

Tourism

Tourism Continues to Bolster California Economy

Background

California's multibillion-dollar travel industry is a vital part of the economy at the state and local levels. More than 269 million people traveled in California in 2016, reinforcing the tourism industry as one of the state's economic success stories, contributing significantly to both the national and state economy. The industry is represented primarily by retail and service firms, including lodging establishments, restaurants, retail stores, gasoline service stations, and other types of businesses that sell their products and services to travelers. The money that visitors spend on various goods and services while in California produces business receipts at these firms, which in turn employ California residents and pay their wages and salaries.

State and local government units benefit from travel as well. The state government collects taxes on the gross receipts of businesses operating in the state, as well as sales-and-use taxes levied on the sale of goods and services to travelers and property taxes paid by travel-related businesses. Local governments also collect sales-and-use taxes generated from traveler purchases.

Tourism Industry Benefits State Economy

California has the nation's largest tourism industry with more than 100 tourism business districts. The following statistics reported by the California Travel and Tourism Commission (Visit California) demonstrate the significant impact of tourism on the state's economy. This data represents activity in 2016 (most recent data available):

- Travel spending in California was \$126.3 billion—an increase of 3.2% over the previous year. That spending directly supported more than a million jobs, an increase of 32,000 (3.4%) jobs from 2015 with employee earnings of \$45.4 billion.

- Travel-generated tax revenue in 2016 topped \$10.3 billion, an increase of 3.8% over 2015. This state and local tax revenue was equivalent to \$780 per California resident household (\$550 for taxes paid by visitors, \$230 for taxes paid by employees and businesses).

- Travel-generated state tax revenue accounted for 4.4% of all California General Fund revenue, according to the Governor's budget for 2016–2017.

- Hotel room occupancy rates reached a record average of 75.4% statewide; driving revenue per room growth to 7.3% year-over-year.

- \$6 out of \$10 spent at California visitor destinations were attributable to residents of other states and countries. However, the share of international travel in California (and the U.S.) has declined due the strength of the U.S. dollar and decreased visitation.

- In 2016, California had 17.3 million international visitors, who spent approximately \$25.2 billion. California's top markets were Mexico (7.9 million visitors), Canada (1.5 million), China (1.4 million), United Kingdom (693,000), Australia (604,000) and Japan (548,000).

- From 2006 to 2015, new building and renovation projects related to tourism averaged \$2 billion per year.

- For 2017, total visitor spending is expected to have increased 3.1%, with visitation forecasted to increase 2.1%.

“Travelers in California spent \$126 billion in 2016, directly supporting more than 1 million California jobs and generating \$10.3 billion in state and local tax revenue. From urban centers to rural communities, California's tourism industry is an economic engine that powers communities across the state.”

—Caroline Beteta, President and CEO, Visit California

Self-Assessment to Promote California

Visit California

The state Legislature adopted AB 2592 in 2006 to allow the tourism industry to voluntarily assess itself in order to fund a state-wide marketing effort through Visit California. The mission of Visit California is to maintain California's market share of national and international travel in an increasingly competitive global tourism environment. With the increased “Dream Big” budget adopted

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in 2014, the Visit California budget nearly doubled in 2015 to more than \$100 million. The increased budget is projected to more than double the return on investment for California's tourism industry, up to \$12.9 billion. Increased marketing of California to national and international travelers is expected to bring new opportunities and steady growth to the industry.

Tourism Improvement Districts

For more than 20 years, California lodging and tourism business owners have created tourism improvement districts (TIDs) as a primary funding source to drive local tourism marketing efforts. These districts levy an assessment on lodging businesses to fund marketing services which generate room night sales. TIDs provide stable, dedicated funding for tourism promotion without new taxes or discretionary government spending. There are 106 TIDs covering 127 cities and counties in California raising more than \$252 million annually for destination promotion (Source: *Civitas*, July 2017). It is estimated that TIDs are responsible for creating \$6.4 billion in business sales, contributing \$215 million in state and \$248 million in local taxes, and creating 32,000 direct tourism-related jobs and a total of 52,000 jobs including indirect (Source: *Tourism Economics*, June 2016).

In November 2010, California voters approved Proposition 26, "The Right to Vote on Taxes Act" (Article XIIC of the California Constitution). Proposition 26 stated that every levy by a local government is a tax unless it fits into one of seven exceptions defined in the proposition. A dedicated local levy that does not qualify for one of the exceptions is defined as a special tax and must be approved by two-thirds of the voters.

Prior litigation against the San Diego TID claimed that TID assessments are a "special tax." The lawsuit alleged that the current statutory process for TID formation violates the two-thirds voter approval required by Proposition 26. The lawsuit was dismissed due to a lack of standing by the plaintiff. Because the issue was not litigated, TIDs still run the risk of future lawsuits to challenge their constitutionality under Proposition 26. Should the courts side with plaintiffs in such litigation, California TIDs could be eliminated.

Two initiatives (#50 and #51) submitted to the Attorney General for title and summary in late 2017 would clarify that any new or increased form of local revenue—for example, taxes and fees, shall require a two-thirds vote by the people to ensure that the purposes for such tax, charge, or other revenue measure is broadly supported and transparently debated. In order to ensure that local tourism districts are not subject to a local two-thirds vote, the initiative exempts tourism marketing assessments from its requirements. If supporters gather the signatures needed within the required timeframes, the initiative could appear on a statewide election ballot in 2018.

Given the significant funding support of the TIDs for local tourism marketing, eliminating this funding mechanism could have a devastating impact on local economies supported by tourism. The travel industry continues to monitor the situation while providing education and outreach to legislators to ensure they understand this critical funding mechanism and the local support for these districts.

CalChamber Position

California annually generates billions of dollars in direct travel spending into the economy and directly supports hundreds of thousands of jobs in the state. In support of the state and national economy, the California Chamber of Commerce promotes policies that increase and protect travel and tourism within and to the state to continue to stimulate the economy and provide jobs to Californians.

- Support policies to ensure that the importance of the tourism industry to California's economy is understood by legislators and regulators.
- Advocate for legislation that supports California's position as a tourism leader and oppose legislation that harms the state's ability to compete on a level playing field.
- Support continued funding for Visit California through voluntary self-assessment (AB 2592 – 2006) and continue to work with Visit California to ensure the enhanced promotion of California's travel and tourism industry in order to remain competitive in the tourism market.
- Oppose new entertainment tax proposals and travel-related services taxes that threaten tourism in the state.
- Support tax policy that encourages travel to the state for business and pleasure.
- Support the J-1 visa program that sustains seasonal businesses and job markets, with the recipients also stimulating local economies and enriching the tourist experience with multicultural workers. The J-1 visa program includes summer work travel, camp counselors and au pair programs, as well as seasonal support at hotels, shops, ski resorts and attractions during the summer and winter.
- Recognizing the importance of a balance between security and commerce, the CalChamber supports policies of homeland security that do not have an adverse impact on international travel to the state. The CalChamber advocates its position to the federal government as appropriate.
- Support expansion of the federal visa waiver program. This program, which includes enhanced security information sharing between the United States and visa waiver countries, is critical to increasing foreign travel to the United States.

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