

Fiscal Estimate Narratives

DOR 2/14/2012

LRB Number	11-3982/1	Introduction Number	AB-0563	Estimate Type	Original
Description Changes to the local room tax and providing a penalty					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, the governing body of a municipality (town, village, or city) may enact an ordinance imposing a tax on the privilege of furnishing, at retail, rooms or lodging to transients by hotelkeepers, motel operators and other persons furnishing accommodations that are available to the public. This tax is popularly referred to as the room tax. With limited exceptions, the maximum allowable room tax rate is 8.00%. The municipal room tax is administered by the municipality imposing the tax.

The bill makes several changes to current law concerning the room tax imposed by municipalities.

Under current law: (1) A "tourism entity" is defined as a nonprofit organization that came into existence before January 1, 1992, and provides staff, development, or promotional services for the tourism industry in a municipality. (2) A business entity that is required to collect the room tax must remit 100% of collections to the municipality. (3) A tourism commission created by a single municipality must have one member representing the hotel and motel industry. A tourism commission created by two or more municipalities has no such requirement. (4) Municipalities are allowed to directly spend room tax collections on tourism promotion and development. (5) A municipality that imposed the room tax after May 13, 1994, must provide that at least 70% of the proceeds be used for tourism promotion and development. If a municipality imposed the room tax on or before May 13, 1994, it may not reduce the percentage of the room tax proceeds that are used for tourism promotion and development below the level that was in effect May 13, 1994.

Under the bill: (1) A "tourism entity" is defined as a nonprofit organization that spends at least 51% of its revenues on tourism promotion and development, and provides destination marketing staff and services for the tourism industry in a municipality. (2) A business entity required to collect the room tax may retain 3% of the collections, presumably to help cover their administrative costs. (3) A tourism commission created by a single municipality or by two or more municipalities must have a majority of the members must be owners or operators of restaurants, tourism attractions, or lodging facilities that collect the room tax. (4) Municipalities would no longer be allowed to directly spend room tax collections on tourism promotion and development. Room tax collections would instead be forwarded to the tourism commission or "tourism entity" serving the municipality. (5) A municipality that imposed the room tax on or before May 13, 1994, and that spend less than 70% of the room tax proceeds on tourism promotion and development, must increase the percentage to 70% over a 3-year period, so that as of January 1, 2015, the 70% level is achieved.

The bill also creates some new provisions. (1) Every municipality that imposes the room tax would be required to file an annual report with the Department of Revenue (DOR) showing the amount of room taxes collected in the previous year, a detailed accounting of the "tourism entity" or tourism commission to whom the collections were remitted, a detailed accounting of any expenditure by the "tourism entity" or commission that were for \$1,000 or more, and a list of the members of the entity or entities. DOR would also be required to make these municipal reports public. Failure to submit the report could make the municipality subject to a penalty of up to \$3,000. (2) Any individual who believes the municipality is not allocating room tax revenues as required, or that any "tourism entity" or commission is not spending its funds as required, may file suit in circuit court. If the court finds the municipality is not properly allocating its room tax collections, a forfeiture of up to \$1,000 may be imposed. If the court finds the "tourism entity" is not properly using the room tax proceeds it receives, the municipality must, for the period specified by the court, create a tourism commission and forward to the commission the required portion of the municipality's room tax proceeds. In addition, if a tourism commission is not properly using the room tax proceeds it receives, the appointing official must dismiss all of the members of the tourism commission and appoint new commissioners.

Data from the financial report forms filed with the DOR for 2010 indicate that 266 municipalities imposed the room tax and that total collections were about \$56.2 million. It is therefore estimated that allowing businesses that collect the room tax to retain 3% of their collections would reduce annual room tax collections remitted to municipalities by about \$1.7 million. Since expenditures on tourism promotion and development are not separately reported in the financial report forms (they are reported under a general

item for "economic development"), the DOR is unable to estimate how bill's provisions related to use of room tax proceeds will affect the use of room tax proceeds.

The DOR will incur one-time costs to develop a form for the required municipal report on room taxes. These costs can be absorbed within current budgetary resources.

The bill does not give the DOR the power to enforce the bill's provisions related to how room tax proceeds must be used. The extent that room tax proceeds are currently not used in compliance with the law is unknown. However, by requiring the DOR to make public the municipal reports on room tax proceeds and use of proceeds, and by allowing any interested party who believes the room tax is not being properly used to bring suit in circuit court, compliance with the law will be encouraged.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2011 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description Changes to the local room tax and providing a penalty			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$	-\$1,700,000
Agency/Prepared By		Authorized Signature	Date
DOR/ Daniel Huegel (608) 266-5705		Paul Ziegler (608) 266-5773	2/14/2012