



Testimony

Risks Incumbent to the Hotel Occupancy Tax

Presented to the City of Austin Economic Opportunity Committee

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Austin is a premier tourist destination that features some of the 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 to 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 like-minded 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 visitors 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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