COMMENTARY

Hotel Occupancy Tax Deters Visitors

By Kathleen Hunker

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Like many Austin residents, I've only lived in Texas for a few years. My family has yet to acquire that same good sense and so remain frustratingly far away. The days that they come to visit are when I'm at my happiest. I'm surrounded by the eccentric culture that makes Austin such a fun city, but I'm also reconnected to those who mean the most.

High hotel occupancy taxes can put a crimp on these anticipated reunions, however. Austin hotel guests pay an additional 15 percent when state and city taxes are combined. That extra expense is often enough to cut a visit short or, at the very least, divert the money that I otherwise would spend showing off the local highlights.

The idea behind the hotel occupancy tax is simple. Travelers pay a premium on top of their hotel bill. The money is then fed into marketing campaigns, convention centers, and special events, all in the hopes of expanding tourism and filtering the added revenue down into the local population.

On the surface, the strategy seems sound. Tourism has proven to be a great boost to the Texas economy and, indeed, ranks second only to oil and gas in terms of its contribution to the state's GDP. Preliminary estimates of 2014 indicate that tourism generated $70.5 billion in total direct spending and supported close to 630,000 Texas jobs.

Why shouldn't cities like Austin take steps to support these positive economic trends, especially when the tax is typically paid by non-residents, who directly benefit from the amenities that the tax funds?

For one thing, not every visitor is lured to Austin by the boisterous noise on 6th Street. Sometimes they come because of its people.

Austin has seen tremendous growth over the last decade, most of it imported. This means a sizeable fraction of the city's population has a nexus of friends and family well outside of a day's commute. And eventually they're going to want to visit.

A demographic profile put together by D.K. Shifflet & Associates observed that 56 percent of non-resident, leisure visitors to Texas credited seeing friends and family members as the chief purpose behind their stay.

This observation is not without important implications. First, it suggests that a large segment of Austin visitors may be indifferent to the projects and marketing funded by the hotel occupancy tax. For these visitors, Austin is the home of their absent companion. The music, food, and eccentricities are merely a cheerful bonus.

Second, the added fees can stymie the very activities that make tourism a fount of economic growth. The U.S. Travel Association found that 49 percent of surveyed travelers altered their plans on account of high taxes, usually by shortening their stay or minimizing the number of excursions.

This makes perfect sense. Household budgets only have a limited range of flexibility. Hence, an uptick in room prices often obliges visitors to curtail their spending elsewhere on the trip. Of course, a lot of people do not rely on paid accommodations, friends and family in particular. Take it from experience, however. There are only so many that can fit within a one-bedroom apartment before tempers flare. At some point, circumstances will demand a paid alternative to sleeping on the couch. Travelers will then find that the added 15 percent can cast a long shadow over a trip's itinerary.

In short, the rationale behind the hotel occupancy tax needs to be reconsidered. Do subsidized attractions actually alter the behavior of prospective visitors in a way that benefits Austin? And is there a mechanism in place that can reduce, or at the very least redirect, funds when they do not?

Austin has built its success on a reputation of quirky events and a population willing to settle somewhere new. As currently structured, the hotel occupancy deters visitors from enjoying either.

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Testimony

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Risks Incumbent to the Hotel Occupancy Tax

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by Kathleen Hunker, Senior Policy Analyst

Austin is a premier tourist destination that features some of best cultural and epicurean attractions this state has to offer. In consequence, the greater Austin metropolitan area welcomed 22.6 million visitors in 2014, according to the Austin Convention and Visitors Bureau. This places the city well above both Houston and Fort Worth in the number of travelers netted.

The hotel occupancy tax was designed to bolster these numbers, and "promote tourism and the convention and hotel industry in Austin" by channeling money into projects that lure visitors to the city. Tourism is viewed as a key component of a city's economic development strategy. The hotel occupancy tax is therefore also understood as a key and necessary component because of its perceived connection to tourism rates.

Like all public levies, however, the hotel occupancy tax bears some risk of discouraging the very economic activity it intends foster.

Surveys continually find that the price of lodgings represents one of the most influential factors guiding a traveler's itinerary. A recent Ipsos study for Trip Advisor, for instance, found that 95 percent of respondents identified price as a key consideration when booking accommodations. The U.S. Travel Association came to a likeminded conclusion. Its 2011 survey learned that nearly half of travelers, 49 percent, altered their plans on account of high travel taxes specifically. Household budgets only have a limited range of flexibility. An uptick in room prices often obliges visitors to curtail their expenditures elsewhere on the trip.

This is to say that hotel occupancy taxes, if imprudently enacted, can deter visitor spending among the local business community. For one thing, high taxes pressure guests to cut their trip short or avoid paid accommodations altogether when possible. An older study published in Cornell Hotel & Restaurant Administration Quarterly attempted to calculate that exact effect. It measured the elasticity relationship between taxes and occupancy rates at negative .44 percent. This means that for each percentage point increase in the tax, the city could expect to have .44 percent fewer rooms rented per day. More recently, D.K. Shifflet and Associates' 2013 profile on Texas visitors revealed an accordant trend, whereby guests abridge their stay in response to accommodation expenses.

In addition, visitors will often cut back on their excursions and other leisure activities when accommodation rates get too high. The U.S. Travel Association made special note in a New York Times interview that travelers have cited high tourist taxes as a reason to go to less expensive restaurants, stay in, or skip certain destinations in their entirety. The Association instead suggests that city leaders "see travelers not just as out-of-towners," easy to strong arm, "but as key supporters of local jobs, businesses and development." Travelers are, at the end of the day, free-thinking agents willing to act in their own financial interests. They will take defensive measures if rates are not kept at a reasonably low level and structured to complement their needs and spending habits.

The challenge for Austin then is transparency, and ensuring that projects funded by the tax have a significant enough impact to offset their disincentive elsewhere in the industry. Austin has an advantage compared to other cities in that its size and reputation for large, quirky spectacles means that the city actually has the infrastructure to draw sizeable crowds. That leg-up, however, does not excuse a blanket assumption that each and every outlay is a benefit to the business community. Many projects would occur regardless if they received funding. Others merely fail to attract sufficient attention from prospective visit to warrant the cost. The city should therefore take care that there are mechanisms in place to identify inefficient outlays as well as a willingness to subsequently eliminate them.

Austin claims an untold number of attractions that entice prospective visitors to open their wallets and partake in what the city's business community has to offer. Whether the hotel occupancy tax furthers or impedes that endeavor depends on how carefully city government stewards the tax's size and recipients. ✯

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