



**OREGON
ECONOMIC
OPPORTUNITY
PROJECT**

Taxing Oregon's Tourists

By Brendan Monaghan and Steve Buckstein

August 2006

Cascade Policy Institute

Summary

Oregon state and local governments levy over \$268 million a year in lodging taxes, supposedly to benefit tourism and economic development. The unseen costs of such taxes, which include deterring tourists from visiting high-tax areas, and the arguable unconstitutionality of such "forced speech" levies should be reasons enough to repeal them. Private businesses and tourism organizations have great incentives to promote tourism themselves, and they will likely do a better job than government agencies if allowed to do so.

Introduction

Oregon is one of only five states that does not impose a general sales tax at the state level.¹ Oregonians have, in fact, rejected such tax proposals nine times at the polls. However, unbeknownst to the general public, the legislature gradually has undercut this policy by enacting a series of narrower sales taxes on such products as alcohol, tobacco, gasoline and agricultural goods. The lodging industry officially joined this list in 2003 when the Oregon Legislature established a statewide tourism tax through House Bill 2267. Beginning January 1, 2004, a one percent surcharge was added to the bill at any lodging provider in the state. This is on top of any city or county lodging tax that already might have been imposed.

The state's lodging tax

Proponents of the bill included Governor Ted Kulongoski, who said the new tax would help "promote Oregon nationally and internationally."² Prior to the bill's passage, Oregon ranked 46th in the nation in per capita state spending on self-promotion, according to Kulongoski.

In public hearings, lodging industry representatives of the Oregon Tourism Commission (OTC) and Portland Oregon Visitor's Association (POVA) claimed that the imposition of this new tax would benefit their communities and businesses by bringing in more tourists and creating jobs.

Major opponents of the bill included many representatives of city governments outside the Portland metropolitan area, who cited the preemption of local authority and the taking of money by the state away from the communities where it was generated, without tangible benefits to those communities. Indeed, this claim was supported by the bill's proponents, who stated that 70 percent of revenue generated by the tax would be spent West of the Cascades.

"Total lodging taxes vary from just the one percent state tax in cities such as Philomath to a total of 18.5 percent in state, county and city taxes in the Eugene-Springfield area."

The new state tax was meant to be in addition to, not in lieu of, any local taxes. In its first year, 2004, the state tax brought in \$184.8 million in revenue. HB 2267 called for 98 percent of the state revenue to fund the eight-year-old Oregon Tourism Commission in the hopes of attracting more tourism, and in turn, more tax revenue.

County and city lodging taxes

Currently, 15 of Oregon's 36 counties impose an additional tax on lodging within their jurisdictions (see Figure 1). The rates vary by county, but range anywhere from three to eight percent. Eighty-six of Oregon's 240 cities also impose lodging taxes, which can run as high as 9.5 percent.

County and city taxes have generated significant revenue over the years. In 2004, local lodging taxes produced a total of \$83.3 million in revenue across the state. That number decreased to \$70.6 million in 2005 (see Figure 2 for regional breakdown).

The way that counties spend their lodging tax revenue varies. Deschutes County in central Oregon spends



813 SW Alder
Suite 450
Portland, Oregon
97205
(503) 242-0900
fax (503) 242-3822
info@cascadepolicy.org
www.cascadepolicy.org

70 percent of its 7 percent Transient Room Tax on sheriff services. Washington County spends only 25 percent on “tourism promotion”, with the rest going to the county’s general fund. Multnomah County mandates that its tax revenue fund various activities, including specific amounts to the Oregon Convention Center, the Portland Center for the Performing Arts, the Portland

Figure 1.
2005 local lodging tax rates by jurisdiction

County	Rate
Baker	5% off season / 7% in season
Benton	9%
Clackamas	6%
Clatsop	7%
Columbia	0
Coos	7%
Crook	0
Curry	0
Deschutes	7%
Douglas	0
Gilliam	0
Grant	8%
Harney	0
Hood River	8%
Jackson	0
Jefferson	6%
Josephine	0
Klamath	6%
Lake	6%
Lane	8%
Lincoln	6%
Linn	0
Malheur	0
Marion	0
Morrow	0
Multnomah	5.5%
Polk	0
Sherman	0
Tillamook	0
Umatilla	0
Union	3%
Wallowa	5%
Wasco	0
Washington	7%
Wheeler	0
Yamhill	0

Source: Oregon Travel Impacts 1991-2005p, Dean Runyan Associates, Prepared for the Oregon Tourism Commission, January 2006.

Figure 2.
2005 Local Lodging Tax Receipts by Region

Region	Sales (\$ millions)	Receipts (\$ millions)	Tax Rate (%)
Willamette Valley	114.9	8.9	7.8
North Coast	84.0	5.0	5.9
Central Coast	94.5	6.8	7.2
South Coast	42.5	1.6	3.8
Portland	320.5	31.4	9.8
Southern	109.0	6.4	5.9
Central	91.2	6.1	6.7
Eastern	41.9	2.4	5.8
Mt. Hood / Gorge	29.5	2.0	6.9
Total	928.1	70.6	7.6

Source: Oregon Travel Impacts 1991-2005p, Dean Runyan Associates, Prepared for the Oregon Tourism Commission, January 2006.

Oregon Visitors Association (POVA), and the Regional Arts and Culture Council, with any remaining balance (up to \$7 million in FY 2004-05) going to Metro, the regional government.

Lodging tax revenue generated by cities tends to fund a hodgepodge of agencies from local chambers of commerce to city, metropolitan, and regional tourism agencies, to anything else the cities want to pay for.

Comparing lodging taxes within Oregon and with nearby states

Knowing which cities and counties impose lodging taxes can be useful if a potential visitor is wary about overspending. Total lodging taxes vary from just the one percent state tax in cities such as Philomath to a total of 18.5 percent in state, county and city taxes in the Eugene-Springfield area.

Oregon's tourism tax rates are comparable to other states in the region. Washington and California do not have statewide lodging

taxes, but many counties and cities in both states assess such taxes. In Washington, 22 of 39 counties impose a county-wide lodging tax ranging from one to four percent. All but four of California's 58 counties enforce a lodging tax from four to twelve percent. Idaho, on the other hand, assesses a statewide tax of two percent.

Government tourism agencies

The Oregon Tourism Commission (OTC) was established in 1995 as part of the Oregon Economic and Community Development Department. It is charged with encouraging “economic growth through a strengthened economic impact of tourism throughout the state.” The Commission works with Oregon communities in order to market tourism, products, resources and attractions. The board is governed by nine commissioners, each appointed by the governor to “work to address environmental, developmental, and long-range planning issues.” The Commission is now almost exclusively funded by the statewide one percent lodging tax. The original legislation does not specify how its resources are to be spent, but it does mandate that no less than 80 percent be spent on state tourism and marketing programs. Up to 15 percent can be spent on Regional Cooperative Marketing Programs (RCMPs) with the possibility of a 5 percent reserve fund.

RCMPs are responsible for promoting tourism within their specific OTC mandated regions. There are seven such regions, each of which must report, propose and receive funding from the OTC. RCMPs may also receive a portion of their funding through private means, such as membership dues, private grants and other sources. In fiscal year 2005, the OTC allocated \$1,195,187 between all the RCMPs. Typical projects funded in each region included international research trips, trade shows, customer service training, and marketing, publicity and advertising. Individual regional amounts varied from \$50,000 for Eastern Oregon to \$391,687 for the Portland region.

Other local tourism agencies exist as well, including the Portland Oregon Visitors Association (POVA). POVA's stated objective is to promote meetings, conventions and leisure travel to the Portland Metropolitan Area. Over the 2004-05 period, POVA received a plurality (38 percent) of its funding from the Metropolitan Exposition-Recreation Commission (MERC), a subsidiary of Metro that receives a portion of its funding from lodging taxes. The remainder of POVA's funding comes from county and city room taxes (34 percent), co-op programs (13 percent), membership dues (9 percent) and fees and other services (6 percent).

POVA uses its revenue for a variety of purposes. It spends 27 percent of its revenue on the Oregon Convention Center. Nineteen percent of POVA's funds go to marketing, including everything from hotel packages to direct mailing. Seventeen percent of POVA's resources are directed toward organizational operations, six percent to communications and three percent to events.

Constitutional questions of free speech

Oregon's state and local lodging taxes have been sold in large part to the lodging industry on the grounds that industry members are taxing themselves (in this case taxing their customers) for the benefit of the whole industry. The constitutional problem with such mandates, however, is not restricted to hotels and tourism. In 2001, the U.S. Supreme Court ruled 6-3 in *United States v. United Foods* that it was unconstitutional for the government to compel mushroom producers to pay for the promotion of their own industry.

“A total of \$268.1 million in state and local lodging taxes were levied in 2004 within the State of Oregon.”

In 2002, a family of dairy farmers from north-central Pennsylvania filed a suit with the help of the Center for Individual Freedom against such mandated advertising, in this case, the famous “Got Milk?” campaign. “We have long felt the mandatory advertising tax on our milk is unconstitutional,” said Brenda Cochran, one of the litigants. “As small, independent farmers, we're strongly against having to pay for someone else's messages. We'd rather speak for ourselves.” Their case, *Cochran v. Veneman*, was upheld by the 3rd U.S. Circuit Court of Appeals, but the following year the U.S. Supreme Court ruled in favor of the beef checkoff program, determining that compelled advertising programs are protected under the First Amendment as “government speech.”

If the constitutionality of such compelled advertising programs is not clear, we should look further to their seen and unseen effects.

Should government promote tourism?

The complex nature of government tourism agencies and of the various lodging taxes in the state begs several questions. First, why has the State of Oregon taken upon itself the job of promoting tourism in the first place? Given the many real or perceived unmet needs in other state programs, why is tourism promotion regarded as a state priority?

Oregon lawmakers were hoping that a state lodging tax could be used to help boost tourism in the state, which would in turn boost state tax revenues and promote economic development. However, there are well-defined arguments that such taxes may actually deter tourist business in the first place, and even if more revenue is generated from increased tourism, that government is not adept at using that revenue to enhance economic development.³

Are state and local governments even aware of the impact their lodging taxes are having on potential tourists and other visitors? A total of \$268.1 million in state and local lodging taxes were levied in 2004 within the State of Oregon. That's \$268.1 million that lodging vendors could have better spent themselves, growing their businesses, maintaining their facilities, paying their staff, lowering their prices, or marketing their businesses and communities to potential tourists. Or, that's \$268.1 million that would have remained in tourists' pockets to be spent on other goods and services in the economy, or saved and invested.

Why does Oregon now need agencies that it functioned without for 142 years? This may be attributed to the Legislature's tendency to spend at a faster rate than both the sum of population growth and inflation and the rate of personal income growth in the state.⁴

When the state is channeling funds into arguably less important programs, it becomes easier for legislators and interest groups to convince Oregonians that taxes need to be raised to cover more essential services that appear to be under-funded.

“Lodging vendors and other businesses within the tourism industry should not be forced to subsidize a government advertising message that doesn't necessarily represent them or their interests.”

Recommendations

There is a better way for Oregon to promote itself to potential visitors. In a free society, tourism promotion within a community would be accomplished better by an association of local businesses, hotels, restaurants and shops, as well as private trade advocacy groups, tourism bureaus and visitor centers. In Oregon and around the nation, many such organizations already exist, often known as chambers of commerce. These entities could replace the Oregon Tourism Commission and local government agencies in promoting and marketing tourism. Motivated by the desire to expand their businesses and promote their communities, they might very well do a better job than state and local governments.

The various lodging taxes throughout the state that pay for government-sponsored tourism promotion represent an unnecessary burden on Oregon's visitors, businesses and citizens and should be repealed. In the 1999 legislative session an attempt was made to impose a moratorium on county and city lodging taxes, but such attempts did not get out of committee. An effort to repeal all such taxes should occur in the 2007 session, returning over \$268 million a year back into the private economy.

Conclusion

Lodging vendors and other businesses within the tourism industry should not be forced to subsidize a government advertising message that doesn't necessarily represent them or their interests. Instead, they should be allowed to speak for and promote themselves. The repeal of lodging taxes would encourage more Oregonians to see the many wondrous attractions within their own state, to persuade more tourists and business people from out of state to visit, and to allow more of Oregon's hotels and lodging vendors to grow and prosper. These results would benefit the Oregon economy and, in turn, all Oregonians.

Endnotes

1. Answers.com, <http://www.answers.com/topic/list-of-u-s-states-without-sales-tax>.
2. Press release, Governor Ted Kulongoski, August 19, 2003, http://governor.oregon.gov/Gov/p2003/press_081903.shtml.
3. Conerly, William, Ph.D., “The Unseen Costs of Ribbon-Cutting: Losses from Economic Development Programs,” Cascade Policy Institute, February 1995, http://www.cascadepolicy.org/pdf/fiscal/I_1011.pdf.
4. Voytko, Jamie, “Halfway There: Measure 5 and the Road Ahead,” Cascade Policy Institute, pp 7-8, http://www.cascadepolicy.org/pdf/fiscal/I_126.pdf.

Additional References

- Oregon Travel Impacts 1991-2005p, Dean Runyan Associates, Prepared for the Oregon Tourism Commission, January 2006, <http://www.deanrunyan.com/pdf/or05p.pdf>.
- Portland Oregon Visitors Association, Annual Report: 2004-05, http://www.pova.com/whats_pova/pdfs/annual_report.pdf.
- Oregon Tourism Commission Web Site, <http://otc.traveloregon.com/otc.cfm>.

About the authors: Brendan Monaghan, a student at The Ohio State University, completed this report as part of his 2005 Summer Research Internship at Cascade Policy Institute. Steve Buckstein is Senior Policy Analyst at Cascade.

About Cascade Policy Institute: Founded in 1991, Cascade Policy Institute is Oregon's premier policy research center. Cascade's mission is to explore and promote public policy alternatives that foster individual liberty, personal responsibility and economic opportunity. To that end, the Institute publishes policy studies, provides public speakers, organizes community forums and sponsors educational programs.

Cascade Policy Institute is a tax-exempt educational organization as defined under IRS code 501(c)(3). Cascade neither solicits nor accepts government funding and is supported by individual, foundation and business contributions. Nothing appearing in this document is to be construed as necessarily representing the views of Cascade or its donors, or as an attempt to aid or hinder the passage of any bill before any legislative body. The views expressed herein are the author's own. Copyright 2006 by Cascade Policy Institute. All rights reserved.