

**Lodging Tax Revenues:
About Eight Percent of Funds Sponsor
Nonprofit Events and Facilities, But
Information is Inadequate to Estimate
Economic Impact
Report 12-3**

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STATE OF WASHINGTON
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REVIEW COMMITTEE

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REPORT SUMMARY

Cities, towns, and counties levy sales taxes on lodging in two ways. Local governments may collect a lodging tax up to 2 percent that is taken as a credit against the state sales tax due on lodging. Jurisdictions may also levy an additional sales tax of up to 2 percent on lodging stays. In Calendar Year 2010, local lodging taxes generated \$65.4 million statewide.

Local governments may use lodging tax revenues for tourism promotion and tourism-related facilities. In 2007, the Legislature expanded the authorized use of lodging tax revenues to allow jurisdictions to fund certain nonprofit organizations' events and facilities such as community celebrations and museums. This expanded authority is scheduled to expire in June 2013.

The 2007 Legislature also directed the Joint Legislative Audit and Review Committee (JLARC) to report to the Legislature in September 2012 on the use and economic impact of the expanded authorization for use of lodging tax revenues. Based on the limited information available for the years 2008 through 2010, JLARC estimates that approximately 8 percent of lodging tax revenues has been spent for the newly authorized purposes, with 92 percent of revenues being used for purposes allowable prior to the change.

Given the study timeframe, JLARC would normally be releasing a Scope and Objectives for the study at this time. However, JLARC is providing this completed report earlier than scheduled because our review of the existing data shows that we will not be able to estimate the economic impact of the use of lodging taxes since the 2007 statutory changes. This is due to incomplete reporting by local governments and concerns about the reliability of the tourist-related data that local governments collected. In addition, local governments were not asked to collect and report information on tourist spending, which is necessary for estimating economic impact.

The Legislature may consider continuing the authorization for local jurisdictions to support nonprofit events and facilities beyond the scheduled June 30, 2013, termination date. If the Legislature wishes to obtain reliable information for estimating the impact of these expenditures, additional data, collection

guidance, and oversight would be needed. JLARC notes that: 1) financial information on lodging tax expenditures is available from local jurisdictions; 2) information on tourist volume could be collected but would require ongoing oversight and review; and 3) collecting information on tourist spending and economic impacts across all of the involved jurisdictions and events can be costly.

In making its decisions, the Legislature may want to consider two important caveats:

- The available financial data shows that the expanded use of lodging tax revenues accounted for a small proportion of total lodging tax expenditures (8 percent), and
- There would be costs associated with improved data collection and oversight, particularly for collecting reliable information on tourist spending.