



June 2, 2020

The Honorable Doug Ducey  
Governor of Arizona  
1700 W. Washington St., 9<sup>th</sup> Floor  
Phoenix, AZ 85007

Dear Governor Ducey,

On behalf of the Arizona Lodging & Tourism Association (AzLTA), following is our consensus request regarding how state policy and financial actions can help Arizona's \$24.4 billion tourism industry begin to recover from COVID-19 impacts.

Please know we are very appreciative of the leadership demonstrated by you and your team throughout the COVID-19 crisis and your willingness to work with us since it began. We are well aware of the fiscal constraints faced by the state, counties and municipalities due to the suspension of normal business activity. However, per your request to provide you and the legislature with ideas on how to get Arizona working again, while ensuring our state is positioned to expand our economic situation quickly, we offer the following recommendations for your consideration.

### **Increase Group Sizes**

We thank you and the Arizona Department of Health Services for working with us to reopen hotel and resort swimming pools throughout the state last month. That action led to strong Memorial Day weekend business for many Arizona properties and numerous summer "staycation" bookings. We are now asking to move quickly to increase gathering and event sizes throughout Arizona. Meetings and conventions represent more than half of all Arizona hotel occupancy and represent billions in spending. Our hotels, resorts and convention centers are implementing CDC-compliant standards to ensure the health and safety of facility workers and delegates. Growing the size of allowable gatherings safely and expeditiously is necessary to bring back this vital segment of our business.

### **Tourism Marketing Authorities**

During this past legislative session, Senator Tyler Pace introduced SB1355—Tourism Marketing Authorities (TMAs). This legislation would enable the tourism industry, in collaboration with county and municipal governments, to establish TMAs. TMAs would empower the visitor industry to create necessary revenue for local tourism marketing via a per room, per night assessment. This legislation received overwhelming bipartisan support and has endorsements from the Arizona Chamber of Commerce, Greater Phoenix Chamber of Commerce, Cactus League, Marriott Worldwide Business Councils, County Supervisors Association, Arizona League of Cities and Towns, and many other entities.

This enabling legislation would allow hotels and resorts, in concert with destination marketing organizations (DMOs) throughout the state, to raise the money necessary to drive our industry while generating revenue for the state's general fund. Rounds Consulting Group recently pointed out that the tourism industry saw an 80% decline in April and each 10% recapture of COVID-19 losses equates to \$100 million in Arizona taxes. Implementing TMAs will allow DMOs throughout Arizona to attract more visitors and generate additional visitor spending and tax revenue.



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**Marketing Arizona**

As you are aware, the Arizona Office of Tourism’s (AOT) ability to promote travel to and within our state is supported by a “three-legged stool”:

	<u>FY2020</u>	<u>*FY2021</u>
General Fund	\$8,214,000	\$9,214,000
**AzSTA-Prop 302	\$953,739	\$997,372
Gaming-Prop 202	<u>\$6,700,000</u>	<u>\$7,200,000</u>
Total	\$15,867,739	\$17,411,372

\*Figures above came from Arizona Office of Tourism’s budget request from September 2019. FY21 numbers are estimates based on anticipated growing visitation at that time.

\*\*Arizona Sports and Tourism Authority (AzSTA) revenue is via Arizona Prop 302, which is a cascading fund that pays State Farm Stadium construction debt, provides marketing revenue to AOT and Maricopa County DMOs, pays Cactus League stadium bonds, and funds youth and amateur sports activities. Prop 302 dollars listed reflect only AOT’s estimated allocations.

AOT’s revenue from Propositions 202 and 302 is estimated to drop by millions, while the FY21 budget adopted by the Arizona legislature reflects \$8,214,000 for AOT. As numerous economic analyses demonstrate, tourism promotion is one of the state’s best returns on investment to sustain and grow our economy. We ask that the state uses COVID-19 relief dollars or other available resources to fund AOT at planned FY21 levels. We are confident that marketing Arizona as the premier vacation/business convention destination will help us rebound more quickly.

Additionally, we ask for an opportunity to discuss relief for Arizona DMOs. Maricopa County DMOs alone will lose more than \$4 million in Prop 302 monies between July and December 2020 due to COVID-19 financial impacts. Considering most DMOs are 501(c)(6) organizations, they are not eligible to participate in the Paycheck Protection Program and other CARES Act programs. DMOs need revenue to restore the meetings and leisure travel that will drive Arizona’s recovery. We believe cooperative efforts where AOT and the statewide DMOs can work together, coupled with an “Arizona” program that could allow DMOs access to state funds or COVID monies via no- or low-interest loans through the Arizona Commerce Authority, will aid the state’s and industry’s recovery.

**Formula Funding**

In 2010, during the 7<sup>th</sup> Special Session, formula funding for AOT was struck from statute. Prior to that, AOT was funded by a percentage of existing tax revenues and the industry asks that it be reinstated with a delayed implementation date of FY23. For years, AOT has been underfunded compared to competitive state tourism offices. We believe reinstating this formula would allow us to gain market share in visitors and their expenditures, while driving additional tax revenue for our state and local economies.

*Formula Funding from Arizona Gross Revenues (prior to 2010)*

*3.5% from transient lodging*

*3% from amusement*

*2% from restaurants*



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**Peer to Peer**

During this past legislative session, much progress was made to resolve peer-to-peer car rental legislation. We believe a proposal from Senate Majority Leadership has the potential to satisfy the concerns of all parties. That proposal would allow the tourism industry to benefit from additional dollars being added to its AzSTA marketing allocation, in a fair and equitable manner with existing car rental companies, while creating jobs and opportunities for Arizonans in this time of economic need.

**Tax Incentives**

Due to COVID-19-related declines in visitation and visitor revenue, it is essential for Arizona to develop incentives to attract travelers to our state. Approximately 45.5 million people visited Arizona in 2018 and spent \$24.4 billion. This generated \$3.63 billion in 2018 tax revenue, which created an annual tax savings of \$1,360 for every Arizona household. It is also of note that tourism supported 192,300 Arizona jobs in 2018. (Dean Runyan Associates, 2018)

We believe Arizona should build on existing, well-vetted and legislatively supported business incentive programs (e.g. the Quality Jobs Program) and retool it for a short-term industry boost. This could be a new program that incorporates the credit, rebate or deferral of state tax liability, such as the state's 5.5% hotel privilege tax levy, for a short-term infusion of cash to hotel operators that could be utilized specifically for payroll, advertising or expenses associated with heightened cleaning/physical distancing protocols or transforming hotel and resort meeting spaces to better accommodate physical distancing.

**Liability**

In coordination with several statewide and regional business/industry organizations, led by the Greater Phoenix Chamber of Commerce, we believe the liability legislation proposed by Senator Vince Leach has the greatest opportunity to ensure Arizona's business community, as well as non-profit, education and public-sector organizations, are protected from frivolous litigation. We pledge to continue working with the legislature and, of course, your administration, to develop a final legislative package that represents the needs and concerns of Arizona's business community.



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Once again, we appreciate your steadfast support of Arizona tourism and your leadership in these trying times. While we are aware of the difficulties ahead, we are confident that with reasonable approaches towards public policy and budget decisions, which we believe our recommendations reflect, our great state is in an enviable position to recover quickly.

Please let us know if you or your team would like additional information or clarification on these recommendations and thank you for considering them. We will follow up with your team on next steps.

Sincerely,

A handwritten signature in black ink that reads "Kim Sabow".

Kim Sabow  
President & CEO  
Arizona Lodging & Tourism Association

A handwritten signature in black ink that reads "Brent DeRaad".

Brent DeRaad  
Board Chairman  
Arizona Lodging & Tourism Association

CC: Daniel Scarpinato, Chief of Staff, Office of the Arizona Governor  
Gretchen Conger, Deputy Chief of Staff, Office of the Arizona Governor  
Sandra Watson, President & CEO, Arizona Commerce Authority  
Debbie Johnson, Director, Arizona Office of Tourism  
Brent DeRaad, Chairman, AzLTA and President & CEO, Visit Tucson