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Nebraska's Tourism Lodging Tax: Estimating Tourism's Economic Impact

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This NebGuide describes how to use the county lodging tax statistics to estimate tourism's economic impact on the county.

As Nebraska's third largest revenue earner from outside the state, tourism has an important place in the state's economy. However, at the local or county level decision makers may question whether public investments in tourism really give a meaningful return on investment. While it is easy to see how visitor dollars benefit large tourism centers, it may be more challenging to understand the impact of tourism in more rural areas.

This NebGuide describes how Nebraska counties can use lodging tax statistics to estimate county tourism impacts by month, quarter, or year. A brief explanation of how and why a lodging tax is established is provided first, followed by an explanation of expenditure patterns and lodging tax data. Finally, secondary benefit principles are noted.

Why was the lodging tax created?

The Nebraska Visitors Development Act was established in 1980 and has been amended several times by the Unicameral. The act:

- creates a fund for general promotional activity aimed at attracting visitors to Nebraska,
- provides for a lodging tax on hotels to establish a State Visitors Promotion Cash Fund, and
- authorizes counties to appoint a visitors committee and impose a lodging tax on hotels to establish a County Visitors Promotion Fund, and, if also desired, a County Visitors Improvement Fund.

By definition of the act, overnight lodging accommodations include hotels, motels, tourist homes, campgrounds, courts, lodging houses, inns, bed and breakfasts, state-operated hotels, and nonprofit hotels. Any occupancy up to 30 days is subject to the lodging tax. When a county adopts a lodging tax, every one of the above facilities in that county must then collect that tax.

Many states, including Nebraska, charge a tax on overnight lodging accommodations. Sometimes called a bed or occupancy tax, this levy is also available in Nebraska on a county by county basis as desired by county commissioners or supervisors. As of 2009, 74 of Nebraska's 93 counties had a lodging tax. In 2009 the total state and county government revenues from the lodging taxes exceeded $16 million. The funds gathered in this manner provide funding for the Nebraska Division of Travel and Tourism and for county tourism marketing and attraction development efforts.

How does it function?

The lodging tax is an additional sales tax added to the charges for overnight accommodation, but not to the charges for food, beverage, or other personal services. All commercial lodging establishments in both counties with and without a county lodging tax must collect a 1 percent sales tax to be paid to the State Visitors Promotion Cash Fund to fund the Division of Travel and Tourism and its programs. Since 2003, all counties have the option of choosing an additional tax of 1 percent to 4 percent with proceeds paid to a County Visitors Promotion Fund to support its visitor promotion activities and/or a County Visitors Improvement Fund to assist attraction development. To see the latest lodging tax rate for each county, go to the Nebraska Department of Revenue website at *http://revenue.state.ne.us/4-607table4.pdf* and then click on "Statistics."

All lodging establishments must collect a 5.5 percent state general sales tax and a 1.0 percent state lodging tax. If they are in a community with a 1.5 percent municipal general sales tax and a 2.0 percent county lodging tax, the total tax paid by their customers would be 10.0 percent (5.5 + 1.0 + 1.5 + 2.0).

For example, if a guest stayed in a room that cost $100 per night, taxes on the room would add $10 per night to the total lodging charge. Nebraska lodging taxes are modest in comparison to most areas of the country. In some states and cities total taxes on hotel rooms have climbed to over 20 percent. In addition, Nebraska's base cost of lodging is historically one of the lowest in the nation.

How does a county establish a lodging tax?

To establish or change a lodging tax in Nebraska, the governing body of a county (in effect the county board of commissioners or supervisors) may adopt a resolution to do so. Before adopting the resolution, they must hold a public hearing. The county is then empowered to establish the lodging tax. To impose the tax, the county board must also create a County Visitors Promotion Fund and a Visitors Committee. Once the resolution has been adopted, contact must be made with the Nebraska Department of Revenue to implement collection. Lodging taxes are collected by county lodging facilities and sent to the Department of Revenue, which keeps a very small administrative fee (3 percent of the total collected) and returns the remainder to the county.

These lodging taxes may not be placed into the county's General Fund. They must be deposited in one or both of two funds: 1) a County Visitors Promotion Fund and/or 2) a County Visitors Improvement Fund. The revenues in the County Visitors Promotion Fund should "be used generally to promote, encourage, and attract visitors to come to the county and use travel and tourism facilities within the county." The revenues in the County Visitors Improvement Fund should "be used to improve the visitor attractions and facilities in the county" other than facilities with pari-mutuel wagering.

How is the fund typically managed?

The County Visitors Committee is an advisory committee to the county board. This committee consists of five or seven members appointed by the county board. For a five person committee, at least one but no more than two members should be from the lodging industry. For a seven member committee, two or three members should be from the lodging industry. The committee members serve without compensation (except for expense reimbursement) for terms of four years. However, at least half of the initial appointees serve two-year terms only. The committee elects a chairperson and vice-chairperson from among its members to serve two-year terms in those positions.

What are the benefits of a lodging tax?

A local lodging tax provides a number of benefits for tourism development, the hospitality industry, and communities. The lodging tax can be beneficial because it:

1. Provides funding for tourism marketing and development staff. This can be an efficient use of promotional funds, even if a position is only part-time.
2. Provides funding for marketing, advertising, and attraction development activities. Even the smallest lodging tax fund can be put to good use to enhance awareness about a community and what it has to offer.
3. Establishes a standard measure from which to monitor tourism trends in the community.
4. Furnishes a tool to make rough estimates of the economic impact of tourism.

What are the detriments of a lodging tax?

Some people oppose instituting a lodging tax because they feel it will hurt their ability to compete with other properties or other disposable spending; however, the difference between a $110 room charge and a $108 room charge, using the earlier example, will have little or no bearing on consumer choices.

Others feel that collecting a lodging tax is tedious and cumbersome. Nevertheless, all properties collect a sales tax; therefore, a lodging tax does not change collection practices in any substantial manner.

How do I use lodging tax figures to monitor tourism trends?

Because lodging taxes are collected monthly, they provide an excellent indicator of tourism patterns and trends in an area. By charting the amount of lodging tax collected, a county can visualize the variability of unique seasonal trends and track changes in tourism lodging revenues from one year to the next. Of course, lodging tax measures should be combined with other indicators because rising room rates tend to push up lodging tax collections each year. Existing lodging tax figures are available from the Nebraska Department of Economic Development's website at *www.neded.org* (under "Research and Databook"). A summary of the lodging tax law and its implications can be found at the Nebraska Department of Revenue website at: *http://www.revenue.state.ne.us/info/5-141.pdf*.

How can I use the tax to estimate direct economic impact?

A rough estimate of tourism's economic impact on a county can be calculated using lodging tax measures. To make this calculation, divide county lodging tax revenues by the county lodging tax rate — this will give you the county's total lodging income for that period. Once you know that number, you can then divide it by the percentage of tourism spending in the county that typically goes for lodging. This percentage figure can come from local surveys of visitor spending or from a statewide survey of visitor spending. In 2009 the Nebraska Department of Economic Development commissioned Dean Runyan and Associates to calculate the economic impact of tourism in Nebraska. The 88-page study, *Nebraska Travel Impacts, 2003-2008p*, includes a breakdown of how tourism dollars are spent.

Table 1. Nebraska travel expenditure patterns*.

Ground transportation/fuel	29.5%
Food services	25.5
Accommodation/lodging	19.1
Retail sales	12.4
Arts/entertainment/recreation	7.3
Food stores	5.4
Air transportation	0.8

*Source: Dean Runyan Associates. *Nebraska Travel Impacts* (May 2009). Commissioned by the Nebraska Department of Economic Development at (*http://industry.visitnebraska.org/pdfs/industry/NEImp08.pdf*)

Typically these expenditure rates remain relatively stable over time even though the overall amount of money spent changes from year to year. To use the lodging rate to calculate the overall total direct economic impact:

$$\frac{\text{Lodging tax revenue/lodging tax rate}}{\text{Percent spent on lodging}} = \text{Total direct economic impact of travel and tourism spending}$$

As an example, a county that collects $10,000 of lodging tax in one year with a 2 percent tax rate has lodging sales of $500,000 ($10,000/.02). If lodging spending is estimated to be 19.1 percent of total tourist spending, the total direct economic impact of all travel and tourism spending can be estimated at $2,617,801 ($500,000/.191).

Now that you have the total direct economic impact number, you also can estimate the impact of tourism on specific sectors, such as ground transportation/fuel, food services, arts/entertainment/recreation, retail sales, and so on. For these calculations the formula is:

Total direct economic impact x Percent spent in a given sector = Direct economic impact on that sector from travel and tourism

Continuing with the previous example, the impact tourism has on food services is $667,539 ($2,617,801 x 0.255).

There is one cautionary note for those wishing to use the statewide expenditure patterns. The expenditure patterns estimated on a statewide basis may be different than the expenditure patterns in a given county. For instance, counties located along an interstate would undoubtedly have different expenditure rates than counties located off an interstate. The most accurate way to obtain local data would be to implement a local visitor survey and calculate expenditure rates.

A Word about Secondary Benefits...

Direct economic impacts are the actual (or estimated) visitor dollars that come into a community. Another important aspect of tourism spending is the secondary economic activity that it generates. When a tourism dollar comes into the community, it is traditionally spent and respent several times by businesses, their suppliers, and their employees.

For instance, the tourism dollar that goes for gasoline is spent by the business owner to pay the cashier, who then spends the dollar to buy groceries. The grocer uses that dollar to pay for local newspaper advertising and the newspaper then uses that dollar to buy paint to refurbish the business. In this way the impact of the original tourist dollar is multiplied. According to the Nebraska Division of Travel and Tourism, each dollar spent by tourists in Nebraska on average is recirculated in the economy to produce an additional $1.70 in business and income, creating an overall economic impact of $2.70. The multiplier effect shared in this example is for Nebraska. Unfortunately exact multipliers for Nebraska communities are not readily available. While professionals should be aware of secondary benefit principles, they should be careful of impact estimates that use arbitrary economic multipliers.

Tourism — a Hidden Economic Engine

Tourism often provides greater economic activity in rural communities than anyone expects. Because tourism affects a variety of established sectors (lodging, food service, transportation, etc.), it is easy for community leaders to overlook its combined impact. Estimates of direct economic expenditures can be easily calculated for counties that collect lodging taxes. It is also important to focus on the economic multipliers created by the spending of tourism businesses, since that activity ultimately expands the direct benefits of visitor spending.

Resources

Nebraska Tourism Impacts: 2003-2008p, Dean Runyan Associates, May 2009, Portland, Ore. *http://industry.visitnebraska.org/pdfs/industry/NEImp08.pdf*.

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