

# Memorandum



CITY OF DALLAS

DATE April 24, 2020

TO Honorable Mayor and Members of the City Council

SUBJECT **Convention and Event Services – FY20 Revenue Impacts**

In lieu of the previously planned briefing this month to the City Council about the terms to renew the VisitDallas contract, staff is providing this briefing memorandum about the current and forecasted impact of the COVID-19 disaster declaration and orders to the Convention and Event Services (CES) enterprise fund's revenues and the local tourism industry.

As you know, staff and VisitDallas negotiated proposed contract renewal terms for a City Council briefing in April and consideration in May because the current contract expires September 30, 2020. However, the on-going emergency with COVID-19 has required changes to the CES event bookings, operations and budget. This memorandum, therefore, summarizes the COVID-19-related revenue losses from three primary revenue sources with further details in the attached **Appendix**. This information will be useful in preparation for City Council's consideration of a proposed VisitDallas renewal contract and its correlation to the CES plan for financial recovery.

## Executive Summary

- The approved Fiscal Year 2019-20 CES balanced budget included \$114M in revenue garnered primarily through earned event income, hotel occupancy tax (HOT) and alcohol and beverage taxes (ABT) as outlined in **Table-1** below:

<b>Fiscal Year (FY) 20 Revenue*</b>	<b>FY20 Adopted Budget</b>	<b>FY20 March Forecast</b>
HOT	66,423	30,245
ABT	14,366	10,056
Event Revenue	9,482	4,526
Food & Beverage	15,953	15,953
Spectra Additional Supporting Revenues	6,701	4,318
Other Revenue	1,433	1,531
<b>Total Revenue</b>	<b>114,358</b>	<b>66,629</b>

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- Compared to the March 2020 revenue forecast, there is an estimated 41.7% loss, or \$47.7M, from combined revenues due to 20 cancelled events to-date, including 5 large, citywide events and decreased hotel occupancy levels:
  - the March forecast shows losses of \$7.2M from cancelled events at the KBHCCD, \$36.2M in HOT revenue and \$4.3M in alcohol and beverage tax
- To accommodate the 41.7% revenue loss, CES is modifying its budget plan to:
  - prioritize the annual debt service payment of \$23.5M;
  - proportionally lower disbursements to VisitDallas and the Office of Arts & Culture (OAC), in alignment with the current HOT ordinance;
  - cancel non-safety related capital improvement projects planned for FY20; and
  - zero-out all capital fund transfers for CES and OAC.
- Staff estimates a corresponding impact to workers in the hospitality industry, with furloughs or layoffs exceeding 70% of staff at larger hotels.
- Based on historical data, staff forecasts a three to five-year economic recovery for hotels following the COVID-19 emergency orders.

#### Background – VisitDallas Contract

Following City Council's approval of the amended and restated (A&R) VisitDallas contract in November 2019, staff and VisitDallas negotiated proposed renewal terms as outlined below:

- development of a multi-year, annually declining proforma that allows for the reallocation of HOT funds for other allowable uses;
- alignment of VisitDallas salaries with industry standards and reductions/adjustments where necessary;
- incorporation of a Dallas-First approach to marketing and tourism promotion efforts; and
- continuing the improvements in contract management and compliance.

The current contract expires on September 30, 2020 and includes options for a five-year and thereafter a three-year renewal. When negotiating the new contract terms to exercise the first renewal effective October 1, 2020, CES assumed a continued annualized HOT growth between 3 and 4 percent and drafted a forecasted five- to ten-year plan that included the development of a master plan and renegotiation of debt service. A long-term goal in that plan was a decline in expenses for day-to-day and emergency repairs of the KBHCCD through a master plan renovation that included the replacement of outdated major systems (e.g., chillers, elevators, escalators) that comprise the bulk of the ~\$120M deferred maintenance list. With lowered costs in deferred maintenance, a revised VisitDallas HOT percentage, and a new debt service plan, CES planned to appreciably grow the availability of HOT funds for eligible arts, culture and preservation projects over the next decade.

However, with the ongoing COVID-19 situation and the resulting reduction in HOT and other revenues that are detailed in the **Appendix** to this memorandum, CES requested an amended budget from VisitDallas. The amended budget considers that, although the ordinance percentage of HOT would remain at the approved 30 percent, there will be a proportional disbursement reduction from \$19.9M to \$9M based on reduced HOT collections. As a result, VisitDallas made emergency reductions to the salary and operating components of its FY20 budget. These reductions include a 30 percent permanent reduction in staff, a 15 percent furlough of additional staff and a reduction of costs for day-to-day operations.

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VisitDallas reduced permanent staffing expenses by cutting vacant positions, a reduction in force, the downgrading of a position, and furloughs for a total reduction of \$2.5M. Additional reductions totaling just over \$2M were made in operations. VisitDallas anticipates making additional cuts as the COVID-19 related closures continue. However, CES has requested that VisitDallas maintain sales or marketing staff who play critical roles in both short and long-term revenue recovery for the KBHCCD and impacted hoteliers.

CES connections with clients are relationship-based and staff will need to continue to strategize and collaborate with both VisitDallas and Spectra to bring customers back to Dallas. As outlined in the **Appendix**, 20 bookings have cancelled to-date due to COVID-19, 5 of which are citywide events booked by VisitDallas, and all of which impact event revenue, HOT and ABT earnings. CES anticipates re-appropriating more than \$11M of its capital improvement funds to balance the FY20 budget.

In summary, staff negotiated terms for a five-year contract renewal that would have increased the HOT capacity for eligible arts, culture and preservation projects but the economic impact of COVID-19 will require additional terms for the renewal contract with VisitDallas. With the revenue losses borne by CES, VisitDallas is a needed and critical partner for selling, marketing and rebooking the KBHCCD calendar for the remainder of FY20 and FY21.

We anticipate briefing the City Council about the contract in May and offering recommendations that include the CES recovery plan and a phased HOT reallocation formula. These recommendations will include the opportunity that this emergency has offered VisitDallas to restructure and how any of that restructuring can be carried forward into the future in a way that does not have a collateral impact to Dallas as a tourism destination and aims to maintain or improve its standing as the fifth leading meetings destination.

After you review the details outlined in the **Appendix**, please let me or Rosa Fleming, Director of CES, know if you need any additional information or would like to discuss the data provided.



Joey Zapata  
Assistant City Manager

- c: T.C. Broadnax, City Manager  
Chris Caso, City Attorney  
Mark Swann, City Auditor  
Biliera Johnson, City Secretary  
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- Jon Fortune, Assistant City Manager  
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Laila Aleqresh, Chief Innovation Officer  
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion  
Directors and Assistant Directors

## APPENDIX: Convention and Event Services – FY20 Revenue Impacts

The ongoing COVID-19 emergency, disaster declarations and shelter-in-place orders have resulted in event cancellations and the loss of business/tourism travel to Dallas. In turn, CES has been forced to revisit its long-term plan and examine the short and long-term impacts of changing its current booking, marketing and sales efforts. The information in **Table-A1** below estimates a 41.7% revenue loss for CES compared to the FY20 forecast in March 2020.

<b>Table-A1</b>			
<b>FY20 Adopted Revenue Budget*</b>	<b>FY20 Forecasted Revenue**</b>	<b>Variance</b>	<b>FY20 Budget/Forecast Revenue Loss</b>
\$114,358	\$66,629	(\$47,729)	41.7%

\*(000)

\*\*Based on March 2020 data

Recovery from this forecasted loss will require the full sales and marketing support from both the VisitDallas and Spectra Venue Management (Spectra) teams to facilitate rescheduling of events/conferences within the existing fiscal year, re-bookings in future fiscal years and efforts to capture lost sales from other cities (e.g., Boston, Las Vegas). A summary of estimated revenue losses is provided in **Table-A2** below, followed by supporting detail for each line item:

<b>Table-A2 – Estimated Revenue Loss Summary*</b>	
<b>FY20 Total Budgeted Revenue</b>	<b>\$ 114,358</b>
<b>COVID-19 Adjusted Projection</b>	<b>\$ 66,629</b>
<b>Projected Loss from Budget</b>	<b>\$ (47,729)</b>
<b>Percentage of Loss</b>	<b>41.7%</b>
<b>Projected Revenue Losses</b>	
Event Cancellations	\$ (7,241)
Hotel Occupancy Tax (HOT)	\$ (36,178)
Alcohol and Beverage Tax (ABT)	\$ (4,310)
<b>Total Projected Revenue Losses</b>	<b>\$ (47,729)</b>

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### Event Cancellations: Impact to KBHCCD Revenues

**Table-A3** below provides a summary of the lost event revenue compared to the VisitDallas and Spectra submitted budgets and provides an outline of the number of events that have cancelled for this fiscal year, rebooked within this fiscal year or rebooked for another fiscal year. Of the 98 budgeted events/conferences included in **Table-A3** below, twenty events have cancelled, including five citywide events (2,500 room nights on peak).

The projected revenue loss for cancelled events alone is more than \$7M, and represents lost revenue from rental, technology, electrical services, utilities and parking. The event losses zeroed out any forecasted increases. Each of these losses has a collateral impact on contracted companies that work within the KBHCCD, like Centerplate, Ace Parking, SmartCity and Members Building Maintenance LLC. These companies have laid off or furloughed most of their in-house staff.

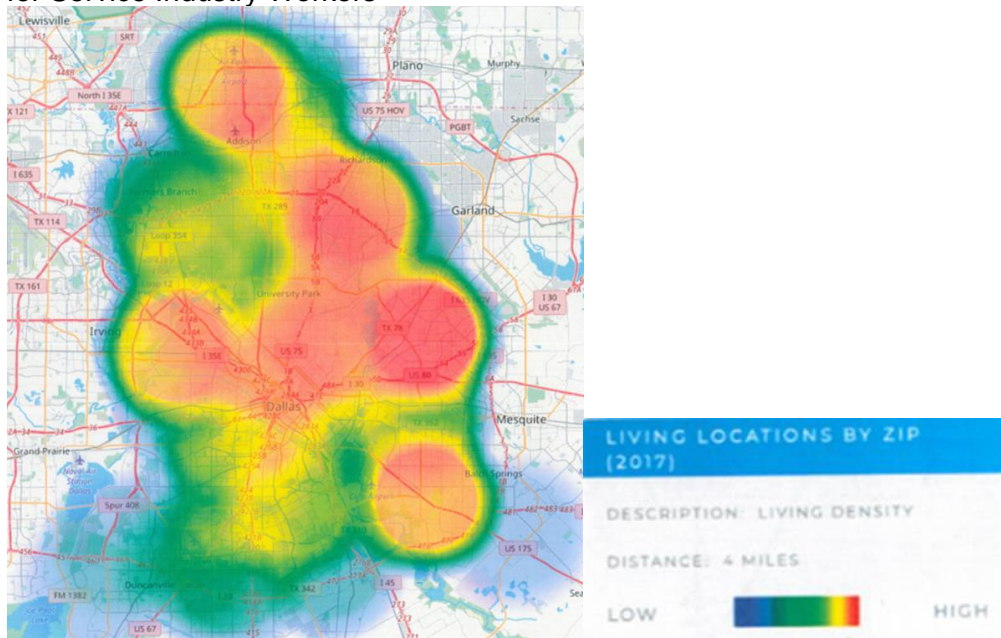
<b>Table-A3: FY20 KBHCCD Bookings</b>	<b>Bookings</b>	<b>Revenue Projections (\$M)</b>
Budgeted	98	33.2
Cancelled	20	(7.2)
<b>Revised Bookings/Revenue</b>	<b>78</b>	<b>26.0</b>

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### Event Cancellations: Impacts to Hospitality Industry

The cancellation of events and conferences at the KBHCCD has direct impact to workers in the Dallas hotel industry and related services (e.g., waitstaff, housekeepers, concession workers, etc.). Initial industry data (prepared since the rise of the pandemic) suggests an industry loss seven times higher than that experienced during and after 9/11. Most larger hotels in the Dallas area have furloughed or laid off more than 90 percent of their staff.

**Figure-A1:** Heat Map - Zip Code Locations for Service Industry Workers

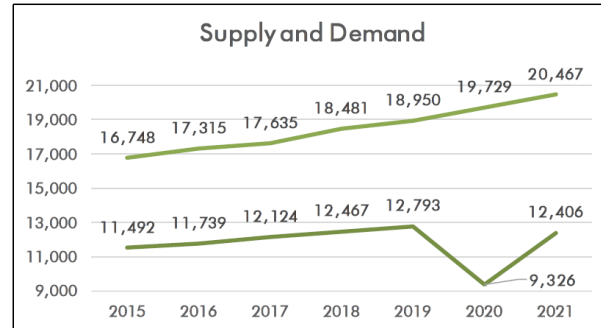
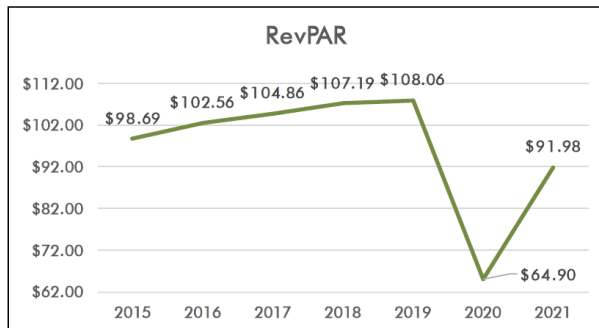
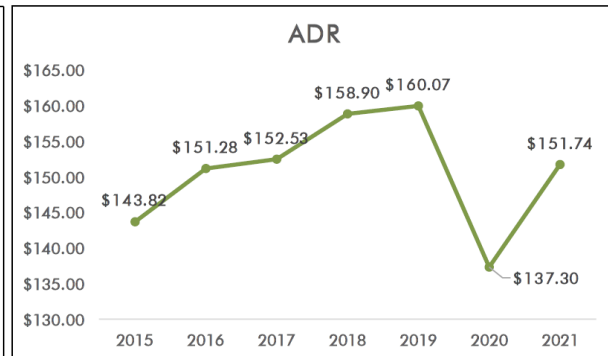
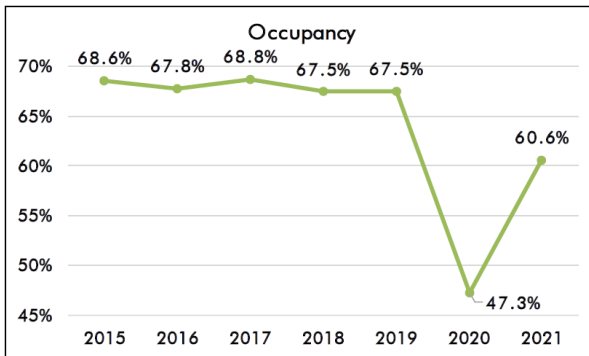
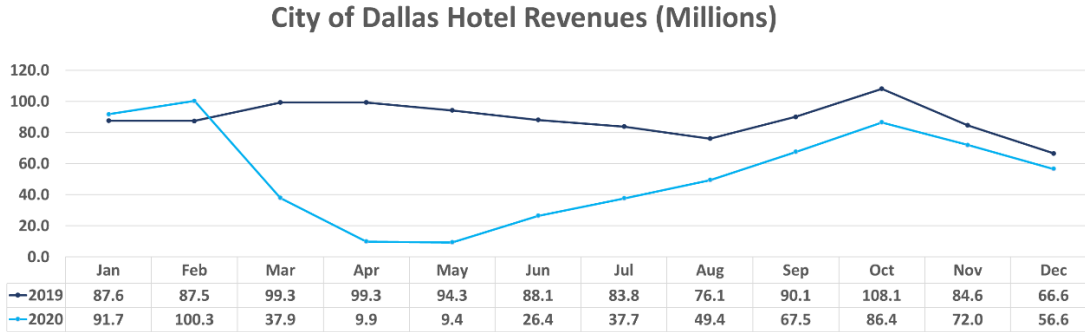


The hotel and tourism industry accounts for more than 68,000 jobs throughout Dallas as outlined in **Figure-A1** above. Job loss in this industry crosses multiple City Council districts, impacting most heavily zip codes 75204, 75206, 75208, 75211, 75214, 75216, 75217, 75220, 75224, 75227, 75228, 75229, 75230, 75231, 75232, 75234, 75238, 75240, 75243, 75248, 75252, 75254 and 75287. Each of these zip codes has more than 1,400 persons employed in the hotel and tourism industry. Most impacted are 75211, 75217, 75228, 75243 and 75287 which each have more than 3,000 persons employed in the industry.

Using data gathered from *Tourism Economics*, the Dallas Tourism Public Improvement District (DTPID) and the Hotel Association of North Texas (HANTX), **Figure-A2** below provides an overview of the impact that event cancellations at the KBHCCD have had on hotel occupancy. There are significant declines when comparing FY19 hotel revenues to the current fiscal year. Additionally, data prepared by CBRE in *COVID-19 Update: Annual Industry Trends – Meeting Update* related to occupancy, average daily rates (ADR), revenue per available room (RevPAR) and supply and demand all take significant declines as a result of COVID-19 travel restrictions, shelter-in-place orders and event cancellations at the KBHCCD.

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Figure-A2: Tourism Economics Data



Using historical data and past history with 9/11 and SARS, the road to economic recovery for hotels following COVID-19 will likely take three to five years. The recovery will need to take in to account aspects that are well outside CES control. Aspects such as willingness to travel, corporate recovery and desires to absorb long-standing conference costs, potential declining attendance when events do rebook and multiple other components cannot be forecasted. However, all these factors have both short and long-term impacts on the City and CES HOT and ABT collections.

### Hotel Occupancy Tax (HOT) Revenues

With the occupancy levels at Dallas hotels significantly decreased, the forecasted HOT loss for FY20 is more than \$36M, greatly impacting the CES ability to distribute HOT to VisitDallas and the Office of Arts and Culture (OAC). **Table-A4** illustrates a HOT receipt comparison of budget-to-actuals for FY19 and a forecast for FY20.

## APPENDIX: Convention and Event Services – FY20 Revenue Impacts

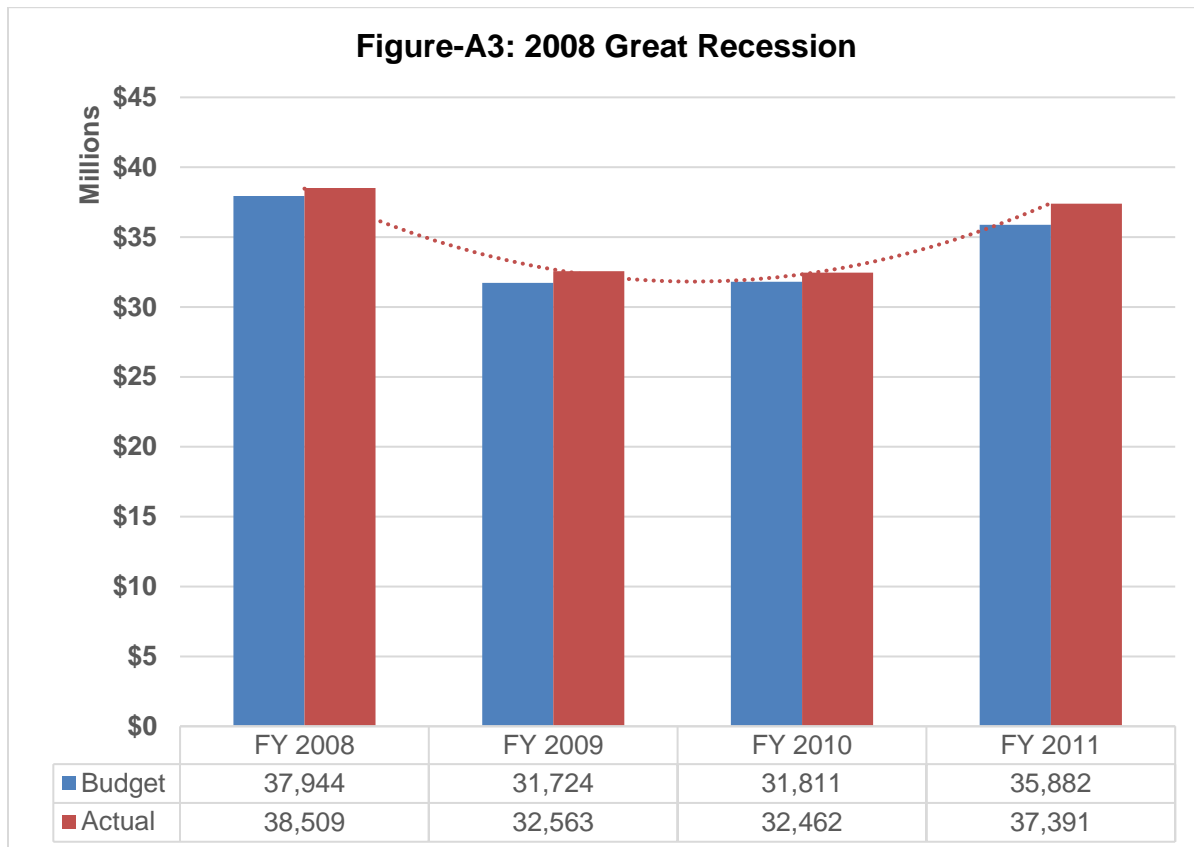
Given that the KBHCCD bond covenants require CES to prioritize debt service (~\$23.5M annually), the decrease in HOT collections has significant impacts to HOT distribution. Though still aligned with the current Ordinance, the new HOT collection forecast outlined in **Table-A4**:

- zeroes-out all funding set aside for FY20 capital improvements to the KBHCCD;
- reduces the amount of funds available for OAC programming; and
- lowers the monthly payment amount to VisitDallas to align with HOT collections.

Table-A4 Distribution*	FY19				FY20		
	Budget	Actuals	Variance		Budget	Forecasted YE Actuals	Variance
KBHCCD	43,304	43,386	82.0		44,769	20,274	(24,495)
VisitDallas	19,275	19,311	36.2		19,927	9,024	(10,903)
OAC	1,670	1,674	3.5		1,727	0.782	(945)
<b>Total</b>	<b>\$64,249</b>	<b>\$64,371</b>	<b>\$121.7</b>		<b>\$66,423</b>	<b>\$30,080</b>	<b>(36,343)</b>

\*(000)

HOT collections to-date are trending in such a way that HOT revenue declines are forecasted to be worse than during the 2008 Great Recession. As illustrated in **Figure-A3** below, HOT revenues declined significantly and did not return to FY08 collection levels until FY11. In FY09 and FY10, HOT collections were still more than \$6M less than in 2008. FY11 collections increased by almost \$5M but were still \$1M short of the actualized 2008 collections.



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### Alcohol and Beverage Tax

Declines in both events and hotel occupancy have also impacted ABT collection which has been a consistent and significant source of revenue for CES. Projections provided by the State indicate an almost \$4.3M decline in forecasted revenue for FY20. **Table-A5** below provides a summary of the projected lost ABT revenue compared to FY19. The State will provide an update to CES on or after April 30<sup>th</sup>.

Table-A5*	FY19				FY20		
	Budget	Actuals	Variance		Budget	Forecasted YE	Variance
Alcohol and Beverage Tax	13,719	13,877	158		14,366	10,056	(4,310)

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**Disclosure:** Any statements made in this presentation that are not historical or current facts are “forward-looking statements.” These statements are based on assumptions and analyses made by the City in light of its experience and perception of historical trends of the City, current conditions, expected future developments, and other factors it believes are appropriate under the circumstances. However, whether actual results and developments conform to expectations and predictions is subject to a number of known and unknown risks and uncertainties, as well as additional factors beyond the City’s control. There can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the City’s revenues or operations. All forward-looking statements made herein are qualified by these cautionary statements.