

Tourism Improvement Districts: Alleviating the Workforce Housing Crisis





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Introduction

No matter where you travel these days, destinations across the nation have signs plastered across town declaring, "Now Hiring!" and "hours are being adjusted due to insufficient staff." Collectively, the tourism industry is suffering a workforce shortage crisis.¹

Rising costs of living and skyrocketing housing prices are intensifying the problem, as many hospitality workers can no longer afford to live in the destinations where they work. According to Economic Research Analysts for realtor.com, the September (2022) national median listing price for active listings was a staggering \$427,000, slightly lower than the all-time high of \$449,000 in June of 2022. (Speianu & Hale, 2022) Concurrently, the U.S. Department of Labor reported the "all items index," which includes all goods and services paid by consumers, including food, energy, service, and shelter, continued to rise each month, with a 0.4 percent rise in September 2022 on a seasonally adjusted basis. In the last 12 months, the all items index increased 8.2 percent before seasonal adjustment.² Meanwhile, according to the Bureau of Labor's report, "the shelter index continued to increase, rising 0.7 percent in September. The rent index rose 0.8 percent in September. The owners' equivalent rent index also increased 0.8 percent over the month, the largest monthly increase in that index since June 1990." (Bureau of Labor Statistics, 2022)

The Desperate Need for Affordable Workforce

Housing: Current Initiatives

Over the last several years, many destinations have recognized the struggle of their local workforce to find affordable housing within the city limits. With this spike in homeownership costs and overall inflation, hoteliers and other tourism-related businesses are hard-pressed to fill staff vacancies. Without a solution, the hospitality industry is overstretched and underperforming; destinations risk diminishing their brand reputations, and communities lose jobs and tax revenue generated by tourism. However, some destinations are remedying their situation by subsidizing workforce housing in innovative ways. The case studies below exemplify how a few destinations are using Transient Occupancy Taxes (TOTs), Transfer Taxes, and new taxes on vacation rentals in creative ways to help alleviate the housing crisis.

Napa Valley, CA



In Napa Valley, California, the tourism industry is the second-highest employer in the community and generates \$85.1 million a year in tax revenue for local services, such as recreation, road improvements, and public safety. In 2019, five jurisdictions simultaneously raised TOT (bed tax) by 1%. Each of the jurisdictions has been developing programs to generate affordable housing. Earlier this year, Napa Valley Community Housing Authority submitted an application to the city for a 100% affordable multifamily residential development that would revamp a former immigrant homestead, offering a total of 77 rental units. The Affordable and Workforce Housing initiative leverages the 1% TOT paid by visitors staying in hotels and other short-term lodgings in the City of Napa to help pay for the development. The revenue generated will help ensure this vital program will continue to be funded. (City of Napa, n.d.)

Placer County, CA



To address its lack of workforce housing, Placer County, California, invested in the Workforce Housing Preservation Program. Among other initiatives, this program helps first-time homebuyers fund a down payment or renovations by providing up to 16% of the purchase price in exchange for a deed restriction for local workers. (Purvines & Setzer, 2021) The County's goal is to acquire 50 deed-restricted homes each year to create a marketplace of housing reserved for the local workforce. The deed restriction stands for 55 years and will renew with each sale of the land. While the County general fund finances a portion of this program, the Placer County Board of Supervisors approved the use of \$250,000 of local TOT funds, reserved for housing and transportation, for this effort. (Purvines & Setzer, 2021)

Aspen, CO

As a popular ski destination, Aspen, Colorado, has been addressing the need for affordable workforce housing since the 1970s. With the average selling price for a single-family home at \$6.4 million in 2019, Aspen redoubled its efforts to address the issue. (Small, 2021)

The Aspen/Pitkin County Housing Authority manages almost 3,000 sales and rentals, with purchase prices for these properties ranging from \$40,000 to \$1 million. The only requirement to purchase one of these homes is that the buyer must become a year-round resident employed in Pitkin County. As a result, almost half of the locals can live and work in the destination. (Gardner-Smith, 2014)

To keep purchase prices down, the program has been funded through a transfer tax. Due to the success and benefits of the program, the community has extended the transfer tax three times. (The Aspen/Pitkin County Housing Authority (APCHA), n.d.)



Crested Butte, CO

Crested Butte, Colorado, has been working for the last 33 years to ensure adequate, affordable housing for its local employees. In November 2017, the city approved a 5% use tax on vacation rentals, with the revenue going to the town's affordable/workforce housing efforts. This tax generates approximately \$275,000 - \$325,000 a year. (Navigate, LLC Jackson Hole, WY et al., 2016) In addition, the city is planning to have 25% of the town's housing stock to be deed-restricted for locals by the end of 2022. Currently, there are 260 deed-restricted properties in Crested Butte, accounting for 22% of the town's housing set aside for locals. (Navigate, LLC Jackson Hole, WY et al., 2016)

The initiative also provides units exclusively for local workers. In 2019, the town and community school teamed up to design and build a rental unit for town employees. Students gained experience in home construction and provided dedicated housing to locals. (Lunney et al., 2019) By offering rental units and deed restriction options, the Crested Butte workforce now has additional options for accommodation.

Tourism Improvement Districts: A Growing Solution for a Common Problem

What is a TID?

Tourism Improvement Districts (TIDs) are mechanisms for funding tourism promotion and destination development activities. TID funding is raised via industry-imposed assessments, typically on lodging stays, within a designated geographic area. Those funds are then used to provide services desired by and directly benefiting the assessed businesses in the district. Because TIDs are dedicated for the benefit of tourism, funds raised cannot be diverted to other government programs.

How is a TID Funded?

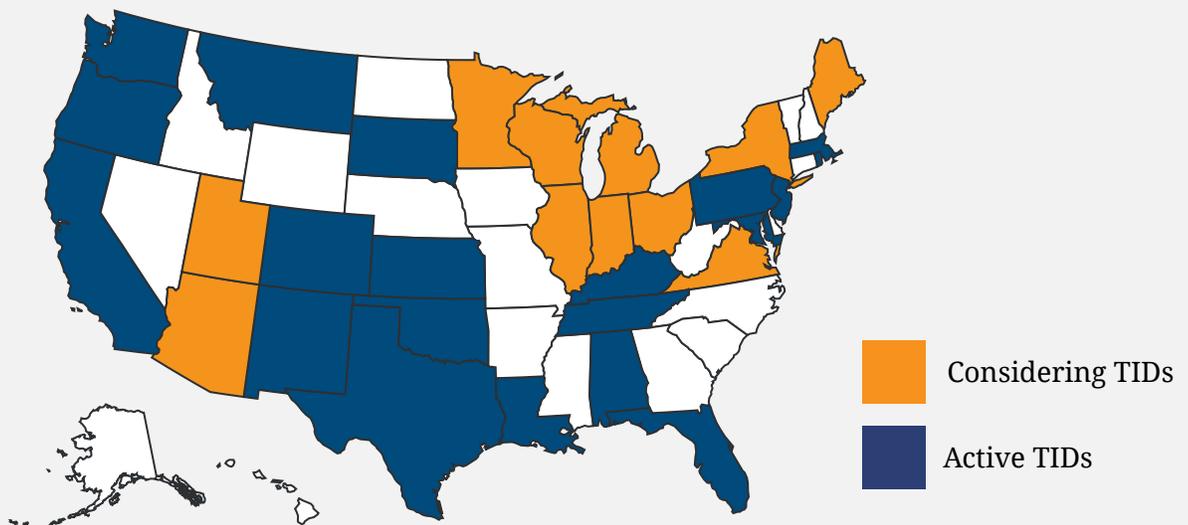
A TID is funded by levying an industry-imposed assessment, usually based on a percentage of revenue or a fixed amount per occupied room night. Funds are typically collected in the same manner as bed taxes and can be passed on to the customer; however, TID revenue cannot be diverted by local government because TID funds must be used to benefit those paying the assessment.

Assessment vs. Taxes?

Generally, assessments are developed, managed, and voted on by the industry, whereas taxes are not. Because TIDs are self-imposed, TID funds are allocated for programs approved by those businesses paying the assessment, to be used for their benefit. Unlike a tax, the government may not reallocate TID funds for non-tourism programming. Additionally, assessments are often enacted for a term, unlike taxes which are most often imposed in perpetuity.

Do they work? TIDs, a Unique Answer to a Growing Problem

First introduced in California in the early 90s, the innovative concept has spread to 202 destinations worldwide in 20 US states, with nine additional states introducing legislation to allow TIDs.



TIDs are a unique, industry-led option to provide sustainable, dedicated funding for DMOs to continue supporting the tourism industry despite budget cuts, staffing issues, and lack of resources.

An innovative study conducted by Tourism Economics in partnership with STR and Civitas compiled comprehensive, industry-wide data that proves TIDs provide a competitive advantage for destinations. By examining TID impacts on room demand, revenue, and visitor spending, the research shows that TIDs enhance destinations' economic impact.

Utilizing TIDs to Provide Workforce Housing and Incentives

Benefits



As many destinations already know, businesses cannot stay open and generate profit without sufficient staff. As locations struggle amidst budget cuts, a decrease in supplies, and many more reasons, available funds are scarce. Hotels and other hospitality businesses are in danger of risking their hard-earned reputations if they cannot provide the level of service people have come to expect. Locations across the U.S. should remove any hurdles from employees to ensure they can return to being fully staffed.

TID members may choose to utilize their TID revenue to implement workforce development and incentive programs to help solve this problem. By using TID funding, businesses can potentially increase room nights, provide adequate staff, and ensure affordable housing options for years to come, providing a benefit to the industry as well as the destination.

Options to Consider: Building, Buying, Bonding, and Providing Incentives for Housing

There are many options to consider in using TIDs for workforce housing, including:



Building affordable employee housing



Purchasing dedicated housing for employees



Incentivizing deed restrictions



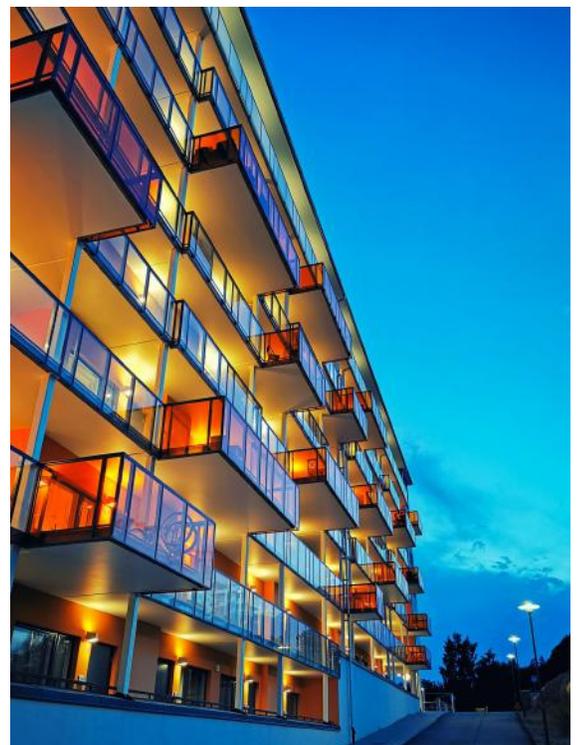
Bonds on Lodging Tax revenue to fund housing, and



Providing housing stipends

If your destination has a housing shortage, *building new dedicated housing* as a capital improvement project could be an effective, long-term solution. This option is an excellent fit for destinations with plenty of space and available land. This allows TID members to choose a location for the housing that will be convenient for its residents who choose to live and work there. To finance these building projects, some destinations are looking to bond against lodging tax or TID revenue. Utilizing bonds allows for immediate construction without significant capital outlay, as the lodging tax or TID revenue may serve as collateral.

If accommodations are already prevalent in your area or available land for capital improvement is limited, using the funding to *buy existing housing* could be a better fit. By purchasing already existing properties, destinations can cut down the amount of time before being able to offer housing to tourism employees, creating an immediate solution while also allowing growth over time as needed.



Incorporating Workforce Housing into TIDs

Using the funds to *incentivize deed restrictions* is becoming a popular way to ensure housing is available for those who work and reside in the community. This is a great long-term solution to ensure employees have accommodation for years to come without the cost and effort of a capital improvement project. This solution also helps manage the number of short-term rentals popping up, directly affecting the amount of housing available for locals.

A final option would be to use the funding to *provide housing stipends* to employees to ensure they can continue to pay for housing within their community. This would be a helpful alternative in destinations where buying land or already established housing is not an option. Implementing a stipend program would provide a substantial competitive edge to tourism businesses in the employment pool.



TIDs are the best option for any of these solutions and can help overcome many hurdles that may hinder the execution of these opportunities. By using TID funds, there is no struggle to convince local politicians of the merits of these solutions. As these funds are directed and spent to the benefit of the assessed businesses, the assessed businesses have complete control of the funds and those funds cannot be redirected by the local government. Lastly, using TID funds provides the ability to offer multiple solutions that best benefit those businesses paying the TID assessment.

Conclusion

Destinations around the nation recognize an urgent need for affordable workforce housing. Hotels and other hospitality businesses will continue to suffer without a solution for sustainable funding and a plan to institute it. TIDs are an innovative, viable source to help tourism workers find and pay for housing, which allows tourism the benefits of developing a reliable, talented workforce. After the devastation of COVID-19, an emerging pattern of hope can be discovered in the form of TIDs.

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Notes

¹ As of September, employment in leisure and hospitality is still below its pre-pandemic February 2020 level by 1.1 million, or 6.7 percent, according to the Bureau of Labor Statistics. (U.S. Bureau of Labor Statistics, 2021)

² *The all items index includes all goods and services paid by consumers, including food, energy, service, and shelter.* (strike) (Bureau of Labor Statistics, 2022)

Who We Are

Civitas is a full-service firm specializing in sustainable funding solutions. We provide non-profit and legal consulting services, provide legislative support and help with all things district-related, specifically renewals and formations. We are the leading international firm specializing in research and implementation of tourism-related levies. Working with over 200 destinations worldwide we have created and implemented innovative funding mechanisms, including business improvement districts (BIDs) and tourism improvement districts (TIDs), that have generated nearly \$2 billion for our clients globally.

Our expert team delivers unequalled knowledge, depth, and experience globally to destinations and communities that seek sustainable funding solutions to fuel their futures. Civitas' clients are innovative local, state and national governments as well as community organizations and groups of business or property owners.

In 2022, we worked with fourteen Pacific Island nations to analyze existing and possible future tourism and community funding mechanisms. We also provided advice this year to stakeholders in Auckland, NZ, to help them determine the best options for sustainable funding to help their tourism sector flourish.

Our team has helped form over 100 TIDs throughout the United States and helped several states investigate the possibility of establishing statewide funding. Notable TIDs formed include San Diego and Los Angeles; and the first districts in Louisville (Kentucky), Oregon (Portland), Kansas (Wichita), Florida (Tampa), Oklahoma (Tulsa), Pennsylvania (Philadelphia), Mobile (Alabama), Boston (Massachusetts), Albuquerque (New Mexico), and Tennessee (Memphis).

As thought leaders in the industry, we were honored to speak at the 2021 ECM Autumn Meeting, were asked to present on-site in Japan in 2018, have assisted the Destinations International Canadian Alliance, and were honored to speak in León, Mexico, at their Annual DMO Meeting in 2022. We are regular speakers at meetings hosted by IDA, Destinations International, Sports ETA, and the U.S. Travel Association.

In 2018, Civitas completed a study commissioned by U.S. Travel regarding travel and tourism laws related to taxation and other levies. In 2019, in conjunction with U.S. Travel, we created the most comprehensive report to date on lodging and F&B levies. In 2020, we worked with several organizations to publish the Funding Futures Report. This report included detailed research into all U.S. and Canadian tourism funding mechanisms and highlighted the opportunities for new or enhanced funding of tourism & DMOs, post-COVID-19.

