

TESTIMONY ON TOURISM AND HOTEL TAX ISSUES
PRESENTED TO THE SENATE COMMUNITY, ECONOMIC, AND RECREATIONAL
DEVELOPMENT COMMITTEE
BY
DOUGLAS E. HILL, EXECUTIVE DIRECTOR

June 3, 2015
Harrisburg, PA

Good morning, I am Douglas E. Hill, Executive Director of the County Commissioners Association of Pennsylvania. Ours is a non-profit, non-partisan Association providing legislative, educational, insurance, research, and similar services to all of the Commonwealth's 67 counties.

I am pleased to appear before you today to present our comments on tourism and county hotel tax issues.

At the outset, I would like to give you a historical perspective of our Association's position on hotel taxes generally, and how the statutes came to read as they now do.

For some time, Philadelphia and Allegheny Counties, along with the 2A counties of Montgomery and Delaware, had special hotel tax levies. For Philadelphia and Allegheny, these were special levies authorized under special circumstances, but for Montgomery and Delaware (and, after the 1990 census, Bucks), the tax was an optional levy for the commissioners, and existed exclusively to fund tourism promotion efforts.

Some time ago, our Association adopted a position calling for a hotel tax for all remaining counties, to be adopted by the commissioners or home rule counterparts, and to be used for general fund purposes. This proposal was, understandably, opposed by the tourism industry. In the ensuing years, we discussed the issue with industry representatives from time to time, and gradually modified our position toward dedicating the use of potential receipts to what we believed were tourism-related issues -- economic development, historic preservation, agricultural preservation and, of course, tourism promotion. While the industry appreciated the movement in our position, it still was not acceptable.

At the same time, we witnessed a concurrent trend among the counties and tourism promotion agencies to reach agreement locally on hotel taxes, and obtain special legislative authorization for county-specific taxes. The common characteristics of these taxes were that they were the product of local negotiations, and that they often included authorization for their expenditure for local "bricks and mortar" projects in addition to traditional promotional efforts.

Our state-level negotiations with the industry, combined with the experiences of counties that negotiated with their travel councils on local projects and levies, gave us a new perspective on how we should approach this issue. Recognizing the mutual interests of elected officials and tourism leaders in developing and promoting the local product, our position on the matter evolved accordingly, to one where we supported "partnering with tourism industry representatives to direct the use of hotel tax revenue or other sources of new funding for needs consistent with attracting and promoting tourism, such as infrastructure and historic preservation, which are directly related to tourism within the Commonwealth's communities." Importantly, this was placed in our *Pennsylvania County Platform* in the context of economic development, not taxation and revenue, and was coupled with resolutions relating to other cooperative efforts with the travel industry.

As a consequence, when the opportunity arose at the end of the 2000 legislative session to amend the County Code to include a hotel tax authorization for all counties that had not negotiated separate agreements, we had a conceptual framework within which to work. In the intervening

years, about ten counties had worked out arrangements locally, and acquired special legislation, for separate local taxes. All of these special taxes had promotional components, and most included authorization to use some of the funds for other purposes.

At the end of the 2000 session, at least two more counties were seeking special authorization, so CCAP and our industry counterparts set out to develop language to extend a uniform tax to all of the remaining counties.

The result was Act 142 of 2000, which included a specific hotel tax authorization of three percent for any county that did not have the tax before that date, along with separate specific authorizations for Dauphin and Adams Counties, and the ability for any pre-existing county that had less than three percent to levy a full three percent. To assure that a process of local negotiations would be an element of the tax's implementation, we required the county to levy the tax, and the TPA to administer the proceeds. And the act specified that the proceeds were to be used simply for "the purposes of tourism, convention promotion, and tourism development."

Subsequently, most of the counties have adopted the tax, and most have done so in the cooperative manner that we anticipated. We readily admit that this has not universally been the case, and in fact we worked with the industry once again on passage of Act 12 of 2005 which provided greater clarity on the administration and allowable uses of the fund. But nonetheless, we believe that the Act has been successful, and has achieved the intended results. Of the counties adopting the tax, its administration is largely consistent with the local tourism development plan, and is being spent on promotion or on projects to improve the tourism product.

We believe that the majority of hotel tax programs are the result of genuine collaboration and compromise between the counties and their local industry. A hallmark of these successful programs is an understanding that promotion goes hand-in-hand with development and enhancement of a sound local product, and a concurrent understanding that each party has a valid interest in the outcome – the commissioners, as with any tax levying body, must retain some responsibility for how the funds are spent, and the industry, as the sector from which the funds are raised, should have a voice in their use and should be the primary beneficiary. Parenthetically, it is also important to note that almost no other tax is used to the exclusive or primary benefit of the economic sector from which that tax is raised.

Consequently, we believe the act should retain the flexibility we all intended when the original language was developed; that is, there should be a valid process of local negotiation and local collaboration in determining the use of the funds, directed toward the larger goal of enhancing the tourism product. The definition of the terms in the act – whether limited to promotion or expanded to include bricks-and-mortar, whether limited to promotion of attractions or expanded to include infrastructure in support of those attractions – should remain a matter of local collaboration.

Similar to the issue that had arisen at the end of the 2000 legislative session, during the 2013 legislative session we began to see county-specific hotel tax legislation being introduced again based on increased local needs. Responding to the piecemeal approach to increasing the hotel

tax, members of the tourism industry and CCAP convened a working group to update the existing hotel tax statutes. After meeting regularly for almost two years, and working through a number of drafts, we reached agreement on language that has now been introduced as House Bill 794. The bill authorizes the 54 counties now levying a hotel tax of up to three percent to move to a rate of five percent, and would also consolidate and update the allowable uses for the funds. No change would be made for counties with separate statutory authorizations for other rates or defined purposes.

Counties call for uniformity among county hotel tax authorizations and support increasing the authorized rate for all counties. We believe an increased rate is justified, in part because of our own growing appreciation for tourism as a driver of local economies, and also due to the defunding in recent years of the Commonwealth's appropriations to local agencies under the Tourism Promotion Act.

Our Association has long supported updating the hotel tax statute, and has chosen tourism funding and increasing the hotel tax as a legislative priority for 2015. Tourism plays an important role in local and state economies alike, and counties share a commitment toward improving and developing that product.

I appreciate your consideration of my comments and I would be happy to answer any questions you may have.