



2025 FUNDING FUTURES

Research and Insights on New and Enhanced
Funding Options for Destination Organizations



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ACKNOWLEDGEMENTS

Founding Partners:

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With the expertise and support of these knowledge partners:



Future Partners

INTRODUCTION

Destination organizations are nearing 130 years of existence. Since the founding of the world's first convention and visitors bureau in Detroit in 1896, funding has been a cornerstone of resilient, sustainable and successful destination marketing and management.

The first edition of Funding Futures was developed in 2020 by Miles Partnership, Civitas and Tourism Economics, along with a range of association and industry partners. [Funding Futures](#) 2020 and 2021 were released as part of a series of global reports entitled [“Funding for Tomorrow,”](#) which included a major European report, “Tourism Taxation by Design,” led by Group NAO.



The updated Funding Futures 2025 report focuses on the U.S., offering the latest information on visitor taxation models, funding options and opportunities specifically for U.S. destination organizations and the broader tourism industry. Future reports will explore tourism taxation and funding models in other global regions.

In 2025, U.S. tourism will generate vast sums of taxation and levy revenue from visitors. As this report attests, the revenue generated from visitors is extremely large and growing. However, governments across the U.S. and around the world have been increasingly redirecting this revenue to other purposes, often unrelated to tourism. With a challenging fiscal outlook confronting many U.S. states and cities, this trend will accelerate.



The challenge of sufficient and resilient funding in 2025 and beyond, is therefore both about developing dedicated funding streams and advocating for a balanced allocation of tourism tax revenues.

For a successful and sustainable tourism industry in the future, a significantly larger reinvestment in tourism will be necessary—particularly in destination management, industry and community engagement, and environmental sustainability. Destination organizations and their industry partners must ensure their funding is both sufficient and secure, with resources dedicated solely to their mission and operations and not subject to redirection.

Funding Futures provides destination organizations and their tourism partners with the information tools and resources they need to take charge of their funding and ensure a thriving, resilient and sustainable future for their destination. Knowledge is power.

EXECUTIVE SUMMARY

AT A GLANCE:

- **\$165 billion** in U.S. visitor taxes & levies collected by local, state and federal governments
- **5.8%** of all visitor taxes and levies collected by local governments reinvested into CVB/chambers (down from over 9% in 2008)
- **2.1%** of all visitor taxes collected by states reinvested into state tourism offices (broadly stable since 2008)



Funding Futures 2025 provides the latest options, opportunities and best practices in tourism taxation and funding options for destination organizations in the United States (also referred to as destination marketing and/or management organizations, or DMOs). Building on previous editions, this report examines current trends, challenges and innovative strategies for securing sustainable funding in a challenging, complex and uncertain world.

Funding Futures was first published in 2020, updated in 2021 and is a collaboration between Miles Partnership, Civitas and Tourism Economics with support from a range of knowledge partners.

Starting with the positive news: The U.S. travel and tourism industry has mostly bounced back from the severe effects of the COVID-19 pandemic and is in a good position in 2025. Visitors spent \$1.3 trillion in 2023, generating \$165 billion in tax revenue for local, state and federal governments in the U.S.—both record figures. The economic outlook for the U.S. economy and tourism industry is generally positive; however, there are a wide range of risks, including geopolitical and economic, that could impact travel and tourism’s prospects.

Funding Futures highlights how only a small and declining share of the United States’ tourism-related taxes are reinvested back into tourism. For example, CVB budgets represent only 5.8% of total local visitor tax revenue—a share that has dropped from an estimated 9.1% in 2008. Even for visitor-targeted taxes including bed taxes and tourism improvement district or “TID” levies, only 21% is invested back into tourism and sports marketing. State tourism budgets account for just over 2% of visitor tax revenue collected by states—a share that has been stable since 2008.

Taxes paid by visitors are a politically expedient target for politicians—and it's becoming more appealing. Many U.S. states and cities are in a challenging fiscal position due to tax cuts and the rising cost of entitlement programs, making tourism revenues a tempting source for general funds. As of 2025¹, 27 states and 53 cities are rated as in a “fiscally challenging position.”

Therefore, despite record tax receipts from tourism, DMOs and their industry partners face long-term funding challenges. With a greater need than ever for investment in both destination marketing and management, DMOs need to both advocate for a fairer allocation of tourism taxes and develop new or enhanced dedicated funding models. A diversified mix of revenue including dedicated funding streams is critical to a resilient, sustainable and successful “destination organization of the future.”

Funding Futures 2025 reviews the historical reliance on bed taxes as a primary funding source for CVBs but highlights their political risks. We emphasize the need for DMOs to advocate for the “virtuous circle” with governments where bed tax revenues are reinvested into smart tourism marketing and management, leading to sustainable growth and increased tax revenue.

Tourism improvement districts (TIDs) are a transformative funding mechanism, offering legal and political protection for dedicated funding. TIDs, funded by assessments on tourism-related businesses, provide controllable and resilient revenue, enabling DMOs to build reserves and invest in capital improvements. The report details successful TID implementations, including those used for convention center expansions and sports tourism development.



Boston is an example of a city with a new tourism improvement district, which has been transformational to its tourism and conference marketing competitiveness. Its budget grew from \$7.4 million pre-COVID-19 to >\$30 million.

Sales tax increment financing (STIF) is being explored as an innovative approach that leverages future sales tax growth to fund tourism initiatives. STIF ties funding to economic performance, offering stability without raising tax rates. Case studies from Missouri, Utah and Texas demonstrate STIF's effectiveness in supporting state tourism and infrastructure projects.

Short-term rentals (STRs) are recognized as a significant and growing segment of the tourism industry, presenting both opportunities and challenges for funding. Funding Futures discusses the importance of permitting, tax and assessment treatment, enforcement and destination management considerations related to STRs. It highlights the trend of including STRs in TIDs and the increasing use of STR taxes to fund affordable housing initiatives.

Voluntary districts and enhanced public-private co-op marketing programs are presented as additional funding alternatives. Voluntary districts provide flexibility when traditional TIDs are not feasible, while co-op marketing offers opportunities for targeted campaigns and stronger industry partnerships.

The report also addresses the critical importance of building reserve funds for DMOs to weather economic downturns and unforeseen events. It notes the increasing recognition of this need within the industry, with updates to accreditation standards and a rise in DMO reserves. Additionally, event/conference cancellation insurance, long offered by VISIT FLORIDA, is mentioned as a key risk mitigation strategy in attracting meetings and events.



Utah is one of an increasing number of states with a sales tax increment financing mechanism.

Funding Futures 2025 also outlines key strategy and design considerations for developing or enhancing effective visitor taxes and levies in destinations.

The report emphasizes the potential of outcome and demand-based pricing, drawing inspiration from Croatia and the Balearic Islands, where tax rates vary by season or region to manage demand and signal market conditions. The report also stresses the importance of funding sustainable tourism programs, addressing concerns about overtourism and the community and environmental impacts of tourism. Examples from New Zealand, Iceland and the Balearic Islands illustrate how visitor levies can support a wide range of community, infrastructure and conservation initiatives.



Funding Futures updates three international case studies of visitor tax and funding models in Croatia, New Zealand and the Balearic Islands, Spain.

Funding Futures looks in some depth at the challenge of tourism helping address affordable and accessible housing—a multifaceted and complex challenge in many communities. We highlight how tourism can play a part in developing and funding solutions—along with other industry, community and government partners, citing Mammoth Lakes, California, as well as Vail, Breckenridge and Crested Butte in Colorado as examples. We emphasize the need for DMOs to actively participate in developing housing solutions and funding mechanisms, including supporting the smart management and equitable taxation of short-term rentals. Legislation in Colorado, and South Carolina redirecting bed taxes to affordable housing and other more general community purposes highlights the risk of even greater levels of tourism tax revenue being reallocated without DMOs or tourism participation.



Tourism taxes are increasingly being called upon to contribute to easing the housing challenges in many communities. It is important for DMOs to be actively engaged with partners in helping develop and manage these solutions.

In 2025, U.S. tourism is strong, with travel increasingly prioritized by U.S. consumers. With an estimated 13 cents for every dollar spent by visitors in the U.S. captured in taxes and levies, there is a large and growing stream of taxation and levy revenue for governments—\$165 billion in the U.S.

For a successful and sustainable tourism sector in the future, we will need a far larger reinvestment into tourism—especially into destination management, including into communities and the environment.



Yet the vast majority of tourism tax revenue is not reinvested into a sustainable future for the tourism industry, and this problem is getting worse.

The challenge for tourism is therefore not a revenue issue but rather an allocation problem.

DMOs will need to both advocate for a fairer allocation of tourism's abundant tax revenue and redouble their efforts to develop dedicated sources of funding.

Funding Futures 2025 explores the options and opportunities every DMO should consider. Knowledge is power, and this report empowers destinations and industry partners to take action.

THE SITUATION: U.S. TOURISM TAXATION & DESTINATION ORGANIZATION FUNDING

AT A GLANCE:

- **\$1.3 trillion** total visitor spending in the U.S.
- **\$165 billion** total in visitor tax & levies collected by local, state or federal governments
- **21%** of visitor-targeted taxes and levies (e.g.: bed tax, TIDs) were spent on tourism and sports marketing
- **5.8%** of all visitor taxes and levies collected by local governments were reinvested into CVB/chambers
- **2.1%** of all visitor taxes collected by states were reinvested into state tourism offices
- **27 & 53** Number of U.S. states and cities rated as being in a “challenging fiscal position”



Visitor spending topped \$1.3 trillion in 2024 generating in 2023 \$165 billion in tax revenue for local, state and federal governments.

Travel and tourism in the U.S. has rebounded strongly from the pandemic to record levels and now tops **\$1.3 trillion in visitor spending** [1]. Tourism’s economic activity is approaching a \$3 trillion share of the U.S. economy. Domestic leisure visitor spending has led this recovery, with spending at the end of 2024 running at 13% above 2019 levels. Business travel and meetings are on track to exceed 2019 levels in 2025. International visitor spending is currently at 88% of 2019 figures—and was anticipated to fully recover by 2026. However, a more uncertain international and geopolitical situation in 2025 may complicate the prospects for a full recovery.

This post-pandemic rebound in travel has seen visitors generating a record level of revenue to local, state and federal governments.

Taxes, levies and fees paid by visitors are made up of two types:

1. **General taxes and levies** paid by both residents and visitors. These include sales taxes (or internationally, VAT or GST) plus petrol or alcohol taxes.
2. **Visitor-targeted taxes** paid primarily by visitors. These include lodging or bed taxes on accommodation (e.g.: hotels or short term rentals) and tourism improvement district (TID) levies.



Richmond, Virginia, is one of hundreds of destinations across the U.S. with a TID.

Total tourism taxes of all types collected across the U.S. are estimated at over \$165 billion, or almost 13% of visitor spending in 2023, made up of the following:

Federal visitor taxes: \$76 billion

State visitor taxes: \$45 billion

Local visitor taxes: \$44 billion

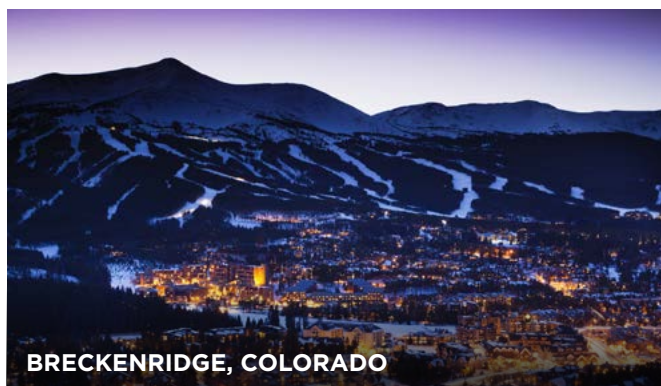
**TOTAL VISITOR TAXES:
\$165 BILLION**

Source: U.S. Travel Association and Tourism Economics estimates for 2023

Despite these record tax receipts, funding for DMOs and tourism-related projects still face a challenging future. The vast majority of taxes paid by visitors, including visitor-targeted taxes, are redirected by local, state and federal governments into areas unrelated to travel and tourism. As of 2025, this trend is only accelerating.

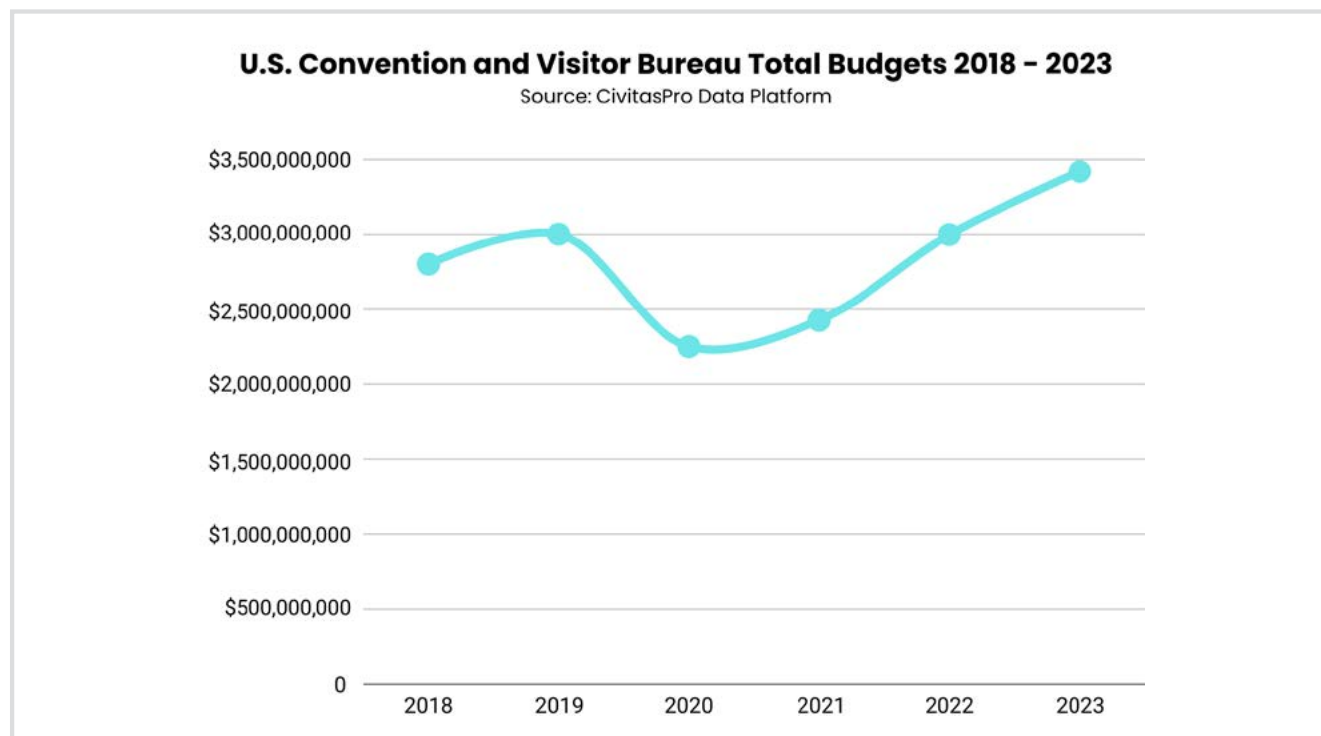
Destination Organization Funding

The lead agency in the spending of this tax and levy revenue on tourism marketing is the DMO at a county, city or state level. These organizations range from state tourism organizations to convention and visitor bureaus (CVBs) and chambers of commerce and are also collectively called destination marketing and/or management organizations (DMOs). Increasingly, these DMOs are being challenged to commit resources and funding to destination management projects, including sustainable tourism initiatives.



Breckenridge, Colorado, is one of an increasing number of destinations where tourism-related taxation is being invested into affordable housing—part of a wider trend to use tourism funding for sustainable community and environmental projects.

CVB Budgets: There are more than 1,000 convention and visitor bureaus, chambers of commerce and similar (non-state) destination organizations in the U.S. For the more than 730 tracked in CivitasPro, total budgets reached \$2.5 billion in 2022.

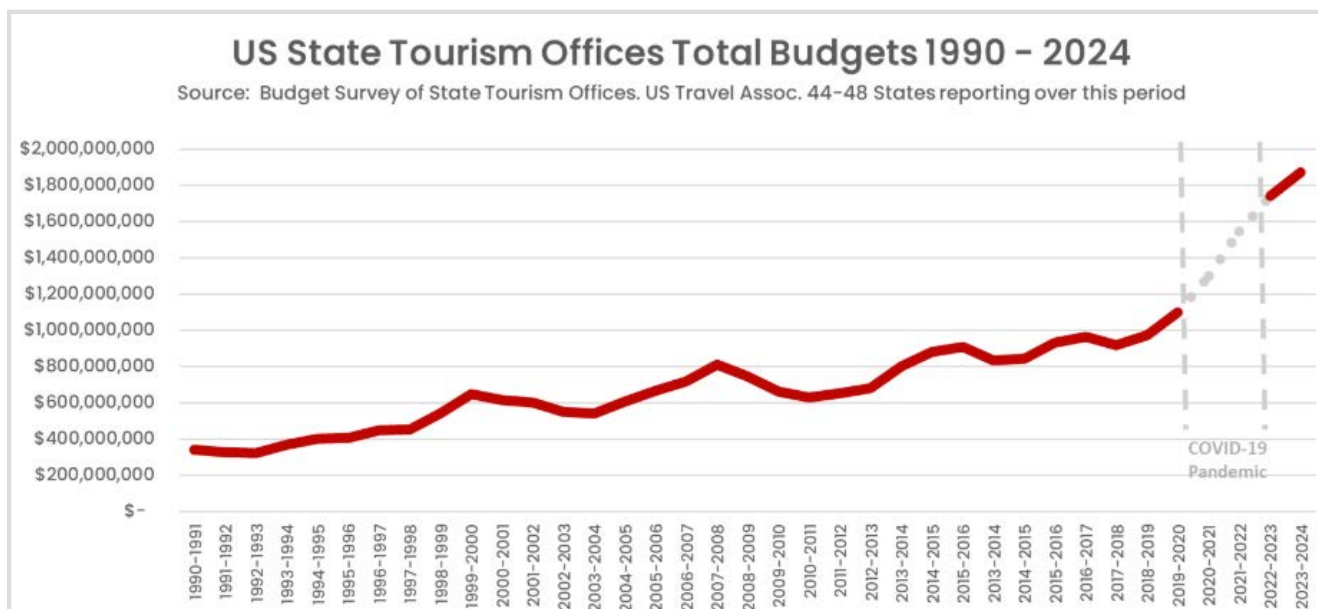


Funding for CVBs comes primarily from visitor-targeted taxes, including bed taxes and tourism improvement districts. As of March 2025, Civitas data for these visitor-targeted taxes estimates that only 21% of this visitor revenue goes specifically back to tourism or sports marketing. Meanwhile, a large majority (35%) is spent on “other” purposes, which include projects with some visitor benefits (e.g.: infrastructure), while an even larger share is committed to the city or county’s general fund. This division of visitor-targeted taxes has been trending up, with more counties and cities diverting more of these tourism-specific taxes to other and general expenditures.



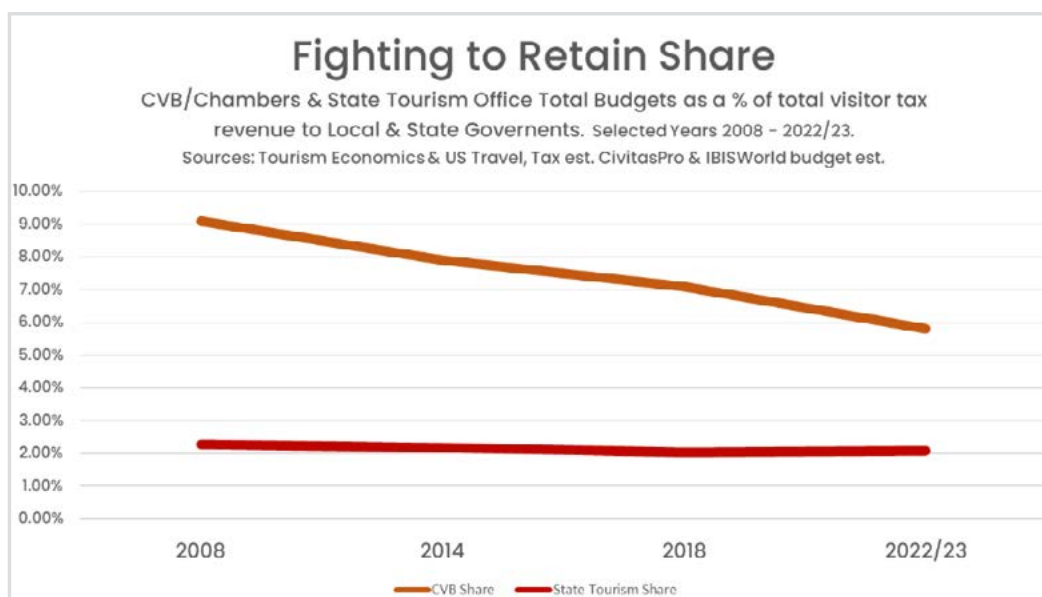
But when all local taxes and levies paid by visitors are considered (both general and visitor targeted), CVBs’ budgets are a far smaller share of tax revenue. With \$44 billion collected by local (city and county) governments via local tourism taxes and levies, CVB/chamber of commerce budgets represent just 5.8% of total revenue collected from visitors.

State Tourism Budgets: According to U.S. Travel Association, the total budgets for states that report to U.S. Travel reached a record \$1.87 billion in 2023-2024—a sharp rise since the pandemic, fueled by federal stimulus money in response to the crisis. However, even at these higher levels, state tourism budgets were just over 2% of all visitor taxes and levies collected by states—a small proportion that has been largely unchanged since 2008.



While state tourism offices have broadly maintained around 2% of state tourism taxes since 2008, by comparison CVB and chamber budgets have sharply declined as a share of local tax revenue. In 2008, this was estimated at 9.1%—in 2022, this figure was down to 5.8%, a 36% drop in their share of visitor taxes and levies paid by visitors.

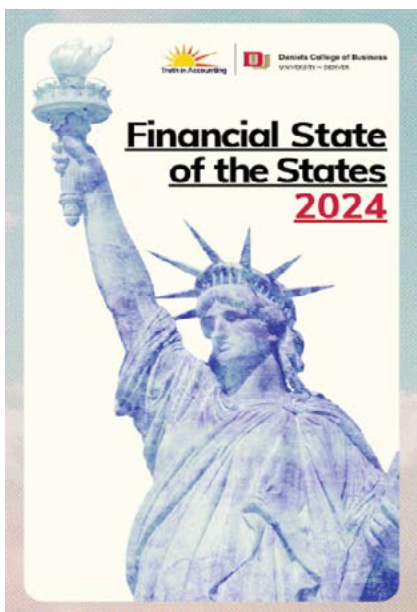
Source: U.S. Travel Association and Tourism Economics estimates for 2008-2023



Lastly, the urgency of enhancing or developing dedicated funding models for DMOs is heightened given the somewhat challenging fiscal outlook for many U.S. states and cities.

2025 is seeing some of the last of COVID-19 stimulus money being spent. During the pandemic, the federal government invested more than \$800 billion to help state governments and hundreds of billions more to support individual cities and counties. This stimulus money is now ending, which is worsening the already serious fiscal issues for the federal government as well as many state and city governments.

The primary contributors to these worsening fiscal positions are ambitious tax cuts plus rapidly rising costs in entitlement programs including \$840 billion in unfunded pension and \$493 billion in “Other Post Employment Benefits” (OPEB) debts [2]. The impact of these issues have been mitigated in recent years by a strong economy, fueling positive tax revenues (including from tourism) and rainy day funds being at near-historical highs. Any type of economic slow down or recession is predicted to quickly change this fiscal position [3], adding renewed pressure to the allocation of tourism tax revenues.



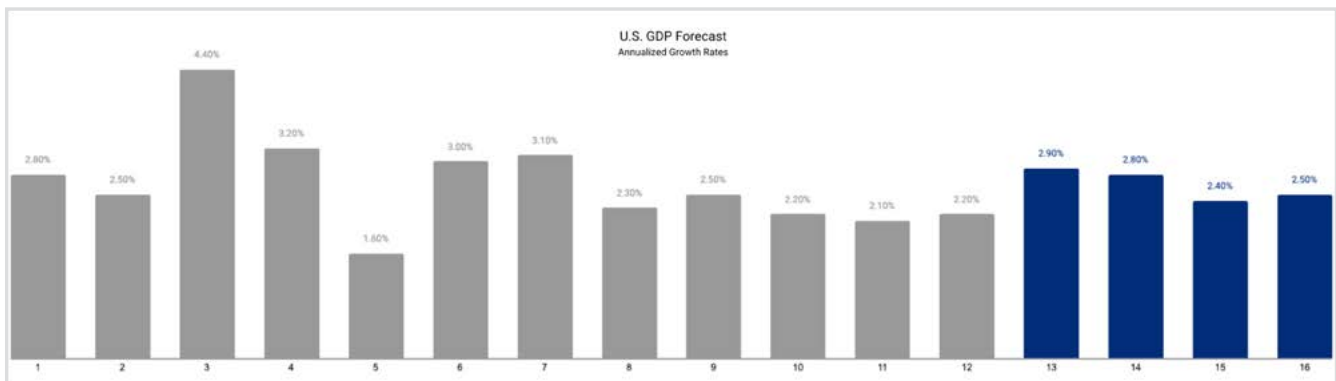
From the “Truth in Accounting” project at the Daniels School of Business at the University of Denver, “The Financial State of the States 2024” and the “Financial State of the Cities 2024” note that 27 states and 53 cities are in a particularly challenging fiscal position.

The situation is clear, and it’s both positive and challenging. Visitor spending and tax receipts within local U.S. governments are at record levels. However, the share of this tourism funding being redirected to other, non-tourism-related purposes is growing. Local, state and federal governments facing financial challenges often view tourism-related revenues as an easy and politically acceptable way to generate funds. DMOs must invest more in a broader range of marketing and management programs, but they will likely face strong political headwinds. DMOs must advocate for a fairer share of tourism tax revenue while also working to establish dedicated funding sources.

OUTLOOK FOR RECOVERY

U.S. Economic Outlook Clouded by Trade Policy Uncertainty

The U.S. economy demonstrated remarkable resilience over the past couple of years in the face of rapid inflation and high interest rates. Gross domestic product (GDP) rose a healthy 2.9% in 2023 and 2.8% in 2024 despite the Federal Reserve employing higher interest rates to slow inflation from a peak of 9% in mid-2022.



By late 2024, inflation had fallen below 3%, prompting the Federal Reserve to lower interest rates. Meanwhile, the unemployment rate remained near a historically low 4%, and growth in real (inflation-adjusted) income contributed to robust consumer spending.

The resilience of the U.S. economy will be tested again in 2025, this time by heightened trade policy uncertainty. In his first month in office, President Trump has imposed or announced new tariffs on numerous countries and a variety of critical industries like copper, pharmaceuticals and semiconductors.



Tariffs—and the threat of tariffs—carry both direct and indirect economic costs. Tariff threats increase trade policy uncertainty, and history has shown uncertainty can dampen business investment in non-residential structures and equipment investment.

In February, Oxford Economics [lowered their U.S. GDP growth forecast by 0.2 percentage points](#) [4] to 2.4% in 2025 due to revised tariff expectations.

Progress on the inflation front appeared to stall near the end of 2024, and the spate of tariff announcements have contributed to expectations for higher inflation in 2025. As a result, after three cuts to the Federal Funds Rate in the last four months of 2024, the Federal Reserve isn't expected to cut again until December of this year.

Inflation has been particularly strong among essentials (e.g., food, shelter, clothing), which has more significantly impacted middle- and lower-income households. High-income households tend to be insulated from these price gains by budget flexibility and wealth effects from gains in equity and home prices. Low and middle-income household budgets, on the other hand, remain under financial pressure from past increases in prices for food, rent, transportation and energy.

Nevertheless, consumer spending is expected to remain the main growth driver in 2025, supported by a strong job market, rising wages and rising household wealth. However, that is largely attributed to the resilience of high-income households, who account for most of the consumption.

The job market has softened but remains healthy overall. The 4% unemployment rate in January was [the lowest since May 2024](#) [5], and unemployment is expected to remain low this year even though the hiring rate has slowed. Weaker labor force growth will lower the bar for the number of jobs the economy needs to create to keep the unemployment rate stable.



Reduced immigration, a key policy focus of the Trump administration, will contribute to weaker labor force growth. Travel sector businesses, such as hotels, restaurants and other service-oriented companies, tend to employ greater than average shares of immigrants and are likely to experience greater difficulty maintaining staffing and higher wage costs due to reduced immigration.

U.S. Travel Outlook: Strong Growth in 2024 and Positive Outlook for 2025

The travel industry experienced robust growth across most segments in 2024:



- Airports have never been more crowded. TSA checkpoint screenings in U.S. airports increased 5% in 2024, surpassing 2019 levels by 7%.
- Short-term rentals continued to outperform the market, posting demand 31% ahead of 2019 levels according to AirDNA.
- US cruise passenger volume in 2024 totaled an estimated 18.2 million passengers, exceeding 2019 volume by 28%.
- US resident outbound travel in 2024 came in 20% ahead of 2019 levels.

In contrast, international travel to the U.S. remains depressed with overseas markets 13% below 2019 levels.

The slower recovery of inbound arrivals compared to outbound travel has created an international travel imbalance. That imbalance, plus the remarkable growth in cruising and short-term rentals, contributed to a plateauing of hotel demand over the past two years. This has been most evident in Economy and Midscale hotel classes, as inflation and higher interest rates weighed on some household budgets. As a result, U.S. hotel demand in 2024 remained about 1% below 2019 levels according to STR.

Economic conditions in 2025 are forecast to support continued growth in travel. Growth in consumer spending, supported by low unemployment, rising wages and rising household wealth, should translate to modest growth in leisure travel in 2025 in the range of 2%. We also expect a continued return of business travel, with 4% growth in 2025.

However, we see substantial risks to the outlook due to potential policy effects. Tariffs hold the potential to damage equity markets and affect a further downgrade in the economic outlook.

Perhaps more acutely, isolationist policy, restrictive immigration and nationalist rhetoric all could negatively impact inbound travel through direct restrictions and shifts in sentiment. This would mirror declines observed during the first Trump administration, particularly from Mexico, China and the Middle East. The current situation warrants broader concern, including Europe.

Additionally, travel to the U.S. could be negatively impacted by impediments to visas such as reductions in consulate staffing or greater scrutiny of travelers from certain origins.

While our forecast from three months ago expected U.S. inbound growth of 9% in 2025, the combination of these factors adds significant risk that could delay the U.S. inbound recovery for several years.

6 POWERFUL AND ENHANCED FUNDING OPTIONS

1 BED TAXES

Bed tax, also known in various jurisdictions nationwide as Transient Occupancy Tax, Tourist Development Tax, Hotel Occupancy Tax or Lodging Tax, is a tax levied on individuals who stay in temporary accommodations such as hotels, motels, inns, vacation rentals or other lodging establishments. The tax is typically calculated as a percentage of the room rate and is collected by the lodging operator at the time of booking or payment.

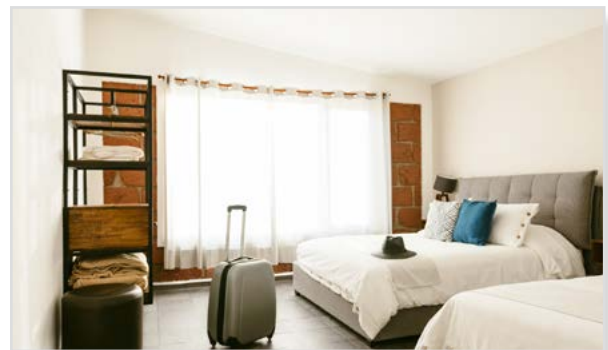
An Important But Fragile Funding Stream

Bed tax is a longstanding source of revenue for DMOs across the nation. According to Destinations International's report, [Destination Promotion: A Catalyst for Community Vitality](#) [6], 92% of funding is generated through public sector channels, and the remaining 8% is from private sources. Since the 1970s, bed taxes have become commonplace in destinations across the country.

Currently, over 15,000 bed taxes have been implemented across municipalities, counties and states throughout the United States, with 27 states imposing a state-wide tax. The concept of bed taxes is also gaining traction internationally, in destinations including Japan, Canada, the Pacific Islands, South Korea, the U.K. and others throughout Europe imposing or expanding bed taxes.

Within the U.S., the landscape of bed taxes varies tremendously from state to state and destination to destination. Some states have only local bed taxes while others have state and local bed taxes. In some communities, the legislature sets bed tax rates, and in others, it is set by the local government. Further, some states such as California, Colorado and now Florida (for some bed tax increases) require a vote of the people to raise bed tax.

Bed taxes are utilized throughout the country to fund a wide range of programs. Sometimes, these funds are protected via contracts, municipal code provisions or other protection mechanisms and are used solely for destination marketing efforts. However, each destination varies and has different restrictions on bed tax.



Over 15,000 bed taxes have been implemented across the U.S.

The Instability of Bed Taxes

The fact that bed taxes can be used for many purposes provides both a blessing and a curse for destinations in search of a stable funding stream. Because bed taxes can often be reallocated, there is a risk that these taxes can be diverted to purposes unrelated to the industry that funds them. This is especially true in today's environment, where taxes and government deficits are heavily scrutinized by voters and elected officials. One current trend is the diversion of bed tax funds for workforce housing.



South Carolina is among a growing number of states with legislation allowing bed tax revenue to be diverted to workforce housing and other community needs.

For example, in May 2023, South Carolina passed legislation that allows the diversion of up to 15% of local accommodations tax revenue from local DMOs to be spent on workforce housing. Similar legislation was passed in Colorado in March 2022. [Colorado's HB 21-1117](#) [7] allows voters to redirect funding from DMOs in 29 counties and six LMDs to fund initiatives such as housing and childcare for tourism industry professionals and community members. [SB 1114](#) [8], just recently introduced in Florida, would allow for similar diversion.

This lack of control over bed tax allocation presents a significant challenge for DMOs, as governments have significant, and sometimes unilateral, control over how bed tax revenue is used and allocated. DMOs that receive funding from bed taxes may be at risk of this important funding stream being diverted to other sources.

The Virtuous Circle: Emphasizing the Benefits of Bed Taxes for the Industry

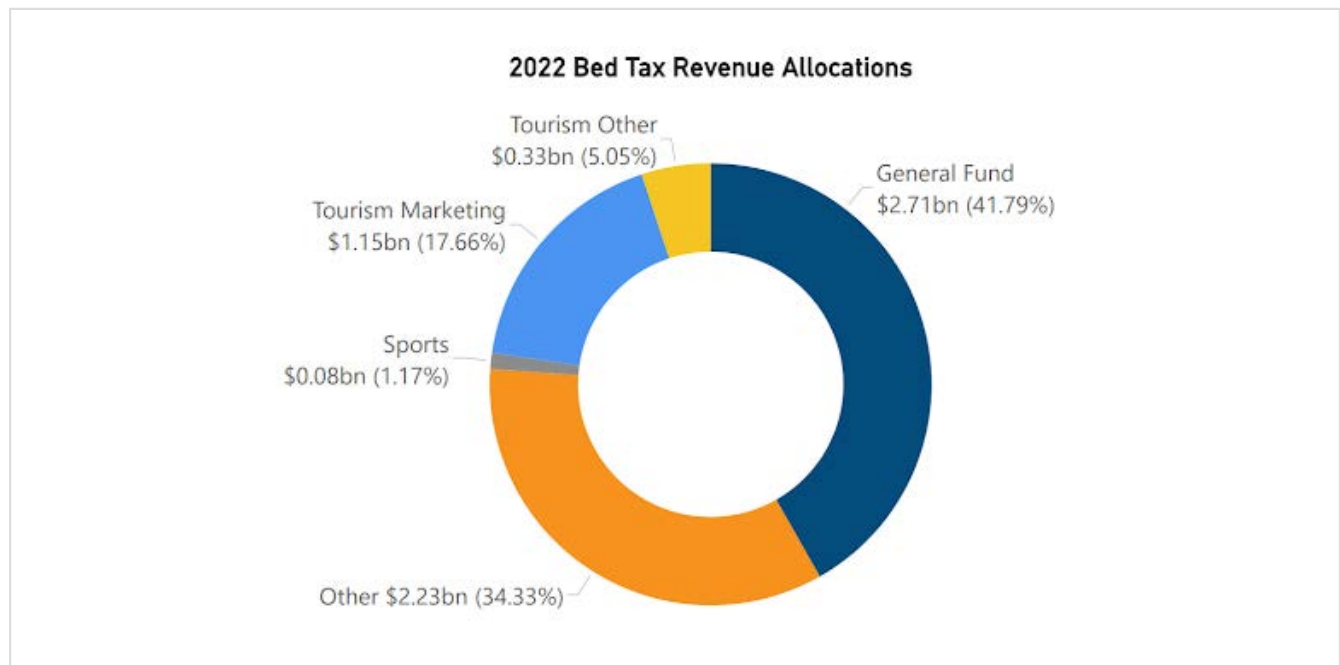
When local governments use bed tax to fund destination marketing efforts, additional visitors arrive and bed taxes rise. This effect creates a “virtuous circle,” where tax revenues are used to expand the overall tax base while providing valuable funding support to the tourism industry.

To mitigate the risk of bed tax reallocation, it is essential that DMOs and lodging industry representatives work closely with their elected officials on the state and local levels to emphasize the benefits that come from utilizing bed tax revenue for destination marketing. Because increased room night sales have a direct, positive effect on bed tax revenue, DMOs should emphasize the positive effects of utilizing revenue from bed taxes for destination marketing efforts. Additionally, as visitors contribute to more than just bed taxes, destination marketing efforts can provide a boost to the overall economy of the destination.

While bed taxes may seem like an attractive option for raising money for other programs, especially given that the individuals paying the tax are usually not constituents of the local or state governing body, maintaining good lines of communication with elected officials and demonstrating the positive effects of directing bed tax revenue back to the industry can make the difference between the local DMO continuing to receive funding from bed taxes or facing a funding shortfall.

The Continued Relevance of Bed Tax

Bed taxes have long been an enduring source of funding, and they aren't going anywhere. It is essential for destinations to harness the power of bed tax revenue and leverage them to their full advantage. DMOs must continue to work directly with elected officials to educate them on the virtuous circle enabled by funding destination marketing efforts with bed taxes while simultaneously exploring alternative funding sources to ensure stability in the event that bed tax revenues are reallocated. Ultimately, a multi-faceted approach that prioritizes both the maintenance of bed tax funding and the diversification of revenue streams will be essential for DMOs to navigate the challenges and opportunities ahead.



Based on a study of 2022 tax rates and allocations conducted by Civitas and released by U.S. Travel Association, only approximately 23% of bed tax revenues were dedicated to tourism-related purposes.

The remaining 77% went to general funds or other programs. While some of the general fund money may make its way back to the industry, there remains a shockingly small amount of bed tax revenues allocated to the tourism industry that drives bed tax revenue.

CASE STUDY:

Turning Crisis into Opportunity: D.C.'s Tourism Recovery Plan

The COVID-19 pandemic was a devastating blow to Washington, D.C.'s tourism industry. In response to the effects of the pandemic, Destination DC, the Hotel Association of Washington, D.C. and stakeholders collaborated at the end of 2022 to forge a solution for the industry by raising the bed tax by 1%. Through this bed tax increase, Washington, D.C. was able to raise an additional \$20.7 million per year for Destination DC, almost doubling its budget.



WASHINGTON DC

CASE STUDY:

No Raids, No Reallocations: How Oregon Safeguards Tourism Funds

In 2003, Oregon established a [state-wide bed tax of 1%](#) [9] (currently at 1.5%), the revenue of which is dedicated to the Oregon Tourism Commission. HB 4146, which was passed in 2016, provided language that would continue to protect the funds. This language states that the revenue generated from this tax is [continuously appropriated](#) [10], meaning it is automatically allocated to its designated purposes without requiring an annual appropriation by the legislature. This tax is forecasted to bring in [\\$87.7 million in revenue from 2023 to 2025](#) [11].



OREGON

2 TOURISM IMPROVEMENT DISTRICT

A Tourism Improvement District (TID) is a unique funding mechanism initiated by local hospitality businesses and approved by the local government. It involves an assessment (different from a tax), typically on lodging stays within a designated geographic area to provide consistent financing for sales, marketing and promotional activities. The funds raised must directly benefit the assessed businesses in the district. TIDs may have other acronyms, a few of which include Tourism Marketing Districts (TMDs), Tourism Promotion Areas (TPAs) and Tourism Business Improvement Districts (TBIDs).

A Transformative Funding Mechanism

TIDs have revolutionized funding for DMOs. Over 30 years ago, tourism leaders developed a unique, alternative method to combat government dependency. Relying on an old but proven funding mechanism, these leaders were able to create a dedicated source of funding based on special benefit assessments. Special benefit assessments exist in all 50 U.S. states and can be found in other common law countries such as Canada, the United Kingdom and Australia.

TIDs may levy an assessment on tourism-related businesses such as hotels, restaurants, attractions and retail, which will benefit from the programs and services funded by the revenue generated by the TID. Business owners determine the assessment amount when forming the district, within particular legal guidelines. Certain types of stays and transactions can be exempt from the assessment if they are not procured as a result of district activities.



Los Angeles is one of hundreds of destinations, both big and small, across the U.S. with TID funding models.

TIDs come in destinations of all types and sizes, from smaller communities such as Newport, Rhode Island, and Portland, Maine, to larger metropolitan areas such as Los Angeles and Philadelphia. California successfully established a statewide district providing stable assessment funding to Visit California.

As of 2025, TIDs have a significant footprint nationally and globally. Twenty-three U.S. states have active TIDs, and there are over 200 TIDs worldwide. With over \$3 billion raised annually by the DMO industry, TID revenue accounts for over \$600 million, a whopping 20% of the total industry revenue. (Source: CivitasPRO)

Why It Works: The Special Sauce of TIDs

TIDs offer important benefits not provided by other public impositions. TIDs can provide broader-based, controllable and resilient funding, including the essential ability to build reserves to weather difficult situations such as economic downturns and natural disasters. The primary appeal of a TID is the legal and political protection they provide.

Legal Protection

The main source of protection is that TIDs are benefit-based charges. While most use the term “assessments,” other districts call these “fees,” “levies” or “charges.” These funds are solely used to provide services desired by and directly benefiting the businesses in the district and cannot be diverted to other government uses.

Another unique characteristic of TIDs is that they have one principle guiding document specifying the details of the district. The “District Plan” is the constitution of the district and includes details on assessment expenditures, term, boundaries and governance. Generally, these details cannot be unilaterally altered by the government. This rock-solid plan provides another layer of legal protection to the industry.

Political Protection

Over time, we have discovered that TIDs often provide political protection in addition to legal protection to the industry. The political protection is based upon a shared view by elected leaders regarding the TID funding—many elected officials view TID funds as industry funds that are separate and distinct from government funds. Because the industry designs, votes on and manages the funds, they are viewed as industry funds, which protects it further from diversion. Many government officials regard these mechanisms as “your money,” separate from tax revenue held in the government’s general fund, providing political protection.

Today’s Funding Trends

Business Diversification

TIDs are becoming more diversified in the businesses they include—a trend that is expected to accelerate. Many TIDs are funded with significant contributions from the hotel industry and, in some cases, the food and beverage industry. A few TIDs have included attractions, retail and even hospitals in their funding diversification, and we expect to see more diversified TID funding models in the future.



SAN DIEGO, CALIFORNIA

San Diego is an example of a destination that has implemented various types of TIDs, incorporating a wider range of businesses, including restaurants and retail.

Specifically, several wine regions are in the process of forming wine marketing districts. In this concept, assessments are based on products sold at tasting rooms. The funds are used to attract more customers to those regions and those wineries. Other industry groups have discussed using the same model for a beer trail or a specific hard beverage trail.

Community Development (Workforce, Sustainability)

Over the last several years, many destinations have recognized the expansion of their roles, which include supporting their local workforce and balancing community engagement and destination development, with destination marketing. Destinations are using their TID funds to invest in workforce, sustainability and community development programs. These programs benefit both the businesses and the destination as a whole.

Capital Improvement and Bonding

Many destinations are looking to use TID funds for capital improvements, including bonding against the revenue to fund sports or meeting facilities.

TIDs are used for capital improvements for two primary reasons:

1. They are generally less cumbersome to create than raising bed taxes.
2. Overflow funds can be directed toward DMOs and sports commissions for marketing purposes.

TID capital project funds have been used for:

1. Design and engineering;
2. Site acquisition;
3. Construction;
4. Operations costs; and
5. Marketing of the facility.

These projects have led to more visitors, more business revenue, more tax revenue and greater prosperity for the community.

**CASE STUDY:****Convention Center Gold Rush**

Sacramento, California used TID funds to build the Sacramento Ballroom expansion at their convention center. By charging an assessment of 1% of room revenue, they were able to generate approximately \$3.2 million annually. The city bonded against the TID revenue stream and raised approximately \$52 million to construct the second ballroom. The addition of this ballroom brings in new groups who have a need or interest in the space, and it allows for the expansion of groups who are already customers.

**CASE STUDY:****Game-Changing Sports Tourism Victory**

Placer County, California, approved the construction of the Placer Valley Event Center (now called the Roebbelen Center) at the Placer County Fairgrounds in 2018, allowing them to bond the Tourism Business Improvement District (TBID) to secure \$36 million in funding for the project. The 160,000 sq. ft. facility contains 12 basketball courts (or 24 volleyball courts) and can be used for exhibitions and sports events. Because of this investment, shoulder season room nights increased by 100% between 2019 and 2022.

TBID funds supported the following:

- Placer Valley spent an additional \$984,000 to upgrade its aquatics center, \$240,000 in event grants in 2019 and built four sand volleyball courts at a local college.
- In 2022, events hosted at the fairgrounds generated 12,356 room nights for Placer Valley hotels. These room nights are a [**44% increase in room nights from the previous year**](#). [12]

TID TAKEAWAYS:

Industry Lead & Industry Controlled

TIDs are self-governed by the district's businesses and managed by the DMO

Activities Must Benefit Those Paying the Assessment

Funds can only be used for approved activities specified in their district plan

Protected From Government Diversion

Funds raised by the TID cannot be reallocated for other government programs

TIDs provide legal and political protection

“The tourism improvement district is a game-changer and is a terrific example of what coming together can do to raise the bar in elevating lodging and tourism in our great city.”

Kent “Spike” Blackinton, President of the Mobile Area Lodging Association

“I am beyond excited about the opportunities this TID will present and the impact it will have on our community. The funds raised will enable us to market our destination, whether through event sponsorships or direct marketing campaigns, and drive hundreds of thousands of new visitors each year. The economic impact from these new visitors will have a profound effect on all of our local businesses and increase the quality of life for all of our residents.”

Larry Bowser, General Manager, Marriott Shoals Hotel and Spa

More: See the [Civitas research library](#) for more resources and case studies on TIDs.

3 SALES TAX INCREMENT FINANCING (STIF)

Sales Tax Increment Financing (STIF) starts by identifying a baseline of sales tax revenue within a defined district or sector. Some of the incremental growth in sales tax revenue above this baseline—referred to as the “increment”—is redirected to fund tourism promotion, infrastructure or related services driving future sales tax revenue growth.

Sales Tax Increment Financing is an innovative funding mechanism designed to fund projects that increase future sales tax revenue. STIF authority allows a municipality to define an area, identify the current amount of sales tax revenue collected in that area (the baseline) and pledge that future increases in the revenue (the increment) will pay for services or projects within that area. Originating from the widely used property tax increment financing model, which traditionally relies on property tax growth, STIF adapts this mechanism to capture increased sales tax revenue.

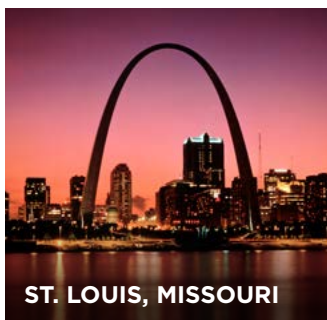
STIF creates a virtuous circle by investing increased sales tax revenue into services or improvements designed to generate additional sales tax revenue. When a STIF mechanism is established, a portion of sales tax revenue above the baseline gets channeled directly into services or infrastructure improvements, attracting new businesses and increasing commercial activity. This increased business activity generates even more sales tax revenue above the baseline, providing additional funds for further improvements, thus creating a self-reinforcing cycle of growth and development.

The National Landscape of STIF

Approximately [16 states and Washington, D.C.](#) [13] allow for sales tax increment financing, making it the second most utilized TIF mechanism after property tax increments. STIF represents a powerful and underexplored opportunity to create innovative, performance-driven funding solutions for tourism promotion.

A Creative Solution for State Tourism

STIF is an attractive mechanism to many, as it does not involve raising tax rates. Instead, it utilizes anticipated future sales tax revenue growth driven by the project being funded, ensuring political and taxpayer palatability.



Missouri was a pioneer in STIF for tourism marketing funding.

The mechanism provides a performance-driven funding model. While it is most commonly used for traditional economic development projects, it presents itself as a strong alternative, stable funding solution for the tourism industry. For example, Missouri’s pioneering legislation in 1993, House Bill 188, allocated incremental sales tax revenues from 17 Standard Industry Classification (SIC) tourism-related codes. This initiative is expected to provide approximately [\\$29 million to the Missouri Division of Tourism’s budget in 2025](#) [14]. Missouri’s approach demonstrates STIF’s transformative potential for state tourism funding. By reallocating half of the incremental tax growth above 3% from designated SIC codes, Missouri sustained stable funding for its tourism office while avoiding political fluctuations inherent in general appropriations.

Advantages of STIF for Tourism Promotion

- **Performance-Based Funding:** STIF directly ties funding to tourism-related economic activity, creating a direct relationship between investment and outcomes.
- **Stability Without Tax Increases:** By reallocating future revenue growth, STIF provides a stable funding source without imposing additional taxes or fees.
- **Diverse Applications:** STIF funds can support marketing campaigns, event promotion, infrastructure projects and community enhancements, benefiting residents and visitors.
- **Political and Economic Feasibility:** Unlike general appropriations or new taxes, STIF mechanisms are generally more politically viable and economically sustainable, as they leverage growth rather than imposing new costs.
- **Creates Political Wins:** By increasing the overall sales tax revenue base, STIF provides increased sales tax revenue to both the project being funded and the local government overseeing the STIF tool, creating a beneficial situation between both parties and driving local economic growth beyond the tourism industry.
- Involves most hospitality business partners, including lodging, restaurants, retail and attractions.

Challenges and Considerations

While promising, STIF faces implementation challenges. Sales tax revenues are inherently more volatile than property taxes, making long-term planning complex. Sales tax revenue depends on business activity and consumer spending, which can fluctuate due to economic factors like recessions, inflation or shifts in consumer behavior. Additionally, securing legislative approval and navigating statutory limitations can pose hurdles. For example, states with rigid sales tax caps or restrictive TIF statutes may find it challenging to implement or expand STIF.

CASE STUDY:

Growth Begets Growth: Utah's Tourism Marketing Performance Fund

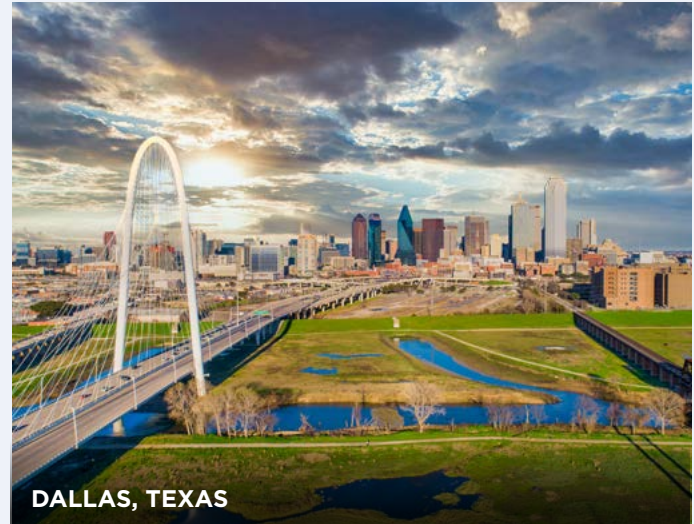
[Utah's Tourism Marketing Performance Fund \(TMPF\)](#) [15] demonstrates the effective use of STIF for tourism promotion. The TMPF captures sales tax increments from 21 tourism-related industries and is then distributed to advertising and marketing (70%), a co-op program (20%) and the Sports Commission (10%). As a result, the TMPF directly ties funding directly to economic performance, providing a stable and responsive model to drive tourism growth and economic development.



CASE STUDY:

Funding Dallas' Infrastructure: The \$4 Billion Vision

Dallas leveraged Texas' innovative Project Financing Zone (PFZ) model to secure funding for the [Kay Bailey Hutchison Convention Center](#) [16]. Established by Senate Bill 748 in 2013, this mechanism allows designated municipalities to capture incremental "hotel-associated revenue," which includes state hotel occupancy taxes, sales taxes and mixed beverage taxes generated within the zone. In Dallas, the PFZ was pivotal in redirecting approximately \$2.2 billion in state funds to the city for the project. These funds were part of a broader \$4.0 to \$4.4 billion financing strategy, which included debt restructuring and increased hotel occupancy tax revenue. By establishing the PFZ, Dallas successfully utilized future tax increments to finance the construction and expansion of its convention center, creating a robust funding solution that ties public infrastructure investment to tourism-driven economic growth.



DALLAS, TEXAS

CONCLUSION:

STIF presents a transformative opportunity for funding tourism and related services. By leveraging future sales tax growth, STIF provides a stable, performance-driven funding model that aligns with the economic contributions of the tourism sector. As demonstrated in Missouri, Utah and Texas, this mechanism offers a pathway to sustainable funding that supports economic development, community well-being and the continued growth of the tourism industry.

4 SHORT-TERM RENTALS

Short-term rentals (STRs) have become an increasingly prominent element of the tourism landscape over the past decade. Fueled by platforms like Airbnb and Vrbo, which came to prominence in the aftermath of the 2008 recession, STRs have capitalized on shifting consumer preferences for affordable and flexible travel accommodations.



This sector's rapid growth was further propelled by the desire for localized and unique travel experiences, making STRs an enduring and highly competitive alternative to traditional hotels. The initial "Funding Futures" report published in 2020 emphasized the role of STRs in a world shaped by the COVID-19 pandemic, emphasizing their increased importance and surge in popularity. Although trends have evolved, STRs continue to play a critical role in the tourism funding landscape.

The impact of COVID-19, once a pivotal factor in shaping STR trends, has lessened as we moved into a post-pandemic era. Before the pandemic, STRs were projected to experience unprecedented popularity, with some forecasts suggesting they could surpass traditional hotels. While the pandemic had a widespread negative impact on the tourism industry, STRs maintained and even increased their appeal as travelers turned to "staycations" and sought more private accommodations.

In today's tourism landscape, STRs continue to showcase their resilience and adaptability. According to a recent analysis from [Oxford Economics](#) [17], STRs now account for 14.2% of total U.S. lodging demand, demonstrating their evolution from an alternative lodging option into a mature market segment with significant revenue potential for DMOs. STRs are projected to add \$15.6 million sold listing nights year-over-year in 2024, surpassing the combined growth of both hotels and cruises.

Key Components for Assessing STRs as a Funding Source

In the last report, we identified four key components of STR funding: permitting, tax and assessment treatment, enforcement and destination management considerations. These components remain relevant, and we have followed the previous structure while including relevant updates.

1. Permitting

Permitting requirements for STRs continue to vary widely. Some destinations impose comprehensive regulations, while others enforce only minimal oversight or ban STRs outright. Additionally, STRs operating without a permit may function as untaxed and unassessed entities, leading to missed revenue opportunities. Understanding the permitting landscape in your destination is essential for evaluating the current and potential role of STRs in generating revenue. This evaluation can also inform necessary policy adjustments to maximize the financial benefits of STRs.

2. Tax and Assessment Treatment

Tax and assessment treatment of STR stays is equally diverse. In some jurisdictions, STRs contribute significantly to destination marketing funding through bed taxes or TID assessments. Others lack mechanisms for taxing or assessing STRs altogether. Voluntary collection agreements (VCAs) between jurisdictions and STR platforms were once widely used but seem to be in some disfavor. Few jurisdictions are signing new VCAs but instead opting to collaborate with legislators to develop simplified and [centralized tax collection policies](#) [18].

However, the landscape varies widely, and STRs in two different jurisdictions may encounter completely different tax and assessment regulations.

3. Enforcement

Even when STR regulations exist, enforcement poses a significant challenge. Noncompliance with permitting, tax and assessment requirements can result in substantial revenue losses. Many jurisdictions have strengthened enforcement efforts to ensure compliance and safeguard this critical funding source. Investing in robust enforcement mechanisms is crucial for maximizing the financial contributions of STRs.

4. Destination Management Considerations

STR policies play a pivotal role in broader destination management efforts. Balancing the economic benefits of STRs with their social and environmental impacts requires careful consideration of stakeholder perspectives, including property owners, traditional accommodations, visitors and local residents. Long-term renters and community dynamics are particularly important factors to address. By adopting a balanced approach and proactively working with elected officials, STR platforms and owners, DMOs can align STR management with sustainable tourism goals.

Trends in STRs

AFFORDABLE HOUSING LEGISLATION

Across many destinations, the tension between STRs and affordable housing is a pressing issue. The challenge of maintaining housing affordability amidst the popularity of short-term rentals, which often reduce the availability of long-term rental units and drive up property prices, is one that has dominated many conversations about short-term rentals.

Communities dealing with this issue often prioritize ensuring housing options for residents over catering exclusively to transient visitors, presenting a conflict with tourism efforts. Developers encounter obstacles like limited land availability, high land costs and stringent development regulations, complicating efforts to build new affordable housing units.

Finding a balance between promoting tourism and maintaining affordable housing is crucial for sustainable community development. Destinations around the country, including Colorado and California, have begun introducing legislation increasing or adding levies to short-term lodging with the need to use those funds for workforce development, childcare or affordable housing.

Here are a couple of examples:

COLORADO

Aspen: Effective May 1, 2023

- [Additional 10% tax](#) [19]
- Total tax rate for guests of short-term rentals to 24.4%
- At least 70% of funds to go to City's Affordable Housing Fund
- Funds not utilized for affordable housing may be used for infrastructure, maintenance and repair and for environmental initiatives
- Provides additional [\\$9.1 million a year](#) [20] for affordable housing



Steamboat Springs: Effective Jan 1, 2023

- [Additional 9% tax](#) [21]
- Total tax rate for guests of short-term rentals to 20.4%
- Funds to increase the stock of affordable and attainable housing
- Collected around [\\$14.8 million in the first year](#) [22]



CALIFORNIA



SB 584 (Limón) Did Not Pass

- A proposed [15% statewide tax on short term rentals](#) [23]
- Purpose: Using residential homes and apartments for commercial purposes reduces the available supply of permanent housing.
- Proceeds to local governments as grants for "laborforce housing."
 - Public housing projects built with a skilled and trained workforce or prevailing wage rates.

STRs IN TIDS

Another trend we have seen is including or adding STRs into a TID. This approach provides additional funds to better market the destination, support stakeholders, invest in community development and accelerate community competitiveness. Over 40 TIDs across the nation have begun including STRs.

A significant challenge in integrating STRs into TIDs has been compliance from hosting platforms in collecting assessments. This issue has been compounded by instances where hosting platforms state that they are not obligated to pass these assessments along to their customers, leading to confusion and inconsistencies in TID administration. As part of the increased efforts to add STRs into TIDs, Civitas has initiated the drafting of specific language aimed at resolving this issue, ensuring compliance from hosting platforms to collect TID assessments.



CASE STUDY:

Palm Springs Strategic Shift Pays Off

The Greater Palm Springs Tourism Business Improvement District (GPSTBID) includes lodging businesses with 50 or more rooms and vacation rentals in the Palm Springs area of Southern California, known for its hot springs and upscale hotels. In its latest renewal, the GPSTBID added 6,000 vacation rentals to raise an additional \$3 million in revenue for fiscal year 2023/24. This significant increase reflects the growing influence of vacation rentals in the region's tourism economy and the benefits that can be obtained by assessing STRs.



CASE STUDY:

Sacramento's Smart Move: Tapping STRs for Growth

The Sacramento Tourism Marketing District (STMD) was established in 2012 to provide funding for sales and marketing activities. In 2017, the TMD was expanded to assess short-term rentals in addition to hotels and other traditional lodging businesses. Further, in 2024, upon its renewal, the STMD worked with the City of Sacramento to amend their short-term rental ordinance in the City municipal code, mandating hosting platforms collect the STMD assessments on STRs. The combination of levying the assessment on STRs, as well as working with the City to ensure that a regulatory framework is in place to collect the assessments effectively, is expected to raise significant revenue for the STMD and demonstrates the benefits of a holistic approach to incorporating STRs into a destination marketing program.

STR TIPS AND TAKEAWAYS:

STRs are an opportunity for revenue and additional stakeholder engagement.

Educate your organization and jurisdictions about STRs enforcement, collection and policy.

Online booking platforms have their own requirements; educate your organization and jurisdictions.

Be vigilant about any new STR legislation.

Be armed and ready to minimize the negative impact on your organization and the industry.



The [“Time for DMOcracy”](#) global study contains a short term rentals tool kit that lists global best practices. These findings are also summarized in the article, [“Global Best Practices in Short-Term Rentals”](#).

CONCLUSION:

A comprehensive evaluation of STR permitting, tax and assessment treatment, enforcement and destination management can help jurisdictions and DMOs unlock the full potential of this sector. While bed taxes and TID assessments are typically levied on hotels, careful consideration also needs to be given to their implementation on STRs. Price sensitivity among STR customers can lead the owners of STRs to resist the application of additional taxes and levies on their small businesses, so it will be crucial for DMOs to convey the benefits that these revenues can bring to both the destination and the STR owners. By working with STR owners to emphasize these benefits, DMOs can build consensus for regulatory frameworks that work effectively for the DMO, destination and STR owners alike.

5 VOLUNTARY DISTRICTS

Voluntary Districts are established as something to supplement a TID, something to include one or more hotels that are outside boundaries or in another jurisdiction, or when a TID can't be formed or is not a good fit. Lodging-based voluntary districts are funded through a contractual assessment applied to lodging stays at participating lodging businesses, with funds typically managed by a nonprofit corporation.

An Important Funding Alternative

While many TIDs are established pursuant to a city or county's governing legal authority, this method is not always an option. Instead, voluntary districts are available in exceptional cases where the option to form a compulsory district is unavailable. To establish a voluntary district, a contractual assessment is put into place, with business owners determining the amount of the assessment at the formation of the voluntary district. The contract is between a hotel (or many hotels) and a DMO and may be written to ensure that funds raised through the voluntary district assessment are spent for the benefit of the businesses executing the contract. The assessment is typically collected by the participating lodging businesses and given to an agreed-upon nonprofit corporation (usually a DMO) for promotion and sales activities.



A Valuable Option, But Not Without Risk

There are several situations that may arise in which forming a voluntary district becomes a viable option. If there is no legal authority currently available for TID formation in the city or state, such as an enabling state law, local home rule authority or other legal mechanism to establish a TID, a voluntary district is a feasible alternative to consider for implementing an assessment mechanism. Additionally, if the existing legal authority does not allow multi-jurisdictional district formation, thereby preventing lodging businesses outside the district's jurisdiction from being included, a voluntary district for these businesses outside of the boundary may be a solution. Finally, there are exceptional cases where legal authority does not allow the participation of particular businesses—for example, on Native American reservations. In such cases, a voluntary district may be the only viable supplemental funding solution.

Risks

Though the formation of a voluntary district is an attractive option for a destination in the above circumstances, there are risks involved. For example, lodging businesses can choose not to opt into a voluntary district, while traditional TIDs are subject to a compulsory assessment following a legal consensus process (i.e., everyone within the TID boundaries pays the assessment, and all TID payors benefit from it). If lodging businesses do not opt in to the voluntary district, you may have uneven participation, affecting the stability of the budget. Furthermore, fee transparency rules for lodging in some states may exempt compulsory exactions by government, like a TID, but not charges associated with a voluntary agreement.

Enforcement issues present another risk associated with voluntary district formation. Unlike traditionally formed TIDs, where the local or state jurisdiction collects assessments alongside bed tax, enforcement in a voluntary district may rely upon action by the DMO. If a lodging business fails to follow the rules of the voluntary district's contract, the managing entity may be required to take legal action against it.

CASE STUDY:

Creating Their Own Path to Successful Funding

In 2023, the Sedona Chamber of Commerce & Tourism Bureau discontinued their work with the City of Sedona on tourism efforts. Local hotels joined with the Sedona Chamber of Commerce and Tourism Bureau to form a Tourism Business Improvement District (TBID), which is a voluntary district. This voluntary TBID provides sustainable funding to continue marketing the destination.

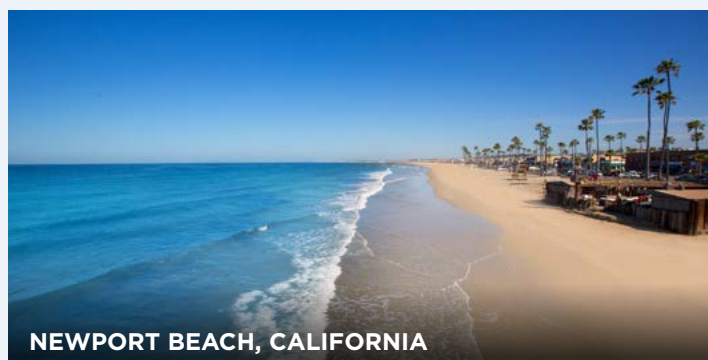
Assessments for this voluntary district are based on a tiered system based on the particular hotel's Average Daily Rate (ADR) within the previous full calendar year. The ADR ranges from \$2 to \$5 per paid occupied room per night. This provides the Chamber with almost \$2 million to promote Sedona as a premiere destination.



CASE STUDY:

Newport Beach, California

After years of a traditional TID, the hotels and DMO discussed privatizing the district. Creating a voluntary district had the appeal of allowing them to create a private structure. Once their current district expired, they shifted to a voluntary one, raising the assessment from 3% to 5%.



6 ENHANCED PUBLIC-PRIVATE CO-OP

Cooperative (or co-op) marketing programs have long been a reliable source of funding for destination organizations.

DMOs are approaching 130 years of existence, and throughout their history, they have generated revenue to support marketing programs in collaboration with industry partners. These marketing co-ops typically combine public funding, such as tourism taxes or TID levies, with investments from partner businesses.

These marketing co-ops provide DMOs with several key benefits:

- Funding to target specific market opportunities
- Stronger relationships with the industry and its needs
- Growth of marketing programs and the ability to achieve economies of scale
- Opportunities for smaller businesses to engage in larger, more sophisticated marketing efforts
- Access to broader, more resilient funding sources

For decades, destination visitor guides and, more recently, email programs have been at the heart of cooperative marketing efforts. As the focus shifts to generating high-quality first-party data, these programs remain valuable. In 2025, co-op marketing can also provide highly targeted digital advertising options, paired with advanced reporting solutions for partners. This includes the ability to match online analytics with anonymized mobile location data, helping identify which visitors actually travel to the destination.



Visit Austin runs a range of cooperative marketing programs, including advertising options across its leisure and meetings owned media assets.

STRATEGY & DESIGN CONSIDERATIONS FOR VISITOR TAXES

Key Considerations for Implementing Successful Visitor Taxes

When designing and implementing visitor taxes or levies for your destination, it's crucial to consider these six factors:

1. **Efficiency of Visitor Tax Systems**
2. **Disaster Preparedness**
3. **Outcome and Demand-Based Pricing**
4. **Reserve Funds**
5. **Funding for Sustainable Tourism Programs and Projects**
6. **Funding for Housing**

Global Best Practices: [“Funding for Tomorrow,”](#) contains 10 global best practices for further guidance on developing high-quality taxes and levies.

1. Efficiency of Visitor Tax Solutions

The costs and complexity of new or increased visitor taxes and levies need to be carefully considered. Tourism is an industry sector dominated by small to medium businesses (SMBs) that are disproportionately impacted by the costs of doing business. Hence, a system with high compliance, simple-payment options for visitors and minimal administrative and reporting responsibilities for businesses should be critical objectives in the design of visitor taxes and levies. One significant benefit of Tax Increment Financing mechanisms, for example, is that they leverage existing, broad-based taxes (e.g.: sales tax or GST) with a low implementation and operational cost.

- The [OECD Tax Policy Library](#) and the [Australian Parliament Budgetary Office's Tax System Design](#) offer resources and guidance on these fundamental principles.

2. Disaster Preparedness

Natural or manmade disasters have always been a risk to the tourism industry. Since 2020, these risks have become more severe as climate change intensifies extreme weather events and geopolitical, health and other threats remain high. The COVID-19 pandemic highlighted the importance of considering these risks in designing your funding solutions. This includes critical factors such as developing and sustaining reserve funds and working to mitigate financial risks faced by the industry.

For example, [VISIT FLORIDA's free event insurance](#) is funded from tourism-related taxes and minimizes the risks for event organizers in selecting the state during hurricane season. In the future, destinations that develop creative, collaborative solutions to minimize risks will gain a stronger competitive edge.



VISIT FLORIDA's free hurricane insurance for events hosted in the state helps mitigate risk for event organizers

3. Outcome and Demand-Based Pricing

Outcome or demand-based pricing is a core strategy in travel and tourism, with airlines and hotels raising prices during peak demand to maximize profits and lowering them in the off-season to boost demand. However, this approach has rarely been applied to visitor taxes—a missed opportunity initially highlighted in [Funding Futures 2021](#).

Variable visitor tax rates can send important market signals, indicating where more visitation is welcome and where capacity is already strained.

Croatia is one of the few destinations that adjust tourist tax rates based on season or region. Accommodation taxes vary by about 25% between peak season (June 1–Sept. 30) and low season (Oct. 1–May 30). Similarly, in 2025, [Spain’s Balearic Islands](#) will shift to a demand-based tourism tax, eliminating the tax in winter and increasing it during the summer [24].

Croatia also varies taxes to different groups—discounting or eliminating the levy for [young travelers \(under 18 years\)](#) [25] or [those with disabilities](#) [26]. Implementing differential pricing is appearing in more discussion documents and in plans being issued by governments, including Wales’ recently implemented [accommodation levy](#) [27].



4. Reserve Funds

Why Reserves Matter

The industry challenges of recovering from COVID-19, combined with the ongoing impact of recent natural disasters, have highlighted the importance of keeping sufficient reserves. Though many DMOs have implemented reserve policies and started or continued the process of building them, the overall ability of DMOs to weather natural disasters and other “Black Swan” events while keeping funding for marketing programs intact remains limited by the relatively small size of these reserves.

Barriers to Establishing Reserves

Because some DMOs, particularly government DMOs, are required to spend all revenue each year on destination marketing efforts, it can prove challenging to have any reserve funds.

It is critical for DMOs to establish and follow a robust reserve policy. As part of this process, it is also essential that DMOs ensure there are strict criteria around the use of reserve funds to protect from political interference or short-term marketing pressures. In some cases, maintaining a significant reserve can serve as a red flag for local government officials who may wonder why the funding provided to a DMO isn’t being fully used for marketing efforts. Establishing criteria around these funds can help mitigate any political risk associated with building a reserve/contingency fund that may not be used in a given year.

Industry Adapting to the Need for Reserves

Though there are still significant barriers in place to quickly and easily establish meaningful reserves, the industry is increasingly aware of the need and is adapting to accommodate. In 2024, the Destinations International Destination Marketing Accreditation Program (DMAP), an industry-standard program defining a framework and guidelines for robust, well-run DMOs, was updated to include a standard for [the maintenance of reserve and contingency funds](#) [28].

Additionally, in recent years, we have seen an increase in the reserves available to DMOs across the country, emphasizing the relevance that they are starting to play in DMO strategic planning. Destinations around the U.S. are utilizing Tourism Improvement Districts (TIDs) to supplement funding and build larger reserves.

Using data available from the CivitasPRO data platform, we found that average reserves, as represented by the Net Assets reported by DMOs on annual tax returns, rose by more than 23% from 2021 to 2022 and by nearly 65% from 2017 to 2022. Total reserve numbers echoed the same trend, increasing more than 72% from 2017 to 2022.

The Crucial Step

While many DMOs will continue to face roadblocks in setting aside significant reserves, they can benefit from a well-drafted reserve policy approved by their board of directors.

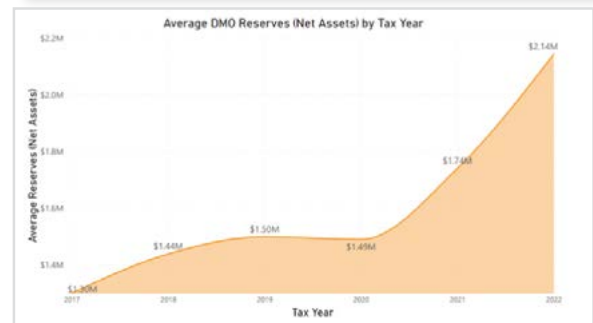
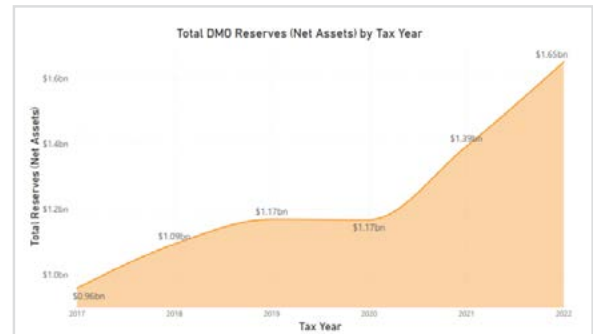
Reserve fund size, timing and details will vary by the type and size of each DMO, but a robust guideline is to maintain a reserve consisting of at least six months to one full year's operating budget. Working with elected officials and exploring options to update DMO policies and regulations to allow for these reserves to be built and maintained is crucial to ensuring that DMOs can weather the storms we know will befall the industry.

5. Funding for Sustainable Tourism Programs

In 2025, tourism is facing a renewed call for far greater efforts to manage our industry's most negative impacts—and to ensure its benefits are widely shared. Concerns about the sustainability of travel and tourism range from its impact on housing availability and cost to its growing carbon footprint (highlighted in a major [study published in Nature](#)) [29]. The Economist provides [a summary of this study](#) [30].

[A New York Times article](#) highlighted these growing pressures from the popularity of tourism: 2024 was the year in which concerns about overtourism achieved a critical mass in places around the globe, sparking protests from Amsterdam to the Canary Islands, and triggering new regulations from Iceland to Indonesia.” [31]

Increasingly, how taxation or funding mechanisms can generate resources for sustainable tourism initiatives—from environmental to affordable housing projects—will be a critical consideration in designing new or enhanced funding models in many destinations. In the future, this importance will only grow.



U.S. destinations from the Florida Keys to Bend, Oregon, are facing greater pressures to manage tourism more sustainably.

Examples of tourism funding for sustainable tourism

Below are three examples of international destinations funding sustainable tourism programs:

CASE STUDY: New Zealand

New Zealand has been marketing itself under the branding [“100% Pure” since 1999](#) [32], so the country has seen greater scrutiny on its efforts to fund and support sustainable tourism.

In 2024, the [International Visitor Levy](#) [33] was almost tripled to \$100 NZD (\$56 USD) for most arriving international visitors to New Zealand. New Zealand does not currently have any other types of targeted visitor taxes or levies (e.g., bed taxes), so the increased levy provides a partial solution to the urgent need to fund sustainable tourism investments in the country. The levy is evenly divided, with 50% allocated to funding visitor infrastructure and marketing initiatives and the other 50% dedicated to conservation projects.

By law, the funds can only be used for specific purposes, and the government publishes a [list of funded projects](#) [34] along with annual performance reports on the fund's operations. However, the levy allocations are controlled by the central government, leaving local government and regional tourism organizations without any form of direct, dedicated funding for sustainable tourism investments in their destinations. This has sparked [growing calls for the international visitor levy to be distributed more equitably](#). [35].



NEW ZEALAND



ICELAND

CASE STUDY: Iceland

Iceland has various visitor taxes that support sustainable tourism initiatives nationwide. These taxes were suspended during the pandemic but were reintroduced in 2024 and increased in 2025.

- **Hotels and accommodation:**
300-600 Icelandic krona (\$2.20-\$4.40 USD) per room per night
- **Cruise ships:**
2,500 Icelandic krona (\$18) per passenger per 24 hours while anchored in an Icelandic port

Iceland uses this funding to achieve a wide range of sustainable tourism outcomes, such as developing visitor infrastructure (including the long established [“Tourism Site Protection Fund”](#)) [36], boosting EV travel (as part of its target to achieve Net Zero by 2040), adding [new daily fees for international cruise passengers](#) [37] and supporting the implementation of destination management plans across the country.



BALEARIC ISLANDS, SPAIN

CASE STUDY: Balearic Islands, Spain

Since 2016, these Spanish islands have had a [destination organization focused on sustainable tourism](#) [38] with [dedicated taxes](#) [39] for sustainable tourism programs. In those nine years, 217 projects have been funded, totalling more than half a billion dollars (471 million euros). Programs have included initiatives from water infrastructure to developing offseason employment options and supporting farming that protects local heritage and natural resources.

However, the Balearic Islands show the limitations of tourism funding once community concerns about tourism become pronounced. 2025 sees ongoing resident resentment on hot button issues such as affordable housing and the cost of living. Even substantial funding of community, infrastructure and environmental projects can only partially mitigate these pressures—other [management responses](#) [40] driving year-round travel, visitor dispersal and limiting visitor numbers may also be needed.



MAMMOTH LAKES, CALIFORNIA

The town of Mammoth Lakes, California has a tourism-backed initiative that funds and supports a comprehensive affordable housing plan.

5. Funding for Housing

In almost every community where tourism is a significant part of the economy, housing is a major political issue—and impacts the perception of tourism, its social license and, indirectly, the funding of the DMO. The causes and solutions to the housing crisis are complex, and research typically finds that tourism and short term rentals (STRs) are only one contributing factor (see the STR section of our 2023 report [“Time for DMOcracy”](#) for an analysis of this research). But given the importance of housing to the community and our industry (for workforce housing), it is important for destination organizations to be “at the table” to influence the development and implementation of housing-related funding in their community.

The taxation and regulation of STRs is an important element in developing a robust response from tourism to housing issues in a community. Destinations should ensure that STRs are taxed at an equitable level with other commercial accommodation and consider whether a specific part of this revenue should be directed into housing-related solutions. Smart, localized management of STRs is also important—with regulations customized to your local community and neighborhoods. See [“Global Best Practices in Short Term Rentals”](#) summarized from the [“Time for DMOcracy”](#) study.

- The city of Mammoth Lakes, California, is an example of a city with a comprehensive approach to affordable housing. These [housing programs](#) [41] are majority funded by tourism-related taxation revenue, with involvement from a range of government and private sector entities and in which the Destination Organization is involved as a partner.



- An increasing number of states, including [Colorado](#) [42], [Florida](#) [43] and [South Carolina](#) [44] have passed or are working on legislation allowing counties and cities to redirect visitor taxes toward affordable housing, infrastructure and other public projects. In some cases, the development and management of this funding is without any involvement from the tourism industry or destination organizations. See the Colorado case study below.
- A range of cities have introduced community support funds (CSFs), which are visitor surcharges, often voluntary, where funding goes to affordable housing and other community projects. The town of [Whitefish, Montana, is one example](#) [45] of a town with a 1-2% voluntary surcharge on accommodation, restaurants and car rentals that is invested in affordable housing.

CASE STUDY: Colorado

Example: Colorado Tourism and Affordable Housing: Colorado's legislature successfully passed [House Bill 1117 in 2022](#) [46], which allowed voters to redirect up to 90% of bed taxes in their counties or cities away from destination organizations and tourism marketing to invest in affordable housing and other visitor infrastructure. While signing the bill, Governor Polis voiced the concerns that had driven the legislation—that tourism was too focused on growth and not enough was being done to address its impacts: [“Gov. Jared Polis says enough is enough on tourism marketing](#) [47].” This legislation impacts 29 of Colorado's 64 counties. In addition, some mountain communities, including [Breckenridge](#) [4487], Vail and Crested Butte, have used new or enhanced STR taxes or levies to undertake significant affordable housing projects—programs in which destination organizations and the tourism industry were actively involved.

Emboldened by their success in 2022, a [new Colorado House bill in 2025](#) [49] is proposing that counties and cities can triple bed taxes (with voters' approval) as an additional funding source for affordable housing for workers (both tourism and non-tourism), visitor infrastructure and more general county obligations such as law enforcement and child care.



Colorado's example highlights the increasing risks facing tourism around the affordable housing crisis. Destinations face the risk of visitor taxes being targeted by energized voters, directed by other special interests. Destinations must work constructively to be involved in the process—advocating that tourism contributes only a fair share of funding and to influence and help manage where the money is spent. This includes destinations working with their industry partners on smart public-private housing solutions for hospitality and tourism workers—a major barrier to recruitment and retention in our industry.

APPENDIX

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