



# FUNDING FOR TOMORROW

A summary of 10 global best practices identified in two major studies on the future of tourism & DMO funding

“Funding Futures – Options and Opportunities for Tourism and DMO Funding,” August 2020, and “Tourism Taxes by Design – Destination Funding and the Impact of Tourism Taxes on European Cities,” November 2020



SUPPORTED BY:



November 10, 2020

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## ACKNOWLEDGMENT

This summary was prepared by Miles Partnership, Civitas, Group NAO and the Global Destination Sustainability Movement as a short overview of shared insights from North American and European funding studies completed in late 2020.

**“Funding Futures – Research Study into the Options and Opportunities for New or Enhanced Funding of Tourism and DMOs in the Recovery from COVID-19,” August 2020**



### WITH SUPPORT FROM:



**“Tourism Taxes by Design – White Paper: Destination Funding and the Impact of Tourism Taxes on European Cities and Urban Communities,” November 2020**



### WITH SUPPORT FROM THESE EUROPEAN CITIES:

Antwerp, Barcelona, Hamburg, Munich, Oslo, Poznań, Seville, Stockholm and Tallinn

## INTRODUCTION TO TWO MAJOR STUDIES ON TOURISM AND DMO FUNDING



危機

*“The Chinese use two brush*

*strokes to write the word ‘crisis.’ One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger – but recognize the opportunity.”*

**– John F. Kennedy**

COVID-19 has created the biggest crisis in the history of travel and tourism. It has also profoundly impacted tourism tax revenues and the funding for Destination Marketing and/or Management Organizations (DMOs\*).

Two major studies completed in late 2020 in North America and Europe looked at the current situation and the options for addressing the crisis and opportunities for change. The “Funding Futures” study (August 2020), led by Miles Partnership, Civitas and Tourism Economics, with research support from Destination Analysts, looked at tourism and DMO funding across 115 North American cities, all 50 U.S. states and 10 Canadian provinces.

“Tourism Taxes by Design” (November 2020), led by Group NAO and the Global Destination Sustainability Movement, looked at tourism taxes and revenue in 30 European nations and 67 European cities. The two studies were supported by a range of leading tourism and DMO associations including the U.S. Travel Association Destinations Council, Destination Marketing Association of Canada (DMAC), Destinations International, and European Tourism Association (ETOA).

This crisis creates an opportunity for change – it is a unique moment for tourism tax revenue and DMO funding to be “built back better.” The industry needs tourism revenue and DMO funding models that are resilient, efficient and transparent, and that reinvest in ways that make destinations even better places to visit, live, study in or work. As John F. Kennedy highlighted, crises create a moment for action. The tourism industry should both recognize and seize this opportunity.

This Executive Summary shares some of the critical insights from these two studies and summarizes 10 global best practices that can guide these changes. The two reports, “Funding Futures” and “Tourism Taxes by Design,” are available with more details and recommendations.

Access the full reports, resources and more at [www.MilesPartnership.com/FundingforTomorrow](http://www.MilesPartnership.com/FundingforTomorrow)

*\*Note on the use of “DMO”: DMO has been used as the descriptor for all types of destination marketing and/or management organizations regardless of whether they are an official national, state/provincial, regional or city tourism organization, and regardless of their role and responsibilities.*



## R7: SEVEN ROLES FOR TOURISM TAXES

As outlined in “Tourism Taxes by Design,” here is a summary of the seven ways in which tourism taxes and other visitor funding are used and will influence and shape our industry in the future.

### REVENUE

Across Europe, North America and around the world, tourism taxes have become a large and lucrative part of how governments raise money for all types of activities. These pressures will only grow post COVID-19.

### REGULATE

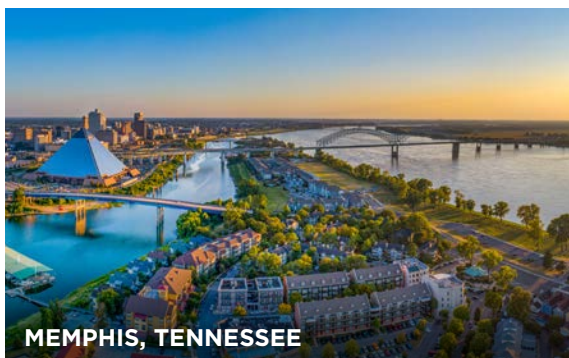
Tourism taxes can be designed to incentivize certain outcomes and discourage others, for example differentiated rates according to seasonality, city zones, size of business, etc.

### RELOAD

A meaningful part of tourism taxation should be reinvested back into visitor marketing and/or management. Creating these linkages or dedicated funding models is increasingly critical.

### RETHINK

As an extension of Reload, above, tourism taxes should be used to fund research, development and innovation to discover fresh solutions to problems or new opportunities.



### RELIEF

In times of crisis, a greater proportion of tourism taxes can be reinvested to support tourism business and DMOs and promote the recovery, or taxes can be cut to make the destination more price competitive.

### RESILIENCE

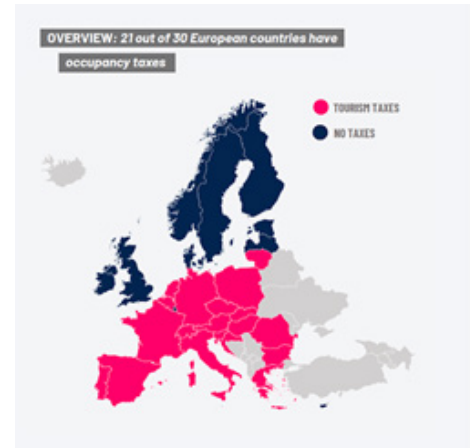
From building financial reserves and diversified funding streams to new insurance solutions, the post COVID-19 world will prioritize mitigating risk and preparing for the next crisis.

### REGENERATION

An increasing number of destinations such as Barcelona and the Balearic Islands (Spain) use revenues to protect, restore and enhance the communities and natural environments on which tourism relies.



## OVERVIEW OF CURRENT TOURISM TAXES & DMO FUNDING



Both tourism and the tax revenue it generates grew rapidly in the years prior to early 2020. As tourism grew, so did the range and complexity of taxes and fees raised from visitors. These can be grouped in three primary areas: bed or occupancy taxes on accommodation; taxes on visitor spending from value-added or sales taxes; and taxes and fees applied to transport, especially airline travel. Together, these taxes have become a broad and highly lucrative source of public revenue with only a small proportion reinvested directly back into tourism or with DMOs.

Across both Europe and North America, tourism taxes and fees totaled in the hundreds of billions of dollars/euros per year by early 2020. For example, visitor-related taxes collected by states and local cities/counties in the U.S. grew by more than 50% in the 11 years after the global financial crisis, outstripping growth in visitor spending. These state and local tax revenues collected from visitors totaled more than US \$80 billion by 2019. By comparison, the total budgets of all state, city and county DMOs across the U.S. represented only 4.4% of state and local tax revenue collected from visitors.

The most common tourism-specific tax in North America is a lodging charge or hotel

bed tax (called a Municipal Accommodation Tax in Canada). This is collected in more than 300 cities and counties across the U.S. and in dozens of Canadian cities. In the U.S., the median rate for this bed tax in the largest 100 U.S. cities is now almost 15% (14.92%).

Bed tax in Europe is also common. In fact, 21 European nations have some type of accommodation tax (see map).

In Europe, the hotel occupancy taxes are typically much lower than those in North America, and usually work out at a fixed rate of 3-8% (based on an average room value of 100-150 euros per night). However, there are great variations across and even within the EU states. In combination with the impact of national value-added taxes (VAT) in Europe, the overall taxes on accommodation can be higher than in North America.

It is up to each EU member state to decide on the general VAT rate (min. 15%), but there can be exemptions on specific sectors such as public transport. Only three EU nations apply the full VAT rate on accommodation, and in some countries, there are refunds of VAT on accommodation for conferences and events. In 20 European nations, VAT also varies for other visitor attractions such as culture and recreation.





Bed taxes are the primary funding mechanism for the vast majority of city convention and visitor bureaus in North America. By comparison in Europe, most DMOs' are funded directly by the city, state/regional or national government, which in turn, collect and retain the vast majority of all tourism taxes. Private-sector funding is surprisingly more of a significant feature of European DMO's budgets (an average of 33%) than in North America, though this declined in recent years (from 50% in 2017), an indicator that DMOs' dependency on public funding is also increasing in Europe.

Bed tax revenue is dwarfed by the VAT (in Europe and Canada) and sales tax (in the U.S.) paid by visitors as these taxes are applied on a far broader range of tourist spending. A very small portion of the VAT or sales tax revenue is reinvested back into tourism or remitted to DMOs.

Few countries attempt to exclude or refund taxes paid by international visitors, hence tourism has a unique tax burden unlike almost any other export industry.

There is also a complex range of other fees, levies and taxes applied across travel transportation, notably on air travel, cruise passengers and rental cars. An increasing range of European nations including France and Sweden have added "environmental taxes" to the existing range of airline passenger fees (e.g., Airline Departure Taxes) to assess their impact on climate change. A number of European destinations such as

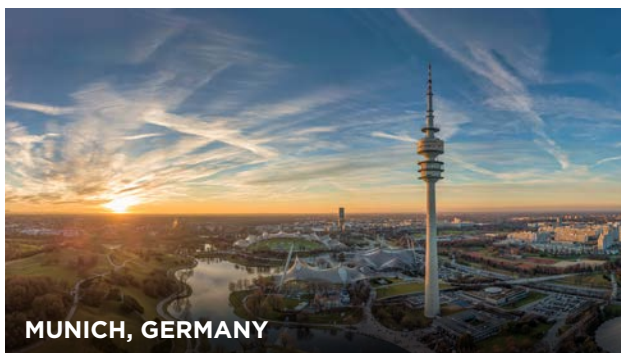
Barcelona and Amsterdam have also been applying new outcome-based taxes/fees on cruise ships to collect increased revenue from the sector and to both manage and discourage day visitors from cruise ships. In the U.S., more than 40 states levy taxes and fees on rental cars.



TALLINN, ESTONIA



NEW YORK CITY, NEW YORK



MUNICH, GERMANY

Despite the rapid expansion of tourism-related taxes, relatively little research has been undertaken on the competitive and market impact of adding or raising these visitor taxes. Though often cited by opponents, the evidence is of a negligible to modest impact relative to the complex range of other factors influencing visitor demand. This topic, however, needs urgent, more in-depth work. (See the four recommended priority areas for additional research.)



VERNAZZA, ITALY

There is, however, clear evidence of strong support for visitor taxes from local communities and visitors themselves if the usage of funds is transparent and at least partly applied to improving the community.



YOHO, BRITISH COLUMBIA

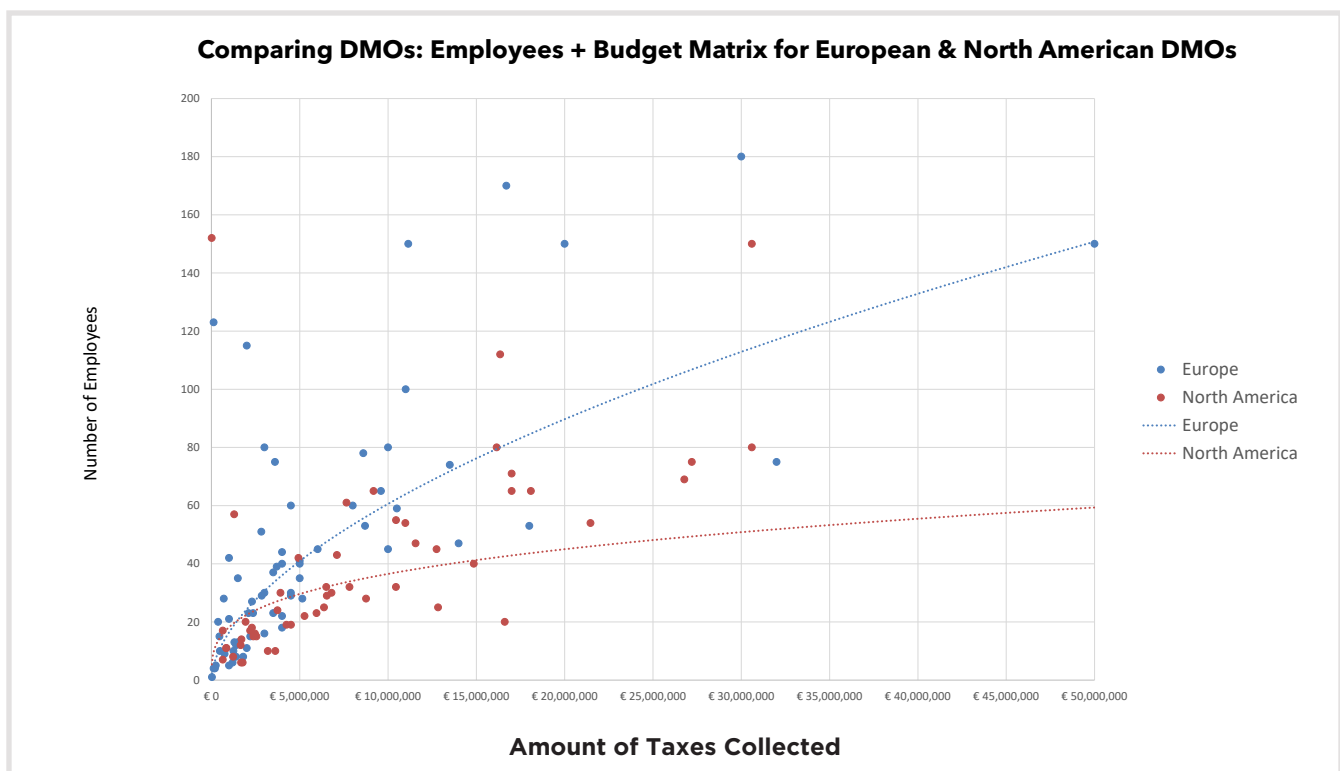


# NORTH AMERICAN AND EUROPEAN COMBINED DMO SURVEY RESULTS

Both the North American and European studies undertook surveys of DMOs asking for their feedback on the current situation, their response to the COVID-19 crisis, the impact on funding and the priorities for their DMO coming out of the crisis. The detailed DMO survey results are available in each report, but this report summarizes the

joint insights from both North America and European DMOs on six critical data points.

To make the responses directly comparable, we focused on city DMOs in this analysis: the 67 European city organizations and 48 North American DMOs excluding U.S. state tourism organizations.



Thank you to Destination Analysts, a specialist DMO research company based in San Francisco, California, which helped lead the North American DMO research and undertook the analysis of these joint questions. More: [www.DestinationAnalysts.com](http://www.DestinationAnalysts.com)

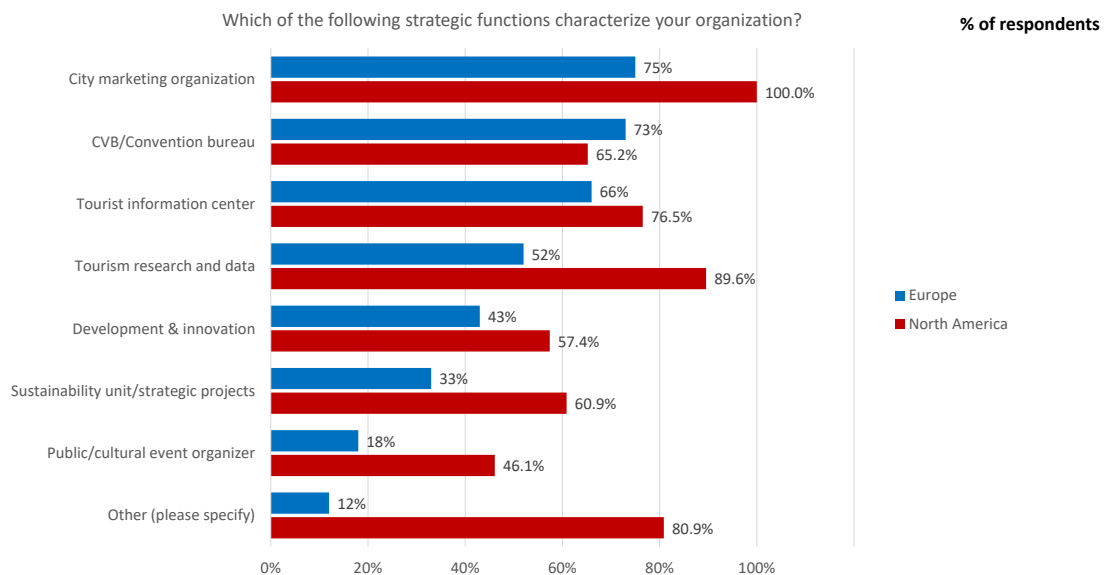


# ROLE & FUNCTIONS OF NORTH AMERICAN VS. EUROPEAN DMOs

We compared the role and functions of North American and European DMOs. Not surprisingly, there are strong similarities in the number of organizations looking after functions such as destination marketing, convention sales and running visitor centers. European DMOs are more likely to have a role in sustainability and product development,

managing specific city events and in operating public-private sector visitor programs (e.g., selling metro/city cards). Overall, North American DMOs undertake a wider range of responsibilities including a far higher proportion with a research and analytics function, those that operate a convention center and undertake sports and event bids.

**Role, Responsibilities & Functions of European & North American DMOs**

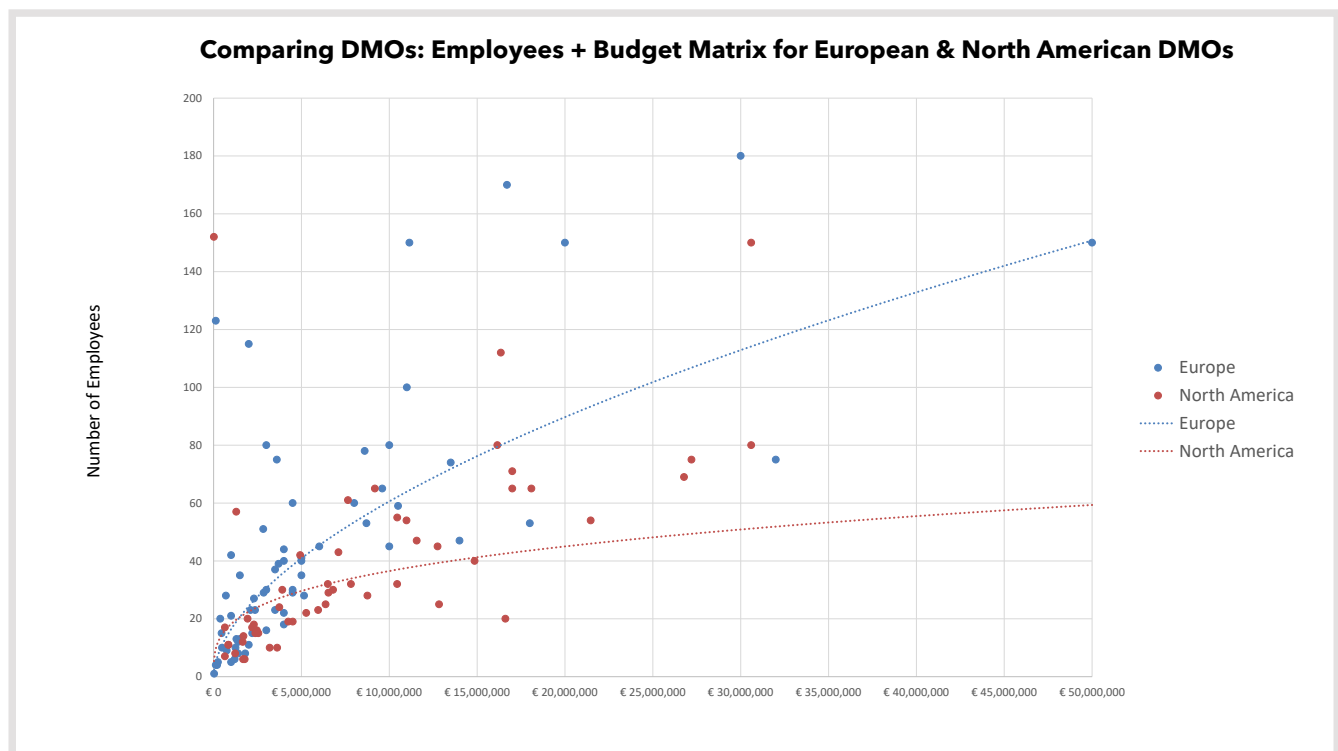


CHICAGO, ILLINOIS

# NORTH AMERICAN VS. EUROPEAN DMO BUDGET & STAFFING

COVID-19 is reshaping the budgets, staffing levels and other costs of DMOs. As of June and July, European DMOs (shown in blue) had slightly more staffing levels relative to their budgets than did North American DMOs (red). This reflects the lower number of staff that European DMOs laid off during the crisis -

preferring or required to prioritize responses such as general wage reductions. How DMOs pivot in their role and responsibilities during the recovery from COVID-19 and the return of functions like conventions and meetings will determine how staffing returns.





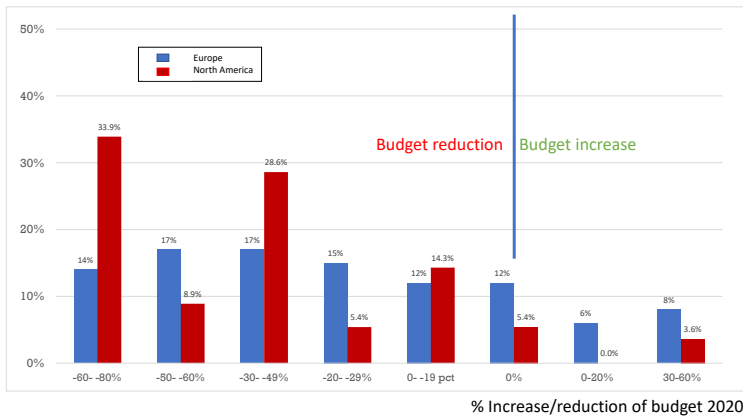
# IMPACT OF CRISIS ON NORTH AMERICAN & EUROPEAN DMO BUDGETS

COVID-19's immediate and longer-term impact on DMO budgets in North America is more challenging than for their European peers. This difference is more stark in 2020 where almost three-quarters of North American DMOs predict a drop in revenue of 30-80% vs. less than half of European DMOs seeing this decline. As of November 2020, U.S. DMOs have received significantly less support than

most of their European (and Canadian) DMO colleagues. That outlook for the U.S. broadly continues into 2021, where 43% of North American DMOs estimate a 40-50% drop in revenue vs. only 17% of European cities. One bright spot: More than one in six North American DMOs forecast a 30% rise in their 2021 budget – more than twice the proportion of European DMOs.

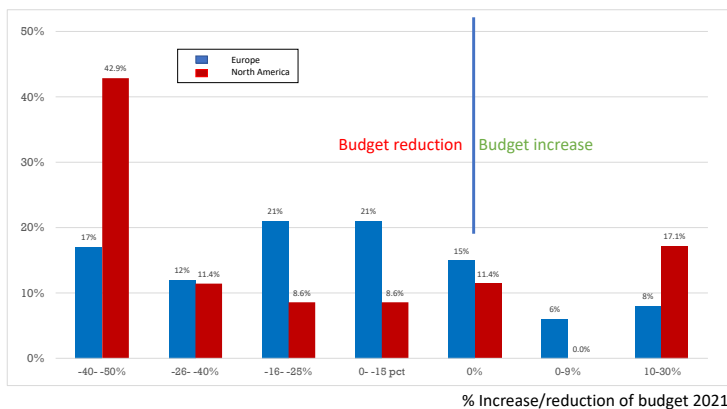
**COVID-19 Impact In 2020: Immediate impact on the Budgets of European & North American DMOs**

Q: Please indicate the % variation/impact on this year's budget (2020)



**COVID-19 Impact In 2021: Longer term impact on the Budgets of European & North American DMOs**

Q: As far as you know, what do you think will be the impact of the COVID-19 crisis on next year's budget (2021)?



AMSTERDAM, NETHERLANDS

# FUTURE PROOFED? NORTH AMERICAN & EUROPEAN DMOs RESPOND

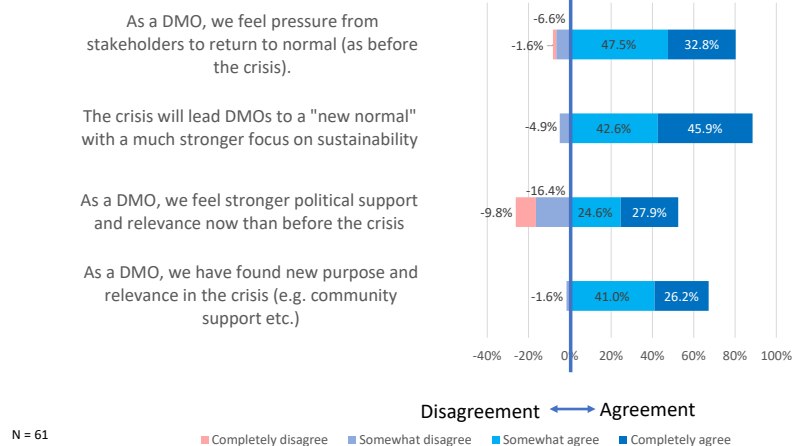
The two surveys asked some similar questions of North American and European DMOs about how they are thinking about the future. DMOs on both sides of the Atlantic see the need for real, substantive change – but many struggle with pressures to also return to “normal.” For example, over 80% of both North American and European DMOs see a greater role in sustainability or closer engagement

with residents. North American DMOs have more aggressively reduced staffing levels and overhead costs, but nearly eight out of 10 want to return these to pre-COVID levels. European DMOs have not had to make the same staffing cuts but a similar proportion feel pressure from stakeholders to “return to normal – as before the crisis.”



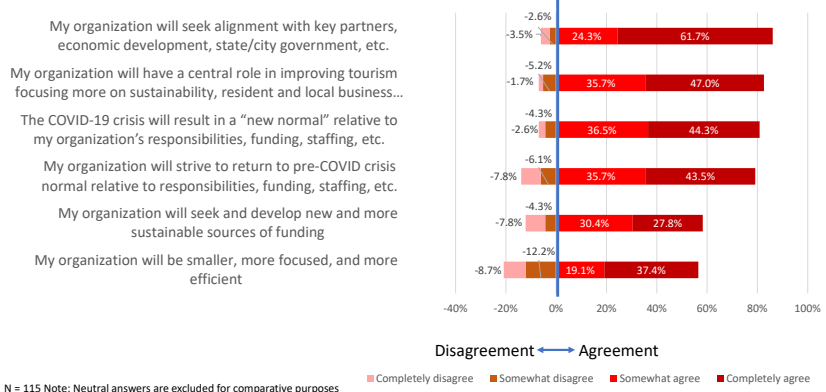
## Preparing & Planning for the Future: European DMOs

Q. Do you agree or disagree with the following statements about the future focus and role of DMOs post COVID-19?



## Preparing & Planning for the Future: North American DMOs

Q. Thinking of the future and the impact of the COVID-19 crisis, how much do you agree or disagree with the following statements





## 10 GLOBAL BEST PRACTICES

These two major studies highlighted 10 important principles, policies and processes that characterize the most efficient, resilient and sustainable tourism tax and DMO funding options. Collectively, these are a set of guiding international best practices to help destinations review, develop or update their tourism taxes and DMO funding.



**As in Europe, Canadian destinations have received a wide range of federal and provincial government support during the COVID-19 crisis including wage and rent subsidies and funding for recovery campaigns. See page 59 of the “Funding Futures” report and replace with: “DMOs in the US as of November 2020 are still waiting for such wage/rent support**

**1 RESPONSIVE FUNDING** Governments have a critical responsibility to build on their support of the tourism industry and DMOs during the COVID-19 crisis. The support needs to help DMOs and tourism businesses weather the crisis and drive the recovery as the pandemic recedes and borders reopen. A huge range of nations have implemented support packages (summarized by the UNWTO and OECD; see the Resources & Sources section) and as a result, there is ample opportunity to learn lessons of which support mechanisms are most effective. As recovery proceeds, funding should be responsive to the growth of tourism, enabling proper management of the visitor industry and preparation for the next crisis.

**2 RELEVANT ROLE AND RESPONSIBILITIES** Marketing and managing tourism is complex, challenging and ever-changing. The industry needs DMOs and related organizations with timely and relevant responsibilities and resources. Reviewing the future of funding starts with these structural issues, including the appropriate role for a DMO in tourism marketing and management plus its relationship to government, economic development and community agencies. This includes exploring wider community collaboration and funding relationships with nontraditional partners such as universities, employers, property owners, etc., that are championed as “Community Shared Values” by Destinations International.

**3 RESILIENT FUNDING** The COVID-19 crisis has highlighted the importance of resilient, sustainable revenue streams, both during a crisis and for the long term. Risk mitigation mechanisms such as building reserve funds – up to one year’s operating budget – are critical, as are diversified funding streams and nurturing private sector partnership revenue. In the meetings and event space, exploring public-private insurance to cover any force majeure risks of future pandemics or other manmade and natural disasters – such as those accelerated by climate change – may be needed to help major meetings and events recover and prosper.

***“I think reserves should be mandatory and when you get government funding, that a percentage of the funding should be part of a reserve for rainy days”***

**- Yves Lalumiere, Tourisme Montreal**

**4 DEDICATED FUNDING** Tourism tax revenue has been increasingly diverted into general government funds over the years without focus, objectives or accountability. One challenge: visitors don’t vote. Partly because of this, visitor taxation rates and mechanisms have multiplied. For DMOs to be successful, clear, better-defined boundaries need to be placed on these allocation decisions, particularly with fiscal pressures on governments growing from the COVID-19 pandemic. With some exceptions, tourism funding generated for DMOs should be earmarked and dedicated with clear focus, objectives and accountability. Dedicated funding structures such as Tourism Improvement or Recovery Districts (TIDs) and Tax Increment Financing (TIF) offer perhaps the best approaches for achieving these outcomes.



WICHITA, KANSAS

**5 TOURISM TAXATION THAT REFLECTS THE FULL BENEFITS AND COSTS OF TOURISM** The debate over tourism taxation and DMO funding needs to be based on a sound understanding of the full benefits and costs of tourism. This means understanding not just the economic and financial return of the industry, but its myriad impacts, both positive and negative, on communities and the natural environment. Recent major studies such as “Destinations at Risk - The Invisible Burden of Tourism” (2019 by Cornell University & NGO partners) highlights how this can be both poorly understood and not estimated. As the two major reports note, the tax revenue collected from tourism is also significant, with the vast majority not reinvested to better manage tourism. There is also only minimal research on the wider benefits of tourism on social, cultural or business life in a community. For this reason, all sides of the costs and benefits of tourism need to be understood.

***“I think this crisis. . . really awakens the state and the city as to the value tourism brings to the community, and I think it was taken for granted for so long”***

**- Martha Sheridan, Greater Boston CVB**



BOSTON, MASSACHUSETTS



**6** **TRANSPARENCY IN DESIGN, MANAGEMENT AND REPORTING**

Tourism taxes and fees should be clear, obvious and transparent in their application and where the money is being used. This is a sound principle of all government funding and is especially true for revenues raised from visitors who often have no political representation in how the taxes are created or applied. Several studies cited in the “Tourism Taxes by Design” report show a far greater willingness to pay if travelers know where the money is being spent, especially if it is on regenerative tourism projects.

**7** **SIMPLE AND CONSISTENT OPTIONS**

In addition to the principle of transparency, taxes and fees that are simple and consistent in their application with low compliance costs are more likely to be widely supported, especially by tourism operators. In their 2017 study for the EU, PricewaterhouseCoopers (PwC) highlighted the importance of these compliance issues including consultation with and support for small to medium-size businesses. This includes ensuring consistency across fast-growing sectors of tourism such as short-term rentals transformed by peer-to-peer platforms such as Airbnb. Working with these platforms on consistent assessment, tax collection, enforcement and reporting policies is critical. Airbnb’s [new City Portal](#) and reporting services for destinations is a positive step in this direction.



BALEARIC ISLANDS, SPAIN

**8** **LOCAL CONSULTATION & CONTROL**

Genuine and ongoing local consultation and control forms the third pillar of how to build widely supported tourism taxes (along with #6 and #7). This includes consultation with locals, industry, visitors and other community partner groups (e.g., education, arts and culture) with a high degree of local control in how tax revenue is prioritized and applied. The DMO should be actively involved in these decisions and implementation along with local government, partner agencies, the tourism industry and the community. Balancing the needs of tourism businesses with the local community’s priorities is perhaps most critical and central to the successful management of how tourism develops in a destination. A good example is found in Barcelona, Spain. The City Council has established a Tourism Commission. Representatives from all parts of city life advise how the city shall spend 50% of the tourism tax revenues on regenerative purposes.



BARCELONA, SPAIN



HAMBURG, GERMANY

**9 REGULATORY DESIGN OR OUTCOME-BASED FUNDING MECHANISMS** The way in which tourism taxes and fees are set and applied can also be important pricing signals to visitors and businesses. These can influence their decisions and tourism activity and help shape the way tourism develops in a destination. Though widely applied in Europe, such regulatory design would benefit from a thorough review to ensure the mechanisms are still relevant, timely and efficient, especially in the recovery from COVID-19. For all destinations exploring new regulatory design, outcome-based pricing is an opportunity. For example, this could be applied in using market mechanisms to vary taxes based on demand (e.g., higher taxes in peak season, lower in the off-season).

**10 REGENERATIVE FUNDING FOCUS** Regenerative funding is a central part of the opportunity for tourism to help build back better. The two reports cite a wide range of examples, primarily in Europe, of tourism revenue that helps protect, restore and enhance a local community and/or the natural environment. It is critical that DMOs are involved in both shaping such revenue decisions and their ongoing management. Such funding strengthens the destination that tourism relies on and has the potential to fundamentally shift public perception of tourism and the DMO to

entities that demonstrably support and enhance the community and environment that locals love. This change will fundamentally shift how tourism is viewed, making every type of funding issue and decision more collaborative and much easier.

**FINAL THOUGHT** Tourism funding and DMO revenue need to be built back better for both the short and long-term. Beyond tackling the immediate challenges of COVID-19, there is also a need to build funding structures that are future-proofed to manage both the increased risks and renewed growth of tomorrow's tourism sector. Though tourism will return to a world with less certainty, if we can manage these increased risks, the long-term outlook for travel will remain robust.

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***“It is imperative to first establish the non-negotiable assumption that travel will fully recover. The pandemic will end. The drivers of travel — income growth, demographics shifts, the importance of meetings, and the intrinsic value of vacation — will still be intact on the other side. So, recovery is inevitable.”***

**– Adam Sacks, Tourism Economics**

## NEXT STEPS & ADDITIONAL RESOURCES

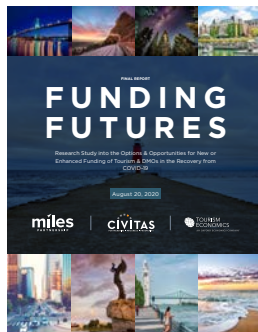
### FUTURE RESEARCH OPPORTUNITIES TO CONSIDER

Finally, though the reports were both broad and detailed, four critical but complex issues were identified that need additional research. In order of urgency and priority:

- Developing far more sophisticated quantitative and qualitative methodologies for measuring the full costs and benefits of tourism in destinations
- Assessing the effectiveness of tourism support spending and tourism tax abatement policies during the recovery from COVID-19
- Deeper analysis of the impact of new or increased tourism taxes on visitor demand and the competitive position of destinations
- Best practices in the management, marketing, tax assessment and enforcement policies for Short Term Rental (STR) accommodations

### SOURCES & REFERENCES

SEE THE TWO PRIMARY REPORTS INFORMING THIS SUMMARY



“Funding Futures – Research Study into Options & Opportunities for New or Enhanced Funding of Tourism & DMOs in the Recovery from COVID-19,” Miles Partnership, Civitas and Tourism Economics – with research support from Destination Analysts, August 2020 (with some funding from U.S. Travel Destinations Council and DMAC and support from Destinations International)

“Tourism Taxes by Design – White Paper: Destination funding and the impact of tourism taxes on European cities and urban communities,” Group NAO and the Global Sustainability Movement, November 2020 (with some funding from 10 European cities and support & collaboration from EMC and ETOA)

Download the full reports, watch past webinars and view additional resources at

[www.MilesPartnership.com/FundingforTomorrow](http://www.MilesPartnership.com/FundingforTomorrow)



## ADDITIONAL REFERENCES

**IN EACH REPORT THERE IS A FULL LIST OF ADDITIONAL RESEARCH, RESOURCES AND REFERENCES. HERE ARE FOUR OF THE MOST IMPORTANT REPORTS:**

“The Impact of Taxes on the Competitiveness of European Tourism” by PricewaterhouseCoopers LLP (PwC) for the European Commission, October 2017. [Download the full Report.](#)

“Destinations at Risk: The Invisible Burden of Tourism,” Eplerwood International, Cornell’s SC Johnson College of Business and the Travel Foundation, 2019. [Overview & Full Report.](#)

“COVID-19: Measures to Support Travel and Tourism.” UNWTO 2020. [Visit Online.](#)

“Tourism Policy Responses to the Coronavirus (COVID-19).” OECD. 2020. [Visit Online.](#)

Also, Phocuswright (Phocuswire), McKinsey & Company and Skift are great sources of additional insights on how tourism is recovering and changing from the COVID-19 crisis. Examples:

- Phocuswire’s COVID-19 [live blog](#) & more [travel news](#)
- “Reimagining the \$9 trillion tourism economy – what will it take?” McKinsey & Company. August 2020. [Article](#) & [more on travel.](#)
- “Recovery Index,” Skift Research, November 2020 and ongoing. [Index](#) & [more research.](#)



HELSINKI, FINLAND



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