

# THE ROAD TO ECONOMIC RECOVERY

## Sustaining the Hospitality and Tourism Industry Is Necessary for Rebuilding the Massachusetts Economy

Hospitality and tourism is an anchor industry of the Massachusetts economy. Prior to the pandemic, hotels, restaurants, and attractions employed one in 10 residents and provided billions of dollars in tax revenue annually. Permanent losses in the industry would be devastating for employees, employers, and local economies. With the reopening of our economy underway, this industry needs temporary financial support so it can re-emerge as an economic pillar and once again employ hundreds of thousands of residents.

Historically, hospitality and tourism has maintained its spot as the third largest industry in the state. In 2018, more than 375,000 Massachusetts workers were employed in hospitality, with another 232,000 jobs indirectly supported by the industry. The hospitality and tourism diverse workforce – composed of many young workers, students, and immigrants – provides numerous residents with economic opportunity.<sup>1</sup>

These jobs translate to substantial economic activity and tax revenues that residents, employers, and the state rely on. In 2018, Massachusetts' hospitality sector generated more than \$28 billion in direct economic output through jobs and wages. In addition, the sector generated \$41 billion in supported economic activity, such as through supply chain purchases and consumer spending.<sup>2</sup> This translates to billions of dollars in tax revenue: in FY 2019, room occupancy taxes generated \$512 million in state and local revenue and at the same time, meals taxes generated \$1.4 billion in state and local revenue.<sup>3</sup>

When the Massachusetts economy paused in March 2020, the hospitality and tourism industry suffered a precipitous decline in employment and revenue that, over a year later, it is still recovering from.

In 2019, **one in 10** Massachusetts residents worked in hospitality and tourism; but during the pandemic, **one in five** unemployment insurance claims originated from the industry.

One month into the economic shutdown, the number of Massachusetts jobs in the industry dropped by more than half to only 158,000.<sup>4</sup> As a result, workers in the hospitality and tourism industry accounted for one in five unemployment insurance claims during the first year of the pandemic.<sup>5</sup>

With fewer people traveling, ordering from restaurants, and visiting cultural institutions, pandemic-related economic restrictions impaired hospitality and tourism employers' ability to generate revenue. For example, cultural institutions across the state – such as museums, zoos, and aquariums – report a combined revenue loss exceeding \$588 million since the economic shutdown began in March 2020.<sup>6</sup>

Subsequently, the state is collecting far less tax revenue from the hospitality and tourism industry than prior to the pandemic. As shown in Figure 1, state and local meals and room occupancy tax revenues during the first three quarters of FY 2021 are \$606 million, or 40%, below the amount collected in the first three quarters of FY 2020.<sup>7</sup> For context, this is equal to just over half (52%) of the amount allocated for unrestricted local aid in the FY 2022 budget proposal.

<sup>1</sup> The Boston Foundation and University of Massachusetts Donahue Institute. June 2018. [The Work of Leisure: Behind the Scenes of the Massachusetts Leisure, Hospitality and Tourism Industry](#).

<sup>2</sup> The Boston Foundation and University of Massachusetts Donahue Institute. June 2018. [The Work of Leisure: Behind the Scenes of the Massachusetts Leisure, Hospitality and Tourism Industry](#).

<sup>3</sup> Department of Revenue. June 2019. [Monthly Report of Collections and Refunds](#).

<sup>4</sup> U.S. Bureau of Labor Statistics.

<sup>5</sup> Greater Boston Chamber of Commerce calculation based on Executive Office of Labor and Workforce Development data. The hospitality and tourism industry includes the Arts, Entertainment, and Recreation industry (NAICS 71) and the Accommodation and Food Services industry (NAICS 72).

<sup>6</sup> Mass Cultural Council. March 2021. [One Year Later: Cultural Sector in Economic Crisis Due to Ongoing COVID-19 Pandemic](#).

<sup>7</sup> Department of Revenue. [Monthly Report of Collections and Refunds](#). FY 2020 includes July 2019 through June 2020.

**Figure 1: Q1- Q3 Meals and Room Occupancy Tax Revenue (FY 2019 – FY 2021)**



Over a year into the pandemic, the hospitality and tourism industry is struggling to regain its footing. Although overall consumer spending in Massachusetts increased 15.9% since January 2020, spending on entertainment and recreation (-25.9%) and restaurants and hotels (-19.3%) remain far below pre-pandemic levels.<sup>8</sup> Moreover, Boston’s hotel occupancy rate of 40.4% in April 2021 was the lowest among major hotel markets nationwide.<sup>9</sup>

Many businesses remain closed: there are 59% fewer small businesses open in the hospitality and tourism sector than January 2020.<sup>10</sup> Some businesses will never reopen: an estimated 4,000 restaurants have permanently closed.<sup>11</sup>

As a result, the state’s hospitality and tourism workforce remains a fraction of its pre-pandemic self. There are 88,000 fewer jobs in the industry compared to March 2020, a 23% decline.<sup>12</sup>

As of April 2021, there are **84,000 fewer** hospitality and tourism jobs in Massachusetts compared to March 2020, a **23% decline**.

Massachusetts risks a sluggish and truncated economic recovery if it does not provide temporary financial support to rebuild the hospitality and tourism industry. The devastating effects of permanent losses in the industry would be felt statewide: residents, employers, and the state need a robust hospitality and tourism industry to provide jobs, generate tax revenue, and support community-building.

<sup>8</sup> Opportunity Insights Economic Tracker: [Consumer Spending](#). May 9, 2021.

<sup>9</sup> STR. April 2021. [U.S. hotel performance for April 2021](#).

<sup>10</sup> Opportunity Insights Economic Tracker: [Small Businesses Open](#). May 5, 2021.

<sup>11</sup> WBUR. December 2020. [Alcohol License Non-Renewals Will Reveal COVID Toll on Mass. Restaurants and Bars, Treasurer Says](#).

<sup>12</sup> Bureau of Labor Statistics. April 2021.

## Recommendations

### Dedicate Federal Funding to Massachusetts' Cultural Institutions

Massachusetts' cultural institutions require financial assistance to span the gap between the state's economic reopening and the full return to pre-pandemic levels of attendance, sales, and fundraising. The state can provide relief by dedicating to these institutions a portion of the state's federal relief funding. S.2246, *An Act to rebuild the Commonwealth's cultural future*, accomplishes this by creating the Massachusetts Cultural Economy COVID-19 Recovery Fund.

The proposed fund would use \$200 million in federal relief money to provide financial assistance to cultural institutions that experienced significant economic hardship during the economic shutdown. Further, the bill promotes an equitable recovery by considering the racial and geographic diversity of recipients and by prioritizing recipients' economic impact in terms of job creation and pre-pandemic tourism spending. Passing this legislation will provide much needed relief to the state's cultural institutions and the Chamber urges the Legislature to adopt the bill and the Governor to sign it.

### Implement the Personal Income Tax (PIT) Deduction for Charitable Contributions

Massachusetts suspended its personal income tax deduction (PIT) for charitable contributions following tax year 2001 and delayed it until the state's individual income tax rate dropped to 5%, which occurred in 2020. Instead of reinstating the deduction, the FY 2021 state budget once again delayed it until tax year 2022. The Governor's, House, and Senate FY 2022 budget proposals each seek to further delay its implementation.<sup>13</sup>

Now 20 years overdue and with tax revenues outpacing projections, the state should immediately revive the PIT deduction for charitable contributions. Cultural institutions rely on charitable giving to sustain their operations. In a time of financial uncertainty for these institutions, incentivizing individuals to donate will supplement the use of any federal relief funds and provide greater clarity and flexibility for these organizations.

### Use Federal Funding to Aid Hotels

With the pause on in-person meetings and business travel, many hotels now require financial assistance to remain afloat and maintain payroll until business fully returns. The state should provide hotels with grant funding, using federal relief dollars, to aid in their recovery and ensure continued operations as the economy reopens and travel resumes. One method the state can use to estimate the total amount of aid needed for the lodging industry is to compare historical room occupancy tax revenue with the amount collected since the beginning of the economic shutdown.

### Temporarily Reduce Convention Center Rental Rates & Other Fees

Conventions, on hold since March 2020, bring economic activity into the state and generate tax revenue. However, with the COVID threat waning, there is demand building for in-person activities, including those associated with work. One recent [survey](#) from Morning Consult showed more than 40% of employees are now willing to attend a work conference. Competition will be strong to host conventions and one way the Massachusetts Convention Center Authority (MCCA) can compete is to reduce rental rates and/or other fees temporarily. This does not require action by the Legislature unless it would result in the MCCA exceeding its legislative spending cap, but that is unlikely based on historical performance.

Implementing these recommendations will bolster the Commonwealth's road to economic recovery. Importantly, these recommendations will support the resurgence of the hospitality and tourism industry, along with the many residents and communities that depend on this sector for jobs, economic activity, and tax revenue.

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<sup>13</sup> Section 76 of Chapter 227 of the Acts of 2020; Section 23 in H.1 and Section 28 in H.4001.