

White Paper
Clarifying issues surrounding tourism related taxes and lodging taxes within Ontario County.
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Executive Summary

Finger Lakes Visitors Connection (FLVC) is the tourism promotion agency for Ontario County. The Board of Directors of FLVC asked the executive staff of the agency to provide a factual report on the status of occupancy taxes in Ontario County, to provide insights into the impacts of occupancy taxes on the tourism industry and businesses using recent data that has been provided through economic impact reports and other research organizations, and to address any questions or misinformation that have surrounded this issue in the recent dialogue regarding the potential of instituting this tax.

This white paper contains the following:

- Background and Credentials for Finger Lakes Visitors Connection
- A Summary of the recent information requests regarding this issue
- A review of the literature on occupancy taxes – with a breakdown for macro level considerations and microlevel economic considerations
- Answers, research citations, and anecdotal examples of the five most commonly asked (local) questions on this topic:
 - *What is the elasticity of demand for rooms? leisure market, group/meetings market and business travelers consideration*
 - *How many cities in New York State have lodging taxes?*
 - *Is there a way to compare countywide tourism promotion endeavors and return on investment to potential city-only promotions.*
 - *If there is a lodging tax, what does the research say is the best investment of those revenues?*
 - *Although it may seem that “non-voters” are paying the tax, the indirect effects of the destination reaching “the Travelers’ Misery Index” causes local businesses to “pay” as well.*
- Three specific chart resources
 - i. The Power of Travel – illustrating direct and indirect impacts of tourism expenditures
 - ii. Randall Travel Marketing – Spending by Market Segment Chart
 - iii. Randall Travel Marketing – Tax Revenue and Tax Relief
- A Conclusion Section
 - Reinforces the important economic contributions that tourism provides to Ontario County and its residents
 - Expressing our concern with the negatives of a higher cost product to market and the competitive disadvantage that either city would find itself in
 - Indicating that if there is a tax that it be reinvested in tourism product development or promotion which will benefit those that have generated the tax and grow the industry rather than suppress it
- Resources
 - Please note that all resource material is being maintained at FLVC offices if anyone cares to read the complete version of any report.

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Background and Credentials

Ontario County's Visitors Connection (Finger Lakes Visitors Connection – FLVC) is the official tourism promotion agency for Ontario County. The agency was founded in 1984 for the purposes of promoting Ontario County and its tourism assets for the purposes of economic development and growth of the tourism industry. The agency was funded primarily through a general fund appropriation (with a performance based formula) through 2002. Beginning in 2002, Ontario County passed a 3% occupancy tax “for the purposes of the promotion of tourism in Ontario County”.

In its role and experience in tourism economic development, the organization has been asked to present insight, facts, and competitive data sets on the lodging inventory for the City of Geneva and the City of Canandaigua. The organization provides ongoing information to Ontario County Officials through its liaison with the Ontario County Planning and Research Committee and the Ontario County Office of Economic Development and the Ontario County Administrators office.

Recent Activities and Information

A presentation was made to the City of Geneva with the data set on overnight lodging inventories, a history of Ontario County lodging tax collections, and the competitive tourism marketing climate for both leisure and the meetings market. Insights into the collection, reinvestment, and results of lodging taxes were also shared. This presentation was made in conjunction with Ontario County Administrator Geoff Astles at the invitation of Supervisor Rocky LaRocca. FLVC also fulfilled a request from the City of Canandaigua for data on their overnight lodging inventories. No presentation was requested or made to the City of Canandaigua.

While these prior presentations were given and well received, unfortunately, other information which has been shared anecdotally or read in the media regarding this issue has been inaccurate, incomplete, or laced with presumptions and comparisons which are misleading. While the collection of these occupancy taxes is a decision at the local government level, the Board of Directors of Finger Lakes Visitors Connection has been asked by our industry to provide accurate, research based information regarding the taxation of our industry. Specifically, the purpose of this paper is to address a variety of statements regarding the issue which have been misleading or inaccurate.

Macro Level Information and Research Challenges

With access to the internet, the research on any issue can be overwhelming. Millions of resources become available when Googling these two phrases: “the positive impacts of lodging (accommodations) taxes” and “the negative impacts of lodging (accommodations) taxes.” In fact, many identical articles come up under both searches. This, quite frankly, allows any side of the argument to be supported with data on the issue. A lifetime of research could not develop a one size fits all conclusion.

Much of the research on the internet is at the macro level. No competitive set is the same; no market factor analysis is the same; no set of total taxes and reinvestment of those taxes is the same; no local government need or political drivers are the same. Yet, in making a decision of what is best for any local government (in terms of revenue raising and reinvestment) and the impacts on the area's lodging and tourism industry (in terms of business growth or suppression) *all* of these factors at the local (micro economic) level must be considered.

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Micro Level Application Considerations

While much of the research and therefore much of the analysis of taxation on the lodging/tourism industry is at the macro level, there must be adjustments for analysis and application at the microlevel. These factors in particular must be carefully considered:

Consumer Price/Value analysis.

Number of accommodations available in the competitive set

Price in relation to the hotels and other lodgings in my competitive set

Destination Strength and Draw

Strength and variety of tourism assets which provide the draw to the destination

Strength and sustainability of destination appeal

What is the “Travelers Misery Index” for this destination? No tax works in isolation, although it may be looked at in isolation. (Forbes)

Market Usage Analysis

Leisure versus meetings/business/groups market use and pricing

Indirect impacts of potential lost/gained business

Reinvestment of the resources/Political

What is the need for the revenues; does its investment provide for reinvestment or is it an offset with little ROI for the government and the tourism industry?

Besides “tourists” who else is paying the taxes and what is their stake? Example – local business booking their meetings here. (American Hotel and Lodging Educational Foundation)

Clarification Points

Following are the five basic points of clarification, based on what we’ve been asked for most frequently or what “the rumor mill” is producing that may need clarification or correction.

1. *What is the elasticity of demand for rooms?*
 - a. *leisure market*
 - b. *group/meetings market consideration*
3. *How many cities in New York State have lodging taxes?*
4. *The fallacy of comparing countywide tourism promotion endeavors and return on investment to potential city-only promotions.*
5. *If there is a lodging tax, what does the research say is the best investment of those revenues?*
6. *Although it may seem that “non-voters” are paying the tax, the indirect effects of the destination reaching “the Travelers’ Misery Index” causes local businesses to “pay” as well.*

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1. Question: Does a higher tax rate affect demand on the rooms?

Answer: Yes. See below the statistics regarding the 2% increase causes about 2.4% reduction in room sales for leisure markets.

Yes. For the group and meeting markets with even a greater impact on the elasticity.

“Although studies vary in the intensity of the negative elasticity of demand, this is not surprising given the difficulty of isolating cause and effect in tourism studies. Each tax imposition was, however, found to weaken demand.” (Litvin 4.)

Question: Is there a difference on the impact of a higher tax rate on a leisure traveler vs. a group or meetings traveler.

Answer: Yes. One market affected in particular is the group market, which buys in volume, and percentage increases are part of a total upfront package price – where all cards are on the table at once versus a leisure traveler who is less likely to notice the increased taxes.

The leisure traveler is the most immune to tax increases. This is not to say that they discount them totally. However, leisure travelers tend not to “calculate” their total bill potential (down to the tax percentage) as meeting planners or group travelers do.

Meeting planners and group travel planners must publish their total trip expenses prior to even selling the trips. The total is much more clear when they are making competitive decisions, as their event orders dictate that they include the taxes on their visit.

Here is an anecdotal example:

A. If a motorcoach group is making a decision as to whether to stay at the Holiday Inn in Waterloo or the Ramada Inn in Geneva, they must compare the costs/value of the amenities that are at the hotel, the location/distance of their properties to the other attractions that they are going to; and then the final additions. Their calculation sheet includes a line for taxes – as opposed to the leisure traveler. Often, given the competitive landscape of these accommodations, it may come down to the additional 3% as a deciding factor. What is the economic impact of this loss of one motorcoach group? The National Tour Association indicates that on average a motorcoach stay in the area results in about \$4500 worth of spending for every night that it is in the area. So, if the 3% is the difference and this group decides to go to the Waterloo Holiday Inn as opposed to the Geneva Ramada, the loss is in the taxes generated from the overnight, the meals, and the attractions and shopping revenues which may have resulted from their stay. In other words, if they stay at the Waterloo Holiday Inn and it is more convenient for them to tour a winery on the East side of Seneca Lake – as opposed to the West side of Seneca Lake the Ontario County and the Geneva economy have both lost out – since that business owner is not making money on their stop.

Forbes has instituted “The Travelers’ Misery Index” which is a combination of the following rates: “hotel occupancy tax, general sales tax, rental car taxes and airline taxes.” This formula recognizes that it is not a lodging tax alone which determines a visitor’s affordability decision. “Increasingly, localities are raising these charges to boost revenues without having to hit resident taxpayers, who are voters. Many (leisure) travelers neglect to ask about the hidden costs, even as they might try to save a few bucks on a fare. The penalties are not painless, however either to travelers or to local enterprises. Certainly, these are charges that convention or meeting planners recognize. If they do, that will be bad news for high-misery destinations...that might try to pitch the relative affordability of those places. (Forbes 2.)

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Research Citations:

- According to the Hotel and Lodging Education Foundation - a 2% increase causes about 2.4% reduction in room sales and associated visitor spending per year. (American Hotel and Lodging Education Foundation 3.)
- Three examples are given in the (Litvin 4)
 - “for each 1% that the tax is increased, the lodging demand decreased by 0.44%”
 - “Fujii, Khaled, and Mark found an even stronger price elasticity of -1.00%”
 - A review of New York City tax rates, following the imposition of an additional 5% tax in 1990, coupled with a decrease in funding for the successful “I Love New York” promotional campaign found that the city essentially had given up \$2.00 in related taxes for every incremental dollar collected

Research Citations on Business/Meetings Travel Decisions

The National Business Travel Association says that “with travel tax rates often topping sin taxes, businesses are forced (to) constantly reevaluate how they will absorb those added costs – by cutting back on travel or by boosting travel budgets and cutting back elsewhere.”

Randall Travel Marketing, 2006 Study. Attached is a graph from the Randall Travel Marketing Study which was completed and presented in April 2006. This chart is quite revealing as to the impact of travel – in its different styles – to the Finger Lakes Region. Most of us are able to draw from our experiences as a leisure traveler. Some of us are able to draw from our experiences with corporate or business travel. Very few of us are able to draw from the experience of a corporate, meeting or group tour planner who sees the individual impact, as well as the total impact of the taxes. This chart illustrates those in comparison to one another.

The conclusion from this is that if someone makes a decision not to bring his meeting or group to a hotel because of the total price, there is an opportunity lost cost to the area. The chart below indicates what “would have been gained” vs. “what is lost” if someone decides not to come and spend his money. This is just a one night example. The numbers for meetings is also just a one room example. This would need to be multiplied by the number of people “in the meeting” to see what the true loss would be. See the Randall chart for the multiplier effect of several nights opportunity lost. Please note that we are not saying that this always happens, since, as cited earlier, the decision is more complex than simply the tax. We are, however, saying that the elasticity of demand numbers is such that it **WILL** happen in some cases - especially those cases where the price/value ratio and misery index is higher.

	Business	Leisure	Meeting
Room Rate Per Randall (Rounded to nearest \$)	\$96	\$102	\$120
Other Taxable Expenditures	\$202	\$242	\$140
Lodging Tax To City	\$2.88	\$3.06	\$3.60
Revenues Losses in \$ Not spent on dining, etc.	\$6.06	\$7.26	\$4.23

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2. *Question:* How many other cities in New York State have city imposed lodging taxes?

Answer: Only four “cities” in New York State have an occupancy tax in addition to a county wide tax. These cities are Saratoga Springs, Lockport, Niagara and New York City. On the majority, lodging taxes in New York State are imposed at the county level. There has been some confusion locally on this and we thought it important to clarify that when making comparisons the difference between city and county imposed taxes. Why is this important to distinguish? Volume of rooms, close proximity of competitive rooms, and marketing opportunities shift with the broader geographical borders.
Source: NYS Convention and Visitors Bureaus

3. *Question:* Can a comparison be made to the promotional accomplishments resulting from a county wide occupancy tax to a city tax?

Answer: No. This would not be an apples to apples comparison as it does not take in to account competition, available market inventory, supply side economics, or marketing allocation decision making principles.

Research Citations: “There is little uniformity in taxes from place to place, and there are various combinations of percent and dollar rates and combinations of occupancy taxes, sales taxes and special levies.” (Oklahoma State University - 1)

“An ongoing tourism effort requires a reliable flow of funds. Although a city may choose to add tourism promotion to their operating budget, additional funds will probably have to be raised. Perhaps the two most common methods of fund-raising are: (1) increasing the general sales tax and (2) implementing a lodging tax. (Oklahoma State University - 1)

4. *Question:* Is it true that since visitors pay the tax that it does not impact the residents and local businesses?

Answer: No, this is not true. The tax is just one part of a “total price” that someone pays when he visits the hotels, so if there is price sensitivity as a result of the tax – or the misery index has been exceeded and someone chooses another destination, then indirect revenues are lost.

Research: From the American Hotel and Motel Education Foundation

“Since guests pay higher hotel taxes, they indeed spend less in hotels (staying few nights), restaurants, theaters and stores.” The real impact then comes from the indirect purchases of fewer supplies and services from their suppliers who in turn demand less from their suppliers and pay less to their employees.

Example: There are several large companies that bring their executive meetings, their sales meetings, their product orientation classes, and more to this area. These businesses often set up annual contracts with the lodging establishments in our county and the area. When these contracts are set up the rates are established – often based on a comparison of amenities, costs, and conveniences. These costs are the costs of the local host company (examples – Guardian Glass, Constellation Brands, etc.) So, the tax is not being paid by an outside visitor, the tax is being paid by a local corporation. It does impact their bottom line, making this a tax not just on “out of towners”, but also on businesses in the area.

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Example: Jobs and payroll are very important contributors to the quality of life and economic prosperity of our area. 9 % of the jobs in Ontario County are related to the tourism industry, according to the “Economic Impact of Travel and Tourism in New York State” study by Tourism Economics – a Division of Oxford Economics. These jobs generate a payroll that is “spent” primarily in this area. See the attached “Power of Travel” chart which indicates this ripple effect. If visitors do not visit and stay overnight in an area, their money is not “left here”. If their money is not left here, then the workforce is reduced, and their payroll is reduced. Additionally, the amenities that are purchased by the direct providers (everything from landscaping to laundry services to food purveyors) are lessened.

5. Question: Should lodging taxes be earmarked?

Answer: If there is to be a lodging tax, the most productive endeavors results from those that are earmarked for tourism promotion. If there is one consistency in the research it is this. The answer is “yes”. The best return on investment comes to those governments that invest in promotion or improvement of visitors services, or in events and arts development.

Research Citations:

- “Often, the logic for adopting a lodging tax is that the money collected will be used to promote economic development. Economic development, in turn, will result in additional business for the lodging industry. The form of economic development that directly benefits the lodging industry is tourism. ... If lodging tax dollars are used to promote economic activity benefiting the lodging industry, it is a positive situation for the city. (Oklahoma State University)
- From the Journal of Travel Research. “Although a portion of the taxes in any state may be siphoned off to the general fund, it is the norm that the majority is specifically designated for tourism purposes.” Critics, they note, find this an unnecessary fiscal restraint. However, the study goes on to note that, “ ... earmarked taxes can lead to efficiency gains precisely because they constrain how the revenues may be spent.”
- More from the Journal of Travel Research. “These restrictions generally require that at least a portion of the tax proceeds be directed toward tourism-related expenditures, rather than being siphoned to general operating funds for the community.” The rationale for such forced expenditure is that money spent promoting tourism will seed future lodging demand, therefore generating an offset to the negative demand impacts caused by the tax’s imposition. In other words, the accommodations tax is justified by appealing to the benefits received principle, which states that revenues from a tax ought to be used to benefit those taxed, or in this case (from the perspective of the hoteliers) those negatively affected.
- According to the American Hotel and Lodging Educational Foundation, “the negative impact of increased room taxes can be mitigated, and it may even become beneficial, if they are used for travel promotion.” A number of markets designate a portion of the room tax to support convention and visitor bureaus, travel advertising and other activities aimed at increasing travel and tourism. When discussing the earmarking of tourism generated taxes for primarily residential amenities such as road repair and police protection, the foundation’s research revealed that “Nontrivial earmarked use of room taxes do not benefit tourism and act only as a travel deterrent by increasing a guest’s cost without attracting more guests.” In other words, revenues directed to create more visitation are the most effective revenues.

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- “municipalities that have allocated accommodations tax moneys for purposes such as garbage removal, policing, and maintenance in the tourism zone, all legal per the tax laws, are simply funding hygienic necessities they would have provided in any case from their general funds (a portion of which, of course, are paid for by tourism providers from property taxes and the like), with the likely result that ‘motivational’ expenditures, to include creating and sponsoring festivals and special events to attract new visitors, get squeezed from the budget.”

See again, “The Power of Travel” diagram attached.

Conclusions:

The travel and tourism industry is a major contributor to the local economy. One of its more substantial contributions is in the form of taxes. From property taxes, sales taxes, employment taxes, and special use taxes, tourism is making its contributions to government coffers. The tourism industry is also a strong indirect contributor to the local economy, since it buys many of its goods and services from local vendors. If visitors do not come and pay taxes, the residents would need to pay a higher rate to receive the same level of government services that they pay today. In fact, each resident receives a \$1001 annual benefit from the taxes derived from visitors. In other words, a family of four would have an annual tax bill of \$4004 if the tourism industry did not contribute in generating revenues through property, sales, and other fees. The tourism industry is already a major contributor. The concern is that we need to care for the “goose” that is laying these golden eggs.

Too many taxes can be a negative for an area. The cumulative effect of these taxes – cited by Forbes as a Traveler’s Misery Index – would affect the affordability and subsequently the desirability of our destination, especially if enhancement of tourism product offerings is not taking place as well.

In our area, there is a 3% Ontario County tax which is reinvested for the promotion of tourism which the literature shows is the best use of collected accommodation taxes. This tax comes on top of an additional 7 1/8 percent tax, (4% for the state and a 3 1/8% Ontario County tax) making the total tax rate for persons staying in lodging in Ontario County 10 1/8%.

Finger Lakes Visitors Connection is concerned that if one or both of the cities in Ontario County instituted an occupancy tax that it will lower the attractiveness of Ontario County in the competition for business, particularly the meetings and group business – which in our case helps fill rooms in traditionally slower seasons.

Finally, FLVC believes that the straw which would break the camel’s back in this scenario would be if any new taxes were imposed (Raising the Traveler’s Misery Index) and those revenues were siphoned off for hygienic government purposes rather than motivational tourism promotion and development. All evidence supports that taxes, such as a lodging tax, should be earmarked for the best return on investment for any area. Furthermore, it is imperative that those being taxed “have a role in the formulation of tax policies” ... “The result of such earmarking, it is hoped, is a virtuous cycle of accommodations tax dollar expenditures representing a tourism investment that in turn yields still greater tourism dollars for the community.” (Journal of Travel Research).

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Sources:

1. Hospitality or Lodging Taxes as a Source of Revenue for Tourism Economic Development Efforts. Notie Lansford and Mike Woods, Oklahoma Cooperative Extension Service, Oklahoma State University.
2. Forbes, September 28, 2006. Seth Miran and Tim Ferguson. In Pictures: How 12 U.S. Cities Stack up on Travel Taxes.
3. 2003 Impact of Room Tax Increases on the Lodging Industry. American Hotel and Lodging Education Foundation.
4. Expenditures of Accommodations Tax Revenue: A South Carolina Study. Litvin, Crotts, Blackwell, and Styles. Journal of Travel Research, Vol. 45. November 2006.
Note: what makes this study particularly interesting are these factors:
 - a) it is current – in fact, the most current I found on this subject.
 - b) it eliminated large city and destination data from the set of data. \$250,000 was the upper limit of the marketing budget, and eliminated the 15 largest tourism entities which have often skewed the results of other studies because of the “noise” of competing influences in “the effects of tourism marketing efforts within complex economic environments.”
The numbers being discussed for collections are much more comparable to numbers that our “cities” would generate.
5. Randall Travel Marketing, Finger Lakes Tourism Alliance, Regional Tourism Study. April 2007.
6. “Economic Impact of Travel and Tourism in New York State” study by Tourism Economics – a Division of Oxford Economics. September 2006

Attachments:

- i. The Power of Travel – illustrating direct and indirect impacts of tourism expenditures
- ii. Randall Travel Marketing – Spending by Market Segment Chart
- iii. Randall Travel Marketing – Tax Revenue and Tax Relief

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