TOURISM TAX UTILIZATION IN FLORIDA:

An Analysis of Options

AN ACTION REPORT SUBMITTED TO
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PUBLIC ADMINISTRATION AND POLICY

BY

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April 17, 2004

The Honorable Jeb Bush
Executive Office of the Governor
400 South Monroe Street, The Capitol
Tallahassee, Florida 32399-0001

Dear Governor Bush:

I am pleased to submit for your review and consideration, *Tourism Tax Utilization in Florida: An Analysis of Options*. The report is the product of extensive research and policy analysis over the spring months of 2004. In consideration of the ongoing debate regarding the use of tourism tax revenues collected pursuant to Chapter 125.0104, Florida Statutes; it was created to provide an analysis of relevant policy options and a recommendation.

Currently, the state allows limited specific uses for the tourism development tax. This report examines the status quo of the tourism tax structure, along with a more limited use (repealing existing uses for the tax), a limited expansion (allowing certain other limited uses), and a general revenue usage (including the tax in the state’s general revenue stream). Each policy option was evaluated according to four criteria: tourism influence, economic effect, revenue impact, and public benefit.

After examining several alternative policies, my recommendation is that Florida should maintain the status quo. It has been found that if the state’s commitment to the tourism tax usage should change, it needs to be in the direction of a reduction of uses. However, the data suggest that this is an impractical option, but one that underscores the importance of maintaining our financial commitment to tourism promotion and development.

By maintaining the current allocation of the tourism tax and keeping its focus on recruiting more tourists to Florida, state government can ensure that our state remains competitive with other destinations and protects our largest and most efficient economic engine.

Respectfully,

Corey G. Mathews
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EXECUTIVE SUMMARY

Florida’s eroding tax base and inadequate tax system have created a crisis for state and local policymakers, who are eyeing tourism tax revenues to fund other policy priorities, such as transportation and education. With a constitutional ban on income tax, the state depends on consumption taxes for approximately three-fourths of its revenue. The federal repeal of the estate tax and the capital gains tax, coupled with an economy that is shifting toward still untaxed services, has left state and local governments woefully underfunded.

For the past 25 years, Florida’s tourism industry has held the sole claim to tax revenues derived from hotel stays. However, the current fiscal crunch demands that all options be considered, and the industry will now have to diligently justify its claim on these funds. The purpose of this report is to examine the policy alternatives for the utilization of Florida’s tourism development tax and to recommend an appropriate course of action.

Information for this report was collected using four methods. First, analysis of academic literature and newspaper articles provided the context of the debate over tourism tax utilization and Florida’s eroding tax base. Second, evaluating the published works of Visit Florida, Florida Tax Watch, the Office of Program Policy Analysis and Government Accountability (OPPAGA), and various other state agencies and nonprofit organizations supplied critical data to illustrate the impact of tourism on Florida’s economy and budget. Third, review of applicable Florida Statutes and House Bill 7-B (2001) provided knowledge and understanding of current policies regarding tourism tax utilization in the state. Fourth, interviews provided valuable information on the perspectives of the individuals and organizations directly involved in this debate.

Four policy options were constructed to address the question of tourism tax utilization: the status quo of the tourism tax structure, a further limitation of usage (repealing existing uses
for the tax), a limited expansion (allowing certain other limited uses), and a general revenue usage (including the tax in the state’s general revenue stream). Each policy option was evaluated according to four criteria: tourism influence, economic effect, revenue impact, and public benefit.

Based on analysis of the policy options in consideration of the evaluative criteria, the status quo is the recommended course of action with relation to tourism tax utilization in Florida. If the state’s commitment to the tourism tax usage should change, it should be a reduction of uses. However, the data suggest that this is an impractical option, but one that underscores the importance of maintaining our financial commitment to tourism promotion and development. By maintaining the current allocation of the tourism tax and keeping its focus on recruiting more tourists to Florida, state government can ensure that our state remains competitive with other destinations and protects our largest and most efficient economic engine.
I. PROBLEM STATEMENT

Florida’s eroding tax base and inadequate tax system have created a crisis for state and local policymakers, who are eyeing tourism tax revenues to fund other policy priorities, such as transportation and education. In 1986, the Florida Legislature enacted a tax on services in response to a recommendation from a sales tax study commission to expand the tax base without having to increase rates. The subsequent political turmoil forced a special session to repeal the tax, and Florida’s system of taxation has yet to recover (Barrett & Greene, 2003). With a constitutional ban on income tax, the state depends on consumption taxes for approximately three-fourths of its revenue. The federal repeal of the estate tax and the capital gains tax, coupled with an economy that is shifting toward still untaxed services, has left state and local governments woefully underfunded.

In searching for existing revenues to tap to alleviate budget woes, some policymakers and advocates have set their eyes on the $330 million in tourism development tax collected each year (Florida House of Representative Committee on Commerce, 2003). Media coverage and vocal activists have asserted that a portion of these funds would go a long way toward curing the ills of the state’s transportation infrastructure and educational programs. However, tourism industry supporters compare this line of thinking to “eating your seed corn,” because diverting these dollars would result in a decline in visitors to the state, negatively impacting state sales tax revenues (Florida Tax Watch, 1996).

There is no question that tourism has a profound impact on the state’s economy, contributing more than $102 billion each year (Florida Tax Watch, 2000). The question is whether transferring portions of the tourism tax would have a significant negative impact on
tourism. Industry officials suggest there are lessons from across the country about the devastating impact of shortchanging tourism development programs, and the state of Colorado is a prime example. In 1993, Colorado voters repealed the state tourism tax. The result was a 30-percent drop in the state’s share of domestic pleasure travel, as well as a slip in ranking from first to 17th in the summer resort category. Despite the restoration of funding in 1999 by the state legislature, Colorado still has not been able to recapture a spot as one of the top ten destinations (Longwoods International, 2000).

For the past 25 years, Florida’s tourism industry has held the sole claim to tax revenues derived from hotel stays. However, the current fiscal crunch demands that all options be considered, and the industry will now have to diligently justify its claim on these funds. The purpose of this report is to examine the policy alternatives for the utilization of Florida’s tourism development tax and recommend an appropriate course of action.

II. BACKGROUND & LITERATURE REVIEW

Background

This section discusses four topics: (1) the origins of Florida’s tourism development tax, (2) the economic and political climate that has resulted from its consideration for other usage, (3) the impact of tourism on the state’s economy, and (4) the arguments by the industry as to why the program should remain untouched. These elements are crucial to framing the debate and for making a policy recommendation on how to proceed.

First, the Local Option Tourist Development Act (1977) served to establish a mechanism by which county governments could adopt a tax on short-term accommodations (i.e., hotel/motel rooms and campgrounds) to fund tourism development under the direction of a local tourism
development council. The tax is authorized by state statute to be used for the construction or maintenance of convention centers and sports arenas, to promote travel to Florida both nationally and internationally, to fund convention and visitors bureaus, and to finance beach facilities or improvements. However, prior to any taxes being enacted for these purposes, a county or special taxing district must hold a referendum vote of its citizens to authorize such a tax (Florida Statutes, 2003, Chapter 125.0104).

Second, the current political climate and a sluggish economy have left many state and local officials rethinking all revenue and expenditure possibilities. Florida is no exception, as it faces the repeal of the estate tax and intangibles tax, both of which were among the top five revenue sources for the state’s coffers. With a rapidly shrinking tax base as well as executive and legislative branches that are opposed to raising taxes, local governments are receiving less assistance and have to explore every option to fund priorities.

One outcome of this search for revenue has been an initiative to expand the types of expenditures that can be made with tourism tax revenues to include transportation infrastructure, education, and other policy priorities. This initiative, being pushed by reporters at the Orlando Sentinel and intermittently by members of the Orange County Commission, finally found traction in 2001 when Representative Andy Gardner proposed a single-sentence amendment that would have opened the door of the tourism tax to virtually any type of expenditure (Florida House of Representatives, 2001; Hampton, 2001). Although the amendment failed, the action touched off a debate over the utilization of the tourism tax that continues today.

Third, since the law enabling the tourism development tax was enacted at the behest of Florida’s tourism industry, which believed a dedicated funding source to finance the promotion of tourism was necessary to sustain the $102.3 billion that the industry contributes to the Gross
State Product (GSP), the industry believes the limited scope of use should remain intact (Florida Tax Watch, 2000). Industry representatives, such as Robert Skrob, executive director of the Florida Association of Convention and Visitors Bureaus, claim that “the (Local Option Tourist Development) act is an agreement between the tourism industry, the citizens of each county who approved the referendum, and the state legislature that these funds would be dedicated to tourism development, and nothing else” (personal communication, October 1, 2003).

Fourth, Florida’s tourism industry believes that by generating approximately $6.9 billion in sales tax revenue from the nearly 70 million tourists that visit the state each year, the industry is already contributing its share (Florida Tax Watch, 2000). In fact, many believe that providing additional revenues for tourism promotion and development would result in increased travel to the state and corresponding spikes in sales and gas tax revenues. Critics remain skeptical, and the resulting debate begs the question as to whether the tax is being used to its fullest potential, or whether there would be a greater good in using it to fund other policy priorities.

In summary, the four major issues in the debate over tourism tax utilization are the original purpose of Florida’s tourism development tax, the economic and political climate that has resulted from its consideration for other usage, the impact of tourism on the state’s economy, and the arguments by the industry as to why the program should remain untouched. These elements are crucial to framing the debate and for making a policy recommendation on how to proceed.

**Literature Review**

The relevant literature on this topic addresses four themes that have implications for the future of Florida’s tourism tax utilization: (1) the current status of Florida’s tax base, (2) the
impact of tourism on the state’s economy, (3) tourism’s effect on state revenues, and (4) the potential results of reductions in tourism development funding.

First, the literature discusses the current status of Florida’s tax base, which like many of its fellow states, has been in decline. Several authors have outlined the reasons for the erosion of the sales tax (Barrett & Greene, 2003; Bousquet, 2003; Brunori, 2001; Florida’s ‘Goofy,’ 1997; Hoene & Pagano, 2003). Others, including Governor Jeb Bush and various members of the House of Representatives, argue that revenue shortfalls are a result of economic downturn and costly citizen initiatives rather than a problem with the sales tax, citing states like California that are worse off than Florida (Bosquet, 2003; Stonesipher, 2003). Interestingly enough, the governor’s assertion does not address the data regarding the shrinking tax base in Florida.

As the state that is second most reliant on sales tax revenues, Florida continues to be extremely vulnerable to trends that impact this source of income (Barrett & Greene, 2003). Many authors have cited the shifting of consumption from goods toward services, the exclusion of an increasing number of tangible goods from the tax base, and the rise in popularity of remote sales as the three most important factors in the long-term decline in the sales tax base (Barrett & Greene, 2003; Boyd, 2000; Brunori, 2001). Certain authors further explore the state’s shrinking tax base through a discussion of the gradual phase-out of the intangibles tax and the loss of receipts from the repeal of the estate tax (Barrett & Greene, 2003; Bosquet, 2003).

Second, numerous sources point out the tremendous positive impact that tourism has on the state’s economy (City of Cocoa Beach, 2002; Florida House of Representatives Committee on Commerce, 2003; Florida Tax Watch, 2004; Orlando/Orange County Convention & Visitors Bureau, 2003; Visit Florida, 2003). More specifically, the literature identifies a number of jobs created by the tourism industry; including those in lodging, restaurants, and attractions, as well
as such indirect jobs as construction, finance, real estate, and the production of goods and services (Florida Tax Watch, 2004). It is estimated by several sources that every dollar spent on tourism generates approximately six to seven dollars in economic activity in the state (City of Cocoa Beach, 2002; Florida House of Representatives Committee on Commerce, 2003; Florida Tax Watch, 2004; Visit Florida, 2003).

Third, the literature debates whether the impact of tourism on state revenues is as positive as is often portrayed. While it is difficult to question the massive generation of revenue by tourism for state and local governments, many authors challenge the assertion that all of this is “profit” (“Escambia wants,” 2004; Florida Tax Watch, 2004; Shanklin & Barker, 2001). They point out that tourists utilize government services such as transportation infrastructure, lifeguards, and emergency services, to name a few. These services have costs that several groups believe should be shared by the tourists who benefit from the services (“Escambia wants,” 2004; Fishkind, 2001; King, 2001; Shanklin & Barker, 2001). However, other authors dispute the validity of these claims, arguing that any such cost increases are more than compensated for and are incidental (Arthur, 2001; Florida Tax Watch, 2004; Mitchell, 2003; Pope, 2000).

As the largest industry in the state, tourism generates 20 percent of Florida’s sales tax revenue (Florida Tax Watch, 2004; Visit Florida, 2003). That figure is expected to increase over the next five years, while the high-tech industry, favored as the economic engine of the future for Florida, is expected to generate only 3.3 percent of the taxes in that same time period (Florida Tax Watch, 2004). Industry advocates point out that tourists pay well more than their share in Florida through sales and gas tax, more than supporting the efforts to draw them to the state. These assertions are supported by several sources that show between $3 and $28 is returned to
the state’s general revenue fund for every dollar invested in tourism development (OPPAGA, 2003; Visit Florida, 2003).

Fourth, there are a growing number of examples that show the result of reductions in tourism development and promotional funding. Several authors point out that the rate of economic recovery in Florida was much higher post-September 11, 2001, and the ensuing recession than the national average, attributing that recovery to expenditures on tourism development (Florida Tax Watch, 2004; OPPAGA, 2003; Visit Florida, 2003). There are no examples within Florida of reductions to tourism development funding, with the possible exception of some of the expanded uses that have been added to Chapter 125.0104, Florida Statutes, since its inception. Since these changes to Chapter 125.0104 preserved the existing funding for tourism promotion, there is no data on their impact on tourism travel to Florida. However, examples from other states have been documented in great detail.

Several sources suggest that reductions or the elimination of tourism marketing have a negative effect on travel to and revenues of the destination (“Legislature should,” 2001; Longwoods International, 2002; OPPAGA, 2003; “Tourism--a taxing,” 1997; Visit Florida, 2003). However, other sources argue that tourism tax could fund other programs in the community; including education, transportation, life guarding, zoos, and other programs and services that would also draw additional tourists to the area (“Escambia wants,” 2004; Fishkind, 2001; Hofman, 2003; King, 2001; Shanklin & Barker, 2001; Tietgen, 2004).

In summary, the literature details four themes that frame the debate over tourism tax utilization. These themes outline the broader implications of the current status of Florida’s tax base, the impact of tourism on the state’s economy, tourism’s effect on state revenues, and the potential results of reductions in tourism development funding. However, the literature falls well
short of providing a detailed evaluation and comparison between the leading policy options related to tourism tax utilization. This report will build upon the literature by comparing four distinct policy alternatives, using specific criteria that will enable an appropriate evaluation to determine the best policy option.

III. METHODOLOGY & EVALUATIVE CRITERIA

Methodology

The information provided in this analysis was collected using the following methods:

- Reviewing and synthesizing literature related to Florida’s tourism tax, including popular media, published articles, books, and journals utilizing the following sources:
  - Web LUIS Academic Index and Full Text (1982-present)
  - Lexis-Nexis Academic Universe (1994-present)
  - JSTOR (1970-present)
  - ABI/INFORM (1986-present)
  - Google;

- Evaluating published information provided by a number of state agencies and nonprofit organizations, including Visit Florida, the Florida Legislature, Office of Program Policy and Government Accountability, the Florida Association of Convention and Visitors Bureaus, Florida TaxWatch, National League of Cities, and Nelson A. Rockefeller Institute of Government;

- Review of applicable Florida Statutes and House Bill 7-B (2001); and

- Unstructured interviews and telephone contacts (n=seven) consisting of open-ended qualitative questions, lasting approximately 15-30 minutes each with:
  - Robert Skrob, CAE (executive director of the Florida Association of Convention & Visitors Bureaus, Inc.)
  - William C. Peeper (president & CEO, Orlando/Orange County Convention & Visitors Bureau, Inc.)
  - Thomas A. Waits (president & CEO, Florida Hotel & Motel Association, Inc.)
  - Dominic M. Calabro (president & CEO, Florida TaxWatch, Inc.)
  - Larry Jones (commissioner, Walton County, Florida)
  - Daniel A. Baffa (director, Lee Richardson Zoo in Garden City, Kansas).
  - Bill Soltz (district representative, Southeast Region of the United States Lifesaving Association, Inc.).
Analysis of academic literature and newspaper articles provided the context of the debate over tourism tax utilization. These elements, combined with the book *State Tax Policy* (Brunori, 2001), provide useful insight into the eroding tax base faced by Florida’s state and local governments. This decay creates the impetus for various groups to pursue tourism tax revenues.

Evaluating the published works of Visit Florida, Florida Tax Watch, OPPAGA, and various other state agencies and nonprofit organizations supplied critical quantitative data to illustrate the impact of tourism on Florida’s economy and the state’s coffers. Many of these reports also analyze this data and make recommendations that provide support for various policy options.

Review of applicable Florida Statutes and House Bill 7-B (2001) provided knowledge and understanding of current policies regarding tourism tax utilization in the state. The statutes define the enumerated purposes for which tourism tax can be used, and the context for those uses. Examination of the house bill shows how the tax could be changed in such a way to expand its uses dramatically.

Interviews provided valuable information on the perspectives of the individuals and organizations directly involved in this debate. They gave insight into the reasons why each group believes that expansion of tourism tax utilization would or would not adversely impact travel to destinations in the state, as well as the fiscal impact that might result. Some of the subjects were known to the researcher, and were contacted in addition to the interview periods when further information was required.

**Evaluative Criteria**

Four criteria were used to evaluate the proposed policy options: influence on tourism in Florida, effect on the state’s economy, impact on the state’s revenue, and level of public benefit.
The decision matrix for each alternative is measured on a scale of poor, fair, good, or excellent. The ratings were based on the researcher’s assessment of how well the policy options satisfied each criterion. Supporting material from the literature review and interviews were used to determine the rating of each alternative (Patton & Sawicki, 1986).

- **Tourism influence** gauges the extent to which the proposed policy will have a positive or negative effect on the number of tourists that travel to Florida. The data sources for influence on tourism will be industry statistics and research, interviews, and academic literature on the relationship between tourism travel and marketing expenditures.

- **Economic effect** rates the anticipated outcome of the alternative on Florida’s GSP. Impacts on the state’s economy would have a corresponding effect on jobs and quality of life. The data sources for effect on the economy will be industry statistics and research, interviews, and academic literature on the fiscal impact of tourism-related spending on the state’s economy.

- **Revenue impact** assesses the likely increase or decrease of tax dollars remitted to the state’s general revenue fund as a direct result of the implementation of each option. Since the overall goal is to provide funding for policy priorities, each alternative’s effect on general revenue is critical. The data sources for impact on state revenue will be industry statistics and research, interviews, and academic literature on general tax collections from tourism-related activities.

- **Public benefit** measures how much each alternative will improve or worsen the quality of life (i.e., effects on infrastructure, public safety, environment, education, and employment) for the citizens of the community and the tourists who visit. An alternative would rate low if the benefit to the public were to decline. The data sources for level of public benefit will be industry statistics and research, interviews, and popular media.

These criteria were chosen to reflect the concerns illustrated in the literature review on tourism tax utilization in Florida. Other criteria could have been evaluated (e.g., political desirability and business consequences), but due to the lack of data, the criteria chosen were most illustrative of the information available.

One limitation of this study is the lack of an organized effort on the side of those parties that promote additional uses for tourism tax not already contemplated by Florida Statutes. However, the researcher went to great lengths during the interview process to assemble an
organized argument for that side of the debate. Despite these constraints, the policy recommendation herein would remain the same upon a similar analysis of that side of the debate using the methodology outlined in this section.

IV. POLICY OPTIONS

Section IV identifies the four policy options for tourism tax utilization in Florida: further limitation of usage, status quo, limited expansion of usage, and general revenue usage. Each option is evaluated based on the previously discussed criteria of tourism influence, economic effect, revenue impact, and public benefit. These options were selected because they were reflective of the spectrum of alternatives available. This report is not meant to be a case study, and therefore will not focus on any particular geographic area; but instead is meant to be the basis for a policy recommendation for the entire state. The goal of this report is to become a guide when considering future legislation related to tourism tax utilization.

Option One: Further Limitation of Usage

When the tourism tax was enacted in 1977, the two uses it was approved for were to promote local tourism and to develop infrastructure to support tourism, such as convention centers and stadiums. Since then, according to the Florida Hotel & Motel Association, there have been more than 300 attempts to increase the tax or expand its use, approximately 40 of which have been successful (T. Waits, personal communication, February 18, 2004). Currently, state law allows tourism tax to be utilized for such purposes as maintenance of beach facilities, zoological parks, and fishing piers, as well as the construction of coliseums, sports facilities, and
convention centers. This option examines the viability of repealing some of the uses that have been added since the inception of this tax.

**Tourism Influence:** The main goal of further limiting the approved uses of the tourism tax would be to free additional revenue for the advertising and promotion of tourism to encourage more travelers to select Florida as their vacation destination. This stance is strongly advocated by the Florida Hotel and Motel Association, which has opposed all of the attempts to expand the uses of the tax since its inception in 1977. Thomas Waits of the Florida Hotel and Motel Association views the bed/tourism tax as “a pact with the Florida Legislature, whereby the industry agreed to be taxed to promote local tourism and develop convention centers and sports arenas that support tourism” (personal communication, February 18, 2004). The industry believes that each effort to expand the usage of the tax is a direct assault on that agreement, and a threat to the tourism industry’s ability to attract tourists to Florida.

Both literature and available data suggest that there is a direct correlation between the amount of money spent on tourism marketing and promotion and the number of people who choose Florida as their vacation destination (Florida Tax Watch, 2004; OPPAGA, 2003; Visit Florida, 2003). The Florida Association of Convention and Visitors Bureaus argues that “there are a vast number of products and services out there competing for consumers’ attention and money, not the least of which are other tourism destinations in this country and abroad. The only way that Florida can continue to compete is to maintain or increase its spending on tourism advertising and promotion through support of its convention and visitors bureaus” (R. Skrob, personal communication, October 1, 2003).

**Economic Effect:** Increased funding for the marketing and promotion of Florida as a tourist destination resulting from a reduction in other approved uses should have an extremely
positive effect on the state’s GSP. Based on the six- or seven-to-one multiplier for state GSP from tourism marketing dollars and the accompanying creation of jobs anticipated by the literature, any option to maximize tourism marketing dollars should positively affect Florida’s economy (City of Cocoa Beach, 2002; Florida House of Representatives Committee on Commerce, 2003; Florida Tax Watch, 2004; Visit Florida, 2003).

However, the impact on the other programs and efforts that are supported by the tourism tax must also be considered. Whether these “expanded uses” should have been authorized is a matter of ongoing debate, but the negative impact on these programs if they were no longer supported by the tourism tax is not in dispute. Even the Florida Hotel and Motel Association concedes that “most if not all of the expansions of the uses of the tax are good causes, but they are not the purpose that the tax was enacted to serve” (T. Waits, personal communication, February 18, 2004).

The concern then becomes, “what would be the impact on Florida’s economy if the funding for these purposes were not reinstated from other sources, and such programs as beach renourishment and the maintenance of beach facilities, piers, sports arenas, and others were abandoned?” Over the long term, it is possible that the failure to reinvest in these areas could result in their deterioration, eventually threatening the draw of our state as a tourism destination.

Revenue Impact: It is reasonable to assume that a repeal of the additional uses approved since the original tourism tax was passed would result in a net increase in state revenues. According to Thomas Waits, “The bed tax puts heads in beds, which generates sales tax for the state and additional bed tax for further promotion” (personal communication, February 18, 2004).
Recent literature and data support Waits’ assertion. Both the OPPAGA and Visit Florida agree there is a minimum of $3 returned to the state’s general revenue fund for every dollar invested in tourism development (OPPAGA, 2003; Visit Florida, 2003). Even if programs currently funded by the tourism tax were fully financed through the state’s general revenue stream, presumably there still would be a net increase in state revenue based on the aforementioned multiplier effect.

Public Benefit: Some tourism industry representatives argue that the increase in state revenues from the additional promotion of tourism would provide additional resources to justify any negative effect on public benefit. However, others believe this option would be impractical and would have negative externalities in the area of public opinion. William Peeper of the Orlando/Orange County Convention and Visitors Bureau says, “The uses already in place could not be rescinded without violating bonds and contracts already in place” (personal communication, February 2, 2004).

Proponents of expanding the usage of tourism tax assert that this option would be a step in the wrong direction. Commissioner Larry Jones of Walton County, Florida, states, “The horse has left the barn, with citizens and tourists demanding infrastructure that local governments lack the resources to provide, and there is no catching up. Part of bringing tourists in is the responsibility to provide transportation infrastructure for safe and expedient movement around the county” (personal communication, February 10, 2004). Bill Soltz, district representative of the Southeast Region of the United States Lifesaving Association, agrees with Commissioner Jones. As an advocate for lifeguards, Soltz emphasizes that “we advertise our beaches and draw tourists here, so we correspondingly have a responsibility to ensure that our beaches are a safe environment with adequate supervision” (personal communication, February 19, 2004).
According to Dominic Calabro with Florida Tax Watch, “This [further limitation of usage] is a valid option, academically speaking, but better to let sleeping dogs lie. Trying to roll back existing uses likely would be met with heavy resistance, not to mention the impact on existing programs that may be funded under the current situation. We would be better off to use the data to argue against allowing further dilution of the resources from their intended purpose” (personal communication, February 5, 2004).

In summary, the further limitation of usage option appears to have merit, although it seems to lack feasibility. There is evidence to suggest that by removing some of the currently authorized uses, additional funds would be available for tourism development and promotion. This could have a positive effect on the state’s overall economy, as well as on state and local revenues. However, this might jeopardize debt service and contracts for which those funds are already pledged, resulting in a negative impact on public benefit.

**Option Two: Status Quo**

What began as a local option tax of up to two percent to promote tourism advertising and to develop infrastructure to support tourism is now up to a six-percent tax to fund the construction and maintenance of a number of different facilities, as well as the protection and enhancement of beaches, lakes, and inland waterways. These uses and additional approved levies have been deliberately added over the last 25 years to weave together the current tourism tax use structure in place today, in which not more than half of the available revenue is spent on tourism promotion (T. Waits, personal communication, February 18, 2004).

**Tourism Influence:** The current status of tourism tax utilization clearly has had a positive impact on the number of tourists visiting our state each year. A substantial amount of literature
cites Florida as having one of the strongest economic recoveries after the terrorist attacks of September 11, 2001, and the ensuing economic recession. The literature attributes this economic recovery to Florida’s tourism recovery, which was a result of direct marketing and promotion of the industry (Florida Tax Watch, 2004; OPPAGA, 2003; Visit Florida, 2003).

Under the current system, it is estimated that 69.8 million visitors traveled to Florida in 2001 (Florida House of Representative Committee on Commerce, 2003; Visit Florida, 2003). Furthermore, Visit Florida estimates that promotional efforts on tourism have exposed 3.8 billion people to our state as the choice for where to go on their next vacation. The status quo continues to be an effective formula for making Florida one of the most popular tourism destinations in the world.

**Economic Effect:** The net economic result of tourism under the existing formula of tourism tax utilization is $50 billion in GSP. As the largest economic engine in the state, tourism employs more than 870,000 Floridians with a total payroll of more than $14.8 billion annually. These figures represent 12.1 percent of the state’s non-agricultural employment (Florida House of Representative Committee on Commerce, 2003; Visit Florida, 2003). In certain areas of the state, the impact on the local economy is even greater. For instance, 24 percent of all jobs in the Orlando area are either directly or indirectly related to the tourism industry (W. Peeper, personal communication, February 2, 2004).

In Florida, tourism is a “cash cow,” according to Thomas Waits, president & CEO of the Florida Hotel and Motel Association, who went on to state:

“‘There is relatively no additional infrastructure required, and it is an easy way to bolster revenue in the short term…. The success of this program is inextricably linked to the participation of the industry. Hoteliers want to extract as much tax
as possible from their guests to promote their destination and bring in additional tourists, without the negative repercussions and declining business resulting from a tax that is too high. Additionally, there are a number of incentive programs and opportunities for the industry to leverage their funds to add to the advertising and promotion done from the bed tax revenue. These opportunities are possible because of Florida’s tourism commission, an example of successful privatization” (personal communication, February 18, 2004).

Revenue Impact: The impact of the status quo on revenue is as profound as on the state’s economy. With more than $3 billion in sales tax collected as a result of tourism-related spending, the industry is responsible for 20 percent of sales tax collected each year (Florida House of Representative Committee on Commerce, 2003; Florida Tax Watch, 2004; Visit Florida, 2003). The percentage is even greater in high tourism areas such as Orange County, where half of all sales tax revenue is derived from tourism-related expenditures (W. Peeper, personal communication, February 2, 2004).

If anything, the success of the tourism industry should cause policymakers concern over their dependence on one industry. William Peeper of the Orlando/Orange County Convention and Visitors Bureau agrees. “There is a need to diversify, but you must continue to support this industry with whatever it takes until there are other options. I know of no one in tourism that does not support diversification of the state’s economy, but even then, isn’t better to have two cash cows, rather than one? It isn’t about hi-tech vs. tourism, but rather the possibilities that will be available with hi-tech and tourism” (personal communication, February 2, 2004).

Dominic Calabro of Florida Tax Watch is a strong proponent of the tourism industry as “an environmentally friendly economic engine.” Calabro elaborates that “tourism offers a way
that Florida can grow, sustain, and diversify its key industry with little or no cost to state and local governments” (personal communication, February 5, 2004). It is widely accepted as “heresy” in Florida to suggest that any action be undertaken that would be seen as jeopardizing the tourism industry.

**Public Benefit:** Much of the benefit of the current situation already has been established based on the evaluation of this option under the other criteria. For instance, the jobs created by the tourism industry are critical to providing the quality of life that many of our citizens enjoy. However, critics might contend that many of these jobs are lower paying service industry employment that does not always pay a living wage (Shanklin & Barker, 2001). Tourism industry representatives do not refute this assertion; however, they point out that the industry is a strong supporter of education. “Public schools in Orange County get $23 million annually from the tourism industry. Hotels pay more in property taxes that support schools than any other group, and they don’t send the first kid to school” (W. Peeper, personal communication, February 2, 2004).

Other benefits to the state provided by the tourism industry include infrastructure that otherwise could not be afforded. Florida Tax Watch points out “seasonal visitors provide year-round benefits to the residents of the state by funding and demanding infrastructure that would not otherwise exist” (D. Calabro, personal communication, February 5, 2004). Certainly, without the support of tourists, it is questionable at best whether Florida could continue to support the same number of theme parks, athletic teams, and various other entertainment opportunities as currently exist.

The tax revenues generated by the tourism industry, along with the economic development, provide tremendous public benefit through funding for education, transportation,
emergency services, and various other policy priorities too numerous to mention. However, those who would expand the use of the tourism tax question whether the current annual investment is, in fact, necessary to sustain our current level of revenue and public benefit. We will continue to explore this as we evaluate the remaining policy options.

In summary, little fault can be found with the current program of tourism tax utilization. It has been sufficient in sustaining and improving the number of tourists who visit Florida each year, which has a strong positive impact both on the state’s economy and revenues. Furthermore, the public derives benefit from other increased tax revenues, in addition to the tourist tax, that fund state and local priorities.

**Option Three: Limited Expansion of Uses**

Some believe there is room within existing receipts from the tourism tax, or the ability to levy additional tax, to pay for policy priorities outside the scope of tourism. These proponents of expanded use for the tourism tax believe that tourists have a duty to help pay for the infrastructure and services they demand, that the lack of other resources demand that even the tourism tax be utilized more widely, or that the tourism industry simply wishes to utilize the government’s ability to tax to extract the revenues for its own promotion. Additionally, many call into question whether an extra one or two percent to pay for critical policy priorities such as education and transportation would even be noticed by vacationers.

**Tourism Influence:** Proponents of expanding the uses of the tourism tax believe that utilizing the funds for other purposes will have little or no impact on tourists’ decisions to make Florida their vacation destination. Daniel Baffa with the Lee Richardson Zoo in Garden City, Kansas, says he does not believe a moderate increase in tourism tax would deter travel to his
destination. “In my area, the current tax rate is four percent. We are proposing a two-percent increase, which would change the tax from four to six dollars on a $100 per night room. Visitors aren’t going to care, but that money could make a big difference in our community” (personal communication, February 13, 2004).

 Granted, in Florida, Baffa would be able to avail himself of the assistance of tourism tax revenues for his zoo under the current statutes; however, his sentiment is echoed here at home by the lifeguard community. Bill Soltz, district representative with the United States Lifesaving Association, wants to know “how many people have to drown each year before someone is willing to do something? Public safety is paramount, and government has a responsibility to protect the travelers they are luring here” (personal communication, February 19, 2004). Soltz says that he is not truly concerned with where the money to hire lifeguards comes from, but that he believes using the tourism tax makes sense. He believes the cost of overcoming the bad publicity generated by drownings far outweighs the cost of hiring lifeguards with that money.

 Thomas Waits with the hotel industry addresses the assertion that additional tax can be added to the existing rate by stating the following:

 “There is a breaking point at which tourists will be deterred by the tax. New York passed a huge tax that it eventually had to repeal due to the decline in tourists to its destinations. In the end, the tax increase cost the state far more revenues than it ever created. Meeting planners have to examine the total cost of a destination. Too high of a tax [in Florida] could give other states and destinations a competitive advantage. In Florida, sales and bed tax is currently about 15 or 16 percent combined, which the industry believes is the capacity of this tax before
deterring tourists from visiting in favor of less expensive areas” (personal communication, February 18, 2004).

This sentiment is echoed by Dominic Calabro of Florida Tax Watch who asserts, “Each penny levied really affects conventions, which are often extremely price sensitive. Tourists often tolerate moderate increases as a cost of traveling; however, they, too, are price sensitive at a point. If you continue to raise the tax, it will permeate through conventions and into the larger tourism market” (personal communication, February 5, 2004).

**Economic Effect**: Tourism industry representatives argue that this option could substantially damage Florida’s primary economic engine, resulting in a corresponding loss of jobs and an economic depression for the state. Colorado often is cited as an example of what happens when tourism funding is repealed. That state still has yet to recover from its hiatus in tourism promotion, despite five years of active promotion (Longwoods International, 2000).

Because the literature and data on the importance of tourism to the state’s economy are so overwhelming, proponents of expanding the use often insist that their objective is not to cut tourism funding, but rather to levy additional tax to support their priorities. However, Dominic Calabro of Florida Tax Watch points out that “expanding the use could cause the state to lose the support of the hotel industry, which advocated the tax to begin with, and which certainly will want to know where it will stop” (personal communication, February 5, 2004). Certainly, given the number of attempts to expand the use of the tax over the last 25 years, this is a reasonable question.

**Revenue Impact**: “Recent economic and political realities have caused local governments to feel the squeeze as the federal and state governments have reduced revenue sharing. The result has been that local governments have to explore every opportunity for
revenue besides the politically unpopular move of increasing the taxes paid by its own citizens. The concept of taxing folks who don’t vote in your district is extremely attractive. Generally, when you rob Peter to pay Paul, you can count on Paul’s support” (D. Calabro, personal communication, February 5, 2004).

Tourism industry representatives argue that every dollar spent on tourism development and promotion results in direct return on investment, both for the state’s and local economies and for the state treasuries. “Through support of our convention and visitors bureaus and their marketing efforts through tourism tax dollars, our industry is able to effect significant economic gains for our state to more than pay for any costs created by tourists and to subsidize government programs and services for the rest of us” (R. Skrob, personal communication, October 1, 2003).

Advocates of expanding the usages of tourism tax argue that the money is not making its way to them as the state budget continues to face tight economic realities. Commissioner Larry Jones of Walton County offers that he “favors greater flexibility for each district to make its own decisions about usage. The focus needs to be shifted from the state level to the local level, affording local governments the ability to determine their own needs and priorities” (personal communication, February 10, 2004).

Public Benefit: This option appears to be most favorable on the public benefit criterion. After all, expanded use and flexibility, combined with potentially higher levies, presumably would create additional revenue at the local level for policy priorities. Additional revenue to spend on areas such as transportation infrastructure, education, lifesaving, emergency services, and any number of other laudable purposes would undoubtedly improve the quality of life for citizens.
Advocates assert that tourists have a responsibility to share the burden of the cost for maintaining the infrastructure created largely to serve them. Daniel Baffa of the Lee Richardson Zoo stated:

“People come to town and spend money that generates sales tax, but residents pay for their use of streets, emergency services, and other government benefits via ad valorem taxes. This is the way for tourists to pay their share for use of facilities. Hotels should get a portion for promotion because they are one of the few industries taxed directly, but there is more to tourism than heads in beds. If someone travels fewer than 100 miles, they may not stay over. The result is a use of facilities without reparation. By increasing the tax and expanding the use, you allow local governments to decide where that money is best spent” (personal communication, February 13, 2004).

Tourism industry officials point out that “no increase of the bed tax will address the issue of day visitors who do not stay over” (R. Skrob, personal communication, October 1, 2003). Furthermore, the sales tax and tourism tax evaporate along with the tourists if their numbers decline. If the result of the dilution of tourism marketing funds is a decline in the number of visitors to the state, then the dollars that are currently available for policy priorities go away as well. The result is nothing more than a higher tax rate without anyone to pay the tax.

In summary, the limited expansion of use option has the ability to increase public benefit, but it is contingent on the confidence one has that its effect will not be a net decrease in the economic effect and revenue impact on state and local governments. Additionally, both data and literature suggest that there is a significant risk of a negative influence on tourism, which would ensure the negative economic and revenue effects discussed above.
**Option Four: General Revenue Usage**

This option would propose to collect and remit the tourism tax into the state’s general revenue stream. This would enable the state greater flexibility to budget these revenues for whichever priorities it believed were more pressing, rather than having them administered at the local level. Tourism industry officials strongly oppose this option as politicizing the tax and pitting local governments against each other to battle for these resources, when they currently receive exactly what they collect.

Tourism influence: Tourism industry representatives believe that making them compete with all of the other public priorities for funding will distract them and make them unable to compete with other tourism destinations. For instance, William Peeper of the Orlando/Orange County Convention and Visitors Bureau points out, “Las Vegas has over 130,000 hotel rooms in its inventory. It has the highest occupancy of any destination city in the world, spending $65 million on consumer advertising and an addition $125 million in consumer marketing. Orlando has a similar number of rooms and a comparable convention center, yet we are only able to spend a maximum of $6 million to compete” (personal communication, February 2, 2004).

Those who would rather see tourism dollars support other objectives counter, “There is a possibility of a direct relationship between promotion and tourism, but there is insufficient data to suggest that the diversion of a portion of funds would adversely impact the tourism visits” (D. Baffa, personal communication, February 13, 2004). However, given the results of Colorado’s experience following the repeal of its tourism tax, it appears that reductions in funding could have a catastrophic effect (Longwoods International, 2000).
**Economic Effect:** It is widely believed that putting the tourism tax revenue into the state’s general revenue stream would effectively end the industry’s status as the predominant economic engine. The loss of tourism this option is anticipated to cause, using the criterion above, would be met with corresponding losses in economic activity. It is again important to recall the Colorado lesson, and its failure to recapture its market share more than five years after reinstating tourism development funding (Longwoods International, 2000). Both literature and data suggest that once the tourists are gone, they stay gone.

There are many valid reasons to suggest the diversification of the state’s economy, but tourism industry officials counter that it hardly makes sense to abandon an “environmentally friendly economic engine that is an inextricable part of the state’s history” for any reason, much less without an alternative plan in place (D. Calabro, personal communication, February 5, 2004). No advocates have been discovered who support taking the risk of politicizing tourism funding by making it a part of the state’s general revenue stream.

**Revenue Impact:** This option possibly could have positive short-term effects on state and local coffers, but the literature and data lead to the conclusion that the long-term result would be quite harmful. Florida Tax Watch Executive Director Dominic Calabro characterizes the tourism tax as a “user fee that is designed to be a self-sufficient funding source to promote continuous growth of the tourism industry on an ongoing basis. Local governments in particular have tax sources available to them today they didn’t have 25 years ago, through sales and ad valorem taxes. We seem to have hit a fairly optimal balance with the tourism tax; further increases might jeopardize Florida’s largest industry” (personal communication, February 5, 2004).

Many within the tourism industry argue that they already contribute well more than their share to state and local governments. “Tourists pay more than their fare share of the costs for
their time here. First, tourists contribute heavily through the sales tax. Also, 50 percent of the Orlando market drives to the area, buying gas and paying gas tax along the way. In Orlando/Orange County alone, tourism has built a $52 million basketball arena, a $75 million expansion of the Citrus Bowl, and has contributed a significant amount of money to arts promotion” (W. Peeper, personal communication, February 2, 2004).

The only reason anyone can surmise that this option might be considered is because it enables politicians to raise taxes on a group of people who most likely will not impact their local elections. “Since the bed tax is typically levied on individuals who do not vote in local elections, local politicians find it extremely attractive because they can raise it without fear of political fallout” (T. Waits, personal communication, February 18, 2004). Although it is understandable to want to tax those other than your constituents to pay for local priorities, government must be careful not to damage this critical resource for revenue, since tourists pay various other types of taxes in addition to the tourism tax.

Public Benefit: There is little to suggest that any public benefit would be obtained by including tourism tax revenues as part of the general revenue stream. As discussed above, it is likely that any benefit inured from the transfer of these funds to the general revenue stream would be offset by anticipated long-term decreases in economic activity and state revenues. Local economies that depend on tourism would suffer, resulting in joblessness, loss of small businesses, and ultimately less tax revenue to support the state and local governments.

The highly political nature of competing for funding on the state level would needlessly waste resources on the procurement of funding, rather than directing them toward their true purpose of maintaining a primary driver of Florida’s economy. The additional bureaucracy for taxes currently being collected at the local level to be shifted to Tallahassee, and, if the industry
is lucky, back to the local level would not only slow the process, but would have a cost that would have to be borne out of the revenues collected.

In summary, virtually none of the evidence supports the inclusion of tourism tax in the state’s general revenue stream. None of the interviewees or any of the research suggests that this is a reasonable or wise option. This alternative would touch off a domino effect of fewer tourists, generating less economic activity and tax revenue, resulting in a poorer quality of life for the citizens of our state.

V. CONCLUSION/RECOMMENDATION

The policy options of further limitation of usage, status quo, limited expansion of usage, and general revenue usage were assessed according to the following evaluative criteria: tourism influence, economic effect, revenue impact, and public benefit. Table 1 summarizes the results of that analysis.

Table 1

Summary of Policy Options and Evaluative Criteria

<table>
<thead>
<tr>
<th>Policy Options</th>
<th>Tourism influence</th>
<th>Economic effect</th>
<th>Revenue impact</th>
<th>Public benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further limitation of usage</td>
<td>Excellent – would make additional funds available for promotion</td>
<td>Good – would generate more tourists and revenue, but might forsake capital reinvestment</td>
<td>Excellent – additional funding spent on promotion has been shown to have a strong multiplier effect</td>
<td>Fair – excess revenues would provide benefit, but other current uses might be missed if repealed</td>
</tr>
<tr>
<td>Status quo</td>
<td>Excellent – current efforts have led to a healthy tourism-</td>
<td>Excellent – tourism is the largest economic</td>
<td>Excellent – in some areas of the state, tourism</td>
<td>Good – tourism a big employer, developer of</td>
</tr>
</tbody>
</table>
Further limitation of usage received excellent ratings in tourism influence and revenue impact because evidence shows that freeing up more of the tourism tax for marketing and promotion would result in a greater number of tourists visiting Florida, thereby generating additional revenue for state and local governments. However, it only received a good rating in economic effect because of the potentially negative long-term effects of not funding programs supported under current usage. This policy option received a fair rating in public benefit because there may be some additional revenues from the increased tourism, but these revenues might not find their way to the programs no longer funded by the tourism tax, which could be met with a great deal of public dissatisfaction.

The status quo option received excellent ratings in tourism influence, economic effect, and revenue impact because of the success that these elements have had under the current
system. Tourism is the state’s largest industry, drawing nearly 70 million visitors each year who contribute $50 billion to the GSP, which generates $3 billion in sales tax revenue. These figures are hard to describe as anything other than an unqualified success. Under public benefit it only scores a good rating because it fails to generate excess revenue that could be used to fund more public policy priorities.

Limited expansion of uses received a fair rating for tourism influence and economic effect. It still would limit the uses of the tax; however, it would dilute the funds available for tourism marketing and promotion. The inevitable result would be fewer vacationers coming to Florida, which would have a negative impact on the state’s economy. Revenue impact and public benefit were both rated good for this option because it would provide additional local flexibility on spending these resources, which might be used to maximize public benefit. However, that would occur only if the result were not a negative overall impact on the number of visitors and, by extension, state revenues.

General revenue usage received poor ratings in tourism influence, economic effect, and public benefit. The competitive nature of the state’s general revenue stream would cause the tourism industry to have to expend its efforts competing with other policy priorities for funding, rather than using the tax for its intended purpose of bringing tourists to Florida. The result likely would be a decline in funding and a decline in tourists visiting the state, which would trigger a hit to the state’s economy, and likely result in significant job loss. This option received a slightly higher (fair) rating for revenue impact because it would provide some additional revenue to the state and local coffers until the reality of declining tourism offset those benefits with losses in other areas.
Upon evaluation of each policy option in relation to the evaluative criteria, it is recommended that Florida maintain the status quo in its tourism tax utilization. It appears that if the state’s commitment to the tourism tax usage should change, it needs to be in the direction of a reduction of uses. However, the data suggest that this is an impractical option, but one that underscores the importance of maintaining our financial commitment to tourism promotion and development. By maintaining the current allocation of the tourism tax and keeping its focus on recruiting more tourists to Florida, state government can ensure that our state remains competitive with other destinations and protects our largest and most efficient economic engine.
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