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The real story on room tax reform

By *Trisha Pugal*

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Wisconsin's room tax is a complex issue that began quite simply. It was created in 1967 with the lodging industry agreeing to accept a small tax on their guests to generate local funding to promote and grow local tourism. It was never intended or imagined to be treated like a property tax that funds general municipal services, as lodging properties already pay their fair share of this, similar to other retailers bringing non-residents into the community.

Unfortunately, some began to look at room tax to fund other interests, so changes were made in 1994 and 2006, which helped, but still did not get back to the original intentions and purpose of this unique tax. Last session, legislation was considered and a hearing was held with representatives from the tourism industry as well as municipalities providing their input.

On May 27, the Joint Finance Committee approved the following changes to the room tax statute to move closer to the original intentions, while reducing the impact on municipalities compared to the recent proposed legislation.

■ **Transparency:** Beginning in May, 2016, each municipality with a room tax (over 270 estimated) will need to file an annual report with the Department of Revenue providing such details as the local room tax rate, total room tax collections, how the revenue for tourism promotion and tourism development was spent, and identification of who oversees it. In the first year, any municipality claiming eligibility for the 1994 "grandfather clause" would need to provide documentation demonstrating this. The DOR will have the authority to assess a penalty on those choosing not to report.

■ **Tourism development clarification:** The current definition of "tourism promotion and development" is clarified to specify "tourism development", as currently interpreted.

■ **Tourism funding oversight:** Municipalities would have a choice for oversight of the tourism promotion and tourism development revenues between an appointed "tourism commission," appointed by the mayor or administrator, or a "tourism entity" (usually a convention and visitors bureau or chamber of commerce), which enables decisions to be totally under local control.

■ **Modified "tourism entity" definition:** A new definition provides that: 1) entities created up to January of 2015 are eligible, or where there is no other entity one can be created; 2) more than half of the entity's revenue is spent on tourism promotion and tourism development; 3) entities must provide marketing staff and services for the local tourism industry; 4) one local lodging operator is on the entity's governing board; and 5) an annual report on room tax revenue expenditures is provided to the municipality.

■ **A dollar cap on grandfathered municipalities:** For grandfathered areas that do not provide at least 70% of room tax collections to tourism promotion and tourism development, starting in 2016 there will be a gradual reduction for five years in a row in the dollar amount the municipality may keep for its own purposes. In 2016, the cap will be the dollar amount the municipality kept for its own purposes in the year 2013, then in 2017 the cap is the dollars retained in 2012, in 2018 the cap is the dollars in 2011, in 2019, the cap is the dollars retained in 2010, and in 2020 and into the future the cap is the dollars retained in 2009. The concept is that municipalities that are not providing their fair share (at least 70%) to tourism promotion and tourism development should no longer be entitled to the *growth* in room tax revenue. A clause was also added that the municipality may retain the greater of the capped amount, or 30% of room tax collections.

Example: A grandfathered municipality retained \$100,000 of the room tax for its own purposes in 2009. Assuming an average annual growth of 2% per year, this equals approximately \$108,000 in 2013. Moving forward to 2016, the municipality had most recently kept \$112,600. The first dollar cap would be \$108,000, which is a reduction of \$4,200 (-4.2%); however, this amount is still invested in growing local tourism, which helps businesses in the community, making it more appealing to locate or stay there.

There is considerable misinformation and drama regarding what the changes are. We recommend asking to view the municipality's financial statements relating to room tax to better understand if the concern is a true budget challenge or mere a wish to avoid change. To view a copy of the state room tax statute and other room tax resources, visit wisconsinlodging.org.

Trisha Pugal is president and CEO of The Wisconsin Hotel & Lodging Association.

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