

California Travel Industry Recovery Coalition



To: Governor Gavin Newsom
From: California Travel Industry Recovery Coalition
Date: March 20, 2020
RE: COVID-19 Business Stimulus Recommendations

We are partners that make up the California travel industry. We would like an opportunity to communicate directly with you and the administration on how the COVID-19 pandemic is impacting our industry.

During these unprecedented times, it is appropriate to outline some of the impacts on our tourism businesses, their employees and families, and their communities. While we understand and support the efforts underway to prevent the spread of coronavirus, it is our responsibility to also plan for the future economic viability of businesses small and large and the state of California as a whole. We stand by to be partners as we continue to work through the latest developments of the COVID-19 situation.

Travel and tourism is one of California's most vital engines for economic growth. Every day, travelers inject hundreds of millions of dollars into communities across the Golden State, infusing \$141 billion into the state's economy in 2018. This spending generated \$11.8 billion in local and state tax revenue and supported almost 1.2 million jobs for Californians.

As the fifth-largest economy in the world, California cannot afford to lose a thriving tourism economy. Visit California and the state's tourism industry have helped drive consumer demand for California around the world, which has delivered hundreds of billions of visitor spending to the state. Before the pandemic, California was the nation's No. 1 travel destination.

Below, we have gathered several recovery ideas to help the industry survive this year and beyond. It is important to recognize the different demands and economic hardships that different regions of the state may be facing in this crisis. Some regions will recover more quickly than others or be able to maintain longer sustained closures. Given these differences, it is crucial that there is flexibility for businesses regarding recovery options.

As you consider these and other options for recovery programs, please remember the California travel and tourism industry. Our companies, employees and shareholders look forward to working with you and helping California recovery from this economy calamity as quickly as possible.



Tourism Promotion Stimulus

Through Visit California, the state's promotional efforts drive inbound travel to the state (in 2019, more than \$14.8 billion of visitor spending was attributable to Visit California). A one-time emergency stimulus to fund a recovery campaign is the quickest method to revitalize communities across the state who are facing the potential loss of the Transient Occupancy Tax revenue base that provides vital funding for local services and sweeping losses among the industry's jobs base of approximately 1.2 million employees. As travel ceases, Visit California's visitor-funded program will be severely impacted and will not have the recommended funding level to promote a recovery campaign. A one-time emergency stimulus would enhance funding (\$25-50 million recommended) for Visit California to assist in generating tourism revenues and the associated state and local tax revenues after the expiration of the State of Emergency.

In addition to Visit California's efforts, local destination marketing organizations help encourage travel to their communities. Emergency one-time funding is necessary to ensure travelers continue to visit California.

SBA Economic Injury Disaster Loans

Under the federal Coronavirus Preparedness and Response Supplemental Appropriations Act that was signed into law, \$1 billion in loan subsidies are to be made available to help small businesses and non-profits negatively impacted by the coronavirus. These SBA Economic Injury Disaster Loans apparently can offer up to \$2 million in assistance per small business.

Our understanding is that in order for all small businesses in an area to be eligible, the county or the Governor must first put in a request for the Economic Injury Disaster Loan assistance with the SBA's Office of Disaster Assistance. This request will be to declare (or certify) that an area within the State (or Territory) is suffering substantial economic injury specifically as the result of the coronavirus. While 40 counties have requested participation, businesses in 18 counties are currently unable to take advantage of this program.

Reinstate NOL Carryback

California businesses' expenditures are far exceeding revenues, creating net operating losses. Current law allows businesses to carry forward these losses, deducting them from future years' tax liability. However, businesses need assistance in real time. Reinstating NOL Carryback for 5 years would allow businesses to deduct their current losses from prior tax years, providing them immediate refunds from previous fiscal year returns.

Employee Retention Credit

This proposal would help travel-related businesses keep employees on payroll by providing a temporary business tax credit worth 40 percent of wages paid by a qualified employer to an employee, for a maximum credit of \$2,400 per employee. A qualified

employer would be defined as an employer primarily engaged in the business of food service, lodging, retail, automobile rentals, air transportation, amusement, entertainment, recreation, or accommodation for mass gatherings of people.

Business Interruption Insurance

Not all business interruption Insurance policies cover the COVID-19 pandemic. The state can declare all interruption insurance must cover COVID-19 and backstop the insurance companies. This proposal would increase the odds of a business surviving the calamity by providing operating cash flow more quickly than other incentives.

Temporary Travel Tax Credit

To encourage business and leisure travel spending once the threat of COVID-19 subsides, create a new tax credit to incentivize domestic business and leisure to travel within California within a specified time frame. The tax credit would be worth 50 percent of qualified travel expenses incurred in California from a time specified by public health officials through December 31, 2020. Qualified travel expenses include any expense over \$50 that is incurred while traveling in California, away from home, with language to explicitly reference expenses related to meals, lodging, recreation, transportation, amusement or entertainment, business meetings or events, and fuel. The credit is not allowed if the taxpayer receives a refund for the expense within the taxable year or if the taxpayer is a dependent.

Payroll Tax Cut

U.S. Secretary of the Treasury, Steven Mnuchin, anticipates that the COVID-19 pandemic could lead to unemployment rates as high as 20 percent. In order to boost economic activity and help avoid a cataclysmic recession, a payroll tax cut would reduce the employee and self-employed shares.

Postponement of Property Taxes

Many businesses owners in the tourism industry have mortgages and won't have the cash flow to pay their property taxes due April 10. Hotel occupancy rates have plunged to 10-20 percent in virtually all California markets (operating cash flow breakeven in most cases between 50-60 percent). Our understanding is that there is a time-consuming process to potentially postpone property taxes administered through each county. Is there a way to streamline this process at the state level.

Cal Competes (CC)

CC is a state tax credit program for small businesses in California. If a business applies and is chosen, it has the opportunity to receive state tax credits if it meets certain hiring

and expenditure thresholds. It is safe to assume that most businesses will not meet their objectives in 2020. It would be helpful if the state relaxed the requirements for 2020 and extended the timeframe for the participating businesses to meet their objectives. Also, perhaps we could work with GO-Biz to explore opportunities to expand the program to include additional travel-related businesses.

Minimum Wage Relief

Under SB 3, the minimum wage is scheduled to increase \$1 a year for three years for small businesses and a \$1 a year for two years for larger businesses. When this crisis passes, hotel and lodging establishments will not be able to cover the costs of these increases. SB 3 creates so-called “off ramps” that allows the Governor to temporarily postpone increases if there are job losses — which we expect from all industries in the state.