

FUNDING FUTURES

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# EXECUTIVE SUMMARY & RECOMMENDATIONS

Research Study into the Options & Opportunities for New or  
Enhanced Funding of Tourism & DMOs in the Recovery from COVID-19

Part of the full Funding Futures Report

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## EXECUTIVE SUMMARY & RECOMMENDATIONS

“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

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Travel and tourism has dealt with crises before – from terrorist attacks to financial crises, international disputes to natural disasters. However, this time is different. To use an overworked adjective, the breadth and scale of COVID-19's interruption to global travel and tourism is unprecedented.



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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, demographic shifts, the importance of meetings, and the intrinsic value of a vacation—will still be intact on the other side. So, recovery is inevitable.”**

– Adam Sacks,  
Tourism Economics

Before we examine the profound impact of the crisis on tourism and DMO funding, and the options and opportunities in response, it is important to stress the medium to longer-term outlook for our industry remains strong and vibrant. As Tourism Economics stresses in the “Outlook for Recovery” section of this report: “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, demographic shifts, the importance of meetings, and the intrinsic value of a vacation—will still be intact on the other side. So, recovery is inevitable.” – Adam Sacks, Tourism Economics.

But in the short to medium term, our industry and the funding from tourism and for DMOs faces profound challenges. The predicted drop in travel and tourism spending in the US for 2020 tops half a trillion dollars with the wider economic impact of these losses hitting \$1.2 trillion for 2020. In Canada, earlier estimates of a July reopening of international borders have proven overly optimistic and the latest predictions assess national tourism revenue will decline between 43% and 61% in 2020 (vs. 2019). In nations across Europe and the Asia Pacific there is a similar dire situation. Plus as Destination Canada reminds us in its July 22, 2020 assessment, “there is still a lot of uncertainty moving forward.”

**“We are at a wonderful inflection point, in the sense that pain can be a great motivator for change within communities and within DMOs.”**

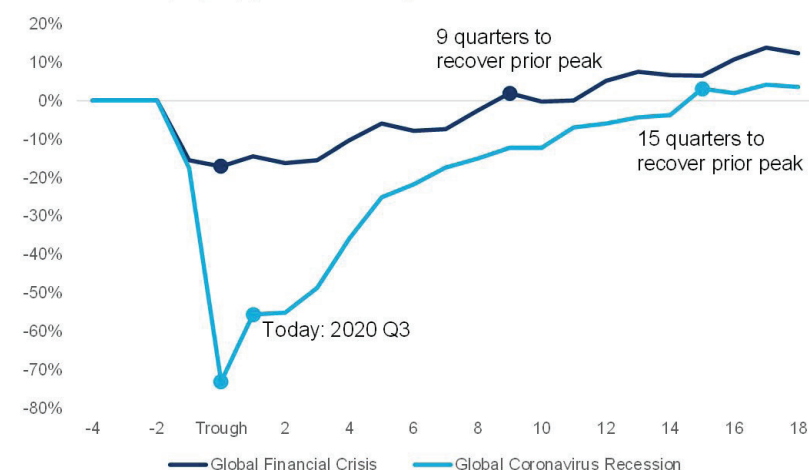
**– Gary Sherwin, Visit Newport Beach**



**NEWPORT BEACH, CALIFORNIA**

### Room revenue recovery: US

Percent difference from prior peak, cycles centered on trough



Source: CTD

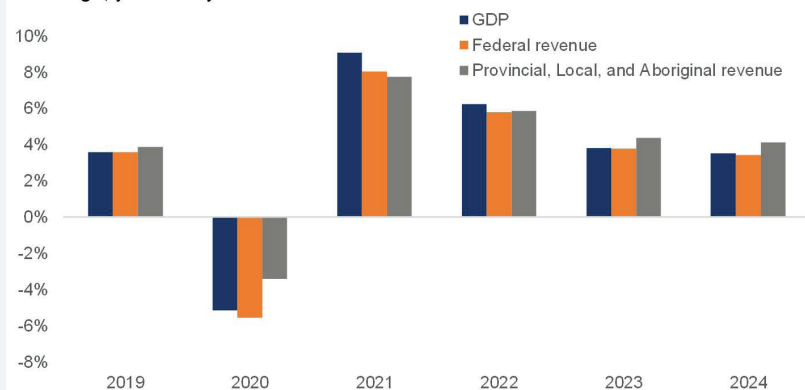
The impact of this crisis on DMO revenue is also unprecedented. Tourism Economics' recovery scenarios point to a 52% drop in hotel tax related revenue for DMOs in 2020 (see graphic at left) and a 13% decline in state government budgets – which in turn will put severe pressure on state tourism office funding. A recovery of tourism and some degree of “normal” funding streams for DMOs is estimated by the second half of 2021, but the full recovery in funding is estimated to take 3-4 years.

Our survey of 115 North American DMOs offers an assessment in line with these scenarios.

The DMOs predict a 27% to 47% decline in budgets for 2021, with smaller U.S. DMOs most severely impacted at the top end of this range. Mid-sized U.S. DMOs seem to be in the best shape looking ahead with “only” a 27% drop predicted in their 2021 budgets. Canadian DMOs estimate a 41% drop in budgets in 2021, but for now they are benefiting from a far more substantial range of Federal and Provincial government support to DMOs than available (as of mid-August) to U.S. DMOs. The expected decline in Canadian Federal and Provincial revenues is also less severe than that predicted in the U.S.

### Canada nominal GDP and government revenue

% change, year over year







Emphasizing the uncertainty, most U.S. states are still waiting for more information to assess the likely impact of the COVID-19 crisis on their budgets.

By comparison, 9/11 and the Great Financial Crisis impacted State Tourism Office and DMO budgets much more modestly. As we outline in the Situation Analysis section of this report, each of these major past crises saw an average of 3-5% declines in average U.S. DMO funding in any single year, and a total decline of between 12-22% in total DMO funding in the 2-4 years after each crisis.

This is therefore both a necessary and unique moment to tackle the issue of funding. COVID-19 presents a significant opportunity to make changes that would not be possible without this seminal crisis. As the quote from John F. Kennedy highlights, such a moment of crisis brings the opportunity for real change that is simply not possible in “normal” times.

DMOs recognize this opportunity with the majority emphasizing they are seeking “new and more sustainable sources of funding.” This ranged from 40% of U.S. State Tourism Offices actively seeking new funding options to 64% of Canadian DMOs and 71% of U.S. DMOs.

We outline in this report “10 New & Enhanced Funding Options” for DMOs – highlighting this intersection of the urgent need and opportunity for change with specific options for action.





These 10 new and enhanced options for the future of funding are based on our extensive desk research including four North American DMO discussion groups, the DMO research from over 100 North American DMOs, and an initial review of international (especially European) examples of innovative funding models. These describe both immediate changes needed in the recovery from the COVID-19 crisis and a range of ideas and longer term opportunities for more responsive, resilient and regenerative funding for DMOs of the future.

Of these options, these six funding options ranked as the highest priority by DMOs (based on feedback to our Discussion Document):

### 1. **Recovery Funding & Stimulus Spending.**

DMOs need immediate help to offset the short to medium term collapse in their funding. More support is needed in both nations – with a short term urgency for action in the U.S.

At the very moment when we will need DMOs to help lead the recovery of tourism in their destination, they will lack either the financial or staffing resources to respond. DMO success in making the argument for Recovery Funding will test the quality of relationships with stakeholders and political partners, and test the depth of understanding of the role and relevance of destination marketing and management.

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**“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 so taken for granted for so long.”**

**– Martha Sheridan, Greater Boston CVB**



### 2. **Building Reserves.** A long term weakness in DMO budgeting, most DMOs entered the crisis without adequate reserves and have been found badly exposed. DMOs need to urgently update rules, laws and funding models to build reserves to better manage future crises.




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**“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**



**“I think our dependency on lodging really has to change. We need to look at other businesses who all benefit from our work, and the activity that [visitors] generate, the taxes they generate.”**

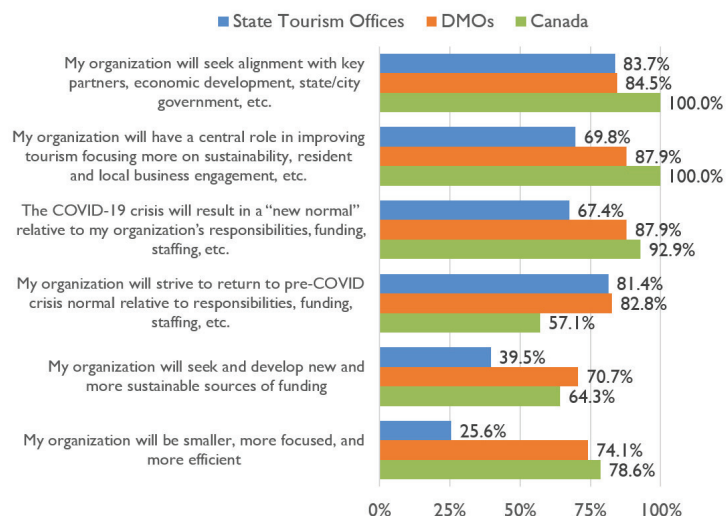
**– David Lorenz, Pure Michigan (MEDC)**



**3. Role, Responsibility & Structure of DMOs.** A review of funding starts with reviewing your DMO’s future role, areas of expertise and relationships. This was already underway pre-COVID-19 for many DMOs but has now accelerated. From our research study a majority of DMOs (56% to 80%) are actively looking at an “increased role in destination management” and just over half see an “increased role in economic development” in their destination.

This commitment to major structural change was also evident in DMOs focus on a range of ways to reshape the future role and responsibilities of their DMOs – as evidenced by their response to the anticipated impact of the COVID-19 crisis on their organization (see below the responses to our survey of 115 North American DMOs). This is parallel with DMOs plans to “bounce back” to their staff and funding levels of the past.

Most immediately, a range of DMOs have successfully built a model as Community Marketing leaders or are currently building connections with a wide range of partners in their destination around “Community Shared Values” (championed by Destinations International). This envisages building relationships, services and funding with “unusual” suspects from airports to universities, major public facilities to employers and commercial property owners.





**4 & 5. Evolution of Dedicated Funding & Tax Increment Funding.** The crisis has highlighted even further the benefits of dedicated funding models such as Tourism Improvement Districts (TIDs) and Tax Increment Financing (TIF). The control over the funding and the sometimes broader based mix of tourism related businesses contributing make these models a more resilient and responsive solution for DMOs. Adaptations to their funding options for DMOs based on the lessons of the COVID-19 crisis will only enhance their appeal.

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**“As we look forward, the TBID revenue will be more important than ever before as it provides a stable funding source.”**

**– Susie Santo, Visit Wichita**



**6. Regenerative Funding Options.**

Regenerative funding options were seen by many DMOs as a medium to longer term priority compared to the above more urgent options. However, there is clearly a major structural change underway in the focus on DMOs. 70% to 92% of DMOs agreed with the statement that, coming out of the crisis, *“my organization will have a central role in improving tourism focusing more on sustainability, resident and local business engagement, etc.”* Over three quarters of all DMOs from our survey are actively pursuing a greater role in destination management. Larger budget DMOs and Canadian DMOs were particularly focused on this priority. In this context, the options of Outcome Based Funding Models and Regenerative Funding commitments are critical to closely connecting DMOs to a more sustainable future for tourism as growth returns. European cities and destinations cited in this report (e.g., Amsterdam, Croatia) are likely to provide the most compelling examples of innovation in these new models of tourism funding.



There is a need for urgent collective and individual action coming out of this study. In our recommendations and next steps from this report, we highlight a range of critical actions.

## HERE ARE THREE OF THE MOST IMPORTANT:

1. **Ensure That You Have Exhausted Every Option to Obtain Emergency Funding.** The short to medium term will be extremely challenging – both individually in your destination and collectively at a State, Provincial and National level. DMOs need to ensure their voices are heard. DMOs are central to facilitating the recovery of the travel industry and the return of tourism and hospitality jobs and tax revenue.
2. **Move to a Broader Based, Resilient Funding Structure.** Use the crisis to undertake real, meaningful changes in your funding model. Seek funding that you control and is not subject to the increasing fiscal pressure that government partners will be under coming out of this crisis. Ensure you diversify your funding sources (both public and private) and therefore spread your risk. Plus, plan for a future world post COVID-19 with both greater real and perceived risks by adding reserves and offering specific programs (insurance solutions and expanded industry co-op) to share and mitigate both the risks and rewards of tourism.
3. **Future-Proof Your Role & Relevance as an Organization.** Finally, seize this moment to review and reshape your responsibilities and structure. Focus on building stronger relationships and engagement with key partners and ensuring you are set up for managing a sustainable future of tourism when (and it is “when”) strong growth in tourism returns.

## A FINAL NOTE

Thank you to our supporting partners - U.S. Travel Association’s Destinations Council and the Destination Marketing Association of Canada (DMAC). Plus, thank you to the hundreds of DMOs and others who contributed to this project through survey responses, ideas and comments.

Though extensive, this research study was by necessity of timing and funding limited in its scope. Additional opportunities exist to understand the proposed funding models in more detail including better defining best practices in how they are implemented and managed. Plus there remains an opportunity to undertake a more comprehensive global review of tourism and DMO funding. One immediate opportunity: We plan to share an update later in 2020 with insights from a similar study being undertaken in Europe by our colleagues at Group NAO in collaboration with European Tourism Association (ETOA) and European Cities Marketing (ECM). This will offer additional insights and comparisons with the “Funding Futures” of European DMOs. This may lead to the planned, more global study as a future phase of this project.

We believe that this “Funding Futures” study is an important contribution to the future of tourism and DMOs, both during and after the recovery from COVID-19.

***\*Note on the use of “DMO”:** We have used “DMO” as the descriptor for all types of Destination Marketing &/or Management Organizations regardless whether they are an official National, State/Provincial, Regional or a City Tourism Organization and regardless of whether their focus is marketing, sales, and/or management of tourism.*

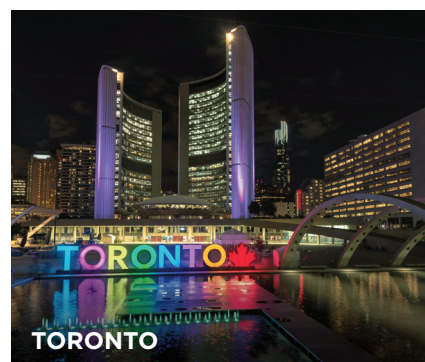
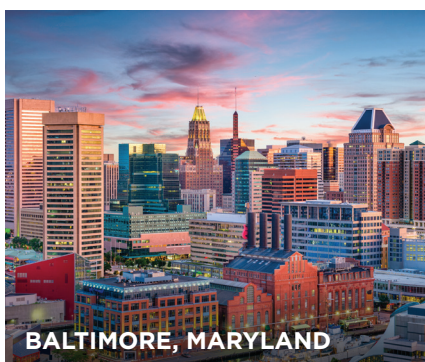


# Recommendations & Next Steps

## 10 AREAS TO PRIORITIZE- SUGGESTIONS FOR ACTION

In this report we have attempted to explore three core concepts in our “Funding Futures”: (1) the stability and resilience of funding, (2) the sufficiency of funding, and (3) how funding is “future proofed” – helping a destination recover and prosper in the future.

The first relates to how susceptible your funding is to variation based on changes in the political winds, shifts in specific industries or pressures on government, plus the impact of future crises, whether big or small, manmade or natural. The second relates to having enough funding to adequately market and/or manage your destination. In the immediate future, this means recovery funding to help you manage through the crisis and be able to help lead the recovery. Finally and perhaps most importantly, is your funding appropriate to what tourism and your DMO should look like in the future? Is it built off strong relationships with key community partners? Does it help build a tourism industry valued by all your stakeholders and with widely shared benefits?



As an agenda for action – both collective and for individual DMOs – we offer the following short-term and long-term recommendations.

1. **Review Your Role, Responsibility & Structure.** As we have stressed, a review of funding starts with a review of your role, responsibilities and structure as a DMO. Our survey of North American DMOs highlighted that many are actively exploring a greater role in destination management, closer engagement with key stakeholder groups such as residents and a stronger participation in wider economic development activities. Proactively engage in and/or lead these investigations rather than having to react to proposals and plans developed without your full involvement. Your funding options become far clearer once you have reviewed and refined your future roles.
2. **Gain a Deep Understanding of Your Current Funding Vulnerabilities.** Many DMOs have been surprised over the years at the volatility of their funding streams, never more so than now during the COVID-19 crisis. A careful inventory of legal and political protections and an analysis of threats to public and private funding can yield new insights into your current vulnerabilities and opportunities for specific action, based on the funding options we have outlined. As part of your analysis – or as part of the fuller review of your DMO's role and structure – develop a strategic funding plan to establish goals, deliverables and timing associated with new or increased funding.

**3. Be Data Driven: Seek the Latest Research & Data.**

Information is power and never more so than during a crisis. In the response and recovery from COVID-19, every destination organization should accelerate their efforts to obtain relevant and current data on a more frequent basis. Those that understand how the recovery is trending, how your different industry partners are faring and how your current funding is tracking will be able to predict pressure points and opportunities, help identify priorities and help lead the discussions on funding options and opportunities.



Two starting points are [U.S. Travel's COVID-19 Research and Update Center](#) and Miles Partnership's COVID-19 education and research portal: [Clarity in a Time of Crisis](#).

- 4. Ensure That You Have Exhausted Every Option to Secure Emergency Funding.** Though the medium to long term recovery of tourism is clear, in the short to medium term most DMOs face a very challenging funding environment. Ensure you are aggressively exploring all the available options for recovery funding and support from stimulus spending. Federal, State, Provincial and local governments are offering a range of assistance, with more hopefully to come over the next 6-12 months. Many of the programs require significant effort to secure funding. Don't be deterred. Persistence, agility and collaboration will be critical to maximizing the support you can access. It is vital to surviving with as many resources as possible and setting yourself up to lead the recovery of tourism in your destination.







5. **Strengthen Predictability & Mitigate Risk in Your Current Revenue Streams.** Many DMOs are taking advantage of the current challenges to secure priority funding mechanisms (as in Toronto – See “Recovery Funding & Stimulus Spending” in our “10 New & Enhanced Funding Options” section of this report) or getting a “rolling average” applied to future funding. The “rolling average” concept (see “Evolution of Dedicated Funding”) bases next year’s funding on the last three or four years – and sharply moderates dramatic drops (or rises) in revenue, mitigating risks. DMOs are also using this crisis to enact changes to enable the development of meaningful reserves to manage future crises. Plus, it is clear for some conferences and events to return during the recovery that new, innovative private-public insurance models may be needed to manage the risk for organizers and promoters. Make sure you understand these concepts and orchestrate a well-planned campaign to improve the predictability of your revenue and manage the risks for you and your industry partners.
6. **Take Advantage of the Current Political Environment to Secure Action.** For many DMOs there will never be a better time to facilitate change and push through decisions from political partners. Most governments have abruptly recognized the positive and lucrative benefits of tourism, now it is so sharply impacted. They want to help and are willing to act. Make sure you have a clear plan to tell them how.
7. **Explore Additional Funding Streams.** This report includes ideas for new funding streams. Whether you look at creating a Tourism Improvement District, Sales Tax Increment Funding, growing your Short Term Rental revenue or establishing a Regenerative Funding Model, it is an opportune time to message that the destination needs stable and sufficient funding and that additional funding will be necessary. Link your new funding streams both to stimulating the short term “recovery” as well as managing the longer term growth of tourism in a smarter and more thoughtful way. Be sure to then piggy-back on government measures designed to address recovery.
8. **Build the Long-Term Diversification of Your Funding.** As Sir John Templeton (founder of the Templeton Growth Fund) said, “...humility did show me the need for worldwide diversification to reduce risk.” We know that reliance on any single source of funding can be disastrous. Destinations International recently encouraged organizations to think about “unlikely suspects” for funding partners (e.g., airports, universities, commercial property owners, employers, etc.) and to begin to build relationships with these entities. DMOs need to better understand their needs, help them understand your activities, and how a great place to visit can also be a great place to study, start or grow a business or invest. Building on “Community Shared Values” will begin the journey that will ultimately lead to a more diversified revenue portfolio.

9. **“Force for Good” and Review Regenerative Funding.** We need revenue models where tourism not only fully meets the costs of a growing, vibrant visitor industry, but gives back, making the community a better place to visit, to live, study or work. This means both understanding the “Hidden Costs of Tourism” in your destination (see “Outcome Based Funding”) but also identifying ways to invest in community or environmental assets (see “Regenerative Funding”). This has the potential to fundamentally reshape the long-term debate over the value of tourism, thus shifting the perception of tourism by residents, government and stakeholders to a community activity that benefits everyone.
10. **Be Agile.** Finally, there are two certainties about the nature of tourism and the wider business, social and political environment post COVID-19: uncertainty and change. Visitors will return, revenue will return but we will operate in an environment of less certainty and rapid change. DMOs that are agile, responsive and resilient will prosper in this environment. Identify a plan to respond to the crisis facing tourism and funding – but be ready to adapt and change.

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**“It’s been fascinating to see how quick and nimble we have become.”**

– **Susie Santo, Visit Wichita**

## Advocating for Change



WASHINGTON, DC



VICTORIA, BC

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**“I do see two particular forces that are concerning...One is we are seeing a shift in using hotel taxes for non-tourism use. The second force that we always face is the political dynamics looking at how to change the structure of the model.”**

– **Ross Jefferson, Discover Halifax**

All of the opportunities and options outlined in this report will likely involve advocating for, facilitating and managing change. This includes building support from business, community and other stakeholder groups – and critically, both building support and empowering action from politicians. Below is a short summary from Destinations International on the 3 essentials of engaging successfully with political partners and enabling change.



*Continued from previous page*

1. **Make sure they understand what you do:** People tend to hold more extreme positions on complex policies when they don't know very much about them, according to a research article in the academic journal [Psychological Science](#). Having people attempt to explain how the policies work is enough to reduce their sense of certainty, as well as the extremity of their political positions. This can often be an issue for destination organizations, as political leaders, stakeholders and residents often do not fully understand the work that we do. Therefore, it is imperative that you clearly convey the efforts of your organization and what they mean for your community.
2. **Use common language:** LGBTQ+ groups in America won over voters by discussing their quest for equality not in aggressive demands for equal rights, but with language conservatives would refer to when describing their own marriages – love, commitment and family. Similarly, the Association for Psychological Science found that talking about climate change in terms of “purity” and “sanctity” of Earth could win over those with conservative morals, traditionally unconcerned with climate change. Talking about destination promotion in terms of “economic prosperity” and “quality of life” for all residents is most likely to resonate with this audience.
3. **Activating constituents:** Contact with constituencies and voters, and strong, confident dissenting voices from within their own parties, can be balancing forces. The ability to effectively motivate and mobilize constituents to support your efforts is critical to any advocacy initiative. This is another area where ROI studies fall short. Political opinions are based on emotion, not reason, and therefore having your own ideological argument is often the most successful way to rally support.

The devotion of members is the biggest asset to any advocacy organization, even more so than funding. Successful advocacy campaigns can create this devotion by tapping into what advertising guru David Ogilvy called the power of one “big idea.” For our industry, this idea should be that communities that do not invest in destination promotion will be left behind, losing ground economically and in the quality of life for their citizens.

The typical message that comes from industry leaders is that when a destination markets itself effectively, everything from local businesses to public services and residents win. This message, while valid, often fails to establish that emotional connection and sense of urgency required to activate constituents. Talking about the negative consequences on inaction, however, creates that urgency and taps into community pride, something that is essential for garnering support from your community.

*Excerpt from “Advocacy in the Age of Ideology” – Destinations International. See full report [online](#) or in the Appendix of this report.*