LEGISLATIVE COUNCIL
OF THE
COLORADO GENERAL ASSEMBLY

AN ANALYSIS OF THE 1993 BALLOT PROPOSAL

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September 14, 1993

This analysis of the statewide measure to be decided at the 1993 general election has been prepared by the Colorado Legislative Council as a public service to members of the General Assembly and the general public pursuant to section 2-3-303, Colorado Revised Statutes.

One proposed statutory proposal – reinstatement of sales tax on tourist-related purchases – is on the statewide ballot for November 2. This measure was referred for vote of the people by the General Assembly.

The provisions of this ballot proposal are set forth, with general comments on their application and effect. Careful attention has been given to arguments both for and against the proposal in an effort to present both sides of the issue. While all arguments for and against the proposal may not have been included, major arguments have been set forth so that each citizen may decide the relative merits of the proposal.

The Legislative Council takes no position, pro or con, with respect to the merits of this proposal. In listing the ARGUMENTS FOR and the ARGUMENTS AGAINST, the Council is merely putting forth arguments relating to the proposal. The quantity of the FOR and the AGAINST paragraphs listed for the proposal is not to be interpreted as an indication or inference of Council sentiment.

Respectfully submitted,

Paul D. Schauer

Representative Paul D. Schauer
Chairman
Colorado Legislative Council

REINSTATEMENT OF SALES TAX ON TOURIST-RELATED PURCHASES

Ballot Title: SHALL STATE TAXES BE INCREASED BY $13,100,000 ANNUALLY IN THE FIRST FULL FISCAL YEAR OF IMPLEMENTATION, AND BY $13,100,000 AS ADJUSTED FOR INFLATION PLUS THE PERCENTAGE CHANGE IN STATE POPULATION FOR EACH FISCAL YEAR AFTER THE FIRST FULL FISCAL YEAR OF IMPLEMENTATION, BY REINSTATING THE 0.2 PERCENT SALES TAX ON TOURIST-RELATED ITEMS, INCLUDING LODGING SERVICES, RESTAURANT FOOD AND DRINKS, SKI LIFT ADMISSION, PRIVATE TOURIST ATTRACTION ADMISSION, PASSENGER AUTOMOBILE RENTAL, AND TOUR BUS AND SIGHTSEEING TICKETS FOR THE PURPOSE OF FUNDING STATEWIDE TOURISM MARKETING AND PROMOTIONAL PROGRAMS UNDER THE COLORADO TOURISM BOARD IN ORDER TO ASSIST FUTURE GROWTH AND PROMOTE COLORADO'S CONTINUING ECONOMIC HEALTH?

Provisions of the Proposed Statute

The proposed amendment to the Colorado Revised Statutes would:

– reinstate the sales tax of **two-tenths of one percent (0.2%)** on specified tourist-related goods and services, which tax is in addition to the state and local sales taxes, for the purpose of funding statewide tourism marketing and promotional programs under the Colorado Tourism Board. (The tax rate of two-tenths of one percent amounts to 20 cents on $100.00 or 2 cents on a $10.00 purchase.)

Background on the Proposal

Amendment 1, the Taxpayer's Bill of Rights (TABOR) adopted by the voters in 1992, requires voter approval of a new tax or an extension of a tax that is scheduled to expire. The "tourism tax," by statute, expired on June 30, 1993. The question on reinstating this tax is the first such question presented to the voters in a statewide election under TABOR.

The tax on tourist-related purchases is a sales tax of two-tenths of one percent (0.2%) levied on purchases considered related to the tourism industry – lodging services, restaurant food and drink sales, ski lift tickets, private tourist attraction admission tickets, rental automobiles, and sightseeing and tour bus ticket sales. Taxes on tourist-related purchases had been collected until July 1, 1993, by 12,500 businesses in Colorado. These tax collections were in addition to the state and local sales taxes imposed on the services and products listed. The original law, enacted in 1983, imposed a tax rate of one-tenth of one percent. The rate was increased in 1987 to the two-tenths of one percent rate.

Revenues from this tax have been transferred to the Colorado tourism promotion fund for use by the Colorado Tourism Board. Receipts from the tourism promotion tax have shown steady increases since the tax was initiated in 1983, with spending authority for the board totaling $11.2 million for fiscal year 1992-93.

Programs of the Tourism Board are continuing through the November, 1993 election, using funds from 1992-93 which were budgeted for an 18-month period.

Tourism in Colorado

Each year Colorado is visited by millions of visitors from across the country and around the world. They are joined by hundreds of thousands of Coloradans who also become tourists in Colorado. In 1992, an estimated 14.8 million individuals visited Colorado for pleasure travel, with overnight stays. The greatest number of tourists were from Colorado (21%), followed by visitors from California (11%), Texas (8%), and Illinois (4%). An estimated 115,000 jobs were supported directly by this industry in 1992. This represents 6.5 percent of the work force but a smaller share of the state's payroll, 4.8 percent.

The amount of money spent in Colorado by vacationers and business travelers has increased each year since 1987, from $5.1 billion in 1987 to an estimated $6.4 billion in 1992 (inflation-adjusted to 1992 dollars). This represents a compound average annual growth rate of 4.7 percent. According to the Tourism Board, total tax revenue generated by tourism in 1992 was an estimated $406 million. Of this amount, state tax revenue totaled $246 million; local tax revenue generated was $160 million.

The Colorado Tourism Board

The Colorado Tourism Board is charged with expending money from the tourism promotion fund for the ". . . planning, advertising, promotion, assistance, and development of tourism and travel industries in this state . . ." Proceeds from the fund also cover the operational and other expenses of the board, as there are no other tax funds available to the board.

The board consists of seven members – five appointed by the Governor and confirmed by the Senate. These members represent each of the major tourism industries (lodging, food and beverage, ski, private tourist attractions, and transportation). Two legislative members serve on the board, one member of the Senate appointed by the President of the Senate, and a member of the House of Representatives appointed by the Speaker of the House.

Funds expended by the Tourism Board are used for advertising, management of the six visitor centers located in Colorado border cities, sales promotions for tour operators and travel agents, financial assistance to the seven travel promotion regions of the state, and technical assistance to individual tourism businesses. Other activities include market research, development of international travel in Colorado, and responding to travel inquiries about Colorado. The Tourism Board has established a policy that requires at least one-half of the funds each year to be used for advertising, an amount totaling $5.4 million in fiscal year 1992-93. The second-largest expenditure was $1.5 million for responding to requests for information. Approximately 850,000 requests were handled last year.

The visitor centers are located in six communities near the Colorado borders – Burlington, Cortez, Dinosaur, Fruita, Lamar, and Trinidad. Additional centers are planned for Fort Collins and Julesburg. Each center has one full-time manager who is an employee of the Tourism Board. The primary staffing of the centers is provided by approximately 400 community volunteers who are in direct contact with the public. The centers assisted over 750,000 travelers in 1992.

Arguments For

1) The tourism tax promotes the tourism industry, one of the largest economic sectors in Colorado. In some areas of rural Colorado, tourism is the only industry. The figures for tourist related business are impressive in terms of the number of jobs created, the $6.4 billion for the state's economy, and the contributions to the state and local tax base. Increases in this industry positively affect multiple related industries such as food service, construction, and retail businesses. To eliminate the tourism tax which helps promote such a vital industry in Colorado would be an economic mistake.

2) The Tourism Board advertises Colorado as a destination with multiple attractions and diverse activities. Industry groups believe that no other advertising is presenting the state's diversity in this way. A goal of the Tourism Board is that, when people visit the state because they know of its many attractions, the various segments of the industry will then have a chance to compete for their business. Failure to continue the operations of the Tourism Board would jeopardize the state's effort to attract visitors because no other organization could fill the need of advertising Colorado as a visitor-destination location.

One of the objectives of the Tourism Board has been to have potential vacationers place Colorado on their priority list for vacations. To accomplish this objective, the Tourism Board conducts its advertising and contacts travel writers and agencies throughout the United States and in some foreign countries. These efforts have been successful through changing the misperception that the mountains are the only attraction in Colorado and that the state is a cold place to visit. Changing the ideas of people long distances away so that they will consider Colorado as a place to visit year around requires money for advertising and for other forms of publicity. The general fund appropriation for advertising for tourism for fiscal year 1982-83, the last year before the tourism tax, was $550,000, compared with the $9.7 million spent from tourism tax receipts in 1992-93. Given the state's other obligations and the fiscal constraints on spending, it is unlikely that general fund money of any magnitude would be appropriated for this purpose.

3) Visitor welcome centers supported by the tourism tax are valuable resources to tourist businesses, large and small. Located at six of the gateway cities in Colorado, these centers are successful in attracting motorists to stay longer and to spend more money in Colorado. The volunteers who greet the visitors are well-trained and knowledgeable and represent a vital part of the state's promotional activities. One of the advantages of the visitor centers has been to provide inexpensive means of showcasing smaller businesses and attractions that cannot afford to join the large promotional organizations. Colorado would be risking the loss of a significant resource by ending its share of the funding of these centers.

4) Tourism industry groups attribute growth in their businesses to programs of the Tourism Board. For example, surveys conducted by the dude and guest ranch association report an increase in occupancy for their lodgings from 72 percent to 85

percent in the last six years. The largest proportion – forty percent – of the inquiries concerning these facilities originate from the vacation planning guide offered by the Tourism Board.

The cabin and campground association mails approximately 30,000 directories each year, over 80 percent of which are in response to out-of-state inquiries. Of the cards returned to the association, over half originated with information from the Tourism Board. Discontinuation of the Tourism Board would mean that over half of the inquiries the association receives about camping and cabins in Colorado might not reach people interested in visiting Colorado.

5) If the Colorado tourism program were to end, some loss of tourism might be experienced in the well-established tourist destinations, but the impact could be severe in smaller, less-developed parts of the tourist industry. Activities of the board make it possible for lodges, restaurants, recreational facilities, and historical and cultural events to become known to tourists who would not learn of these attractions from any other source. Many persons who are indirectly involved in tourism could be economically affected by a decline in tourism. These groups include taxi drivers, rental car employees, and restaurant workers.

Other sources of publicity for Colorado attractions could be lost. The Tourism Board works with travel writers and travel agents to inform them about tourism opportunities in Colorado. These groups represent valuable sources of information to the traveling public throughout the nation and in other countries, and these contacts also provide free publicity for the state in their travel articles or when talking with clients. The potential loss of contacts with these two groups could be detrimental to both large and small tourism businesses.

6) A significant portion of the tax is paid by visitors from other states and from other countries. These visitors receive some services while in Colorado, e.g., transportation, infrastructure, and police protection, so an extra tax is not an inappropriate burden. A tax levied on tourist-related goods and services is appropriate when the tax receipts can be used for the economic benefit of Colorado.

Arguments Against

1) The burden of this tax, commonly called the "tourism promotion tax," is not borne by nonresident tourists as much as the name might imply. The largest source of tax revenue is received from restaurant food purchases, a source that is paid mainly by Colorado citizens. The tax is imposed on neighborhood and fast food restaurants, visited primarily by the resident population, as well as at restaurants in hotels and resort facilities. Likewise, while Colorado attracts skiers from throughout the world, a significant number of lift tickets, with the tourism tax included, are sold to Colorado residents. Thus, even if it were a good idea for the state to have tourists pay for tourism promotion, that idea is not applicable in regard to many of the purchases subject to this tax.

2) This tax is levied for the benefit of one industry. While tourism is undoubtedly important to Colorado, there is no reason to expect the public to pay for promotional activities so that persons engaged in this industry receive preferential benefits from tax collections that other businesses do not receive. Colorado retailers, railroads, or the coal industry, as examples, do not have tax sources that promote their products.

If the ski industry wants to advertise, it has a membership association that is very effective in attracting people to the slopes. Chambers of commerce, private businesses, visitor and convention bureaus, and trade association groups can keep Colorado's name before the public.

3) If the tax were not reinstated, the state could make up the difference for the tourism promotional activities that it deems important for the economy of the state. As one example, the budget for operation of the visitor centers is just over $600,000 per year, a low amount because of the willingness of volunteers to staff the centers. If the tax is not reinstated, the General Assembly could review the activities that are now undertaken and could decide how the state will get "the biggest bang for the buck" with limited funding.

The legislative appropriation for fiscal year 1982-83, for example, included cash fund grants from members of the tourism industry of $500,000, with a provision that state funds could not be spent unless matched by private funds. This example illustrates that all options for funding the Tourism Board may not end if the tax was not reinstated. The General Assembly will evaluate the value received from tourism promotion and weigh this activity against other needs. There is no restriction on the ability of the legislature to appropriate general fund dollars for tourism promotion.

4) Tourism in Colorado is a function of many factors, including the quality of the snow for the ski season, economic conditions throughout the United States and in foreign countries, and perceptions of physical safety in Colorado and in other tourist destinations. Spending by the state of $4 to $5 million a year for advertising is a questionable use of taxpayer money.

5) The earmarking of tax collections to funding a single agency is a questionable policy. Earmarking of revenues may result in the spending of all of the available revenue, regardless of need. Information from other states on projected state tourism promotion spending for 1992-93 shows that Colorado ranks seventh highest in the projected advertising budgets per capita and is sixth in the total budget for advertising. The six states with higher per capita advertising expenditures all are less populated than Colorado (including Montana, Wyoming, and South Dakota), and have fewer dollars appropriated, but on a per capita basis, spend more than Colorado for tourism advertising. For Colorado, actual expenditures increased 21 percent from fiscal year 1987-88 to fiscal year 1991-92 (from $8.5 million to $10.3 million). The present level of spending could be reduced to be more in line with that of other states, but the Tourism Board receives all of the dollars collected from this tax, subject to legislative appropriation.

6) The tax under consideration is substantial in the amount collected. If the tax were to produce, conservatively, $12 million a year, and calculated to grow at 4 percent average per year, the tax will raise over $300 million over a 20-year period. Tourism tax receipts do not directly contribute to the infrastructure nor do they provide essential services to the public. This amount of tax revenue could be kept by the people who would decide for themselves what purchases to make or, if taken by the government, could be used for programs more essential to the public at large.