

March 20, 2020

Ms. Virginia Valentine, President  
Nevada Resort Association  
10000 West Charleston Blvd.; Suite 165  
Las Vegas, Nevada 89135

SENT VIA EMAIL ([valentine@nevadaresorts.org](mailto:valentine@nevadaresorts.org))

## RE: Nevada's Tourism Industry | Estimated Impacts of COVID-19

Dear Ms. Valentine:

Applied Analysis ("AA") drafted this letter in response to your request to evaluate the potential impacts of the novel coronavirus health crisis ("COVID-19") on Nevada's tourism industry. Respecting that the primary focus of policymakers is rightly placed on ensuring the health and safety of Americans, the economic implications of this crisis appear unprecedented, far-reaching and have the very real potential to cripple the Nevada economy. Based on current information and over two decades of industry specific expertise, we believe that the industry is at risk of losing \$39 billion over the next 12 to 18 months. As a result, 320,000 employees relying on \$1.3 billion in wages and salary payments each month are at immediate risk, numbers nearly twice that reported during the peak of the Great Recession. At present, these impacts are being held at bay by companies' ability to maintain payrolls and employee health benefits while their businesses are effectively shut down. This condition is not sustainable; and, should those efforts subside, Nevada could quickly see its unemployment rate increase above 30 percent and its state output fall by a similar factor. The ensuing strain on state and local governments and other service providers, which are disproportionately reliant on tourism-related tax revenues and will quickly deplete unemployment insurance funds and reserves, would be catastrophic. From our view, there are two potential mitigating factors: (i) the public health crisis subsides more rapidly than health officials currently anticipate or (ii) there is federal intervention that effectively "flattens the curve" for Nevada's economy.

Underscoring the immediacy of these impacts is the of the region's convention, tradeshow and meetings segment, which is a vital element of the regional economy and provides a critical platform for global commerce. In March and April, more than a million convention attendees have cancelled travel plans to Nevada, eliminating \$1.7 billion in economic activity. Should May and June follow suit, another two million meeting attendees and \$3.0 billion in activity will be lost. Peak season tourism events such as March Madness, citywide tradeshows like the National Broadcasters Association and the NFL draft megaevent are just a few examples of specific events that have been lost and are irreplaceable. With direct spending by Nevada visitors of \$120 million per day, thousands of business are put at risk as are the working Nevadans that provide frontline services for these events and the people attending them.

### THE RELATIVE IMPORTANCE OF THE TOURISM INDUSTRY TO NEVADA'S ECONOMY

In Nevada, more than one in four employees is directly employed within the leisure and hospitality industry, the largest among any sector in the state. While the industry has consistently supported the largest share of employment, its contributions extend well beyond its customer-facing workers. When considering direct, indirect (supplier) and induced (employee spending) employment, Nevada's tourism industry supports more than 450,000 jobs – nearly one out of every three employees statewide. Furthermore, the sector supports approximately \$20 billion in annual wage and salary payments. In total, the industry is directly or indirectly responsible for an estimated \$75 billion of total economic production annually within the state of Nevada, roughly 45 percent of the state's aggregate output.

Economic diversification efforts notwithstanding, Nevada remains heavily reliant on visitor spending and on the businesses that serve those visitors. Including consideration of industry suppliers and the spending of casino-hotel employees in their neighborhoods across the state, the broader hospitality industry accounts for 33 percent total employment and 29 percent of all wages and salaries paid. These businesses and their employees are all at risk as a result of COVID-19 and health safety measures. Nevada's relative dependence on a single industry – one that is driven by airline travel and high concentrations of visitors attending sporting, entertainment and leisure-oriented events – is largely unmatched in the United States. Nevada depends more on tourism than Alaska does on oil, Wyoming does on coal mining or New York City does on the financial sector. Las Vegas, the state's largest economic center, is more dependent on tourism than Detroit is on auto manufacturing, Seattle is on aerospace or Nashville is on music and entertainment.

Beyond the economic risks, the tourism industry is responsible for nearly 38 percent of total public revenues (taxes) within Nevada's General Fund. In addition to taxes paid by businesses generally, the tourism industry also incurs industry-specific taxes that include, but are not limited to, gross gaming taxes, live entertainment taxes and transient lodging (room) taxes. During the past year, industry-specific fees and taxes totaled approximately \$1.8 billion. In addition to supporting statewide programs and services, the industry plays a vital role at the local level, including funding for critical services such as transportation, school construction and other supporting infrastructure. Absent these revenues, state and local governments would not be able to provide basic government services to the people of Nevada.

## QUANTIFYING THE ECONOMIC IMPACTS OF COVID-19

Nevada's resort industry has been through a number of trying times in its history, including the terrorist events of September 11, 2001, the *Great Recession* and the tragic October 1, 2017 shooting on the Las Vegas Strip. However, there is no precedent akin to the current situation in our nation or Nevada. To quantify the impacts of COVID-19 on the tourism industry, AA conducted a confidential survey of resort property owners and operators to gauge their current situation and expectations going forward. Based on insight from hotel-casino operators themselves, our working knowledge of the tourism industry and feedback from industry professionals, AA developed a consensus COVID-19 impact assessment. Notably, on March 17, 2020, Governor Sisolak announced his *COVID-19 Risk Mitigation Initiatives* that mandated a 30-day closure of all non-essential businesses, including casino-hotels, entertainment venues, sit-down restaurants and other gathering places. To be clear, this effectively shut down Nevada's core economy within 48 hours.

In terms of the immediate jobs that are put at risk, approximately three out of every four positions in the industry are exposed, meaning in excess of 200,000 Nevada workers are without a place to go to work today. The ripple effect of those positions translates into more than 320,000 positions. The near-term impacts of COVID-19 are devastating, not only for the industry, but the state as a whole.

Our best estimate based on available information is that the tourism industry will be effectively shuttered for somewhere between 30 and 90 days and the ensuing recovery will require between 12 and 18 months. During this time period, approximately 100,000 person-years of employment (the equivalent of one person employed full-time for one year) is expected to be directly impacted. The following estimates should be considered a base-case scenario, which could be much greater should business closures remain in effect for a greater-than-expected timeframe, the global pandemic extends into the early summer months of 2020 and/or Centers for Disease Control and Prevention ("CDC") restrictions on gatherings extend beyond the current recommendation of eight weeks.

The employment, wage and salary and economic (or consumer spending) impacts for the next 18 months are estimated in the table that follows. Please note, the impacts shown below are expressed in annual averages throughout the 18-month impact and recovery period. This is distinguished from the 320,000 positions and related wages and salaries that are immediately at risk as this analysis considers the immediate shock to the economy and an extended period of recovery.

**Economic Impact of COVID-19 on Nevada's Tourism Economy**  
Estimated as of March 18, 2020 (\$ in Billions)

	Direct Impacts (Visitor Spending)	Indirect Impacts (Vendor Purchases)	Induced Impacts (Employee Spending)	Total Impacts (Combined Activity)
<b>Employment</b>	101,900	24,200	32,300	<b>158,400</b>
<b>Wages and Salaries</b>	\$5.0 B	\$1.3 B	\$1.5 B	<b>\$7.7 B</b>
<b>Economic Output</b>	\$22.5 B	\$7.0 B	\$9.4 B	<b>\$38.9 B</b>

Industry employment impacts sourced to COVID-19 are 101,900, and when the ripple effect of those losses is considered, total employment is expected to decline by 158,400 positions. Importantly, these estimates are currently being staved off because a number of companies have decided to compensate a large segment of their workforce during the mandated shutdown and impacted timeline beyond. Should operators have insufficient cash on hand, or be forced to make alternative decisions, the impacts realized on the unemployment rolls and other social service caseloads would be materially higher than those realized today. From a wages and salaries perspective, incomes for local tourism industry workers are estimated to be impacted by \$5.0 billion. When considering the indirect and induced impacts, the total impact rises to \$7.7 billion.

The impact of COVID-19 is estimated to be \$22.5 billion in direct spending through the balance of 2020 and into 2021. Spending reductions generally began in early March 2020, and they are anticipated to approach zero as all non-essential business shutdowns are now in effect in Nevada. This analysis assumes closures continue for a 30- to 60-day period; with a slow ramping up through the remainder of year and into 2021. The overall recovery timeline is estimated between 12 and 18 months. The impacts are even greater when considering the indirect impacts that result from local vendor purchases in other sectors of the state's economy, which total approximately \$7.0 billion. Induced impacts, which reflect the spending of industry employees as it ripples through the economy, added another \$9.4 billion in economic losses. In total, Nevada's tourism industry is estimated to have a \$38.9 billion economic loss as a result of COVID-19 and related activities. Total losses equate to approximately 23 percent of annual gross state product. Should business closures and/or broader health concerns persist for an extended period of time, the negative impacts will be worse than projected here.

**QUANTIFYING THE FISCAL IMPACTS OF COVID-19**

In addition to the taxes and fees borne by all businesses, Nevada's resorts and hotel-casinos are responsible for approximately \$1.8 billion in industry specific tax revenues for state and local governments. While the negative fiscal effects of COVID-19 will be felt at the state and local levels, the following provides a summary of five (5) specific tax revenue sources that are particularly impacted as a result of a dramatic slowdown in the tourism industry.

**Fiscal Impact of COVID-19 on Selected Public (Tax) Revenues in Nevada**  
Estimated as of March 18, 2020 (\$ in Millions)

Revenue Source	Est. Loss in 2020 and 2021	Beneficiary of Identified Tax
Transient Lodging (Room) Tax	\$503.0 M	Tourism, Education, Stadium Authority, Transportation, Marketing
Gaming (Gross Percentage Fee) Tax	\$382.2 M	Nevada General Fund
Live Entertainment Tax	\$73.1 M	Nevada General Fund
Modified Business (Payroll) Tax	\$44.6 M	Nevada General Fund
Commerce Tax	\$19.3 M	Nevada General Fund
<b>Total</b>	<b>\$1,022.2 M</b>	

Based on the specific public revenues sources above, a total of \$1.0 billion in lost tax revenue is expected as a result of COVID-19. The greatest impacts in dollar amounts include the lodging and gaming related taxes. It is also worth noting that approximately \$0.5 billion of the foregone revenue identified above was expected to inure to the benefit of the state's general fund, which equates to a loss of nearly 12 percent of revenue in a 12-month period based on a general fund budget of \$4.4 billion. Please note that these values reflect only the industry-specific tax losses. General taxes such as ad valorem (property) tax and retail sales and use tax will add materially to the fiscal challenges confronting state and local governments. They could easily double the impact of the industry-specific values reported here.

## **CONCLUSION**

The impacts associated with COVID-19 are unparalleled and economically staggering. Should companies' ability to maintain payroll and health care coverage diminish, hundreds of thousands of employees and billions in wages and salaries will be immediately at risk as will the very core of Nevada's economy and its fiscal system.

If you have any questions about the accompanying analysis or require additional information, please do not hesitate to contact Jeremy Aguero or Brian Gordon at (702) 967-3333. We appreciate the opportunity to assist during this difficult time.

Sincerely,

  
Applied Analysis