

## Lodging Tax Revenues:

**About Eight Percent of Funds Sponsor Nonprofit Events and Facilities, But Information is Inadequate to Estimate Economic Impact**

### Proposed Final Report

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Joint Legislative Audit & Review Committee

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## Summary of Results

- Washington jurisdictions use lodging tax revenues to support a variety of events and facilities, including those sponsored by nonprofit organizations
- Data on use of lodging tax revenues is incomplete
- JLARC review of available information shows that 8 percent of lodging tax revenue is used to support nonprofit events and facilities

## Jurisdictions May Levy Sales Taxes on Lodging

- Prior to 2007, statute limited lodging tax revenue to two specific purposes:
  - ♦ Promoting tourism and
  - ♦ Acquiring and operating tourism-related facilities
- Attorney General opinion: Jurisdictions must have ownership interest in events and facilities supported by lodging tax revenue

## 2007 Legislation Authorized a Third Use of Lodging Taxes

SSB 5647 allows jurisdictions to use funds to support the operations and capital expenditures of tourism-related events and facilities owned by certain nonprofit organizations

### Examples:

#### NW Museum of Arts & Culture



#### Leavenworth Accordion Festival



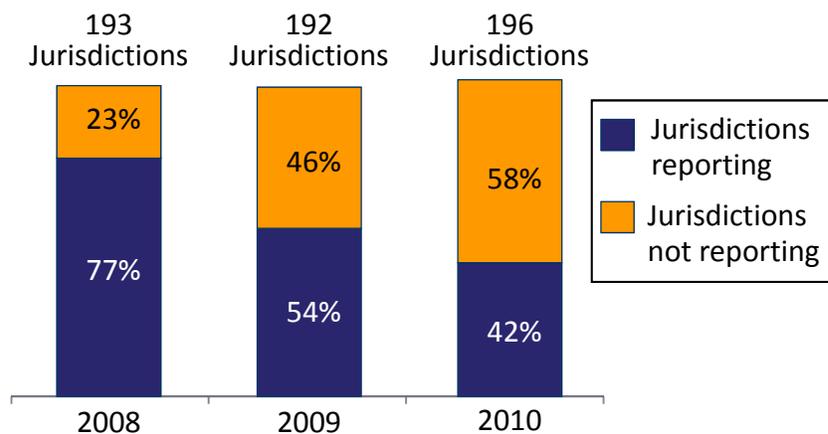
#### Tri-Cities Marathon



## Authority to Support Nonprofit Events & Facilities Expires June 30, 2013

- Legislature must decide whether to continue authority to support nonprofit events and facilities
- SSB 5647 requires:
  - ♦ Jurisdictions to report use of lodging tax revenue to the Department of Commerce
  - ♦ JLARC to report on the use and economic impact of the use of lodging tax revenues by September 1, 2012

## Many Jurisdictions Did Not Report on Use of Lodging Tax Revenue



Source: JLARC analysis of reports submitted to the Department of Commerce and lodging tax distribution reports provided by the Department of Revenue.

## Data to Assess Impact is Incomplete

- Reports submitted represent 41% of lodging tax revenue for years 2008 through 2010
- Reported tourist data is not verified
- Law does not require jurisdictions to report:
  - ♦ Estimates of tourist spending, an important variable for estimating economic impact, or
  - ♦ Proportion of event funding from lodging tax revenue

## Incomplete Data Limits Review

- As a result, JLARC cannot report on economic impact
- JLARC can report on how funds were used in some jurisdictions
  - ♦ Approximately \$54 million (2008-2010)
  - ♦ Provides a partial picture of how revenue was used

## Use of Expanded Authority Has Been Limited

JLARC identified expenditures in three categories established by law (2008-2010):



Source: JLARC analysis of reports submitted to Department of Commerce by local governments.

## If Expanded Authority is Continued, Financial Reporting Can be Improved

- Jurisdictions have accurate financial information but reporting is not uniform
- Reporting expenditures by category will clearly identify how revenues are used

Public Events, Facilities & Tourism Promotion

Tourism Promotion through Nonprofit Organization

Nonprofit Event or Facility Operation

- Current reporting format does not make these distinctions

## Improved Data Collection Would Require Strengthened Oversight

### at State Level:

to ensure complete reporting by all jurisdictions

### at Local Level:

to ensure that reports from nonprofit organizations are complete and consistent

## Measuring Economic Impact May Be Costly

- Economic impact is based on estimates of tourist spending
- Obtaining tourist spending information typically requires asking individual tourists during event to estimate spending
- Economic impact studies for a single event range in cost from \$4,000 to \$10,000
- One-third of nonprofit recipients receive less than \$4,000 in lodging tax support

## JLARC Lacks Clear Basis for Recommendation

Two key points about use of lodging tax revenues for Legislature to consider:

1. Available data shows that 8 percent of lodging tax revenue is used to support nonprofit events and facilities
2. Measuring economic impact of lodging tax expenditures may impose costs and burdens on local governments and state agencies

## Agency Responses

### Department of Commerce

Agrees with JLARC conclusion and presents background on Department's efforts to obtain information on use of lodging tax revenues

### Office of Financial Management

Offered no formal comments

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