



PUBLIC HEARING
BEFORE THE
DISTRICT OF COLUMBIA TAX REVISION COMMISSION
RE: PROPOSAL TO INCREASE THE OCCUPANCY TAX RATE
ON HOTELS

TESTIMONY
OF:

SOLOMON KEENE
PRESIDENT
HOTEL ASSOCIATION OF WASHINGTON DC

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1101 4TH STREET, SW
WASHINGTON, DC 20024

Good Evening, Chairman Williams, and Members and Staff of the District of Columbia Tax Revision Commission. I am Solomon Keene, President of the Hotel Association of Washington, D.C., a 95 Member strong trade association representing the interests of hotels in the District of Columbia. Hotels in the District generate over \$207 million dollars in tax collections to our city each year and employ over 14,000 employees.

I am here to testify regarding the Commission's proposal to increase the sales tax rate on District hotels. HAWDC strongly opposes any increase to the hotel tax rate. This Commission was established by the Council of the District of Columbia and is charged with preparing tax policy recommendations for the Council and the Mayor. This Commission has several purposes, two of them being to 1) make the District's tax policy more competitive with surrounding jurisdictions, and 2) encourage business growth and job creation. Raising the hotel tax would be contrary to these stated purposes.

The District's hotel tax is unique in the fact that it entirely funds the operations of the Walter E. Washington Convention Center, and Destination DC, the District's marketing bureau. In 1994, our industry voluntarily chose to increase the hotel tax

rate to 14.5%, for the purpose of providing 4.5% of the revenue generated to fund the Convention Center and Destination DC. The remaining 10% goes into the District's General Fund. Our industry imposed the last tax increase on itself so that it could use the additional funds to market the District as a world class city.

Often, the government looks to increasing the hotel occupancy rate due to the widely held misperception that its burden is largely borne by tourists rather than residents, with little negative impact on industry sales. This is not true. Taxes have a clear impact on travel planning and spending decisions. According to a 2011 US Travel Association Survey, 49% of people stated that they altered travel plans due to higher taxes. These travelers stated that they either opted to stay in less expensive hotels, or spent less on shopping, food and entertainment. Ten percent of those surveyed stated that they changed the city they wanted to stay in. Some in the District believe that since we are the nation's capital, people will come no matter the costs. It may be true that visitors may still come to the District and tour the monuments and federal facilities. However, it does not mean that they would choose to stay in the District in District hotels. District hotels have the burden of competing directly with suburban Maryland and Virginia for bookings, both of which have lower taxes and room rates. Any increase to the hotel tax would increase the cost per day to stay in a District hotel. An increase to the hotel

tax in the District could make a family of four decide to book a hotel room in Maryland or Virginia, and take public transportation into the District to see the sites. Or if they decided to stay in a District hotel, they would likely shorten their stay because it would be cheaper to stay three days rather than four or five.

An increase to the hotel tax could also make convention and meeting planners decide not to book a convention in the District. Convention and meeting planners look at the hotel tax as part of the bottom line when comparing cities to host their conventions. If the cost to book a convention is lower in a competing destination, the planner may opt to choose the city with the lower costs. The revenue generated from convention sales is integral to the sustainability of the District's Convention Center, as well as the hospitality industry as a whole. Those coming to the District on a convention/business trip may opt to not extend their stay by a day or two and partake in all that our wonderful city has to offer outside of their business trip because the cost to stay in a District hotel would be too high.

Proponents of this proposed tax increase state that increasing this tax would shift the tax burden to non-residents, which could lower the taxes on District residents and/or businesses. However, HAWDC believes that an increase in the hotel tax

would have the opposite effect. Raising the hotel tax could lead to a potential decrease in customers coming to the District, therefore decreasing the amount of revenue there is to market the City and attract more visitors. As the second largest employer in the District after the Federal Government, the District's hospitality industry is responsible for over 76,000 jobs in the District (14,000 directly tied to hotels). An increase to the hotel tax could cause less people to come visit the District, negatively impacting the revenue generated from the hospitality industry. Any decrease to the District's hospitality and tourism industry would have a negative impact on the number of available jobs in the District within hotels and the ancillary businesses that provide services to hotels and guests.

You do not have to look very far to see that raising the hotel tax is a bad idea.

Several years ago, New York City raised its hotel tax. Proponents of that increase had the same mentality that "it is New York and they will come." However, New York City hotels experienced a significant decrease in bookings and the legislators had to reverse the tax increase. There is no need to test the waters to see what would happen if the District raised the hotel tax. Look at New York as an example that an increase to the hotel tax would mean a decrease to hotel bookings and therefore a decrease to available revenue to the City.

HAWDC believes that this proposed tax increase would have a detrimental effect to the District's hospitality community, thus having a negative impact on the District as a whole. We urge the Commission to reject this proposal and let the hotel tax remain at 14.5%. Thank you for the opportunity to testify regarding this critically important issue to our industry and I welcome any questions that you may have.