

# Hotel-Motel Taxes for the Arts

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## Introduction

The use of hotel-motel taxes to fund cultural programs and facilities in the United States is now widespread and considered a popular form by which to dedicate tax dollars to the arts. At the same time, there are tremendous differences in the ways these taxes have been established, the level of taxation allocated to the arts and the purposes for which funds are disbursed.

This pamphlet will examine the emergence of the hotel-motel tax with a general overview and then a series of case studies from around the country. Each of these cases is unique, yet there are common themes and experiences which provide insights and direction to agencies and municipalities now considering the hotel-motel tax as a funding source for cultural development.

## Background

The hotel-motel tax has emerged over the last 15 years as a means to finance activities which encourage tourists and visitors. With the phenomenal growth of tourism in the 1980s and the declining fiscal situation in many cities, leadership has sought new means by which to promote and develop their tourist industries without placing an additional burden on residents. American and foreign visitors are now spending close to \$450 billion a year in the United States, while at the same time the federal contributions to cities and counties has dropped by more than two thirds since 1980. Not surprisingly then, state and local governments around the country have created and/or raised taxes on meals, rental cars, alcoholic beverages and hotel-motel rooms.

The hotel-motel tax is considered the major generator of tourism taxes. A 1992 survey shows that 42 states have a *local option accommodation tax*, meaning that municipalities and/or counties in those states can elect to add a hotel tax. The local tax is usually collected and disbursed by that jurisdiction. In a 1991 survey by the National Conference of State Legislatures, the hotel tax in 25 cities ranged from a low of six percent in Sioux Falls, S.D., to a high of 19.25 percent in New York City, and averaged 11.1 percent (these include state taxes).

Hotel-motel taxes, together with other tourism taxes, have historically been used for a broad range of services and activities — from operating support for visitors' bureaus to funding for summer concerts and fireworks displays. More recently, they have been established as economic development tools to build tourism infrastructure. This might include convention centers, sports stadiums and cultural facilities.

For the arts, hotel tax funding can be dedicated to a specific facility, re-granting programs or events with some relation to local tourism. Funds can be forwarded to a local arts agency or paid directly to arts presenters/producers by a local commission which manages fund distribution. In addition, the level of funding can be fixed by statute or be left at the discretion of the taxing body. With these profound differences, it is best to consider specific examples.

**Greater Miami  
Dade County,  
Florida**

A two percent bed tax was established in 1978 by state enabling legislation, local referendum and county ordinance. By ordinance,

20 percent of the annual proceeds from the tax are dedicated to the Dade County Cultural Affairs Council. Another 60 percent goes to the county-wide convention

and visitors bureau, with the balance to the City of Miami for renovations to the Orange Bowl.

Funds are delivered to the Cultural Affairs Council to support a full-range of cultural activities. Bed tax revenues to the Council in 1995 will total \$1.5 million, roughly 35 percent of their annual budget. The 1995 amount is down from a high of \$1.88 million received in 1993, before which funds had increased every year since the inception of the tax. Funds used to support the Council's annual administration and operations are disbursed as part of the Council's \$2.5 million in grants to nonprofit cultural organizations and individual artists. There are more than 700 individuals and organizations who apply annually to the Council's competitive grants programs; on average, 350 applicants are awarded grants.

The Council has successfully managed the administration of this significant funding initiative on behalf of the county, earning praise and support from county and community leaders. In fact, the local arts community was actively involved in advocating for the 20 percent dedicated allocation of the bed tax. The Council has also developed a strong relationship with the local tourism industry. They have worked together to secure this funding stream and pursue other dedicated revenues, and to build numerous programs and services which link culture and tourism in Dade County. Representatives from the Cultural Affairs Council and the Convention and Visitors Bureau sit on each others' committees and boards. Currently, these two groups have joined with economic development interests in Dade County to pursue the establishment of a food and beverage tax. This will provide an additional dedicated source of funding for the county's cultural activities, tourism advertising and promotion, and economic development initiatives in underserved communities.

Finally, the county has committed proceeds from the Convention Development Tax (an additional three percent bed tax) to plan, develop, and construct the new Performing Arts Center in downtown Miami. This revenue is anticipated to yield \$140 million in bond proceeds.

### **San Diego, California**

For many years, San Diego has had a Transient Occupancy Tax. Starting in the 1980s, a portion of that tax revenue was allocated to the City of San

Diego Commission for Arts and Culture for re-granting to local arts and cultural programs. In 1988, in conjunction with the increase of the tax to nine percent, the Arts Commission convinced the city council that the arts should receive a more substantial portion of the tax revenue. From 1988 to 1993, annual allocations ranged from \$4,500,000 to \$6,000,000.

In 1994, as a result of an intensive lobbying effort and an extended negotiation, the Arts Commission was able to secure a one cent dedication of the tax, which was concurrently increased to 10.5 percent. This amendment has recently been enacted and will likely result in a 10 percent increase in local arts funding. The 1995 allocation is budgeted at \$5,600,000.

The Arts Commission splits funding into four pots: one percent is a public art fund, which is in addition to capital improvement projects funded elsewhere; two percent goes to neighborhood arts programs; seven percent goes to administration of the programs; and the remaining 90 percent is re-granted to local arts organizations as organizational support (\$5 million in 1995). There were 90 applicants for these funds in 1995; 84 will receive some support.

According to the Arts Commission, the key to getting

the increase and the dedicated income stream from the occupancy tax was a strong relationship with the Convention and Tourist Bureau. They made a number of joint presentations to the city council and have maintained a close relationship. The Commission also maintains a standing committee on cultural tourism.

### **Stamford, the Coastal Fairfield County Tourism Agency and the State of Connecticut**

In Connecticut, there is a state-wide bed tax of 12 percent, proceeds of which are paid to the state. Up until 1994, a share of these tax revenues was paid back to 19 tourism

districts, made up of area communities participating on a voluntary basis. In 1994, the state completed a restructuring of its tourism industry, placing all communities into 11 tourism districts and determining that 4.5 cents of the 12 cent tax collected in each district would be returned to that area's tourism office and to programs and facilities of particular importance to regional tourism.

The Coastal Fairfield County Tourism Agency receives almost \$1 million annually for the development and execution of a regional marketing plan. While none of these funds are invested in arts programs and facilities, the state pays another sum directly to the Stamford Center for the Arts, which is deemed to be one of the state's major tourist destinations.

Annual funding for the Stamford Center for the Arts has ranged from \$950,000 to \$1,050,000 over the last several years. The amount of funding is tied directly to the amount of tax collected from hotels in the district. Payments are made by the state each month. Thus, budgeting this income stream is a challenge for the Center. Their solution is to run an annual statistical analysis which projects tax revenues based on potential hotel visitations, economic trends and past experience.

## **Columbus, Ohio**

The City of Columbus began arts funding in 1973 through the Greater Columbus Arts Council (GCAC). In 1978, the source of these funds was changed from general funds to hotel-motel tax funds. In 1982, the city revised its tax code to increase the municipal room tax and dedicate a 20 percent portion to the GCAC and its grants program. These changes were the result of an intensive advocacy effort undertaken by the GCAC and its member organizations. In 1985, the allocation to the arts was increased to 25 percent and the total tax increased from four to six percent. Funding for the arts has thus continued to rise since the beginning of the program. The 1982 allocation to the GCAC was \$425,000. By 1990, the allocation had grown to \$1.7 million. For 1995, that total has increased to \$2.2 million, representing approximately 50 percent of the GCAC total budget.

Funds are distributed to approximately 50 organizations each year. Grants are available for projects, management assistance and operating support. Funds also help the GCAC deliver services such as technical assistance, training, information services and residency programs.

The GCAC maintains a close relationship with the tourism industry in Columbus. Their premier annual event is the Columbus Arts Festival, which brings 500,000 people to downtown Columbus. They also fund a number of downtown special events for residents and visitors. In addition, Arts Council board members and staff sit on boards of the Convention and Visitors Bureau and the Chamber of Commerce, acting as a conduit between the arts and tourism industries.

Though there is no legislation which guarantees the arts allocation of the hotel-motel tax, the income stream is

relatively secure due to the clear benefits that this allocation provides to the arts, the tourism industry and the community as a whole.

## **Conclusions**

- Creating, increasing or dedicating a room tax to the arts has proven to be a popular means to fund the arts as a basic city or county service.

Because the source of these funds can be specifically identified and then dedicated to a particular purpose, they are politically attractive, as the tax is not gathered from local residents/taxpayers/voters but from renters of a city's local hotel rooms. This dedicated revenue stream is also less competitive than a city's general fund, which supports core services like policing, fire protection and garbage collection.

- Obtaining a portion of a local hotel tax requires a strong argument that the arts contribute to local tourism, either through arts programs or facilities. In order to make this argument, a close relationship with the local tourism industry is mandatory. This is a real challenge, as the hotel operators who collect the tax must be convinced of its long term benefit to their business.

- The downside to a dedicated income stream is that funds can vary from year to year in relation to the health of the local tourism business. Yet, if properly managed by a local arts agency as one of several funding sources, room tax revenue can provide meaningful support for local arts groups, as well as capital and/or operating funds for arts facilities.

## Getting Started

For the local arts agency seeking hotel-motel tax funding, here are some preliminary steps:

- Create a working group with community-wide participation to investigate and pursue hotel-motel tax funding.
- Research the local tourism industry and the broad role played by the arts in bringing visitors to the community.
- Contact your state travel office or the National Conference of State Legislatures to determine in which states tourism taxes are authorized (303.830.2200).
- Contact NALAA for sample local hotel-motel tax legislation (202.371.2830).
- Implement a campaign strategy and build community support, using a strong theme. In St. Louis — to demonstrate that it is out-of-towners who pay the tax and not voters — supporters used the slogan, “You never paid it, you never will!”