



Superior Results  
Through Unrivaled  
Hospitality Intelligence.  
**Everywhere.**

JUNE 2020

# THE CASE FOR TARGETED FEDERAL AID TO DMOS AND TOURISM AGENCIES

**Thomas Hazinski, MPP**  
*Managing Director*

**Joseph Hansel, MPP**  
*Research Analyst*

*HVS Convention, Sports & Entertainment  
Facilities Consulting  
205 West Randolph, Suite 1650  
Chicago, IL 60606*

*The COVID-19 pandemic has placed at risk the substantial investment of state and local governments in the tourism and hospitality industries. Publicly funded destination marketing organizations (“DMOs”), tourism agencies, and convention centers face budget shortfalls, staffing reductions, and growing financial uncertainty. Targeted federal aid is urgently needed to support DMOs, tourism agencies, and convention centers whose work is critical to the recovery of vital sectors of the US economy.*

## Introduction

The COVID-19 crisis has shined a spotlight on the importance of public sector investment in the hospitality and tourism industries. State and local governments support the industry through spending on tourism promotion, destination management, and tourism infrastructure such as convention centers, stadiums, and arenas. With drastically reduced resources, continued public sector investment in the industry is in jeopardy.

Federal aid to the hospitality and tourism industry, thus far, has provided some direct aid to private sector partners and owners of properties affected by the pandemic, primarily through Small Business Administration (“SBA”) loans and grants, but these amounts have not been sufficient to cover the extreme industry-wide financial losses. The U.S. Travel Association, in tandem with Tourism Economics, projects cumulative losses since the beginning of March totaling \$195 billion for the travel industry.<sup>1</sup> Estimates of the quantifiable effect of COVID-19 on the industry vary; however, the common thread of these projections show an industry at risk.

The federal government provided roughly \$274 billion in aid to state and local governments in the CARES Act.<sup>2</sup> But most of that aid was directed at paying for COVID-19 pandemic response and cannot be used for revenue replacement. Federal aid that would address revenue shortfalls is currently being debated in the US Congress. Such aid could indirectly support the hospitality and tourism industries by shoring up the overall fiscal health of state and local governments and preventing the diversion of hospitality and tourism spending to other services.

Targeted aid to state and local governments, aimed at direct stimulus to the hospitality industry, may allow for faster recovery for the entire economy. The hospitality and tourism industries have proven to be the most vulnerable of industries to the COVID-19 pandemic with percentages of revenue losses far exceeding that of the overall economy. The Bureau of Economic Analysis showed a 5% decline in real GDP during the first quarter of 2020.<sup>3</sup> The Federal Reserve Bank of Atlanta projects, in the second quarter of 2020, a 52.8% decline in real GDP.<sup>4</sup> The Congressional Budget Office projects annual GDP growth for real GDP to only fall by 5.6% in 2020.<sup>5</sup> By comparison, projections of travel industry losses are greater than overall decreases in GDP. An Oxford Economics study from April 2020 projected an 81% loss in travel industry revenue in April and May 2020—with losses continuing through the rest of the year—and a decline of 45% of the travel industry’s contribution to US GDP for the year 2020.<sup>6</sup>

Tourism agencies and destination management organizations (“DMOs”) face dual challenges of convincing the public that travel to their destinations is safe and affordable. Additional effort will be required to secure convention, group and meeting business, rescheduling postponed events, and making health related accommodations to event organizers. This additional workload cannot be accomplished with reduced staff levels. Many convention centers rely on lodging tax revenue and other tourism taxes that support their operations and

---

<sup>1</sup> “COVID-19 Travel Industry Research,” U.S. Travel Association, June 2, 2020. ([ustravel.org](https://ustravel.org))

<sup>2</sup> Jared Walczak, “Designing a State and Local Government Relief Package,” Tax Foundation, May 12, 2020. ([taxfoundation.org](https://taxfoundation.org))

<sup>3</sup> “Gross Domestic Product, 1<sup>st</sup> Quarter 2020 (Second Estimate); Corporate Profits, 1<sup>st</sup> Quarter 2020 (Preliminary Estimate),” Bureau of Economic Analysis, May 28, 2020. ([bea.gov](https://bea.gov))

<sup>4</sup> “GDPNow,” Federal Reserve Bank of Atlanta, June 1, 2020. ([frbatlanta.org](https://frbatlanta.org))

<sup>5</sup> Phill Swagel, “CBO’s Current Projections of Output, Employment, and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021,” Congressional Budget Office, April 24, 2020. ([cbo.gov](https://cbo.gov))

<sup>6</sup> “The Impact of COVID-19 on the United States Travel Economy,” Oxford Economics, April 15, 2020. ([ustravel.org](https://ustravel.org))

capital investments. Their continued operation and necessary capital improvements are also threatened by the dramatic reduction in revenue. Consequently, targeted relief to the tourism agencies and DMOs is an essential piece of effort to revive the hospitality and tourism industries.

### The public sector engages in large public investment into the hospitality industry

Some public sector efforts in the hospitality industry are highly visible—such as the Pure Michigan campaign and Las Vegas marketing efforts. In reality, the tourism industry as a whole relies, in part, on all contributions made by public sector partners. Taking place at the state and local level, tourism promotion, the operation of convention and visitor bureaus, and many other efforts are undertaken to ensure the health of the industry. The following figure summarizes the U.S. Travel Association’s State Tourism Office Budget Dashboard.<sup>7</sup>

**Average State Tourism Office Budgets (Years Ending 2014 to 2019)**

	2014	2015	2016	2017	2018	2019*
State Budget Average (\$ millions)	\$17.1	\$18.6	\$19.0	\$18.6	\$19.5	\$21.1
Percent Change		8.6%	1.9%	-1.9%	5.1%	7.7%

\*Projected

Source: U.S. Travel Association

By FY 2019, the average state tourism budget, based on data from 45 states, reached \$21 million. The U.S. Travel Association also reports that, compared to 2018 spending, 35 states reported an increase or no change in their state tourism budget. Of the 18 states and territories with public and private funding, over 68% of funding is public.

Efforts to promote tourism come from the local level as well. The following figure summarizes the budgets of the 20 largest DMOs in the US, and their reliance on public sector funding.

<sup>7</sup> “State Tourism Office Budgets Dashboard (FY 2018-19),” U.S. Travel Association, January 29, 2019. ([ustravel.org](http://ustravel.org))

### Top 20 DMO Budgets and Funding Sources

Organization	Budget		Public Sector Funding	
	Year	(\$000's)	(\$000's)	% of Budget
Las Vegas Convention and Visitors Authority	2019	\$408,000	\$319,000	78%
LA Tourism and Convention Board	2017	\$57,000	\$48,000	85%
San Diego Tourism Authority	2019	\$48,000	\$41,000	87%
Visit Dallas	2017	\$44,000	\$42,000	95%
San Francisco Travel	2020	\$43,000	\$33,000	76%
Visit Denver	2018	\$40,000	\$34,000	86%
NYC and Co	2018	\$40,000	\$21,000	54%
Atlanta Convention and Visitors Bureau	2018	\$35,000	\$26,000	75%
Choose Chicago	2018	\$34,000	\$29,000	86%
Nashville CVB	2018	\$33,000	\$27,000	83%
Greater Miami and the Beach CVB	2016	\$32,000	\$28,000	88%
Go to Louisville	2018	\$31,000	\$27,000	85%
Travel Portland	2017	\$26,000	\$25,000	95%
Visit San Antonio	2017	25,000	23,000	93%
Destination DC	2018	\$25,000	\$20,000	81%
Seattle King County CVB	2017	24,000	20,000	86%
Detroit Metro CVB	2018	\$20,000	\$18,000	93%
Visit Austin	2017	17,000	15,000	91%
Visit Phoenix	2018	\$16,000	\$14,000	86%
Memphis CVB	2018	16,000	15,000	95%
<b>Average</b>		50,700	41,250	81%

Source: HVS, Respective Organizations

Among the top 20 DMOs, on average, 81% of their funding comes from the public sector. For state and local agencies, funding comes from a variety of sources. For example, California does not impose a statewide lodging tax and funding of Visit California comes from a tourism assessment program for businesses operating in the tourism industry.<sup>8</sup> In most cases, funding for public sector agencies relies on taxes on services related to tourism—car rentals, accommodations, and other tourism taxes.

The following figure provides the distribution of lodging tax revenues for those states with a separate lodging tax.

<sup>8</sup> "Welcome," California Office of Tourism, June 2, 2020. ([tourism.ca.gov](http://tourism.ca.gov))

### Distribution of Lodging Tax Revenues

State	Convention and		
	General Fund	Tourism Promotion	Other
Alabama	75.00%	25.00%	
Arkansas		100.00%	
Connecticut		66.66%	33.33%
Delaware	62.50%	25.00%	12.50%
Hawaii		Fixed Amount	
Idaho		90.00%	10.00%
Illinois	50.00%	50.00%	
Kentucky		100.00%	
Massachusetts		Fixed Amount	
Montana	42.86%	57.14%	
Nebraska		100.00%	
Nevada	92.50%	7.50%	
New Hampshire	60.00%		40.00%
New Jersey		12.76%	87.24%
Oregon		100.00%	
Pennsylvania	100.00%		
Rhode Island	25.00%	50.00%	25.00%
South Carolina			100.00%
South Dakota		100.00%	
Texas	100.00%		
Utah			100.00%
Vermont			100.00%
<b>Average % Distribution</b>	30.39%	44.20%	25.40%

Source: HVS, Respective States

On average, 44.2% of lodging taxes in these states go to convention and tourism promotion and 30.39% of revenues go to state general funds.

HVS previously projected that lodging tax losses in 2020 across the top 25 hotel markets in the United States could range from 52% to 60%.<sup>9</sup> If those same losses are applied to the 2019 revenues from states with a dedicated lodging tax, state lodging tax revenues in those states could decline from \$3.47 billion in 2019 to between \$1.39 and \$1.65 billion in 2020. Assuming 2019 total lodging taxes in the US were \$21.52 billion, the COVID-19 pandemic could reduce lodging taxes in 2020 to between \$8.64 to \$10.25 billion.<sup>10</sup>

### Budgetary constraints created by COVID-19 will result in budget cuts for public sector agencies in the hospitality industry

State and local government allocation of spending on convention and tourism promotion will be affected by general revenue declines. Estimates of the magnitude of state budget shortfalls created by COVID-19 for Fiscal Years 2020 and 2021 vary from 15% to 25%.

<sup>9</sup> Thomas Hazinski, "HVS COVID-19 Impact on Lodging Tax Revenues," HVS, April 20, 2020. ([hvs.com](https://www.hvs.com))

<sup>10</sup> Estimate of taxable room revenues comes from taking a percentage of total rooms revenue, which we assume is equal to the total number of hotel rooms ([statista.com](https://www.statista.com)), multiplied by the annual RevPAR reported by STR for 2019 ([str.com](https://www.str.com)). We multiply taxable room revenues by the average tax rate across the United States (14% as reported in the 2019 HVS Lodging Tax Study).

- The Center on Budget and Policy Priorities estimates state budget shortfalls reaching 15% in Fiscal Year 2020 and 25% in Fiscal Year 2021.<sup>11</sup>
- Moody’s Investor Services estimated that state tax revenues in Fiscal Year 2021 would fall 14.2% lower than Fiscal Year 2019 levels.<sup>12</sup>
- The National Conference of State Legislators has projected state revenue losses of 15 to 20%.<sup>13</sup>

Some local governments that are highly dependent on property taxes may experience less of a decline in revenue than those that rely more heavily on income or sales taxes. But a reduction in intergovernmental transfers from state to local governments will exacerbate local government budget shortfalls. Losses of this magnitude will force state and local lawmakers to decide where to best use tax revenues. Traditionally, public agencies in the tourism and hospitality industry face budget cuts during periods of fiscal stress because preference is given to public services that are deemed more essential such as public safety and health and welfare services. According to the National Conference of State Legislatures, “during the Great Recession, tourism budgets were often on the chopping block as states struggled to balance their budgets. Tourism office budgets reached a low of an average of \$13.3 million, but have since rebounded, according to the U.S. Travel Association.”<sup>14</sup>

### **In a status quo without federal aid, public sector agencies will suffer under a prolonged recovery**

As seen in the figures and discussion above, state and local tourism agencies and DMOs rely on public funding for their operations. Given the unreliability of these public funds, state and local agencies face budget shortfalls and staffing changes that impede their ability to complete their jobs. Due to the size of its impact, the effect of COVID-19 on agency budgets may return them to levels lower than they fell in the Great Recession.

Staffing changes also pose an additional issue when looking at the recovery of these agencies. For example, the Las Vegas Convention and Visitors Authority, the largest CVB in the United States by budget, saw furloughs and layoffs of 350 of its 455 employees—over 3/4<sup>ths</sup> of their staff.<sup>15</sup> Losses of this size, albeit some temporary, will prevent these agencies from effectively carrying out their missions. The tourism and hospitality industry has always relied on the expertise and excellence of the employees at these agencies. With these employees on the sidelines—or let go completely—the industry will face a prolonged recovery due to loss of institutional knowledge and effective manpower.

According to the U.S. Travel Association, the trade surplus from international spending in the United States peaked at \$99 billion in 2015 and declined to \$59 billion in 2019.<sup>16</sup> The Department of Commerce identified almost a 30% decline in the trade surplus as a result of the Great Recession in 2009.<sup>17</sup> The economic fallout from COVID-19, along with an already declining trade surplus, may push the United States to become a net exporter of tourism dollars rather than a net importer. The work of state and local agencies is pivotal to help buoy the trade surplus and continue to promote travel and tourism to and around the United States.

<sup>11</sup> “States Grappling with Hit to Tax Collections,” Center on Budget and Policy Priorities, June 2, 2020. ([cbpp.org](http://cbpp.org))

<sup>12</sup> “Revenue Recovery from Coronavirus Hit Will Lag GDP Revival, Prolonging Budget Woes,” Moody’s Investors Service, Apr. 24, 2020. ([law360.com](http://law360.com))

<sup>13</sup> “Re: Flexible Stimulus Funds for States to Stabilize Economy,” National Conference of State Legislatures, Apr. 16, 2020. ([ncsl.org](http://ncsl.org))

<sup>14</sup> Erica MacKellar, “State Tourism Office Budgets,” National Conference of State Legislatures, July 30, 2019. ([ncsl.org](http://ncsl.org))

<sup>15</sup> Hector Mejia, “LVCVA to lay off, furlough 350 employees as part of \$79M budget cut,” CBS 8 News Now Las Vegas, April 14, 2020. ([8newsnow.com](http://8newsnow.com))

<sup>16</sup> “Reducing the Trade Deficit by Growing International Travel,” U.S. Travel Association, February 2020. ([ustravel.org](http://ustravel.org))

<sup>17</sup> “United States Travel and Tourism Exports, Imports, and the Balance of Trade: 2012,” U.S. Department of Commerce International Trade Administration, Office of Travel and Tourism Industries. ([travel.trade.gov](http://travel.trade.gov))

## Remedies

The COVID-19 pandemic introduced something into each of our lives: uncertainty. Great uncertainty surrounds the longevity of the virus, the potential for a vaccine, and what the world will look like on the other side of this pandemic. But one thing is clear: state and local agencies dedicated to the tourism and hospitality industry face dramatic losses of resources that, if left unaddressed, will hinder their vital work for the foreseeable future. The federal government, knowing the impact these agencies have on tourism promotion and the economic impact of tourism, should consider targeted relief to state and local governments designed to assist these agencies.

The recovery of the tourism and hospitality industry is inextricably tied to the recovery of related industries. For example, the airline industry benefits from the reintroduction of leisure and group travel. The hotel industry, which supports 8.3 million jobs, benefits from tourism and travel across the United States.<sup>18</sup> The list goes on and the message is the same: tourism and travel are key to the recovery of several industries and the economy writ large. State and local partners in the tourism and hospitality industry are as necessary as ever to promote safe tourism and help revitalize our struggling economy.

---

<sup>18</sup> Chuck Dobrosielski, “AH&LA projects COVID-19’s state-by-state jobs impact,” Hotel Management, March 24, 2020. ([hotelmanagement.net](http://hotelmanagement.net))



Superior Results  
Through Unrivaled  
Hospitality Intelligence.  
**Everywhere.**

## About HVS

**HVS** is the world's leading consulting and valuation services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit [www.hvs.com](http://www.hvs.com).

**HVS CONVENTION, SPORTS, & ENTERTAINMENT FACILITIES CONSULTING** has performed hundreds of assignments around the world analyzing the feasibility of convention and conference centers, headquarters hotels, arenas, stadiums, event and civic centers, performing arts facilities, hospitality developments, tourism attractions, water parks, entertainment/urban development districts, and museums. Our service delivery methods set the industry standard with techniques based on sound economics and rigorous analytical methods.

## About the Authors



Thomas Hazinski, MPP is the Managing Director of HVS Convention, Sports, & Entertainment Facilities Consulting in Chicago, Illinois. His consulting practice is dedicated to the market and financial analysis of public assembly facilities. Mr. Hazinski has over 30 years of experience as both a public official and a consultant. He specializes in providing economic and financial research to public agencies and private developers involved in economic development initiatives. Mr. Hazinski holds a master's degree in public policy from the University of Chicago's Harris School of Public Policy. He is currently serving as an adjunct professor at the Harris School and teaching a graduate degree course in State and Local Government Finance.

Contact Tom at +1 (312) 371-0056 direct or  
[thazinski@hvs.com](mailto:thazinski@hvs.com)



Joseph Hansel, MPP graduated from the University of Michigan and the Harris School of Public Policy at the University of Chicago. He is a Research Analyst at HVS Convention, Sports, & Entertainment Facilities Consulting. He serves as Project Manager for the annual HVS Lodging Tax study. [jhansel@hvs.com](mailto:jhansel@hvs.com)

HVS Convention, Sports & Entertainment Facilities Consulting  
205 West Randolph, Suite 1650  
Chicago, IL 60606