Tourism Improvement Districts

Securing Dedicated Funding for Sports Tourism

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Building Back Better: The Need for Dedicated Sports Tourism Funding

Introduction

Sports tourism is a global business that creates jobs, stimulates local economies and benefits communities by creating positive economic impact through hosting sports events. As tourism begins to recover from the COVID-19 pandemic, sports commissions and sports-focused Destination Marketing Organizations (DMOs) and Convention and Visitors Bureaus (CVBs) will need to find alternative funding outside of traditional hotel occupancy taxes to rebuild.

This white paper outlines Tourism Improvement Districts (TIDs) as a compelling solution, as these special self-assessments on tourism-related businesses generate dedicated revenue to bid for, host, and market sports events. In addition, TIDs enhance public/private partnership as well as quality of life for a destination's residents by providing funding opportunities for local events and sports facilities.

2019 Sports Tourism Impact:[1]

180M
Sports Travelers

$45.1B
Direct Impact

740K
Jobs Supported

[1] Tourism Economics, prepared for Sports ETA, *Sports Tourism: State of the Industry Report* (2019) (Sept. 1, 2020) http://sportseta.org/state-of-the-industry-report-2019.

Funding Bid Fees & Sports Facilities: Looking Beyond Tax-Based Sources

Background

Sports commissions and DMOs have traditionally relied on taxes levied on overnight lodging stays – room night or "heads-in-beds" taxes – to fund their budgets. However, even before the pandemic sports commissions and DMOs were looking for alternatives to room night tax revenues. Besides the demonstrated vulnerability of such taxes to disruption within the tourism industry, governments have historically diverted almost 50% of tourism tax revenues to non-tourism spending.[3] Now with heavy government spending on recovery efforts, elected officials are primed to search for funds elsewhere. For sports commissions and DMOs, the long-term effects of the pandemic-induced budget crisis will certainly impact future allocations of public funds.

On average, hotel tax revenues comprise 70% of sports commissions' budgets.[2]

Weak public sentiment for government support of tourism efforts may also pressure elected officials to divert public funds from sports commissions and DMOs. A 2020 study found that while sentiment toward tourism is generally positive (64% agree tourism is good for their state and 57% agree tourism is good for their local area), less than half of Americans believe their state government should support or help fund tourism promotion, and only 40% believe local government should provide funding support for tourism promotion.[4] Conversely, when asked about sports tourism specifically, just over half of Americans supported hosting professional and collegiate sports events in their communities and agreed "that hosting youth and amateur sporting events improves the quality of life in their communities."[5]

Challenges

The challenge facing sports commissions and sports-focused DMOs coming out of the pandemic is twofold. First, they must find other sustainable funding sources resilient to economic downturns and more independent from government. Second, they must find the appropriate balance between traditional performance indicators (like room nights and economic impact) and more community-based factors to provide quantified return on investment. Implementing special assessments to create Tourism Improvement Districts is an ideal solution, as TIDs provide dedicated funding to sports commissions and DMOs while also fostering public/private partnership and providing additional community benefits.

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[2] *Id.*

[3] MILES PARTNERSHIP, CIVITAS & TOURISM ECONOMICS, *Funding Futures* 72-78 (Aug. 20, 2020) https://covid19.milespartnership.com/wp-content/uploads/2020/08/FundingFutures_FullReport_Final_08282020.pdf.

[4] *Id.* at 3.

[5] Andria N Godfrey & Dr. Jennifer Stoll, *Evaluating Resident Sentiment to Inform the Development of Sports Tourism*, SPORTS ETA BLOG, (Dec. 16, 2020) https://www.sportseta.org/blog/2020/12/16/evaluating-resident-sentiment-to-inform-the-development-of-sports-tourism.

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What are Tourism Improvement Districts?

What is a TID?

TIDs evolved from Business Improvement Districts (BIDs), which authorize special assessments to provide benefits to participating businesses within a specified territory. As such, they are fully customizable, self-governing mechanisms for local businesses to enhance the partnership between sports commissions and/or DMOs and the destination.

Industry Led & Industry Controlled

TIDs are self-governed by the District's businesses.

Activities Must Benefit TID Businesses

Funds may only be used for approved activities.

Immune From Government Diversion

Funds raised by the TID stay with the TID.

What does a TID do?

A TID's mission is to promote and improve tourism within its boundaries. Funds raised must be spent for the benefit of the businesses paying the assessment. In the case of sports commissions, TIDs may fund marketing efforts to secure sports events, make capital improvements to facilities, and more. TIDs are governed by a nonprofit comprised of the assessed businesses.

How is a TID funded?

TID revenues come from a benefit assessment of the businesses – the payors – located within the district. The amount of the assessment is determined by business owners at the formation of the district, within particular legal guidelines. The payors in TIDs have traditionally been hotels, with assessments on room nights based either on a percentage or fixed rate per occupied night; however, some districts include assessments on restaurants, attractions, and retail.

What is the difference between assessments and taxes?

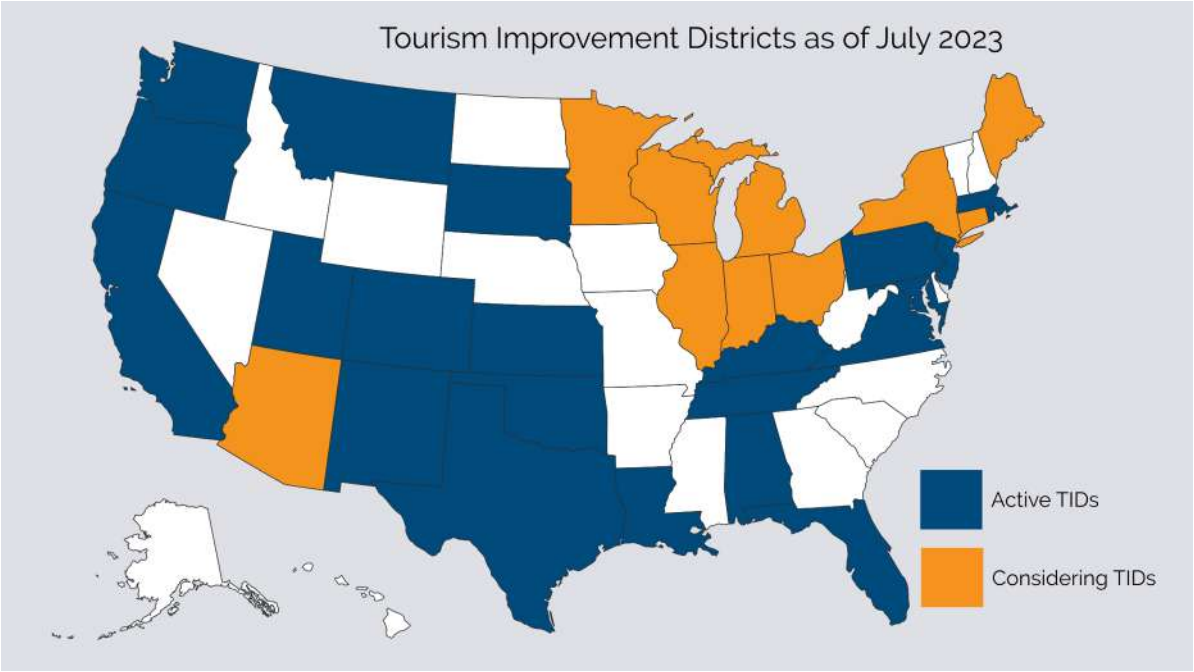
Unlike a tax, an assessment is required to provide a specific benefit to the businesses paying the assessment. Conversely, a tax is typically used as a general fund revenue stream and can be used for public purposes that do not specifically benefit the businesses paying the tax. For example, an assessment on lodging businesses must be used to drive demand for additional overnight visitation or leveraged to increase ADR for lodging businesses within the district. Finally, unlike taxes which are typically perpetual, payors implement TIDs for a defined term and require periodic renewal.

How is a TID formed?

The formation of a TID will vary state to state. Generally, the process includes planning, outreach, development of a TID plan, and the legislative approval process. The formation and renewals of TIDs are community-driven efforts. A committee of local stakeholders consisting of private lodging business representatives, municipal staff, and DMO leadership work together to build consensus and support.

Do other destinations have TIDs?

There are currently over 209 tourism improvement districts nationwide, spanning 22 states. Many cities and counties are also currently in the process of forming new TIDs. Collectively, Tourism Improvement Districts are raising over $500 million per year for tourism promotion.



Applying TIDs to Sports Commissions

Promoting Sports Tourism: Case Studies

At its heart, a TID allows private businesses to organize promotional efforts while sports commissions and DMOs gain dedicated, stable funding to lead those efforts. Some destinations are already using TIDs to support sports tourism: most of those that do so appear to promote sports tourism either through a DMO's in-house sports commission or sports sales staff, or by providing direct grants to rights holders to host events (or some combination of both).

Placer Valley, California

Placer Valley Tourism (PVT) uses its TID funding to support sports events and improve sports facilities. The City of Roseville, California formed the Placer Valley Tourism (PVT) Business Improvement District in 2004.[6] PVT manages the district, which encompasses the cities of Roseville, Rocklin, and Lincoln, and provides grants to events that generate room nights in district hotels: hotels in the district pay a flat-fee assessment of $6.50 per room night.[7] PVT awarded $240,000 in event grants in 2019, and $20,163 in 2020.[8]

In addition to providing grants to sporting events, PVT invests in sports facilities. At the behest of the PVT, Placer County approved construction of the Placer Valley Event Center at the Placer County Fairgrounds in 2018, allowing PVT to bond the tourism improvement district to secure $36M in funding for the project.[9] The 160,000 sq. ft. facility contains 12 basketball courts (or 24 volleyball courts) and can be used for exhibitions as well as sports events.[10] Other past sports facilities improvements include $964,000 in updates to the Roseville Aquatics Center, Oak Creek BMX Track, and construction of sand volleyball courts to Sierra College in 2017.[11]

$6.50 per night

$34M
Invested in new event center.

$240K
Event grants awarded in 2019.

[6] *See* OUR MISSION, PLACER VALLEY, https://www.placertourism.com/about/ (last visited June 23, 2021).

[7] *Id.*

[8] *2020 Annual Report*, PLACER VALLEY TOURISM, 18 (2020) https://s3-us-west-1.amazonaws.com/placer-valley/craft/PVT-Annual-Report-2020-FINAL.pdf?mtime=20210507111324.

[9] *See @The Grounds Annual Report 2020*, @THE GROUNDS, 2 (2020), https://s3-us-west-1.amazonaws.com/placer-valley/craft/ATG-Annual-Report-2020-FINAL.pdf?mtime=20210507111423; Staying *Competitive On and Off the Sports Field*, CIVITAS, (citing Placer Valley 2017 Annual Report) (March 13, 2019) https://civitasadvisors.com/tourism-districts/staying-competitive-off-sports-field/

[10] *Id.* at 4.

[11] *See id* at 16-17; *Staying Competitive.*

Spokane, Washington

The Spokane Sports Commission, its own independent organization, is a major recipient of TID funding in Spokane, Washington. Created in 2004, the Spokane Tourism Promotion Area (STPA) contains five geographical zones, where the types of lodging businesses encompassed and the levies on those businesses vary by zone.[12] Spokane's DMO, Visit Spokane, administers the STPA on behalf of Spokane County. Historically, STPA revenue contributes 50% of the Sports Commission's funding, followed by various lodging tax funds (32%), a rental car tax (12%), sponsorship funds (2%), funds from the City of Spokane (2%), and other sources (2%).[13]

In its 2020 Application for Funding from the Tourism Promotion Area, the Sports Commission requested an allocation of 28% of STPA funds, which it projected to be approximately $840,000 of its total $1.7 million budget.[14] In addition, Visit Spokane administers a portion of STPA funds as grants to local events: in 2019, a total of $68,630 went to five events, three of which were sporting events.[15] The STPA generated approximately $3.5 million in 2020.[16]

50%

Historical percentage of budget funded by the STPA.

$840K

STPA funds granted to the Spokane Sports Commission in 2020.

[12] SPOKANE CO., WASH. CODE OF ORDINANCES § 7.66.010 (Jan. 19 2021).

[13] *2020 Funding Application: Tourism Promotion Area*, SPOKANE SPORTS, 2 (2019) https://www.spokanecounty.org/DocumentCenter/View/29143/Item-No-6g (part of the Minutes (Item No. 6g Minutes)) from Board of County Commissioners of Spokane County, Wash. (Dec. 3, 2019)).

[14] *Id.* at 1, 15.

[15] *TOURISM PROMOTION AREA (TPA) FUNDING*, VISIT SPOKANE, https://www.visitspokane.com/industry/industry-resources/tpa/ (last visited Mar. 20, 2021).

[16] *Spokane County 2021 Comprehensive Budget – All Funds,* https://www.spokanecounty.org/DocumentCenter/View/35947/2021-Final-All-Funds-Budget

Missoula, Montana

DMO Destination Missoula uses its TID funding to incentivize rights holders to host their sports events in Missoula, as well as providing funding to increase airline flights to the city. Created in 2010, the Missoula Tourism Business Improvement District (MTBID) started with just ten hotels, gradually expanding to encompass citywide properties in July of 2019.[17] The TBID levies a flat fee assessment of $2 per room night on district lodging businesses with seven rooms or more.[18]

By the end of 2019, the TBID's annual budget was approximately $1.3 million.[19] To qualify for TBID grant funding, a prospective event must be able to claim a minimum impact of 100 room nights, have the ability to match grant funding, and to track and report actual room nights generated.[20] Past sports events utilizing TBID funds include the Cycling Collegiate Mountain Bike National Championships, USA Women's Gymnastics, and the Montana Special Olympics State Summer Games.[21]

$2 per night

Flat fee assessment.

$1.3M

TBID annual budget in 2019.

100 Rooms

Required impact.

[17] MISSOULA TOURISM IMPROVEMENT DISTRICT, https://tbid.destinationmissoula.org/ (last visited March 21, 2020); *See also* City Council of Missoula, Resolution 7576 (Oct. 25, 2010,) https://www.ci.missoula.mt.us/DocumentCenter/View/4878/Resolution-7576?bidId (housed at TOURISM BUSINESS IMPROVEMENT DISTRICT, CITY OF MISSOULA, https://www.ci.missoula.mt.us/915/Tourism-BID)

[18] Missoula City Council Resolution 8458, (Aug. 31, 2020) https://www.ci.missoula.mt.us/DocumentCenter/View/54815/Resolution-8458; *see also* MISSOULA TOURISM IMPROVEMENT DISTRICT, *supra* note 17.

[19] *Monthly Board of Directors' Meeting Agenda- Board Packet*, DESTINATION MISSOULA & MISSOULA TOURISM BUSINESS IMPROVEMENT DISTRICT, 9 (Jan 7, 2020) https://www.dropbox.com/s/560jw4of62miljp/January%20Board%20Packet.pdf?dl=0

[20] Destination Missoula provides a comprehensive video explaining the grant application process, *see* TBID VIDEO, DESTINATION MISSOULA, https://destinationmissoula.org/tbid-video (time stamp 2:26) (last accessed Mar. 28, 2021).

[21] MISSOULA TOURISM IMPROVEMENT DISTRICT, *supra* note 17.

Denver, Colorado

The Denver Sports Commission, part of Visit Denver, has utilized TID funding to host major sporting events. Additionally, TID revenues fund capital improvements to Denver's events facilities. Established in 2017, the TID levies a 1% assessment to guest folios at hotels with at least 50 rooms within the County of Denver.[22] Appropriate use of TID funds include maintenance of or capital improvements to the Colorado Convention Center or any public building or facility generally related to tourism, as well as marketing and promotion efforts designed to attract visitors to Denver.[23]

1% per stay

For hotels with at least 50 rooms.

$8.7M

TID first year revenue - 2018.

In its first year, the TID generated $8.7 million in revenue – about $5 million of those revenues went to Visit Denver.[24] Visit Denver had an operating budget of $38.8 million in 2019, primarily funded via the city's lodging tax and supplemented by the new TID revenues.[25] That year, TID funds were used to host the UIAA World Cup Ice Climbing Finals of 2019.[26]

[22] *2019 Annual Report,* VISIT DENVER, 1, 3 (2019).

[23] Denver, Colo., Code of Or. § 20-404(16).

[24] *2020 Marketing Plan*, VISIT DENVER, 7 (2019), https://issuu.com/visitdenver/docs/2020mp.

[25] *2019 Annual Report*, VISIT DENVER, 2 (2019), https://assets.simpleviewinc.com/simpleview/image/upload/v1/clients/denver/AR2019_2_18_20_598c7575-70e0-49b9-93cc-e124f422f2fd.pdf.

[26] *See 2020 Marketing Plan,* at 7.

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Conclusion: Opportunity Is Born From Adversity

Post-Pandemic Momentum

Although elected officials may face more pressure than ever to find funding for government programs, many are also realizing the positive economic impact of tourism on their destinations. These pressures make the TID self-assessment model especially attractive because it allows elected officials to provide much-needed, dedicated funding for the tourism industry without raising taxes or borrowing from other public programs.

A New Frontier for Sports Tourism

Tourism Improvement Districts are the next frontier in funding for DMOs and sports commissions. They provide a dedicated funding source to DMOs and sports commissions that alleviates reliance on public funding and creates self-governing partnerships with those businesses that benefit directly from sports tourism. They also encourage public/private partnerships, as local government plays an oversight role without the danger of diversion of TID funds to unrelated public programs. Sports commissions and DMOs can use TID revenue to bid for, host and market sports events, and also benefit residents by creating funding for local sports events and sports facilities. As sports commissions emerge from the pandemic, it is clear TIDs should be at the top of the list for new funding opportunities.

$500M

Amount U.S. TIDs raise per year for tourism promotion

$1.7B

Amount TIDs have generated for our clients globally

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