



**House
Legislative
Analysis
Section**

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THE APPARENT PROBLEM:

Public Act 263 of 1974 allows a county with a population under 600,000 containing a city with a population of 40,000 or more to levy a tax of up to five percent on hotel and motel accommodations in order to promote conventions and tourism and to construct and maintain convention and entertainment facilities. (There are two other accommodations tax statutes under which similar taxes can be levied, one for Wayne, Oakland, and Macomb counties and one for Grand Traverse County and Mackinaw City.) A special committee in Kent County has recommended using hotel-motel tax revenues to help finance the building of a new museum on the river in downtown Grand Rapids. While some people say this is a permissible use of the tax revenue, conservative legal advisors have recommended that Public Act 263 be amended to specifically designate museums as included under the definition of "convention and entertainment facilities" to forestall legal challenges. (The use of hotel-motel taxes for the museum would still have to be debated locally.) Similar concerns apply to use of room tax revenue for festivals, in particular the Michigan Festival now held annually in East Lansing.

THE CONTENT OF THE BILL:

The bill would allow proceeds from the county hotel-motel tax (or accommodations tax) to be used to finance festivals and to acquire, improve, and maintain museums. Museums would be added to the definition of "convention and entertainment facilities" in Public Act 263 of 1974, and festivals would specifically be included within the category of tourist and convention business. Generally speaking, the tax is for use in the promotion of conventions and tourism, including the construction and maintenance of convention and entertainment facilities. (The tax is on "persons engaged in the business of providing rooms for dwelling, lodging, or sleeping purposes . . . to transient guests," and cannot exceed five percent of the total charge for accommodations. The county board of commissioners can authorize the tax and establish the tax rate by ordinance.)

MCL 141.861 and 867

BACKGROUND INFORMATION:

The current definition of "convention and entertainment facilities" found in Public Act 263 of 1974 is as follows: "all or any part, or any combination of convention halls, auditoriums, stadiums, music halls, arenas, meeting rooms, exhibit areas, and related public areas."

The following counties appear to be eligible to levy the accommodations tax under Public Act 263: Bay, Calhoun, Genesee, Ingham, Kalamazoo, Kent, Muskegon, Saginaw, and Washtenaw.

FISCAL IMPLICATIONS:

There is no information at present.

HOTEL-MOTEL TAX: MUSEUMS & FESTIVALS

House Bill 4333 as introduced
First Analysis (3-14-89)

Sponsor: Rep. Richard Bandstra
Committee: Taxation

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ARGUMENTS:

For:

Civic boosters in Grand Rapids are convinced that a proposed new museum will make the city an even more attractive location for convention business and for tourism generally. The museum is to be built on the Grand River near other local attractions, such as the Gerald Ford museum, and near new hotel complexes. Planners say that while much of the financing is available for building the museum, including some \$10 million raised from private sources, there remains a shortfall of about \$7 million. A special committee appointed to investigate sources of funding has recommended the hotel-motel tax as the best source because that tax has as its purpose the construction of "convention and entertainment facilities" and the "promotion and encouragement of tourist and convention business." City officials say that innkeepers representing a majority of the rooms in the area support the proposal. To make sure that there are no legal obstacles to using the revenue this way, the city has asked that the act be amended to specifically cite museums. The bill also specifically refers to the financing of festivals as a proper use of hotel-motel tax dollars.

Against:

The original purpose of this act was to finance and promote convention facilities, such as civic centers. Financing the construction of museums is not within the act's purpose. It is simply not the case that the bill merely clarifies what is already permitted; rather, the bill represents a significant expansion of the permitted uses of room tax revenues. The tax is justifiable in its current form because the facilities it finances bring in convention business that benefits hotels and motels. There should be no expansion of the act's purpose. The cost of a new museum in Grand Rapids should be borne by all taxpayers, not just by paying guests at the area's hotels and motels (many of whom, including conventioners, will have no interest whatsoever in the museum). Innkeepers are not the only ones that benefit from increased tourism. Shop owners in malls benefit, restaurants benefit, and other businesses benefit as well. Why levy the tax just on innkeepers? As for the addition of festivals: convention taxes ought to be used for year-round facilities, not occasional events. Once the expansion of this act begins, who knows where it will end? Inevitably, there will be a dilution of the revenue available for the promotion of tourism and convention business.

Response: Opposition to this bill is an overreaction based on a misunderstanding. Most people reading the act would conclude that the bill is unnecessary, not revolutionary. Reportedly, small portions of hotel-motel revenues in Ingham County, for example, are already distributed to museums, to groups that sponsor art and music exhibitions, and for the county fair. There is nothing dramatically new proposed by the bill; it merely serves to satisfy the very cautious legal advisors to the museum project. The bill, furthermore, does not require that tax

H.B. 4333 (3-14-89)

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revenue be spent on a museum (or a festival). It does not require that the taxes be increased; the ceiling on the levy would remain unchanged. Whether to impose this tax, at what rate, and how to use the revenues are local decisions. The arguments about whether hotel-motel tax revenue ought to be used for financing a museum should occur at the local level.

POSITIONS:

The Mayor of Grand Rapids testified in favor of the bill.
(3-8-89)

The Michigan Association of Counties supports the bill.
(3-8-89)

The Michigan Municipal League supports the bill. (3-9-89)

The Michigan Lodging Association is opposed to the bill.
(3-8-89)