



Motel/Hotel Taxes For the Arts

The use of hotel/motel taxes to fund cultural programs and facilities in the United States now is widespread and considered a popular way of dedicating tax dollars to the arts.

The arts programming supported with these funds boosts local tourism and has a significant impact on local economies. Nationally, the arts are a \$36.8 billion industry, which supports 1.3 million full-time jobs and generates \$790 million in local government revenue. Expenditures by arts audiences on restaurants, hotels, parking facilities, and retail uses spur even more economic activity.

There are tremendous differences in the ways in which hotel/motel taxes have been established, the levels of taxation that have been allocated to the arts, and the purposes for which funds have been disbursed. This article examines the emergence of the hotel/motel tax with a general overview and a series of case studies from across the country. Each of these cases is unique, yet common themes and experiences can provide insights and direction to agencies and local governments now considering the hotel/motel tax as a funding source for cultural development.

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Funding

Source

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About the Tax

The hotel/motel tax (also sometimes called a bed tax) has emerged over the last 15 years as a means of financing activities that attract tourists and visitors. With the phenomenal growth of tourism in the 1980s and the declining fiscal

situation in many regions, communities have sought new means by which to promote and develop their tourist industries, without placing an additional burden on residents.

American and foreign visitors now are spending close to \$450 billion a year in the United States. At the same time, federal contributions to cities and counties have 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 and motel rooms.

The hotel/motel tax is considered the major generator of tourism taxes. A 1992 survey by the National Conference of State Legislatures (NCSL) shows that 42 states have a local-option accommodation tax, meaning that local governments in these states can elect to add a hotel tax. The local tax usually is collected and disbursed by that jurisdiction. In a 1991 survey by NCSL, the hotel tax in 25 cities ranged from a low of 6 percent in Sioux Falls, South Dakota, to a high of 19.25 percent in New York City and averaged 11.1 percent (these rates include state taxes).

Hotel/motel taxes, together with other tourism taxes, historically have been used for a broad range of services and activities, from operating support for visitors' bureaus to funding for summer concerts and fireworks displays.

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

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San Diego

"The arts are an important economic component in San Diego," says Jack McGrory, city manager for the past five years. "They create an attraction in and of themselves. By supporting these organizations and helping them to grow, they in turn give something back to the city."

For many years, San Diego has had a transient occupancy tax. Starting in the 1980s, a portion of that tax revenue has been allocated to the San Diego Commission for the Arts and Culture for re-granting to local arts and cultural programs. In 1988, in conjunction with the increase of the tax to 9 percent, the city council awarded the arts commission a more substantial portion of the tax revenue. From 1988 to 1993, annual allocations ranged from \$4.5 million to \$6 million.

In 1994, the arts commission received a one-cent dedication of the tax, which concurrently was increased to 10.5 percent. This amendment has taken effect recently and likely will result in a 10 percent increase in local arts funding. The

1995 allocation was budgeted at \$5.6 million.

The commission splits funding into four pots: 1 percent is a public art fund, which is in addition to capital improvement projects funded elsewhere; 2 percent goes to neighborhood arts programs; 7 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). Of the 90 applicants for these funds in 1995, 84 will receive support.

According to the 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, which made a number of joint presentations with the commission to the council and has maintained a close relationship. The commission also maintains a standing committee on cultural tourism.

"Historically, our room tax has been spent principally on areas where the city could promote itself, particularly with respect to tourism," says McGrory. "We think the arts and cultural life in the city are key components to attracting people to it."

To receive room tax funds, local arts organizations and individuals must go through a rigorous evaluation process that involves an initial application, screening by a 15-member commission appointed by the mayor and council, and final council approval. Not only, says McGrory, has this process brought the arts community together "but the council has a process they can rely on. I think [the room tax] has helped our city. We're proud of the arts and cultural organizations that we have and the level of support that they get reflects that."

Greater Miami/Dade County

A 2 percent bed tax was established in 1978 by state enabling legislation, a local referendum, and a county or-

dinance. 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 countywide convention and visitors' bureau, with the balance going 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 its annual budget. More than 700 individuals and organizations apply annually to the council's competitive grants programs; on average, 350 applicants are awarded grants.

The council has managed the administration of this significant funding initiative successfully on behalf of the county, earning praise and support from county and community leaders. The arts council also has developed a strong relationship with the local tourism industry. The coun-

cil and the industry have worked together to secure this funding stream, to pursue other dedicated revenues, and to build numerous programs and services that 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, for its tourism advertising and promotion, and for economic development initiatives.

Finally, the county has committed proceeds from the convention development tax (an additional 3 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.

Columbus, Ohio

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 to dedicate a 20 percent portion to the GCAC and its grants program. These changes resulted from 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 climbed from 4 to 6 percent. Funding for the arts has continued to rise since the beginning of the program. The 1982 allocation to the GCAC was \$425,000. For 1995, that allocation has risen to \$2.2 million, which represents some 50 percent of the total GCAC 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 such services 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 the downtown. The industry and the GCAC also fund a number of downtown special events for residents and visitors. Arts council board members and staff also sit on boards of the convention and visitors' bureau and the chamber of commerce, acting as conduits between the arts and tourism industries.

Though there is no legislation that guarantees the arts allocation of the hotel/motel tax, the income stream is relatively secure, thanks to the benefits that this allocation provides to the arts, the tourism industry, and the community as a whole.

Popular Funding Source

Creating, increasing, or dedicating a room tax to the arts has proven to be a popular means of funding the arts as a basic city or county service. These arts programs increase tourism and have a significant economic impact on the community. Because the source of these funds can be identified specifically and because the funds are dedicated to a particular purpose, the tax is politically attractive, as it is not collected 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.

For a local government official or an arts advocate to obtain a portion of a local hotel tax requires a strong

This article is based on a report by AMS Planning and Research for the National Assembly of Local Arts Agencies' (NALAA) Institute for Community Development and the Arts, of which ICMA is a partner. The purpose of NALAA's Institute is to educate local arts agencies, elected and appointed local government officials, and arts funders about the important role of the arts as community change agents for economic, social, and educational problems. NALAA's Institute also will identify innovative community arts programs and nontraditional funding sources to enable local arts agencies and local civic officials to adapt these programs to their own communities. To purchase a copy of the funding pamphlet *Hotel-Motel Taxes for the Arts*, call NALAA at 202/371-2830

argument that the arts contribute to local tourism, either through arts programs or facilities. To make this argument, a close relationship between the arts and the 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 businesses.

The downside to a dedicated income stream is that funds can vary from year to year with the varying health of the local tourism industry. 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. **ART**

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