



**Comments from
Ron D. Fennel, President
Georgia Capitol Associates**

**on behalf of the
Georgia Hotel and Lodging Association to the
Special Council on Tax Reform and Fairness
Fact Finding Session**

**The Hotel Occupancy Tax: An Industry Requested
Tax To Support Georgia's Hospitality Industry
City Hall, Dalton, Georgia
October 27, 2010**

Mr. Chairman and Council Members:

My name is Ron Fennel, President of Georgia Capitol Associates, a public affairs firm that works on behalf of businesses and not-for-profit organizations at the state and local level, primarily. I am here today on behalf of our client, the Georgia Hotel and Lodging Association (the "Association"), representing the thousands of employees of the lodging industry across this great state.

Georgia Tourism Industry's Economic Impact

With over 176,000 hotel rooms, more than 56,000 direct jobs with \$2.5 billion in direct wages in our state's lodging inventory, the lodging industry plays a critical role in Georgia's hospitality and tourism industry.

Tourism, the state's second largest industry has a:

\$35 Billion overall economic impact for our state
\$10 billion in direct visitor spending in Atlanta alone
\$1.5 Billion in state and local tax revenues generated
\$6 Billion in resident wages for Georgia families and more than 270,000 jobs produced, directly or indirectly

The hospitality industry saves each Georgia household \$760 in state and local taxes (visitor taxes accrued to the general fund to support Georgia programs, that would have been required from Georgia taxpayers).

Georgia must protect the hospitality industry, a vital component of our economy, responsible for tremendous cash flow to the state and local economies. Some incentive legislation added by the legislature over the years has prodded activity and resulted in greater visitor traffic, but our success depends mostly upon our destination appeal and the amount of money we can use to tell our story. These are line-item appropriations from the general fund within the Department of Economic Development and the local dollars leveraged with millions of private-sector funds to lure conventions, meetings, families and leisure travelers to our state.

Apart from those state funds and the private funds, we rely heavily upon tax dollars generated by the hotel-motel tax. The code is often confusing in this area and needs simplification and clearer guidelines for the use of the tax and the governance of the fund accounts.

The Association would like for you to consider the impact of the aggregate tax rate borne by our industry. In many cities and counties in Georgia, the hotel tax is at 7%. Add to that the state sales taxes, and various SPLOST or local taxes and you will see as much as 8% added to that transaction. In Atlanta, as you heard last month from another of my clients, the Atlanta Convention & Visitors Bureau, the tax is, therefore, an aggregated 15% for each overnight accommodation. This is equal to two of Atlanta's most competitive cities (Chicago and Dallas) and two percent higher than another (Orlando).

We are anticipating a regional sales tax in early 2012, which will make our aggregate tax on room nights higher than most of our competitors. While this is not the only or driving factor in many travel decisions, be assured that meeting planners consider this number heavily in weighing their choice of destination.

History of the Hotel-Motel Tax

In 1977, the hotel industry requested the Tax be enacted on hotel guests to support the industry's marketing and tourism efforts. The Tax is a partnership between the industry and local governments that allows for a 60/40 split with local governments for the first five percent imposed. The larger portion goes to the general fund of

the local government, ostensibly to pay for services necessary to support the increased visitor traffic, such as policing and emergency services. The other portion is to be managed by an independent industry-driven not-for-profit organization (such as a CVB or Chamber of Commerce), which supports local marketing efforts, and was intended to have the goal of "putting more heads in beds" with these funds.

However, the Tax's original legislative intent has been misinterpreted by many local officials and monies have been spent outside of the established purpose. Some local governments are pursuing the raising of the Tax to support local budget shortfalls, which is contrary to the intent. This dilutes the marketing effectiveness and unfairly imposes an additional layer of tax on hospitality businesses that already pay:

- License and Permit fees
- Water & sewer usage fees
- State & Local Sales Taxes
- Special Purpose Local Option Sales Taxes
- Local Option Education taxes
- Real estate property taxes
- Employee withholding taxes
- State income taxes
- Federal income taxes

Each 1% increase of the aggregate Tax represents an additional cost to our lodging businesses with no corresponding increase in revenue. Raising any one of these taxes presents a competitive disadvantage, because

Georgia's hotels are challenged to offer competitive rates to attract increasingly cost-conscious travelers.

How the SCOTRF Can Help Our Industry

The Association requests that you consider making the following recommendations in your report to increase jobs and maintain competitive positioning within our industry:

Simplify the Hotel Tax law. A clarification of this section of the code is long overdue, but bonded or contractual challenges may complicate this already convoluted authorization.

Limit Hotel Tax Use. As originally intended, that portion of the local monies raised through the Tax should **only** be used for destination marketing and promotion with an industry-driven strategy for the destination marketing organization which sets the priorities for the expenditures. This needs to be more explicitly expressed in the law. We are also convinced that local governments should not pursue hotel tax increases mainly to meet local budget shortfalls.

Maximum aggregate tax. Georgia's second largest industry, hospitality & tourism, is the only taxpayer group required to pay an aggregate tax totaling 15%. We believe a maximum rate is worthy of consideration. Twice over the last decade, Georgia lawmakers have instituted the maximum rate at 15%. We believe it is appropriate to set an upper limit on what a customer should be required to pay in aggregate tax on a single transaction for any taxpayer.

Increase Marketing Dollars. Georgia's state government should work with local governments to find ways to increase destination marketing budgets. This will lead to increased business development opportunities and job creation. Also, a larger investment in marketing would directly drive state and local tax growth due to increased tourism activity. Increased investment in marketing has a high and demonstrated return on investment and within a short period of time.

On behalf of Georgia's lodging industry, thank you for your service and for the opportunity to provide our industry's comments. Difficult decisions lie ahead for you, based upon the large amount of information and varied priorities you have been given. We will answer any specific questions or supply any documentation you feel will help understand our issues better.

We stand available as an ongoing resource to this panel and the legislature as deliberations proceed on tax reform solutions.

Thank you.

AMERICA'S Lodging and Travel Industry by the Numbers

4.4 MILLION PEOPLE

Average number of guests each night in all combined U.S. hotels

2.0 MILLION JOBS

Directly employed by the American lodging industry

48,062

Lodging properties in the U.S.

4,476,191

Guestrooms in U.S. lodging properties

\$139.4 BILLION

Total sales revenue in 2007

15.1 MILLION JOBS

Created or supported in all U.S. industries through lodging's presence

\$1.6 TRILLION

U.S. economic revenue generated throughout the national economic chain by the lodging and hospitality industry, which equates to 11% of national GDP

\$240 BILLION

Spending by business travelers in 2007

\$34 BILLION

Tax revenue generated each year by business travel for federal, state, local governments

97%

Percentage of hotel properties donating to local community charities

\$815 MILLION

Total yearly value of rooms, food, services, or cash charitable donations by U.S. lodging industry



America's hotels: strengthening the economy in every state.

GEORGIA

Lodging Industry: 2009 State Overview

Georgia's hotels are an important segment of the state's economy. 9.7 percent of all jobs in the state are directly or indirectly related to the lodging industry, with hotels, motels, resorts, or lodges generating **\$2.3 billion in tax revenue for state and local governments.**

Many of our properties are small businesses. The lodging and food service industries comprise the largest sector of small businesses in Georgia.

Our industry reaches far beyond just providing our guests with comfortable rooms or convenient meeting spaces—we are interlinked with many other industries, such as transportation, restaurants, agriculture, manufacturing, and recreation, **supporting \$54.3 billion in total sales throughout the state.**

ECONOMIC FACTS for Georgia

Jobs

56,703 lodging jobs in 2008

\$2.5 billion in employee wages

Sales

In 2008, the lodging industry had **\$3.7 billion** in direct sales in Georgia

Locations

In 2008, there were **1,947 lodging properties** in Georgia comprising **176,483 hotel rooms**

Sources: Figures are derived from industry statistical research, 2005 Quiet Good Survey, U.S. Bureau of Labor Statistics, Small Business Administration, and U.S. Census Bureau data.