

Office of Tourism

	FY 2020 ACTUAL	FY 2021 ESTIMATE	FY 2022 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	28.0	28.0	28.0
Personal Services	1,792,200	1,903,600	1,903,600
Employee Related Expenditures	662,200	667,600	667,600
Professional and Outside Services	2,553,600	2,249,100	2,249,100
Travel - In State	14,700	20,000	20,000
Travel - Out of State	111,600	114,700	114,700
Other Operating Expenditures	1,268,400	2,249,600	2,249,600
Equipment	182,900	30,500	30,500
OPERATING SUBTOTAL	6,585,600	7,235,100	7,235,100 ^{1/}
SPECIAL LINE ITEMS			
Arizona Promotion	1,000,000	1,000,000	1,000,000
Wine Promotion	100,000	100,000	100,000
AGENCY TOTAL	7,685,600	8,335,100	8,335,100
FUND SOURCES			
General Fund	7,685,600	8,335,100	8,335,100
SUBTOTAL - Appropriated Funds	7,685,600	8,335,100	8,335,100
Other Non-Appropriated Funds	16,809,400	8,776,100	8,776,100
TOTAL - ALL SOURCES	24,495,000	17,111,200	17,111,200

AGENCY DESCRIPTION — The office is responsible for promoting tourism within the state, which includes planning and developing an information campaign, advertising, exhibitions, and operating a visitors' center. The agency receives a transfer from the Arizona Sports and Tourism Authority (AZSTA), a portion of tribal gaming contributions, and General Fund appropriations to the Tourism Fund.

FOOTNOTES

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The Baseline includes \$7,235,100 and 28 FTE Positions from the General Fund in FY 2022 for the operating budget. These amounts are unchanged from FY 2021.

Arizona Promotion

The Baseline includes \$1,000,000 from the General Fund in FY 2022 for Arizona Promotion funding. This amount is unchanged from FY 2021.

Monies in this line item are used to fund the marketing, advertisement, and promotion of the tourism industry and tourism efforts in the state.

Wine Promotion

The Baseline includes \$100,000 from the General Fund in FY 2022 for Wine Promotion funding. This amount is unchanged from FY 2021.

Monies in this line item will fund the marketing and promotion of the Arizona wine industry.

Other Issues

Funding Sources

The Office of Tourism receives funding from 3 primary sources: 1) a General Fund appropriation; 2) a transfer from AZSTA, generated from partial allocations of a bed tax and car rental tax in Maricopa County (A.R.S. § 5-835), to fund Maricopa County tourism promotion; and 3) a

portion of tribal gaming contributions (A.R.S. § 5-601.02) to fund statewide tourism promotion.

In FY 2019, the most recent year not impacted by the COVID-19 pandemic, AOT's overall funding amount totaled \$23,183,500. From FY 2019 to FY 2020, AOT's funding level increased by 6.6% to \$24,727,100, despite FY 2020 fourth quarter revenue decreasing as a result of the pandemic. The agency projects overall FY 2021 funding to be \$17,011,300, representing a (31)% decrease from the previous year. AOT projects overall funding to increase to a level of \$21,757,600 in FY 2022, representing a 28% increase from FY 2021 but still below pre-pandemic revenue levels. However, economic indicators from the first quarter of FY 2021 show better recovery than initially anticipated, suggesting the overall impact of COVID-19 on tourism revenues in FY 2021 may be overstated. (See *Table 2 for additional details on agency revenue. See the Covid-19 Pandemic narrative in the Other Issues section for additional details on the effects of the pandemic.*)

Special Sporting Event Promotion

A.R.S. § 41-2308 appropriates \$1,500,000 annually to the State Treasurer for distribution to the Office of Tourism related to the promotion and marketing of a special sporting event hosted in Arizona. This appropriation is in effect from FY 2022 to FY 2051. (Please see the *State Treasurer narrative for the display of the Special Sporting Event Promotion appropriation.*)

COVID-Related Spending

As part of the state response to COVID-19, the Executive has allocated \$7,000,000 to support the hospitality and tourism industry. This amount consists of \$6,000,000 from the federal Coronavirus Relief Fund (CRF) and \$1,000,000 from the state-funded Crisis Contingency and Safety Net Fund (CCSNF).

AOT will receive a total of \$4,000,000 from the CRF as part of the Executive's hospitality and tourism allocation. Of that amount, \$3,000,000 will be used to develop a promotional plan for travel, hotel and restaurant activity, and destination visiting. The remaining \$1,000,000 will be used to strengthen AOT's domestic marketing campaigns.

The Arizona Commerce Authority will receive a total of \$2,000,000 from the CRF as part of the hospitality and tourism allocation. The final \$1,000,000 will be provided from the state-funded CCSNF and distributed to local Arizona chambers of commerce for programs designed to accelerate local economic recovery. (See the *Arizona Commerce Authority narrative for additional details. See the COVID-Related Spending Summary at the front of this book for more information.*)

In addition to the funding from the CCSNF and CRF, AOT will provide \$200,000 from the agency's operating budget to further support the restaurant industry. Of the \$200,000 amount, \$100,000 will be allocated to the Arizona Lodging and Tourism Association to expand its AZSAFE+CLEAN Certification program, which helps restaurants and hotels strengthen sanitation and mitigation practices. The remaining \$100,000 will be allocated to the Arizona Restaurant Association to provide consultation to dining establishments interested in expanding their premises to increase physical distancing efforts and maximize seating capacity during the pandemic.

Auditor General Report

The Arizona Sports and Tourism Authority (AZSTA) was established as a result of voter-approved Proposition 302 in November 2000. AZSTA is responsible for the ownership and operation of State Farm Stadium in Glendale, in addition to overseeing the statutory distribution of revenues generated by Proposition 302. These monies are used to fund tourism promotion in Maricopa County, maintenance of Cactus League and spring training facilities, and Youth and Amateur Sports programs. Pursuant to Proposition 302, monies designated to promote tourism in Maricopa County are distributed by AZSTA to AOT. (Please see *Funding Sources section for additional information.*)

In November 2020, the Auditor General published an AZSTA performance audit review that included recommendations for improvements to AZSTA's statutory revenue distribution and its facility oversight practices. The audit also provided projections on AZSTA's FY 2021 revenue collection and the additional use of the cash balance in AZSTA's operational account due to a reduction in tourism revenues related to the COVID-19 pandemic. The Auditor General made the following findings:

- From FY 2015 to FY 2020, AZSTA at times distributed revenues inconsistent with statute, resulting in Youth and Amateur Sports receiving \$1,092,673 above its statutory distribution and other recipients receiving less than statutorily directed. AZSTA has since corrected this error.
- A key facility oversight practice relating to State Farm Stadium was discontinued and previous oversight efforts were not properly documented.
- From FY 2015 to FY 2020, AZSTA did not collect enough revenue to fulfill all of its monthly statutory distribution requirements.

- Data from the first quarter of FY 2021 shows a (33)% decrease in operating revenue collections compared to the first quarter of FY 2020. As a result, AZSTA projects using approximately \$13,300,000 of the \$29,000,000 cash balance in its operational account during the remainder of FY 2021 due to decreased tourism revenue related to the COVID-19 pandemic. (See Table 1 for AZSTA additional details on AZSTA revenue.)

The audit recommended that AZSTA take additional measures to ensure that it accurately distributes revenue according to statutory requirements as well as fully implement and document existing Stadium oversight practices. The Auditor General believes these

recommendations can be implemented with AZSTA's existing resources. AZSTA agreed to the auditor's recommendations.

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 21 Est.</u>
Tourism-related	\$34.9	\$32.2	\$24.3
Facility-related	<u>25.2</u>	<u>24.2</u>	<u>13.1</u>
Total	\$60.1	\$56.4	\$37.4

Source: November 2020 Auditor General AZSTA Performance Audit

<u>Sources of Funding</u>	<u>Fund</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
<u>General Fund Appropriation</u>				
• General Fund appropriation to be used administering the Office of Tourism and promoting tourism	General Fund	\$8,214,000	\$8,335,100	\$8,335,100
<u>Sports and Tourism Authority</u>				
• Partial allocation of 1% of bed tax and 3.25% car rental tax (Prop. 302 - 2000)	Tourism Fund	9,498,000	4,652,800 ^{2/}	9,329,400 ^{2/}
<u>Tribal Gaming</u>				
• 8% of state's share of gaming proceeds, after distribution to Department of Gaming (Prop. 202 - 2002)	Tourism Fund	<u>7,015,100</u>	<u>4,023,400</u> ^{2/}	<u>4,093,100</u> ^{2/}
Total		\$24,727,100	\$17,011,300	\$21,757,600

^{1/} The numbers displayed represent revenues to the agency and may not correspond directly to the agencies' actual expenditure or appropriation amounts.
^{2/} The Sports and Tourism Authority amounts and the Tribal Gaming amounts for FY 2021 and FY 2022 are estimates provided by the Office of Tourism in September 2020 and may not capture the full impact of the COVID-19 pandemic on agency revenues.

SUMMARY OF FUNDS	FY 2020 Actual	FY 2021 Estimate
IGA and ISA Fund (GMA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Various intergovernmental and interagency service agreements.		
Purpose of Fund: Clearing account for monies expended under Intergovernmental Agreements (IGA) and Intergovernmental Service Agreements (ISA).		
Funds Expended	221,600	0
Year-End Fund Balance	728,400	728,400
Tourism Fund (TOA2236/A.R.S. § 41-2306)		Non-Appropriated
Source of Revenue: The Tourism Fund receives a transfer from the Arizona Sports and Tourism Authority (AZSTA) to be used for tourism promotion in Maricopa County. This transfer is based on a partial allocation of a 1% increase in the bed tax and a 3.25% increase in the car rental tax. This transfer increases each year by 5%. The fund also receives a portion of tribal gaming contributions, pursuant to Proposition 202 from 2002. Finally, A.R.S. § 41-2306 allows the Tourism Fund to receive General Fund appropriations. A.R.S. § 41-2308 provides for an annual General Fund appropriation of \$1,500,000 to the State Treasurer to deposit into the Tourism Fund beginning in FY 2022 through FY 2051. The funding will be used to promote auto racing sporting events in Arizona.		
Purpose of Fund: To pay for all costs associated with Office of Tourism activities. General Fund appropriation expenditures are not displayed to avoid double counting of appropriations.		
Funds Expended	16,587,800	8,776,100
Year-End Fund Balance	3,894,100	3,894,100