



**House
Legislative
Analysis
Section**

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HOTEL-MOTEL TAX: MUSEUM FINANCING

RECEIVED

House Bill 4333 as enrolled
Second Analysis (5-18-89)

JUN 06 1989

Sponsor: Rep. Richard Bandstra
House Committee: Taxation
Senate Committee: Finance

Mich. State Law Library

H.B. 4333 (5-18-89)

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. 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. (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 allow the financing of museums. The use of hotel-motel taxes for the museum would still have to be debated locally.

THE CONTENT OF THE BILL:

The bill would amend Public Act 263 of 1974 to allow the use of accommodations tax revenue for construction costs of a museum located in a city with a population of 180,000 or more. The tax revenue could be used to pay the principal and interest on bonds or other evidence of indebtedness issued by or on behalf of the county for the purpose of financing the construction of the museum or the current or future rent payable by the county to an authority organized under state law for the purpose of constructing a museum and leasing it to the county.

MCL 141.867

FISCAL IMPLICATIONS:

The bill would have no fiscal impact on state or local government, according to the Senate Fiscal Agency. (4-17-89)

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." 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 include museums as eligible for funding.

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: There is nothing dramatically new proposed by the bill. The bill does not require that tax revenue be spent on a museum. 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.