

- Purchase and maintenance of exhibits such as display assembly, artwork, transparencies, photographs, and brochure racks
- Booth space and furniture rental
- Registration fees incurred for the privilege of interviewing perspective group tour operators and promoting attraction, event or destination/geographic area.
- Membership dues in major tourism associations when necessary to participate in various advertising/promotional ventures as approved by state manager (reimbursable for regional groups only)
- Shipping of displays and promotional material
- Rental of audio-video equipment and materials
- \$70 per diem will be paid directly to **regions** for up to two people to staff regional booths

**To encourage regional participation at travel shows and marketplaces, a \$70 per diem (for up to two people) is available to assist in covering lodging and food costs to staff regional booths. Transportation costs are not covered under this expense.**

In order to qualify, regional booths must be manned consistently, and must be representative of the region in appearance (header, transparencies or photos) and literature distributed (regional and local brochures).

Reimbursement will be paid directly to regional organizations.

To receive funds for per diem allowance, documentation verifying regional attendance to shows as well as a list of dates and names of individuals who staffed booths must be provided. This agency reserves the right to require additional documentation as necessary.

## **Internet/Web-site**

Tourism Matching Funds are available for costs associated with the design, hosting and maintenance of tourism related web sites. In order to be eligible for funding, the current state tourism brand/logo and a link to the state tourism web site and regional web site must be on the home page of the applicant's web site.

Any web sites that contain paid advertisements will not be eligible for reimbursement.

Web sites should also include the following information as applicable:

- Description of points of interest, recreational opportunities and services, including food, lodging, and camping facilities
- Landmark features should relate to the area's history of tradition and be of particular architectural interest. Examples are buildings listed on the state or national register
- Attractions open to the public, such as theaters and museums, including times and date when they are open and the admission fee, if one is charged. Always include a location's address, phone number, and web-site address where more information is available
- Information on recreational activities and attractions, such as fishing, water sports, hiking, and golfing. Include up to date information on license fees
- Listing of area or regional tourism-related events
- A link to the regional web-site for your area
- Current area maps, with major highways and access routes into the area clearly marked, as well as mileage from other cities



## Billboards and Signage

Rental of billboards, TODS (tourist oriented directional signage) and fifth legends (attraction logo), as well as artwork, design and production costs for these types of advertising are eligible for submission through this program. These advertisements should promote specific attractions, events, availability of food, lodging, camping, or other services as applicable. State funded advertisements cannot mention the names of for-profit businesses.

Preliminary artwork must be reviewed by the State Manager
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Applicants are required to use the state's official advertising brand.

Eligible advertising includes those placed on interstates or other major access highways. Billboards will need to have a 20- mile radius.

General "Welcome to our Community" signage, banners, and other directional road signs are not eligible for reimbursement. In addition, costs associated with construction of any permanent signage structures (other than state-approved TODS) are not reimbursable.

## Familiarization Trips/Site Visits

Tourism Matching Funds are available for solicitation and education opportunities for planners, media and other related tourism groups. Such events include:

- Familiarization trips for planners and media
- Site visits for planners and media

All of the above are efforts based on future business to the state of Kentucky.

Planner definition includes:

- Meeting planners
- Group travel planners
- Reunion planners
- Sports planners/Rights Holders
- Media

Matching Funds are based on cash expenditures of such events and not in kind amenities. Airline fees and mileage costs up to \$300.00 per person are eligible for reimbursement. Mileage up to the \$300 allowance will be based on the state's current mileage rate. Allowance is per planner or media only and not any additional guest. Alcohol expenses are not applicable. Example of eligible expenses: lodging, meals and attraction tickets. **Gratuity, service charges or tips are not eligible.**

## **Sponsorship of Tourism Trade Shows and Events**

Tourism Matching Funds are available for sponsoring conferences; trade shows and events that could create economic impact for the state. Such sponsorships may include but are not limited to the following examples:

- Meal functions
- Tangibles (name badges, lanyards, registration bags)
- Education sessions and materials
- Overall conference partner or sponsor of total event

This program excludes local or State of Kentucky events. Matching Funds are based on cash expenditures only of such events and not in kind amenities. Hospitality events that include alcohol or any sponsorship package are not eligible. **Gratuity, service charges or tips are not eligible.**

The Kentucky State Brand must be present on all signage and visual aides.

## **Bid Fees to assist in Bringing Events to Kentucky**

Tourism Matching Funds are available for fees involved in securing/attracting events to the state. Funds are designed and available to assist organizations in attracting sports events or convention/meetings, which will generate significant economic impact for the state of Kentucky.

Event must have at least a 5-year history in other locations. Mature events previously held in Kentucky are eligible if proof can be provided that it is or will be secured through a competitive bid process. Bid fee must be matched with cash expenditures only and excludes in kind amenities for match. If bid fee expenses include lodging and meals those expenses will be reimbursed with receipt documentation only. **Gratuity, service charges or tips are not eligible.** Alcohol expenses are not applicable. Kentucky Unbridled Spirit Brand must be present at event and on all printed materials associated with event where possible. Applicant must include letter of award of event when submitting reimbursement.

## **Brochure Distribution Services**

Tourism Matching Funds are available for rental of rack space for the distribution of eligible promotional materials from legitimate firms offering these services. There are not location restrictions for distribution services.

## **Postage and Freight**

Tourism Matching Funds are available for postage costs incurred when responding to general tourist requests, media and group tour operator inquiries, and shipping of tourism promotional literature and displays for use at travel shows and marketplaces.

For expenses to be considered for reimbursement, documentation of names, addresses, and material mailed must accompany each postage invoice. Only bulk mail, UPS (or other shipping service) and mailing firm postage costs will be eligible. Postage meters and purchase of stamps are not eligible for postage reimbursement.

## Ineligible Projects and Items

### Expenses not currently funded through the Matching Funds Program

Listed below are several tourism related items and activities which are not eligible for reimbursement under the current Regional Marketing & Matching Funds Program guidelines

- > Association of other organizational dues (except for regional groups as approved)
- > Entertainment expenses
- > Flyers, circulars, tickets, handbills, posters, playbills, entry and registration forms, event and contest category or regulation materials, certificates, or other quick-print materials intended for distribution within a 50-mile radius of an attraction, event, or geographic area being promoted
- > Publications or web-sites which are not specifically tourism oriented, such as industrial development, community relocation, city/county maps, and directories listing businesses and services or membership and subscription solicitation brochures
- > Newsletters
- > Promotional expenses for attractions which are not open to the general public for regular operating hours

- > Research projects such as marketing or feasibility studies
- > Any portion of costs for advertising occurring with media located within a 50-mile radius of the event, attraction, or area being promoted (except for costs allowed for major markets as approved)
- > Bumper stickers, posters, post cards, lapel pins, bags, or other types of specialty advertising (except those expenses approved for regional organizations)
- > Prizes, trophies, plaques, decorations, banners, flags, paint supplies, posterboard, and other related items
- > Welcome, identification, or other directional road signs (except state approved TODS or Fifth Legend)
- > Items for resale
- > Rental or purchase of equipment (except those items approved for Travel Shows and Marketplaces)
- > Construction of permanent structures
- > Stationary, letterhead, envelopes, or other

general supplies and materials (except those approved for regional organizations)

- > In-kind contributions
- > Salaries or other compensation for staff or region committee personnel (except for regional groups as approved)
- > General operating costs and miscellaneous expenses
- > Administrative costs
- > Finance charges/late fees
- > Gratuity or Tips
- > Kentucky sales tax
- > Anything contrary to state law

In addition, please be sure to review the section of the allowable projects, which includes a detailed description.

7/25/06

# Bluegrass Tourism Region

## Appendix VII

County	Applicant	First Cycle Disbursement FY 05/06	Second Cycle Disbursement FY 05/06	Total Disbursement 05/06
Anderson	Anderson County Tourism Commission	\$0.00	\$2,530.46	\$2,530.46
Bourbon	Paris/Bourbon County Tourism Commission	\$1,774.73	\$811.00	\$2,585.73
Bourbon	Cane Ridge Meeting House	\$0.00	\$661.99	\$661.99
Boyle	Danville/Boyle County Convention & Visitors Bureau	\$6,490.13	\$7,877.79	\$14,367.92
Boyle	Great American Brass Band Festival	\$0.00	\$2,175.71	\$2,175.71
Boyle	Norton Center for the Arts	\$10,862.37	\$4,680.30	\$15,542.67
Boyle	Pioneer Playhouse	\$7,697.50	\$1,318.75	\$9,016.25
Clark	Winchester/Clark County Tourism Commission	\$3,373.88	\$8,533.13	\$11,907.01
Fayette	American Saddle Horse Museum	\$1,935.80	\$1,417.10	\$3,352.90
Fayette	Ashland, The Henry Clay Estate	\$1,337.50	\$0.00	\$1,337.50
Fayette	Explorium of Lexington (Children's Museum)	\$6,108.00	\$0.00	\$6,108.00
Fayette	Kentucky Mansion's Preservation Foundation	\$685.50	\$596.25	\$1,281.75
Fayette	Lexington Center Corporation	\$2,306.91	\$0.00	\$2,306.91
Fayette	Lexington Convention & Visitors Bureau	\$197,775.80	\$265,165.63	\$462,941.43
Fayette	Lexington Sports Authority	\$1,444.50	\$12,349.02	\$13,793.52
Franklin	Frankfort/Franklin County Tourist & Convention Commission	\$8,406.77	\$17,684.98	\$26,091.75
Franklin	Kentucky Historical Society Foundation	\$16,256.81	\$0.00	\$16,256.81
Harrison	Cynthiana/Harrison County Chamber of Commerce	\$0.00	\$540.00	\$540.00
Jessamine	Jessamine County Fiscal Court	\$0.00	\$3,650.00	\$3,650.00
Jessamine	Nicholasville Now	\$0.00	\$1,936.42	\$1,936.42
Lincoln	Lincoln County Fiscal Court	\$700.00	\$2,417.50	\$3,117.50
Madison	Berea Tourist Commission	\$3,347.48	\$13,271.13	\$16,618.61
Mercer	Harrodsburg/Mercer County Tourist Commission	\$6,620.15	\$14,663.60	\$21,283.75
Mercer	Shaker Village of Pleasant Hill	\$0.00	\$6,284.40	\$6,284.40
Scott	Georgetown/Scott County Tourist Commission	\$7,120.93	\$14,116.65	\$21,237.58
Woodford	Woodford County Tourist Commission	\$2,746.55	\$2,762.12	\$5,508.67
	<b>Bluegrass Tourism Region Local Total</b>	<b>\$286,991.31</b>	<b>\$385,443.93</b>	<b>\$672,435.24</b>
Regional Committee	Kentucky's Bluegrass Region, Inc	\$0.00	\$86,385.00	\$86,385.00
	<b>Bluegrass Tourism Region Local and Regional Total</b>	<b>\$286,991.31</b>	<b>\$471,828.93</b>	<b>\$758,820.24</b>

# Green River Tourism Region

County	Applicant	First Cycle Disbursement FY 05/06	Second Cycle Disbursement FY 05/06	Total Disbursement 05/06
Daviess	International Bluegrass Music Museum	\$5,162.20	\$7,111.30	\$12,273.50
Daviess	Owensboro/Daviess County Tourist Commission	\$17,359.93	\$29,283.79	\$46,643.72
Hancock	Hancock County Tourism Commission	\$4,682.90	\$1,019.92	\$5,702.82
Henderson	Henderson County Tourist Commission	\$7,156.00	\$22,384.86	\$29,540.86
Hopkins	Downtown Hanson Association	\$1,325.00	\$0.00	\$1,325.00
Hopkins	Hopkin County Tourist Commission	\$0.00	\$1,389.67	\$1,389.67
Hopkins	City of Hanson	\$0.00	\$1,200.00	\$1,200.00
Muhlenberg	Central City Tourism Commission	\$1,403.54	\$3,577.75	\$4,981.29
Muhlenberg	Greenville/Muhlenberg County Chamber of Commerce	\$990.00	\$0.00	\$990.00
Ohio	Ohio County Parks Department	\$515.00	\$1,401.50	\$1,916.50
Ohio	Ohio County Tourism Commission	\$2,563.48	\$2,357.68	\$4,921.16
Union	Union County Fiscal Court	\$534.96	\$940.75	\$1,475.71
	<b>Green River Tourism Region Local Total</b>	<b>\$41,693.01</b>	<b>\$70,667.22</b>	<b>\$112,360.23</b>
Regional Committee	Green River Tourism Committee, Inc	\$0.00	\$79,149.42	\$79,149.42
	<b>Green River Tourism Region Local and Regional Total</b>	<b>\$41,693.01</b>	<b>\$149,816.64</b>	<b>\$191,509.65</b>

# Cave Tourism Region

County	Applicant	First Cycle Disbursement FY 05/06	Second Cycle Disbursement FY 05/06	Total Disbursement 05/06
Allen	Scottsville/Allen County Chamber of Commerce	\$3,010.62	\$3,670.94	\$6,681.56
Barren	Cave City Convention Center	\$20,810.17	\$19,292.00	\$40,102.17
Barren	Glasgow/Barren Co Tourist & Convention Commission	\$2,990.96	\$19,292.00	\$22,282.96
Edmonson	Edmonson County Tourism Commission	\$4,639.60	\$0.00	\$4,639.60
Hart	American Cave Museum/Hidden River Cave	\$8,091.40	\$2,538.24	\$10,629.64
Hart	Kentucky Repertory Theatre	\$2,641.90	\$2,268.04	\$4,909.94
Hart	Munfordville Tourism Commission	\$4,939.70	\$6,420.85	\$11,360.55
Logan	Logan County Chamber of Commerce	\$2,243.72	\$0.00	\$2,243.72
Logan	Logan County Tourist Commission	\$0.00	\$3,900.00	\$3,900.00
Logan	Shaker Museum at South Union	\$0.00	\$5,102.10	\$5,102.10
Metcalfe	Edmonton/Metcalfe County Chamber of Commerce	\$0.00	\$500.00	\$500.00
Monroe	Monroe County Economic Development Board	\$642.97	\$0.00	\$642.97
Simpson	Simpson County Tourism Commission	\$7,970.65	\$4,543.98	\$12,514.63
Warren	Bowling Green Area Convention & Visitors Bureau	\$31,162.75	\$78,464.04	\$109,626.79
Warren	Friends of the Lost River	\$10,884.36	\$7,940.00	\$18,824.36
Warren	National Corvette Museum	\$0.00	\$5,940.75	\$5,940.75
	<b>Cave Tourism Region Local Total</b>	<b>\$100,028.80</b>	<b>\$159,872.94</b>	<b>\$259,901.74</b>
Regional Committee	Kentucky's Cave Country	\$0.00	\$92,571.43	\$92,571.43
	<b>Cave Tourism Region Local and Regional Total</b>	<b>\$100,028.80</b>	<b>\$252,444.37</b>	<b>\$352,473.17</b>

# Eastern Highlands South Tourism Region

Appendix VII

County	Applicant	First Cycle Disbursement FY 05/06	Second Cycle Disbursement FY 05/06	Total Disbursement 05/06
Bell	Bell County Tourism Commission	\$5,781.24	\$5,167.44	\$10,948.68
Bell	Cumberland Mountain Fall Festival	\$672.49	\$0.00	\$672.49
Harlan	Cumberland Tourist & Convention Commission	\$670.83	\$4,249.37	\$4,920.20
Harlan	Harlan Tourist & Convention Commission	\$3,407.59	\$2,049.16	\$5,456.75
Jackson	Stringbean Memorial Inc	\$757.80	\$0.00	\$757.80
Knox	Barbourville Tourist & Recreation Commission	\$9,690.78	\$5,759.05	\$15,449.83
Laurel	London/Laurel County Tourist Commission	\$10,771.80	\$22,277.32	\$33,049.12
Laurel	World Chicken Festival	\$2,382.20	\$2,594.51	\$4,976.71
Powell	Powell County Tourist Commission	\$4,911.13	\$5,457.00	\$10,368.13
Rockcastle	Kentucky Music Hall of Fame & Museum	\$3,693.62	\$3,142.20	\$6,835.82
Rockcastle	Mt Vernon/Rockcastle County Tourist Commission	\$6,468.50	\$7,331.80	\$13,800.30
Whitley	Williamsburg Tourist Commission	\$818.75	\$3,289.00	\$4,107.75
Whitley	Corbin Tourist & Convention Commission	\$2,437.50	\$0.00	\$2,437.50
	<b>Eastern Highlands South Tourism Region Local Total</b>	<b>\$52,464.23</b>	<b>\$61,316.85</b>	<b>\$113,781.08</b>
Regional Committee	Eastern Highlands - South Tourism Region, Inc	\$0.00	\$92,571.43	\$92,571.43
	<b>Eastern Highlands South Tourism Region Local and Regional Total</b>	<b>\$52,464.23</b>	<b>\$153,888.28</b>	<b>\$206,352.51</b>

# Eastern Highlands North Tourism Region

Appendix VII

County	Applicant	First Cycle Disbursement FY 05/06	Second Cycle Disbursement FY 05/06	Total Disbursement 05/06
Bath	Bath County Fiscal Court	\$775.00	\$0.00	\$775.00
Boyd	Ashland Area Convention & Visitors Bureau	\$7,335.65	\$9,744.72	\$17,080.37
Floyd	Jenny Wiley Theatre	\$6,159.00	\$0.00	\$6,159.00
Floyd	Prestonsburg Tourism Commission	\$17,702.00	\$25,361.00	\$43,063.00
Greenup	Greenup County Tourism Commission	\$1,745.00	\$2,571.62	\$4,316.62
Johnson	Kentucky Apple Festival of Johnson County	\$500.00	\$0.00	\$500.00
Johnson	Paintsville Tourism Commission	\$16,412.00	\$9,132.15	\$25,544.15
Menifee	Frenchburg/Menifee County Chamber of Commerce	\$815.66	\$539.85	\$1,355.51
Montgomery	Mt Sterling/Montgomery Co Recreation & Tourism Commission	\$2,288.29	\$4,629.00	\$6,917.29
Pike	Pikeville/Pike County Tourism Commission	\$4,869.50	\$9,758.63	\$14,628.13
Rowan	Morehead Tourism Commission	\$13,275.46	\$1,870.22	\$15,145.68
	<b>Eastern Highlands North Tourism Region Local Total</b>	<b>\$71,877.56</b>	<b>\$63,607.19</b>	<b>\$135,484.75</b>
Regional Committee	Eastern Highlands - North Tourism Region, Inc	\$0.00	\$92,571.43	\$92,571.43
	<b>Eastern Highlands North Tourism Region Local and Regional Total</b>	<b>\$71,877.56</b>	<b>\$156,178.62</b>	<b>\$228,056.18</b>



# Louisville-Lincoln Tourism Region

## Appendix VII

County	Applicant	First Cycle Disbursement FY 05/06	Second Cycle Disbursement FY 05/06	Total Disbursement 05/06
Breckinridge	Breckinridge County Fiscal Court	\$0.00	\$626.50	\$626.50
Bullitt	Shepherdsville/Bullitt Co Tourist & Convention Commission	\$23,804.08	\$42,449.00	\$66,253.08
Grayson	Grayson County Tourism Commission	\$1,294.88	\$2,787.62	\$4,082.50
Grayson	The Official State Championship Old Time Fiddlers Contest	\$530.00	\$713.23	\$1,243.23
Grayson	Pine Knob Theatre	\$0.00	\$1,159.14	\$1,159.14
Hardin	Radcliff Convention & Tourism Commission	\$3,239.64	\$8,038.99	\$11,278.63
Hardin	Elizabethtown Tourism & Convention Bureau	\$35,831.12	\$36,073.40	\$71,904.52
Henry	Henry County Chamber of Commerce	\$1,187.50	\$8,033.12	\$9,220.62
Jefferson	Actors Theatre of Louisville	\$7,396.12	\$0.00	\$7,396.12
Jefferson	Belle of Louisville	\$7,253.44	\$9,857.59	\$17,111.03
Jefferson	Frazier Historical Arms Museum	\$12,341.75	\$30,675.68	\$43,017.43
Jefferson	Greater Louisville Convention & Visitors Bureau	\$273,000.17	\$426,904.41	\$699,904.58
Jefferson	Greater Louisville Sports Commission	\$1,447.00	\$2,034.67	\$3,481.67
Jefferson	Historic Homes Foundation	\$1,027.00	\$0.00	\$1,027.00
Jefferson	Kentucky Derby Museum	\$5,586.68	\$19,917.60	\$25,504.28
Jefferson	Kentucky Museum of Art and Craft	\$0.00	\$3,593.55	\$3,593.55
Jefferson	Louisville Science Center	\$40,797.85	\$27,245.07	\$68,042.92
Jefferson	Louisville Zoo	\$68,679.62	\$50,985.41	\$119,665.03
Jefferson	Old Louisville Development Corporation	\$0.00	\$6,188.02	\$6,188.02
Larue	The Lincoln Museum	\$1,353.50	\$1,142.59	\$2,496.09
Marion	Lebanon /Marion County Chamber of Commerce	\$2,514.08	\$0.00	\$2,514.08
Marion	Lebanon Tourist & Convention Commission	\$2,283.97	\$12,327.95	\$14,611.92
Meade	Meade County	\$1,172.50	\$2,183.46	\$3,355.96
Nelson	Bardstown/Nelson County Tourist Commission	\$19,721.93	\$21,037.80	\$40,759.73
Nelson	Kentucky Bourbon Festival	\$2,433.06	\$2,962.81	\$5,395.87
Nelson	Kentucky Railway Museum	\$3,335.32	\$3,775.37	\$7,110.69
Nelson	Stephen Foster - The Musical	\$1,875.19	\$2,278.02	\$4,153.21
Shelby	Shelby County Tourism Commission	\$4,041.81	\$23,950.89	\$27,992.70
Trimble	Trimble County Apple Festival	\$1,349.00	\$0.00	\$1,349.00
Washington	Springfield/Washington Co Chamber of Commerce	\$2,290.08	\$5,830.57	\$8,120.65
	<b>Louisville Lincoln Tourism Region Local Total</b>	<b>\$525,787.29</b>	<b>\$752,772.46</b>	<b>\$1,278,559.75</b>
Regional Committee	Louisville-Lincoln Tourism Region	\$1,468.80	\$80,215.86	\$81,684.66
	<b>Louisville Lincoln Tourism Region Local and Regional Total</b>	<b>\$527,256.09</b>	<b>\$832,988.32</b>	<b>\$1,360,244.41</b>

# Northern Kentucky Tourism Region

County	Applicant	First Cycle Disbursement FY 05/06	Second Cycle Disbursement FY 05/06	Total Disbursement 05/06
Boone, Campbell & Kenton	Northern Kentucky Convention & Visitors Bureau	\$271,818.00	\$235,595.17	\$507,413.17
Bracken	City of Augusta	\$0.00	\$1,086.52	\$1,086.52
Carroll	Carrollton/Carroll County Tourist Commission	\$0.00	\$3,630.05	\$3,630.05
Fleming	City of Flemingsburg Tourism Committee	\$579.01	\$1,087.70	\$1,666.71
Gallatin	Gallatin County Tourism committee	\$3,413.50	\$0.00	\$3,413.50
Grant	Grant County Tourism Commission	\$8,352.58	\$1,234.00	\$9,586.58
Mason	Maysville/Mason County Tourism Commission	\$10,280.81	\$7,769.58	\$18,050.39
Pendleton	Kincaid Regional Theatre	\$1,744.23	\$0.00	\$1,744.23
	<b>Northern Kentucky Tourism Region Local Total</b>	<b>\$296,188.13</b>	<b>\$250,403.02</b>	<b>\$546,591.15</b>
Regional Committee	Northern Kentucky Tourism Region, Inc	\$0.00	\$92,571.43	\$92,571.43
	<b>Northern Kentucky Tourism Region Local and Regional Total</b>	<b>\$296,188.13</b>	<b>\$342,974.45</b>	<b>\$639,162.58</b>

# Southern Kentucky Lakes Tourism Region

Appendix VII

County	Applicant	First Cycle Disbursement FY 05/06	Second Cycle Disbursement FY 05/06	Total Disbursement 05/06
Adair	Columbia/Adair County Tourism Commission	\$3,109.17	\$2,879.52	\$5,988.69
Cumberland	Cumberland County Tourism Commission	\$1,887.00	\$1,887.00	\$3,774.00
McCreary	McCreary County Tourist Commission	\$2,627.00	\$3,324.00	\$5,951.00
Russell	Russell County Tourist Commission	\$2,131.00	\$0.00	\$2,131.00
Pulaski	Somerset/Pulaski Co Convention & Tourist Commission	\$4,713.93	\$30,108.00	\$34,821.93
Taylor	Taylor County Tourism Commission	\$849.99	\$5,321.28	\$6,171.27
	<b>Southern KY Lakes and Rivers Tourism Region Local Total</b>	<b>\$15,318.09</b>	<b>\$43,519.80</b>	<b>\$58,837.89</b>
Regional Committee	Southern Kentucky Vacations, Inc	\$10,344.94	\$61,655.06	\$72,000.00
	<b>Southern KY Lakes and Rivers Local and Regional Total</b>	<b>\$25,663.03</b>	<b>\$105,174.86</b>	<b>\$130,837.89</b>

# Western Lakes and Rivers Tourism Region

## Appendix VII

County	Applicant	First Cycle Disbursement FY 05/06	Second Cycle Disbursement FY 05/06	Total Disbursement 05/06
Ballard	Ballard County Chamber of Commerce	\$657.28	\$2,550.94	\$3,208.22
Calloway	Murray Tourism Commission	\$1,092.09	\$0.00	\$1,092.09
Christian	Hopkinsville/Christian Co Tourism Commission	\$7,569.26	\$16,778.09	\$24,347.35
Christian	Hopkinsville Conference Center	\$0.00	\$1,057.50	\$1,057.50
Christian	Oak Grove Tourism	\$0.00	\$4,608.10	\$4,608.10
Crittenden	City of Marion Tourism Commission	\$3,094.00	\$3,094.00	\$6,188.00
Graves	Mayfield Tourism Commission	\$775.23	\$1,925.00	\$2,700.23
Graves	Twilight Cabaret Productions, Inc	\$536.90	\$0.00	\$536.90
Livingston	Grand Rivers Tourism Commission	\$2,577.26	\$8,128.34	\$10,705.60
Livingston	Livingston County Tourism	\$0.00	\$1,067.00	\$1,067.00
Lyon	Lyon County Tourist Commission	\$6,275.20	\$15,012.29	\$21,287.49
Marshall	Aurora Jonathan Action Committee	\$1,035.00	\$0.00	\$1,035.00
Marshall	Marshall County Tourist Commission	\$21,520.17	\$34,149.00	\$55,669.17
McCracken	Luther R. Carson Four Rivers Center	\$17,813.83	\$10,841.48	\$28,655.31
McCracken	Museum of American Quilter's Society	\$3,933.00	\$4,128.19	\$8,061.19
McCracken	Paducah/McCracken Co Convention & Visitors Bureau	\$54,215.70	\$51,234.84	\$105,450.54
Trigg	Cadiz/Trigg County Tourist Commission	\$810.00	\$2,455.72	\$3,265.72
Trigg	Trigg County Ham Festival	\$0.00	\$500.00	\$500.00
	<b>Western Lakes and Rivers Tourism Region Local Total</b>	<b>\$121,904.92</b>	<b>\$157,530.49</b>	<b>\$279,435.41</b>
Regional Committee	Kentucky's Western Waterland	\$0.00	\$92,571.42	\$92,571.42
	<b>Western Lakes and Rivers Tourism Region Local and Regional Total</b>	<b>\$121,904.92</b>	<b>\$250,101.91</b>	<b>\$372,006.83</b>

# Local Reimbursement Request Form

Appendix VIII

Page 1 of \_\_\_\_\_  
 Date Submitted \_\_\_\_\_  
 Date Received \_\_\_\_\_

REIMBURSEMENT REQUEST **Local**  
 PROJECTS COMPLETED 1/1/07 – 6/30/07  
 TOURISM REGIONAL MARKETING & MATCHING FUNDS

(form rev. '06)

*Return this form – along with proof of non-profit status and 1 copy of all required documentation – to the State Manager by August 1, 2007*

Applicant \_\_\_\_\_  
 Address \_\_\_\_\_  
 Telephone Number \_\_\_\_\_ FAX \_\_\_\_\_  
 E-mail Address \_\_\_\_\_  
 Project Director \_\_\_\_\_  
 Federal Identification Number (Required) \_\_\_\_\_

Tourism Region \_\_\_\_\_ County \_\_\_\_\_  
 Total Expenses Submitted \$ \_\_\_\_\_  
(\$1,000 minimum)  
 Matching Funds Request \$ \_\_\_\_\_  
(Must not exceed maximum allowable match- CVB'S 80% - Other Applicants 50%)

DIRECTOR'S SIGNATURE \_\_\_\_\_  
 (Required)

State Manager Approval/Comments	Vendor Name and Complete Address	Detailed Explanation of Completed Projects Occurring 1/1/07 – 6/30/07 Only projects which are fully completed & documented are eligible for reimbursement	Check Number, Amount, and Date * *(1/1-6/30)	Applicable Invoice Amount

--- DO NOT WRITE IN THIS SECTION ---

Amount Reimbursed \$ \_\_\_\_\_  
 State Manager's Signature \_\_\_\_\_

Applicant Share \$ \_\_\_\_\_  
 Agency Number \_\_\_\_\_  
 Vendor Number \_\_\_\_\_

# Regional Reimbursement Request Form

Appendix IX

Page 1 of \_\_\_\_\_  
 Date Submitted \_\_\_\_\_  
 Date Received \_\_\_\_\_

**REIMBURSEMENT REQUEST - REGION ONLY**  
**PROJECTS COMPLETED 7/1/06-6/30/07**  
 TOURISM REGIONAL MARKETING & MATCHING FUNDS

(form rev. '05)

*Return this form – along with one copy of all required documentation – to the State Manager*

Applicant \_\_\_\_\_  
 Address \_\_\_\_\_  
 Telephone Number \_\_\_\_\_ FAX \_\_\_\_\_  
 Project Director \_\_\_\_\_  
 Federal Identification Number (Required) \_\_\_\_\_

Tourism Region \_\_\_\_\_ County \_\_\_\_\_  
 Total Expenses Submitted \$ \_\_\_\_\_  
 Matching Funds Request \$ \_\_\_\_\_  
*(Must not exceed maximum allowable match –Regions 100% - nor approved allocation)*  
**DIRECTOR'S SIGNATURE** \_\_\_\_\_  
 (Required)

State Manager Approval/Comments	Vendor Name and Complete Address	Detailed Explanation of Completed Projects Occurring 7/1/06 – 6/30/07 of Current Program Cycle Only projects which are fully completed & documented are eligible for reimbursement	Check Number, Amount, and Date * *(7/1 – 6/30)	Applicable Invoice Amount

--- DO NOT WRITE IN THIS SECTION---

Amount Reimbursed \$ \_\_\_\_\_  
 State Manager's Signature \_\_\_\_\_  
 Applicant Share \$ \_\_\_\_\_  
 Agency Number \_\_\_\_\_  
 Vendor Number \_\_\_\_\_

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# List of Documentation & Requirements for Reimbursement Per Project

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Appendix X

## LIST OF DOCUMENTATION & REQUIREMENTS FOR REIMBURSEMENT PER PROJECT

### Tourism Publications, Videos, CDs and DVDs

- Three Bids when project is over \$1,000 (layout and design fees exempt from bidding requirement)
- Invoice from printer showing quantity and print date
- Invoice for design and layout
- Cancelled check
- 4 copies of brochure
- 1 copy of Video, CD or DVD
- Affidavit stating Ad Sale Revenue
- State approval prior to printing
- State brand and credit line must be used

### Media Advertisements & Press Kits

- Invoice from vendor showing cost, issue and run dates
- Invoice from ad agency (if applicable)
- Cancelled check
- Tear sheet from publications or newspapers for **each** issue date
- Radio script or tape of ad
- Tape of TV commercial
- Copy of press kit
- State brand must be used on all advertising

### Consumer Travel Shows, Group Marketplaces, Meeting/Conventions & Sports Marketing and Expos

- Invoice showing cost and date of show, marketplace, convention or Expo
- Invoices for electric, furniture rental, booth expenses from vendors
- Invoices for shipping brochures or booth
- Cancelled check

### Internet/Web-site

- Invoice from vendor showing date of charge or service period
- Cancelled check
- Print out of homepage
- State brand must appear on homepage with a link to state site
- Region web site must appear on homepage with a link to region site

### Billboards & Signage

- Invoice from vendor showing service period
- Cancelled check
- State brand must appear on billboards
- State approval prior to display date

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# List of Documentation & Requirements for Reimbursement Per Project

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Appendix X

## Familiarization Trips/Site Visits

- Restaurant invoices/receipts showing total amount (alcohol will be deducted, state sales tax & tips)
- Lodging invoices/receipts showing total amount (sales & transient taxes will be deducted)
- Attendee list and who they represent
- Attraction invoices/receipts showing amount
- Copy of airline ticket
- Mileage receipt
- Cancelled check

## Sponsorship of Tourism Trade Shows and Events

- Invoice for meal functions (catering bill – alcohol & tips not eligible)
- Invoice for tangibles (badges, lanyards, registration bags)
- Invoice for education session or materials
- Invoice showing cost for conference partner or sponsor
- Programs or itineraries showing participation or signage & visuals with state brand
- Cancelled check

## Bid Fees to Assist in Bringing Events to Kentucky

- Lodging invoices/receipts showing total (state & transient taxes will be deducted)
- Meal invoices/receipts showing total (state sales tax will be deducted – alcohol & tips not eligible)
- State brand must be present at events and on printed materials where possible
- Award letter showing bid fee
- Cancelled check

## Brochure Distribution Services

- Invoice showing service period
- Distribution routes listed
- Cancelled check

## Postage & Freight

- Bulk shipments – invoice from post office showing amount
- UPS (or other mailing service) shipping invoice and destination
- Mailing Firm – invoice for service and postage used
- Mailing list
- Cancelled checks for postage to above



# Summary of Multiple Choice Survey Responses

		YES	NO	BLANK	
1	Has a detailed explanation of the state allotment expenditures been communicated to the Matching Funds and Regional Marketing Program applicants?	90.63%	6.25%	3.13%	
2	Is the county allotment formula for distributing the local portion of the statewide transient tax revenues fair and equitable?	62.50%	34.38%	3.13%	
3	Of the total revenue collected from the 1% statewide transient room tax, should the 3 types of funding categories below: increase, decrease, or remain unchanged?	<b>INCREASE</b>	<b>DECREASE</b>	<b>UNCHANGED</b>	<b>BLANK</b>
a	State expenditures	6.25%	25.00%	65.63%	3.13%
b	Regional expenditures	12.50%	15.63%	68.75%	3.13%
c	Local expenditures	43.75%	6.25%	46.88%	3.13%
		<b>YES</b>	<b>NO</b>	<b>BLANK</b>	
4	Should the 9 tourism regions' regional boundaries change?	15.63%	81.25%	3.13%	
5	Is it difficult to meet the matching percentage?	21.88%	75.00%	3.13%	
		<b>LOWER</b>	<b>HIGHER</b>	<b>UNCHANGED</b>	<b>BLANK</b>
6	Should the matching percentage be:	9.38%	15.63%	71.88%	3.13%
		<b>YES</b>	<b>NO</b>	<b>BLANK</b>	
7	Are performance measurements utilized by the county and/or region to benchmark the success or failure of the projects?	84.38%	12.50%	3.13%	
8	Is research performed by the county and/or region to determine the impact on the local tourism economy?	59.38%	37.50%	3.13%	
9	Is the 1% statewide transient tax increasing tourism within your area?	87.50%	6.25%	6.25%	
10	Are the guidelines for the Matching Fund and Regional Marketing Program easy to understand?	84.38%	15.63%	0.00%	
11	Is there adequate communication between Tourism and the Matching Fund and Regional Marketing Program applicants?	100.00%	0.00%	0.00%	
12	Is adequate training provided by Tourism?	78.13%	18.75%	3.13%	
13	Is adequate assistance and/or guidance provided by Tourism?	87.50%	12.50%	0.00%	
14	Are the monthly meetings between Tourism and the 9 regions beneficial?	90.63%	9.38%	0.00%	
15	Do the members of your regional committee communicate well with one another?	93.75%	6.25%	0.00%	
16	Does your regional committee communicate with the other 8 regional committees on a regular basis?	28.13%	68.75%	3.13%	
		<b>YES</b>	<b>NO</b>	<b>BLANK</b>	
17	Does Tourism respond to applicants request, concerns, and/or questions in a timely manner?	90.63%	9.38%	0.00%	
18	Of the projects that must be reviewed and approved by the State Manager before going to final print or production, is the review conducted in a timely fashion?	90.63%	3.13%	6.25%	
19	Prior to project completion, do applicants have access to Tourism to verify the project meets eligibility requirements before paying for the project?	93.75%	0.00%	6.25%	
20	Is Tourism's interpretation of eligible and non-eligible projects consistent?	93.75%	6.25%	0.00%	
21	Have any projects been denied funding?	43.75%	46.88%	9.38%	
22	Please check all projects for which you have utilized Matching Funds and Regional Marketing Program funding to participate.	<b>YES</b>	<b>NO</b>	<b>BLANK</b>	
a	Tourism publications/ brochures	100.00%	0.00%	0.00%	
b	Tourism videos, CDs, and/or DVD's	40.63%	56.25%	3.13%	
c	Media advertisements	87.50%	6.25%	6.25%	
d	Media press kits	21.88%	75.00%	3.13%	
e	Billboards	34.38%	62.50%	3.13%	
f	Signage	25.00%	68.75%	6.25%	
g	Brochure distribution services	81.25%	15.63%	3.13%	
h	Postage and freight expenses	68.75%	28.13%	3.13%	
i	Consumer travel show expenses	46.88%	50.00%	3.13%	
j	Group tour marketplace expenses	31.25%	62.50%	6.25%	
k	Capital construction projects	0.00%	93.75%	6.25%	
l	Familiarization trips/ site visits	21.88%	75.00%	3.13%	
m	Sponsorship of tourism trade shows and events	37.50%	59.38%	3.13%	
n	Bid fees to assist in bringing events to state	18.75%	78.13%	3.13%	
o	Internet hosting, design, and maintenance expenses	84.38%	9.38%	6.25%	
p	Meeting/ convention and sports marketing trade show and expo expenses	31.25%	65.63%	3.13%	

# Summary of Multiple Choice Survey Responses

		ROLLOVER	REGION	STATE	BLANK	
23	Should local surplus funds from the 1st cycle rollover from cycle to cycle, be utilized by the region, or be utilized by the state?	71.88%	28.13%	0.00%	0.00%	
24	Should local surplus funds from the entire year rollover from cycle to cycle, be utilized by the region, or be utilized by the state?	56.25%	28.13%	15.63%	0.00%	
<b>The following 3 questions are based on your knowledge of operatins. Please state N/A if not applicable.</b>		N/A	YES	NO	BLANK	
25	Are all the required accommodation facilities registered with the Department of Revenue?	31.25%	53.13%	12.50%	3.13%	
26	Are all the accommodation facilities accurately reporting statewide transient taxes?	31.25%	40.63%	21.88%	6.25%	
27	Are all the accommodation facilities paying statewide transient taxes in a timely manner?	37.50%	40.63%	15.63%	6.25%	
		POOR	FAIR	GOOD	EXCELENT	BLANK
28	Please rate the Matching Funds and Regional Marketing Program application/ reimbursement process.	3.13%	12.50%	59.38%	21.88%	3.13%
29	Please rate how well the Tourism's materials clearly describe the Matching Funds and Regional Marketing Program process.	0.00%	6.25%	65.63%	28.13%	0.00%
30	Please rate your experience working with the Department of Tourism.	0.00%	0.00%	43.75%	56.25%	0.00%
31	Please rate your overall experience with the Matching Funds and Regional Marketing Program.	0.00%	3.13%	46.88%	46.88%	3.13%



**Ernie Fletcher**  
Governor

**KENTUCKY DEPARTMENT OF TOURISM  
COMMERCE CABINET**

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**George Ward**  
Secretary  
Commerce Cabinet

**Randall L. Fiveash**  
Commissioner  
Department of Tourism

July 23, 2007

Ms. Crit Luallen  
Auditor of Public Accounts  
105 Sea Hero Road, Suite 2  
Frankfort, Kentucky 40601-5404

RE: A Report on Kentucky's Statewide Lodging Tax  
July 2007 – Performance Audit

Dear Auditor Luallen:

Thank you for your interest in the Department of Tourism, Commerce Cabinet, and the administration of Kentucky's Statewide Transient Room Tax. The Department of Tourism is pleased to see that your Report on Kentucky's Statewide Lodging Tax, July 2007 – Performance Audit ("Report") endorses many of the steps that the Department of Tourism is taking to administer the newly created statewide transient room tax. As you know, this additional source of funding is available to local, regional and state levels to market and promote tourism in Kentucky. Kentucky taxpayers will be reassured since your report indicates no misuse of the tourism, meeting, and convention marketing fund. The statewide transient room tax is being administered successfully by the Department, and in a manner consistent with State law. Kentucky as a whole, as well as its local communities, is now better equipped to be more competitive in the tourism marketplace.

Tourism in Kentucky grew 6.6% in 2006 following two (2) robust years in 2005 and 2004. Overall, economic impact has grown 23.8% over the past three (3) years combined and continues to grow at rates comparable to surrounding states according to the Tourism Industry Association of America ("TIA"), the tourism industry's authoritative and recognized source of travel research. It should be noted that promotional expenditures from the statewide transient room tax are expected to drive future economic impact more dramatically than concurrent economic impact. This is evidenced by Smith Travel Research, the leading lodging industry data provider. This performance measurement shows that hotel revenue in Kentucky, a strong indicator of the overall health of the tourism industry, is up 11.2% for the first five (5) months of 2007. I further explain this economic growth, as well as responded to the Findings and Recommendations made in your Report in the Department of Tourism's Responses (attached).

I have been honored that the tourism, meeting, and marketing convention fund was established during my appointment as Commissioner of the Department of Tourism and that I have had the opportunity to work with Kentucky's Tourism Industry to advance Kentucky as a leader in tourism.

Sincerely,

Randall L. Fiveash  
Commissioner

Enclosures

cc: Governor Ernie Fletcher  
Secretary George Ward

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DEPARTMENT OF TOURISM  
RESPONSE TO REPORT ON KENTUCKY'S STATEWIDE  
LODGING TAX  
JULY 2007--PERFORMANCE AUDIT

**1. Finding: Guidelines have not been adopted to dispense the statewide lodging tax revenue.**

Response: Guidelines have been adopted to dispense the statewide transient room tax revenue. KRS 142.400 was enacted for the purpose of generating funds for the tourism, meeting, and convention marketing fund (hereinafter "fund") established in KRS 142.406(1). KRS 142.406(3) establishes the specific purposes for expenditures from the fund to market and promote tourism in the Commonwealth including to market and promote events and venues related to meetings, conventions, trade shows, cultural activities, historical sites, recreation, entertainment, natural phenomena, areas of scenic beauty, craft marketing, and any other economic activity that brings tourist and visitors to the Commonwealth.

Prior to the establishment of the fund, which is a result of Governor Fletcher's Tax Modernization legislation of 2005 whereby a tax is imposed at the rate of one percent (1%) of the rent for occupancy of any suite, room, rooms or cabins established in KRS 142.200, the Regional Marketing and Matching Funds Program (herein after "Program") existed in the Division of Marketing and Advertising Services within the Department of Tourism. Guidelines have existed since the creation of the Program and the Department of Tourism continues to follow Program guidelines, as well as KRS 142.406(3) related to expenditures from the fund, which provides additional money to the Program. The Department of Tourism strives to improve the guidelines and build upon them as the Program evolves, as it has with the new source of funding generated by KRS 142.400.

**Recommendation 1.1 Tourism should revise existing administrative regulations or adopt new regulations that address how the statewide lodging tax is to be distributed, its relation to the Regional Marketing and Matching Funds Program, and what types of state level expenditures are considered allowable.**

Response: The Department of Tourism agrees that existing administrative regulations that address the statewide transient room tax distribution should be amended. 301 KAR 1:010, Procedures for Regional Marketing and Matching Funds Program, addresses the distribution of the regional and local match funds. This administrative regulation was amended and filed with the Legislative Research Commission on July 13, 2007. KRS 142.406(3) establishes what types of state level expenditures are allowed, i.e. expenditures to market and promote events and venues related to meetings, conventions, historical sites, recreation, etc. 301 KAR 1:010 and KRS 142.406 combined address the local, regional and state fund expenditures.

**Recommendation 1.2 Tourism should continue to update the Regional Marketing and Matching Fund Program regulations as needed so that the regulations set out all current requirements.**

Response: As stated above, the Department of Tourism amended 301 KAR 1:010, Procedures for Regional Marketing and Matching Funds Program, to reflect the current application and reimbursement procedures, match percentages, eligible projects and updated forms and filed the amendment July 13, 2007 with the Legislative Research Commission. The Department of Tourism will continue to amend 301 KAR 1:010 as necessary. It should be noted that the current procedures for application, reimbursement, sample

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forms have been available on the Department of Tourism's website at [www.kentuckytourism.com/industry](http://www.kentuckytourism.com/industry). See APA Appendix V.

Due to the procedures established in KRS 13A, promulgation of administrative regulations, amending and/or filing an administrative regulation will take approximately four (4) to five (5) months once the regulation is filed at the Legislative Research Commission to become effective if a public hearing is held or public comments are received. It is necessary to ensure that the content of a regulation such as reimbursement procedures, eligible projects, match percentages and forms are finalized as another amendment to the administrative regulation cannot be filed until the current amendment receives its final approval.

**2. Finding: A portion of the statewide lodging tax revenue was used to offset general fund advertising expenditures to cover a budget base deduction in FY 2006.**

Response: Statewide transient room tax money allotted for state-level spending was in compliance with the law. KRS 142.406(1) states that the Commerce Cabinet shall administer the fund with the approval of the Governor's Office for Policy and Management, that the fund shall be used solely for marketing and promoting tourism in the Commonwealth, and that no capital construction projects shall be expended with fund money. The Division of Marketing within the Department of Tourism, Commerce Cabinet, administers the fund. Expenditures have been made solely for marketing and promoting tourism in the Commonwealth. The expenditures were made to guarantee the hosting fee paid to the Federation Equestre Internationale to host the 2010 FEI World Equestrian Games, the Kentucky Film Office Feasibility Study, Rhythms of the South Sponsorship, National Tour Association Sponsorship and Kentucky State Parks Department advertising. No capital construction projects were funded.

The \$303,432 expended from the Tourism, Meeting, and Convention Marketing Fund referenced in the APA Table 6 on page 11 was used to pay for out of state advertising and marketing and, therefore, did not violate KRS 142.406(3). These types of expenses are allowable under the statute. In order to meet a base deduction of \$692,700 (see the Budget of the Commonwealth, Volume 1, Page 72) required by HB 380 enacted by the 2006 General Assembly, \$303,432 worth of tourism related advertising expenditures previously expensed to the Department of Tourism General Budget was expensed through the Tourism, Meeting, and Convention Marketing Fund. It should be noted that KRS 142.406(3) does not restrict the mechanics of transferring funds to a general account(s) in order to pay for allowable expenditures.

In FY06, the Department of Tourism placed over \$1.4M in out of state advertising and marketing alone that would have qualified to be paid from the Tourism, Meeting, and Convention Marketing Fund. The Department of Tourism was not aware of the base deduction or the resulting difference of \$303,432, so Tourism did not initially expense the Tourism, Meeting, and Convention Marketing Fund for these projects, even though these expenditures would have been appropriate under KRS 142.406(3). Payments were made out of the General Tourism budget because the Department of Tourism had adequate funds in that account. Had the Department of Tourism been aware that our General Tourism budget was going to be short \$303,432 as a result of the base deduction, Tourism would have expensed the Tourism, Meeting, and Convention Marketing Fund initially.

**Recommendation 2.1 A state tourism oversight committee should be developed to review and approve the state level spending of the statewide lodging tax, as well as the allocations to regional and local entities. The members of the committee should be representative of the nine tourism regions, along with Tourism officials.**

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Response: The Department of Tourism maintains a close working relationship with the tourism industry statewide and constantly seeks and obtains advice, direction, input and opinion. In addition, there are currently regional committees that meet monthly in each of the nine (9) tourism regions. These committees meet monthly and, collectively, serve as an oversight and review committee for the Program. The Department of Tourism recognizes the value of having an oversight or advisory type committee to review state level spending of the statewide transient room tax, as well as the allocations to the regional and local entities. The Department of Tourism will further review the establishment of such a committee.

**Recommendation 2.2 Tourism, in conjunction with the state oversight committee, should develop the following:**

**\*Written guidelines as relating to funding eligible projects at the state level. If research and feasibility studies are acceptable projects, this should be reflected within the adopted guidelines.**

**\*An overall spending plan for each fiscal year with a detailed explanation of each state expenditure.**

Response: As stated above, the Department of Tourism recognizes the value of having an oversight or advisory type committee to review state level spending of the statewide transient room tax, as well as the allocations to the regional and local entities and will further review the establishment of such a committee and its role in developing guidelines relating to funding eligible projects at the state level and a spending plan.

**Recommendation 2.3 Expenditures determined to be inappropriate should be reimbursed to the lodging tax fund account. Tourism should ensure lodging tax expenditures do not include capital construction projects.**

Response: Tourism recognizes the prohibition of expenditures on capital construction projects per KRS 142.406(3). No capital construction has been procured with the statewide transient room tax and the Department of Tourism will continue to ensure that there are no expenditures for capital construction projects are made. If at any time expenditures are determined to be inconsistent with KRS 142.406(3), expenditures shall be reimbursed to the statewide transient room tax fund.

**3. Finding: In FY 2006, 38% of the statewide lodging tax funds allotted to regional and local entities was not expended.**

Response: FY 2006 was the first year of collection for the statewide transient room tax and it was unknown to the Department of Tourism and regional and local entities the exact amount of revenue the statewide transient room tax would generate. When the amount of available funds for the Program was determined, budgets for the many Convention and Visitors Bureaus, Tourism offices and other Non-Profit tourism attractions and entities had been determined, thus making it difficult for them to appropriately forecast the amount of matching funds for which to apply. For FY 2007, local and regional tourism groups have efficiently and accordingly budgeted to allocate match money for their applications. In addition, as noted in the APA report on Page 9, the application cycles do not run with the fiscal year, therefore one hundred percent of the funds cannot be allocated by the end of a fiscal year and will constantly roll over (KRS 142.406(2)). The portion of the fund not used in FY 2006 was available for the application cycle ending in August and any excess was applied to marketing and promoting tourism in 2007.

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**Recommendation 3.1. As recommended previously, a tourism oversight committee should be created to provide additional oversight for spending the statewide lodging tax revenue. A function of this committee could be to monitor how unused revenue should be spent.**

As stated above, the Department of Tourism recognizes the value of having an oversight or advisory type committee to review state level spending of the statewide transient room tax, as well as the allocations to the regional and local entities and will further review the establishment of such a committee that could monitor revenue that remains in the fund at end of a program cycle and lapses to the next program cycle. It is the hope of the Department of Tourism that as the program matures that it follows the trend toward reimbursements and spending consistent with the fund dollars as it did in FY 2007.

**4. Finding: No specific performance measurements have been developed to monitor the success of the promotional efforts supported by the statewide lodging tax revenue.**

Response: Although not required by statute, the Department of Tourism has had specific performance measures in place for the last three (3) years. Using nationally recognized researchers, the success of the promotional efforts supported by the statewide transient room tax revenue is monitored. These studies and research data include: Economic Impact of Tourism ([Click here or see attached chart number 1](#)), Visitor Profile and Lodging Data ([Click here or see attached chart number 2](#)), Advertising Conversion Study ([Click here or see attached chart number 3](#)), Advertising Effectiveness and Brand Awareness as well as other research and data publications available upon request.

Tourism in Kentucky grew 6.6% in 2006 following two (2) robust years in 2005 and 2004. Overall, economic impact has grown 23.8% over the past three (3) years combined and continues to grow at rates comparable to surrounding states according to the Tourism Industry Association of America, (“TIA”), the tourism industry’s authoritative and recognized source of travel research.

It should be noted that promotional expenditures from the statewide transient room tax are expected to drive future economic impact more dramatically than concurrent economic impact. This is evidenced by the Smith Travel Research, the leading lodging industry data provider. This performance measurement shows that hotel revenue in Kentucky, a strong indicator of the overall health of the tourism industry, is up 11.2% for the first five (5) months of 2007.

**Recommendation 4.1. Tourism should develop an overall strategic plan for tourism in the state, to include goals, objectives, and outcome measurements. Within the strategic plan, effectiveness of the projects funded by the statewide lodging tax revenue.**

Response: In June 2006, the Department of Tourism developed a department-wide strategic planning program that culminated in a draft “Marketing Strategic Plan”. Further, the Department of Tourism currently develops an annual Marketing Plan which serves as the strategic plan for the promotion and marketing of Kentucky tourism. This year’s annual Marketing Plan is titled “2006 – 2007 The Road Ahead: Report to the Travel & Tourism Industry” ([Click here or see attached number 4](#)). This annual report is distributed to the tourism industry and Legislators in the fall of each year via mail or at the Fall Tourism Conference. This annual report contains tourism marketing strategies, goals, objectives and results. In addition, effectiveness and other research outcomes are communicated on a quarterly basis via the Tourism Tracker Quarterly Newsletter (visit this website for the last four (4) issues <http://www.kentuckytourism.com/industry/research.htm>).

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Further, to assist with the determination of rate of investment of the individual projects funded through the matching funds program utilizing the statewide transient room tax, the Department of Tourism will research and begin developing methods to assist individual entities such as convention and visitors bureaus, and tourism commissions in determining the effectiveness of their projects submitted and accepted for funding from the fund. The Department of Tourism will continue to develop an overall strategic plan which will include goals, objectives, performance indicators and outcome measurements.

**Recommendation 4.2. These performance indicators should be continuously analyzed to determine which statewide lodging tax projects provide the greatest benefit to the economy. In addition, the impact of the state, regional, and local statewide lodging tax projects on the overall economy from year to year should be compared with other states.**

Response: The Department of Tourism continually analyzes the advertising effectiveness reports on a monthly basis to determine the performance of advertising. The Department of Tourism also constantly monitors research aspects such as lodging reports, economic impact and visitor profile information and compares it to Kentucky's border states. The Department of Tourism will continue to analyze the statewide transient room tax projects, their impact on the economy and compare it with other states.

**Recommendation 4.3 Research and feasibility studies should be considered eligible projects to be funded by the statewide lodging tax revenue, to determine the effectiveness of promotion campaigns.**

Response: The Department of Tourism agrees that research projects and feasibility studies should be considered eligible projects to be funded by the statewide transient room tax revenue to determine the effectiveness of the promotion campaigns. KRS 142.406(3) provides that expenditures that market and promote tourists and visitors to the Commonwealth are an appropriate use of the fund. Research and feasibility studies indirectly promote and market tourism as they provide an indicator of what is proven beneficial to market and promote tourism so that informed choices regarding methods of marketing and promoting tourism may be made.

**Recommendation 4.4 The state tourism oversight committee, whose creation was previously recommended, should review tourism's overall strategic plan, including the specific performance indicators to ensure Kentucky is effectively using the statewide lodging tax revenue to reach stated goals.**

Response: As stated above, the Department of Tourism recognizes the value of an oversight committee. The Department of Tourism will review the establishment of such a committee and its review of an overall strategic plan.

**Finding 5. Verifying the required supporting documentation for reimbursement under the Matching Funds Program is labor intensive and quickly becoming unmanageable.**

Response: Whereas verifying the required supporting documentation for reimbursement under the Regional Matching Funds Program may be viewed as labor intensive, it is handled by staff persons who have over thirteen years combined experience working with the Regional Matching Funds Program. Staff is constantly working on ways to make the process more streamlined and user friendly for applicants without jeopardizing the integrity of the program. During 2006, the Department of Tourism made significant changes and modifications to streamline the reimbursement process. Staff does not find the administration of the program to be so labor intensive that it is becoming unmanageable. No question in



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the APA survey attached as Appendix XII supports the assertion that participants have experienced repercussions of a labor intensive or unmanageable program.

**Recommendation 5.1 Tourism should create an electronic reimbursement form. This form should require that each reimbursement item have a reference number that will correspond to the attached documentation. The form should also require the requesting entity to categorize the type of project to one of the 13 eligibility projects. The electronic form should allow the following:**

**Facilitate the completion and updating of the request by the regional and local entities.**

**Calculate the summary costs for the different types of projects reimbursed statewide, as well as by vendor, if properly completed.**

**Maintain an electronic copy of the final reimbursement form, so analysis can be performed to detect questionable request items based on historical information.**

**Store all notes electronically to ensure that they are legible and maintained with the reimbursement requests.**

Response: The Department of Tourism agrees that an electronic reimbursement form as described above would assist in the efficiency of processing reimbursements. The Department of Tourism will collaborate with the Commonwealth Office of Technology and investigate the feasibility of creating such a form and process as described above in Recommendation 5.1.

**Recommendation 5.2 Matching Program applicants should organize the supporting documentation in a permanent binder that references the documentation to the request item.**

Response: The Department of Tourism agrees that requiring applicants to provide supporting documentation in a binder that references the documentation request item will assist in organization. The Matching Fund administrators will work with the applicants to better organize their supporting documentation.

**Recommendation 5.3 Tourism should establish annual seminars to train the regional and local entities on how to complete the reimbursement request form and how the supporting documentation should be organized.**

Response: The Department of Tourism agrees that an annual seminar to train the regional and local entities on how to complete the reimbursement request form and organize the supporting documentation would be beneficial to applicants. The Department of Tourism can facilitate such training in addition to the resources already provided to applicants such as the website [www.kentuckytourism.com/industry](http://www.kentuckytourism.com/industry), program staff assistance and monthly regional meetings. See APA survey attached in Appendix XII that surveyed members of the nine (9) tourism regional committees to obtain feedback on the Program. The survey shows a high level of satisfaction with the Program guidelines, communication between Tourism and the Program applicants, training provided by the Department of Tourism and the benefits of the monthly meetings between Tourism and the nine (9) regions.

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**Finding 6. The completeness of statewide lodging tax collections cannot be verified due to tax reporting issues.**

Response: The statewide transient room tax was part of Governor Fletcher's Tax Modernization legislation enacted under House Bill 272 during the 2005 Session of the General Assembly. This component of the bill was one of the first to go into effect on June 1, 2005.

With the Information Technology and personnel resources available to the Department of Revenue within this short time frame, the Department achieved a successful implementation by piggybacking the Sales and Use Tax System which already contained the database of all lodging facilities in compliance with the state sales tax and liable for the new statewide transient room tax. Although the amount of revenue generated by the statewide transient room tax is not as high as other tax revenues collected by the Department of Revenue, the Department of Revenue will continue to administer and collect these revenues in a prudent and responsible manner using our existing resources and the Sales and Use Tax System.

The Sales and Use Tax System has proved to be more than adequate to facilitate the collection of over \$2.5 billion in annual receipts and the Department of Revenue believes that use of the sales and use tax account numbers from the system is a reasonable and appropriate method of administering and collecting the statewide transient room tax. It should be noted that the Sales and Use Tax System was not created to separately track receipts by specific vendor location, and there are no requirements under KRS 142.400-142.406 to track statewide transient room tax receipts by specific location.

**6.1 Revenue should collaborate with Tourism on a regular basis to update and maintain the lodging facilities that should be submitting statewide lodging tax revenue.**

The Department of Revenue agrees with the need to collaborate with the Department of Tourism on a regular basis. The Department of Revenue has already used the Department of Tourism's published lodging facility visitor's guide as one resource to assist with compliance. We continue to solicit and accept information for registration follow up.

**6.2 Revenue should develop a method to ensure all hotels/motels are reporting and paying the statewide lodging tax, by providing a unique identifier to each taxpayer to verify the facilities are paying the statewide lodging tax.**

The Department of Revenue agrees that it is important to ensure all hotels/motels are reporting and paying the statewide transient room tax; however, the Department of Revenue does not have the capability to provide a unique identifier to each taxpayer beyond the current sales and use tax account number which each statewide transient room taxpayer must have. Furthermore, the Department of Revenue does not believe the use of a different tax system with unique identifier is necessarily the best means of achieving statewide compliance. By cross referencing the Sales and Use Tax System, the Department of Revenue has also revised the General Tax Registration Application (Form 10A100) to capture additional registration information as lodging facilities initially apply for business tax account numbers. This registration system applies to the major business taxes; therefore, statewide transient room tax registration gains the benefits of well established Department of Revenue compliance procedures. In addition, as part of Department of Revenue field assignments and sales and use tax audits, hotels are informed of their liability for the statewide transient room tax.

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**6.3 to maximize limited resources, Revenue should develop an electronic Transient Room Tax Monthly Return (Form 73A850) to avoid paper mailing and returns. Electronic notifications of delinquent accounts could improve the rate of collection.**

The Department of Revenue agrees with the benefits of electronic filing, and the Department of Revenue is proceeding with development according to priorities and as resources become available. Many of the other miscellaneous taxes administered by the Department of Revenue could also benefit from these efficiencies. The Comprehensive Tax System (CTS) project should ultimately provide such opportunities as integration of current tax databases and systems occurs.

**6.4 Revenue should provide Tourism with quarterly tax collection reports, including number of taxpayers registered, number returns filed, number of delinquent returns, and the amount of tax revenues collected.**

The Department of Revenue will work with the Department of Tourism to discuss the mechanics of providing quarterly tax collection reports.

**Auditor's Reply to the Response to Finding #4 by Kentucky Department of Tourism:**

The APA has reviewed the following documents provided by Tourism: "The Economic Impact of Tourism", the "Tourism Tracker Quarterly Newsletter", and "2006-2007 The Road Ahead: Report to the Travel and Tourism Industry". These reports do not provide the information we have envisioned. "The Road Ahead" report is an annual report reflecting past endeavors. "The Economic Impact of Tourism" and "Tracker Quarterly" state current and past statistical information. These reports are based on historical information rather than providing a future plan.

Tourism initiated a marketing strategic plan in June 2006; however, this plan is only a draft and does not provide a method of allocating resources or tracking expenditures to monitor the effectiveness of the projects. Tourism needs to determine which projects receive the best return on investment to ensure the additional funding is spent wisely. Tracking expenditures by category and project will assist in determining and monitoring the effectiveness of the projects.

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## Contributors To This Report

Crit Luallen, Auditor of Public Accounts

Ellen Hesen, Director, Division of Performance Audit  
Jettie Sparks, CPA, Performance Audit Manager  
Brooke Sinclair, Auditor, Division of Performance Audit

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## Obtaining Audit Reports

Copies of this report or other previously issued reports can be obtained for a nominal fee by faxing the APA office at 502-564-0067. Alternatively, you may order by mail:

Report Request  
Auditor of Public Accounts  
105 Sea Hero Rd. Ste. 2  
Frankfort, Kentucky 40601

visit : 8 AM to 4:30 PM weekdays

email: [crit.luallen@auditor.ky.gov](mailto:crit.luallen@auditor.ky.gov)

browse our web site: <http://www.auditor.ky.gov>

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## Services Offered By Our Office

The staff of the APA office performs a host of services for governmental entities across the commonwealth. Our primary concern is the protection of taxpayer funds and furtherance of good government by elected officials and their staffs. Our services include:

**Financial Audits:** The Division of Financial Audit conducts financial statement and other financial-related engagements for both state and local government entities. Annually the division releases its opinion on the Commonwealth of Kentucky's financial statements and use of federal funds.

**Examination and Information Technology:** The Division supplies computer system control expertise and investigates citizen complaints. The Division audits computer system security and other controls and performs system data analysis. Our fraud hotline, 1-800-KY-ALERT (592-5378), and referrals from various agencies and citizens produce numerous cases of suspected fraud and misuse of public funds referred to prosecutorial offices when warranted.

**Performance Audits:** The Division of Performance Audit conducts performance audits, performance measurement reviews, benchmarking studies, and risk assessments of government entities and programs at the state and local level in order to identify opportunities for increased efficiency and effectiveness.

**Training and Consultation:** We annually conduct training sessions and offer consultation for government officials across the state. These events are designed to assist officials in the accounting and compliance aspects of their positions.

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## General Questions

General questions should be directed to Jeff Derouen, Director of Communication, at (502) 573-0050 or the address above.