



# Economic Development Report

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## A LODGING TAX FOR CUSTER COUNTY? ISSUES AND ANSWERS<sup>1</sup>

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- *This report is intended to inform, not sway, public discussion on the potential for a lodging tax in Custer County.*
- *The average county lodging tax rate in Colorado is about 2%.*
- *Lodging tax revenue generated is highly variable in Colorado, ranging from \$0 to \$28 million per year.*
- *Custer County has a highly variable, or seasonal, occupancy rate.*
- *The county could expect revenues of about \$15,000 per year under common lodging tax conditions.*

### Introduction

Lodging taxes are a commonly used fiscal management tool in county and municipal governments across Colorado. Typically, lodging taxes are imposed as a percent of sales of guest accommodations, though they

could be collected in a variety of other ways. Funds generated through these taxes offset the additional government services demanded by visitors to a region, provide funds for tourism promotion, and lessen the relative tax burden on residents. Although, Custer County does not yet have a lodging tax, there is local interest in exploring the implications of such a tax for the county. This policy brief hopes to inform Custer residents regarding the likely benefits and costs of a lodging tax in their county.

This question is addressed in four parts. First, we provide a profile of Colorado's experience with lodging taxes. Secondly, we discuss the common arguments for and against lodging taxes as a county or municipal fiscal tool. Thirdly, we estimate the likely impact of a lodging tax on Custer County, given the current stock of guest accommodations. A fourth section concludes. We should be clear that we intend to inform, not persuade. That is, we hope to provide balanced and objective information about the likely implications of a

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lodging tax in Custer County, not tell people how they should vote. We hope that through more informed public dialogue, the citizens of Custer County can make better decisions about their collective future, with or without a lodging tax.

### **Lodging taxes in Colorado**

The Colorado Municipal League indicates that although no specific statutory authority exists for cities and towns to enact an accommodations tax, counties do have the authority to impose such a tax that may be shared with its municipalities. However, municipalities can levy an occupation tax on the operator and some 31 home rule municipalities impose a lodging tax in the form of an increased sales tax rate based on the price of lodging. There is a 2% limit on lodging/occupation/accommodations taxes for units of government that do not have home rule designation. Ordinarily, the lodging sales tax or accommodations tax is applied to the price for renting or leasing lodging for less than 30 consecutive days.

An effort was made to collect information about all municipal and county lodging taxes currently in place in the state of Colorado. In Table 1 we show all of the county lodging taxes we could locate, their year of enactment, tax rate, and the general county sales tax rate. In Table 2 we provide the past five years of revenue generation information for each county lodging tax. In Tables 3 and 4 we provide the same information for municipal lodging taxes. Table 5 summarizes the information found in Tables 1-4.

Table 1 demonstrates a great variety in county level lodging taxes in Colorado. Note that the total effective sales tax burden will exceed the rate reported here by the state sales tax (2.9%), as well as any applicable special district taxes. The average county lodging tax rate is about 1.9% among those 25 counties that provided us information. The highest reported county lodging tax rate was 4.0% and the lowest was 0.9%.

Table 2 illustrates the annual income generated by county lodging taxes in Colorado. The average county lodging tax revenue generated in Colorado is about \$120 thousand and the median is about \$75 thousand per year. As might be expected, here again a great deal of variability is observed. Some counties have seen a large amount of revenue generated by the lodging tax (e.g., Gunnison, Grand and San Miguel Counties),

while other counties receive more modest sums (e.g., Bent County, Costilla County). Of the high income generation counties, Gunnison charges a tax rate higher than 2%, and all three counties have strong winter tourism visitation due to skiing. The lower income generation counties have natural or cultural features that are desirable to tourists, but may not hold them for an overnight stay, or have a small lodging stock. Some counties have seen very little variation in revenue generation, while others have seen substantial variation.

Table 3 provides a compendium of municipal level occupancy taxes in the state of Colorado. The lodging sales tax rate, the municipal sales tax rate, total sales tax rate and the year the tax was put into effect, where located, are provided. Again this does not reflect the total effective sales tax burden. The average municipal lodging tax assessed is about 3%. Denver and Wheatridge have the highest municipal rates of around 10%, whereas the ski towns of Steamboat Springs, Aspen and Vail have among the lowest municipal rates in the state at around 1-1.5% of sales.

Table 4 illustrates the revenue generated by these municipal lodging taxes over the past five years. Here again, a huge amount of variation is observed. The average municipal lodging tax generated over \$1.2 million per year, while the median generated “only” about \$266 thousand, indicated a highly positively skewed distribution of tax revenues. That is, there were a few jurisdictions (principally, Denver, but also Aurora and Colorado Springs) that generated a very large amount of revenue with their lodging tax. A number of municipalities generated very low revenues with their lodging taxes, opting to depend on county occupancy taxes or other sources of tax revenue to support municipal services and infrastructure needs.

### **Common issues surrounding lodging taxes**

#### **“More taxes are not justified”**

Nobody wants to pay taxes. Some consider that federal, state, and local governments are already too large, take too much hard earned money from taxpayers, and to impose still more taxes on people is simply not fair or necessary. Several ideas can help to inform our individual feelings on this issue. First, what quality and quantity of services do people need and what are they willing to pay for? Second, are the people who pay for the services the people who benefit from them?

Table 1: County lodging tax rates in Colorado.

County	Year Effective	Lodging Rate	Sales Tax Rate	Total rate
Alamosa	01/01/89	1.90%	2.00%	3.90%
Archuleta	01/01/88	1.90%	4.00%	5.90%
Bent	01/01/89	0.90%	1.00%	1.90%
Chaffee	01/01/91	1.90%	2.00%	3.90%
Clear Creek	01/01/91	2.00%	1.00%	3.00%
Conejos	01/01/89	1.90%	0.00%	1.90%
Costilla	01/01/89	1.90%	1.00%	2.90%
Delta	07/01/88	1.90%	2.00%	3.90%
Fremont	01/01/02	2.00%	1.50%	3.50%
Grand	07/01/93	1.80%	1.00%	2.80%
Gunnison	01/01/91	4.00%	1.00%	5.00%
Hinsdale	01/01/93	1.90%	5.00%	6.90%
La Plata	01/01/88	1.90%	2.00%	3.90%
Lake	01/01/93	1.90%	4.00%	5.90%
Logan	01/01/89	1.90%	1.00%	2.90%
Mineral	07/01/88	1.90%	2.60%	4.50%
Moffat	01/01/89	1.90%	2.00%	3.90%
Montezuma	01/01/89	1.90%	0.45%	2.35%
Morgan	01/01/89	1.90%	0.00%	1.90%
Prowers	01/01/06	2.00%	1.00%	3.00%
Rio Blanco	01/01/89	1.90%	3.60%	5.50%
Rio Grande	07/01/88	1.90%	2.60%	4.50%
Saguache	01/01/91	1.90%	0.00%	1.90%
San Juan	01/01/97	2.00%	4.00%	6.00%
San Miguel	01/01/94	2.00%	1.00%	3.00%

Table 2: Annual income generated by county lodging taxes in Colorado, 2000-2004, nominal \$.

County	2000	2001	2002	2003	2004	5 yr avg
Archuleta	155,279	156,408	158,021	159,161	184,716	162,717
Bent	3,402	2,061	679	3,604	NR	2,437
Chaffee	212,868	211,943	214,660	214,238	215,917	213,925
Clear Creek	73,686	73,788	66,556	63,462	61,386	67,776
Conejos	16,181	16,326	15,891	15,128	13,568	15,419
Costilla	16,523	9,490	7,444	9,172	8,282	10,182
Delta	51,299	59,559	59,450	60,898	74,525	61,146
Fremont	NT	NT	99,011	88,441	93,278	93,577
Grand	474,336	423,118	438,037	438,413	439,595	442,700
Gunnison	452,964	404,889	388,114	587,178	833,221	533,273
Hinsdale	38,344	38,260	41,654	38,747	40,777	39,556
La Plata	255,498	238,903	147,247	152,371	169,067	192,617
Lake	71,934	76,926	69,533	67,558	61,644	69,519
Logan	59,559	79,283	74,062	65,199	63,988	68,418
Mineral	47,062	52,300	47,047	46,526	46,872	47,961
Moffat	70,123	83,785	57,910	89,597	82,550	76,793
Montezuma	128,249	87,335	70,809	81,827	77,468	89,138
Morgan	75,975	63,050	60,944	80,673	74,668	71,062
Prowers	NT	NT	NT	NT	NT	NA
Rio Blanco	44,428	38,537	41,158	62,994	111,136	59,651
Rio Grande	73,570	76,556	70,966	75,982	79,210	75,257
Saguache	6,544	7,253	7,987	9,756	9,075	8,123
San Juan	51,557	NA	50,765	41,929	39,663	45,978
San Miguel	306,065	317,253	315,084	292,227	316,681	309,462

Notes: Fremont County's lodging tax was enacted in 2002. Prowers County's tax was enacted in 2006.

NT= no

Table 3: Municipal lodging tax rates in Colorado

County Name	City/Town	Lodging Tax	Sales Tax	Total Sales	Effective Year
Jefferson	Arvada*	2.00%	3.46%	5.46%	1984
Pitkin	Aspen	1.00%	2.20%	3.20%	
Arapahoe	Aurora	8.00%	3.75%	11.75%	
Eagle	Avon	4.00%	4.00%	8.00%	
Boulder	Boulder	5.50%	3.41%	8.91%	
Summit	Breckenridge	2.40%	2.50%	4.90%	01/01/76
Broomfield	Broomfield	1.60%	4.15%	5.75%	11/15/01
Kit Carson	Burlington	2.00%	2.00%	4.00%	
Gilpin	Central City	4.00%	4.0%	8.00%	08/01/65
El Paso	Colorado Springs	2.00%	2.50%	4.50%	
Montezuma	Cortez	2.00%	4.05%	6.05%	
Denver	Denver	9.75%	3.50%	13.25%	
Summit	Dillon	2.00%	2.00%	4.00%	07/01/76
La Plata	Durango	2.00%	3.00%	5.00%	
Eagle	Eagle	\$2/night/room	4.00%	NC	
Arapahoe	Englewood	2.00%	3.50%	5.50%	
Weld	Evans	3.00%	3.50%	6.50%	
Weld, Boulder	Firestone	\$2/night/room	2.00%	NC	05/01/03
Larimer	Fort Collins	3.00%	3.00%	6.00%	
Summit	Frisco	2.35%	2.00%	4.35%	2004
Mesa	Fruita	3.00%	2.00%	5.00%	1996
Garfield	Glenwood Springs	2.50%	3.70%	6.20%	
Jefferson	Golden	3.00%	3.00%	6.00%	
Mesa	Grand Junction	3.00%	2.75%	5.75%	
Weld	Greeley	3.00%	3.46%	6.46%	
Teller	Green Mountain Falls	2.00%	3.00%	5.00%	1983
Arapahoe	Greenwood Village	3.00%	3.00%	6.00%	
Jefferson	Lakewood	3.00%	2.00%	5.00%	
Douglas	Lone Tree	6.00%	1.50%	7.50%	02/01/01
Boulder	Louisville	3.00%	3.75%	6.75%	01/01/03
El Paso	Manitou Springs	2.00%	3.90%	5.90%	01/10/79
Weld	Mead	\$2/room/night	2.00%	NC	07/01/88
Eagle	Minturn	1.50%	4.00%	5.50%	01/01/06
Montrose	Montrose	0.90%	3.50%	4.40%	
San Miguel	Mountain Village	4.00%	4.50%	8.50%	
Adams & Weld	Northglenn	5.00%	4.00%	9.00%	
Ouray	Ouray	\$2/room/night	3.00%	NC	
Douglas	Parker	3.00%	3.00%	6.00%	
Pueblo	Pueblo	4.30%	3.50%	7.80%	
Ouray	Ridgway	\$2/room/night	3.60%	NC	07/01/05
Summit	Silverthorne	2.00%	2.00%	4.00%	07/01/76
Pitkin	Snowmass Village	3.50%	3.50%	7.00%	
Routt	Steamboat Springs	2.00%	4.50%	6.50%	05/01/05
Routt	Steamboat Springs	1.00%	4.50%	5.50%	
Kit Carson	Stratton	3.00%		3.00%	
Adams	Thornton	7.00%	3.75%	10.75%	
Eagle	Vail	1.40%	4.00%	5.40%	01/01/00
Adams & Jefferson	Westminster	7.00%	3.85%	10.85%	
Jefferson	Wheat Ridge	10.00%	3.00%	13.00%	
Grand	Winter Park	1.00%	5.00%	6.00%	04/06/04
Teller	Woodland Park	5.70%	3.00%	8.70%	07/01/02

Table 4: Annual income generated by municipal lodging taxes in Colorado, 2000-2004, nominal \$.

County Name	City/Town	2000	2001	2002	2003	2004	5 yr avge
Jefferson	Arvada	NT	NT	NT	NT	NT	NA
Pitkin	Aspen	NA	839,565	794,835	782,865	883,105	825,093
Arapahoe	Aurora	3,774,098	3,505,950	3,231,779	3,044,341	3,130,347	3,337,303
Eagle	Avon	234,142	268,142	270,131	290,390	322,905	277,142
Boulder	Boulder	2,800,000	2,496,000	2,381,000	2,197,000	2,306,418	2,436,084
Summit	Breckenridge	1,565,358	1,484,277	1,441,656	1,392,933	1,512,117	1,479,268
Broomfield	Broomfield	206,190	208,487	186,401	261,422	283,572	229,214
Kit Carson	Burlington	47,545	49,058	48,566	45,036	50,353	48,112
Gilpin	Central City	51,852	57,054	49,059	42,851	44,428	49,049
El Paso	Colorado Springs	3,566,066	3,275,101	3,191,499	3,247,083	3,470,992	3,350,148
Montezuma	Cortez	134,073	128,163	117,513	129,828	126,672	127,250
Denver	Denver	32,332,872	29,525,350	27,356,245	27,324,394	28,035,440	28,914,860
Summit	Dillon	132,720	124,370	114,550	100,002	97,084	113,745
La Plata	Durango	552,255	583,067	525,443	563,615	611,214	567,119
Eagle	Eagle	65,770	335,250	155,234	149,682	148,037	170,795
Arapahoe	Englewood	11,246	11,642	10,791	8,877	9,076	10,326
Weld	Evans	55,637	62,275	52,115	47,513	46,290	52,766
Weld, Boulder	Firestone	NT	NT	NT	16,622	21,188	18,905
Larimer	Fort Collins	608,213	575,623	574,134	581,636	601,144	588,150
Summit	Frisco	NT	NT	NT	NT	219,116	NT
Mesa	Fruita	47,872	53,828	54,499	56,304	73,901	57,281
Garfield	Glenwood Springs	296,679	512,031	492,104	498,028	516,964	463,161
Jefferson	Golden	NA	405,479	406,372	380,028	406,147	399,506
Mesa	Grand Junction	1,094,144	1,162,218	1,257,350	1,256,405	1,314,215	1,216,866
Weld	Greeley	200,673	208,179	199,941	209,531	188,870	201,439
	Green Mountain						
Teller	Falls	7,897	6,268	12,380	6,433	4,688	7,533
Arapahoe	Greenwood Village	1,132,801	857,859	789,898	677,699	741,908	840,033
Jefferson	Lakewood	1,053,838	846,275	774,101	692,375	727,328	818,783
Douglas	Lone Tree	NA	117,383	240,819	228,667	255,808	210,669
Boulder	Louisville	NA	NA	NA	254,906	276,965	265,936
El Paso	Manitou Springs	121,613	137,007	122,665	124,972	122,293	125,710
Weld	Mead	NT	NT	NT	NT	NT	NA
Eagle	Minturn	NT	NT	NT	NT	NT	NA
Montrose	Montrose	242,780	249,618	255,085	270,337	291,122	261,788
San Miguel	Mountain Village	360,834	327,758	327,030	292,554	309,913	323,618
Adams & Weld	Northglenn	295,758	276,577	234,493	192,019	166,591	233,088
Ouray	Ouray	131,610	132,397	125,270	133,708	134,252	131,447
Douglas	Parker	NA	NA	NA	NA	NA	NA
Pueblo	Pueblo	727,653	732,127	726,259	677,979	727,017	718,207
Ouray	Ridgway	14,245	15,570	14,684	22,541	26,261	18,660
Summit	Silverthorne	98,976	103,888	110,470	106,276	95,664	103,055
Pitkin	Snowmass Village	NT	NT	NT	NT	NT	NA
Routt	Steamboat Springs	NT	NT	NT	NT	289,891	289,891
Routt	Steamboat Springs	612,851	633,875	630,316	615,635	638,504	626,236
Kit Carson	Stratton	17,022	17,827	19,648	18,713	17,795	18,201
Adams	Thornton	517,498	499,079	436,812	381,128	420,347	450,973
Eagle	Vail	1,532,584	1,537,812	1,514,457	1,501,402	1,555,304	1,528,312
Eagle	Vail	NA	NA	NA	1,573,289	1,730,378	1,651,834
Adams &							
Jefferson	Westminster	1,216,000	1,151,000	984,772	914,662	945,908	1,042,468
Jefferson	Wheat Ridge	NA	996,838	983,543	814,910	749,687	886,245
Grand	Winter Park	789,955	845,431	875,765	862,126	818,601	838,376
Teller	Woodland Park	NA	NA	54,757	78,798	73,252	68,936

Table 5: Lodging taxes in Colorado, summary information

	County (n=25)		Municipality (n=51)	
	%	\$	%	\$
Mean	1.96	121,163	3.36	1,164,718
Median	1.90	73,192	3.30	265,936
Mode	1.90		2.00	
Low	0.90	2,437	0.90	0
High	4.0	533,273	10.00	28,914,860

The quality and quantity of government services are paid for by taxes. Therefore, a delicate balance exists between too much and too little taxation. Communities with better public schools, ambulance services, sheriff services, libraries, public parks and open spaces, public recreational amenities, roadways and other infrastructure have higher tax *revenues* than those communities that do not have these things. However, these communities may have lower tax *rates* than other communities because desirable places to live have higher incomes and higher property values per capita than those that do not. A famous economist named Tiebout found that people seek out communities that have the right mix of services and tax burden for their personal preferences and that there is no one correct solution for all places or people.

Communities that depend, in part, on tourism to drive their local economy typically have greater and different service demands than communities that only have to serve their own residents. For example, tourism-based communities will likely have more security, recreation and emergency medical services relative to, say, education and elderly services than a non-tourism based economy. Who should pay for these tourist services? It could be argued that local businesses should pay for tourist services, perhaps through the commercial/industrial land use tax, since they are the members of the community that benefit most from the tourism. Since local residents often also benefit from tourism services, particularly recreational amenities, others argue that visitors and residents should share the burden, potentially in the form of a local sales tax. A lodging tax places the tax burden firmly upon visitors and, perhaps, on local businesses that provide accommodations to visitors to the extent that visitor expenditures are sensitive the tax rate.

**“Lodging taxes are bad for business”**

Business people are often concerned that lodging taxes will reduce the demand for local lodging, reduce visi-

tor expenditures in associated businesses, and result in less tax revenue for the local jurisdiction. Since lodging taxes tend to be a relatively modest proportion of total tourist expenditures, the question regards the sensitivity of tourist visitation to incremental changes in the cost of visiting one location relative to another.

If a 1% increase in lodging costs should reduce the amount of visitation by more than 1%, then total revenues in the lodging sector will decline and the tax does not pay for itself. A 1% or greater decrease in overnight visits would have an impact on the rest of the local economy proportionate to the local employment and sales multiplier for the local lodging industry. In a rural and relatively undifferentiated economy with substantial imports of goods and services into the county as well as leakages of profits outside of the county, the impact would be approximately 1.2 to 1.4 times the total loss or gain in sales.

However, it is considered unlikely that potential visitors know whether or not a community has a lodging tax and would make a decision whether to visit a community based upon its lodging tax, particularly since they are so commonplace. It is far more likely that the community’s reputation for tourist oriented public services would affect visitation decisions, especially return visitors’ decisions. It is considered unlikely, for example, that the reason people currently visit Custer County is due to its lack of a lodging tax relative to neighboring jurisdictions. A survey could reveal this information more definitively. However, we consider it likely that the cost of such a survey would outweigh any benefits derived by more precise knowledge of visitor preferences in this case.

**“Lodging tax revenues are highly seasonal”**

Lodging tax revenues will be precisely as seasonal as the seasonal variation in overnight visitors to the county. In some cases, the services required of the tourism industry are also seasonal. However, in many

cases they may not be, may require investment, or there may be budgetary rigidities that prevent precisely matching needs to revenues. For example, it would be uncommon to hire extra law enforcement officials during the high tourist season only to lay them off in the low season. Also, investment in recreational, transportation or communication infrastructure to meet high season demand will be met with substantial extra capacity, or inefficiencies, during the low season. As a result, the revenues generated by a lodging tax will probably result in too many services in the low tourist season and too few in the high season without some other revenue source.

**“How will this program be administered?”**

Colorado Revised Statute (CRS) 30-11-107.5 covers lodging taxes for the advertising and marketing of local tourism, defining lodging taxes as sales taxes, placing limits on the level of the levy, and describing the appropriate administration of such a tax. County lodging taxes do not apply in municipalities that have lodging taxes. The question of just who is liable for sales taxes, and therefore lodging taxes, appears to be somewhat unclear in practice, if not in law. This issue is covered in CRS 39-26-102 (11), though the issue of what is a taxable activity of a nonprofit and/or tax exempt organization remains a bit unclear to the authors, who are not tax lawyers. The management of sales taxes falls under CRS 29-2-106, which states city or county sales taxes should be administered in the same way that state sales taxes are administered.

CRS 30-11-107.5 states that if a lodging tax passes a vote of the people, all revenue collected from the tax will be credited to a special fund designated as the county lodging tax tourism fund, less a state fee for administering sales taxes. This fund will be used only to advertise and market tourism. No revenue collected

from such a tax shall be used for any capital expenditures with the exception of tourist information centers. The county commissioners are empowered to select a panel of no fewer than three citizens from the local tourism industry to administer the fund. If another such marketing entity is already established within the jurisdiction, the panel is encouraged to use it.

**Custer County Lodging Sector Profile**

**Lodging types and capacities**

A telephone survey was conducted in early 2006 to obtain data on the lodging sector in Custer County. Lodging establishments were contacted and asked to respond to a series of questions related to their number of rooms, total capacity, average rack rate (average cost per room per night) and occupancy rates. Additional information was obtained from published website data for some establishments that were unavailable for a telephone interview. Data for each county were then aggregated by type of establishment, including Bed & Breakfasts/Inns, Motels/Lodges, Ranches, Rental Properties and RV Parks. The Ranches category includes dude or guest ranches which often include meals and activities. Rental properties include businesses that rent houses, condominiums or cabins. Due to disclosure issues, rental and ranch property categories were combined for Custer County. These results from the survey are presented in the sections below.

The survey of the lodging sector in Custer County included a total of 15 businesses, although data were obtained from only 13 of those establishments. Occupancy rates are not reported here as insufficient data was obtained to report this measure. The other data obtained from the survey are presented in Table 6 below.

Table 6: Survey of the Custer County Lodging Sector, by type of establishment

Type	Establishments (#)	Rooms (#)	Pillows (#)	Rack Rate (\$)
B&B/Inn	4	26	68	82
Motel/Lodge	4	57	176	58
RV Park	2	66	NA	24
Ranch/Rental	3	NA	113	115
<b>Total</b>	<b>13</b>	<b>149</b>	<b>357</b>	

Most of the businesses in Custer County are in the Bed and Breakfast/Inn or Motel/Lodge category, making up 8 out of the 13 establishments. Average rack rates varied across establishment type, ranging from \$24 to \$145 per night.<sup>3</sup> These rates were calculated as a simple average of the rates reported by the businesses in each category. In the case where a business reported summer and winter rates, an average of these rates was taken to come up with an average rate for that establishment.

### **Lodging sector revenues**

Monthly lodging sector revenue data for Custer County were obtained from the Colorado Department of Revenue. Data were reported as retail sales in the lodging industry for 2002 to 2005 for Custer County. Details for each county are presented below.

The lodging sector in Custer County is highly seasonal, with the majority of the revenues occurring between May and September (Figure 1 and Table 7). From 2002 to 2005, at least 76 percent of the retail sales for the lodging sector were received during these 5 months. Revenues are particularly low during the first quarter of the year, which accounts for around 4 to 6 percent of total revenues in each of the 4 years. Total revenues declined between 2002 and 2004, and increased somewhat in 2005, although they were still below those received in 2002. Average annual revenues from the lodging sector were approximately \$751,000 in Custer County over the period (Table 7).

### **Estimated impact of a lodging tax on Custer County**

Using average annual revenues, the impact of different levels of a lodging tax was estimated under 3 different scenarios. The first scenario estimates the impact of a lodging tax with the current trend in revenues (using the average revenues shown in Table 7). The second scenario estimates the impact of a lodging tax with a 2 percent increase in revenues, and the third scenario estimates the impact with a 2 percent decrease in revenues. For each of these 3 scenarios, the impact of a 1 percent, 1.5 percent and 2 percent tax was estimated.

These levels of tax were chosen since Colorado law states that counties are allowed to levy county lodging taxes of up to 2 percent for the purposes of marketing and advertising local tourism. A 1.9 percent lodging tax has been instituted in some other nearby counties.

Estimated tax revenues in Custer County are fairly modest, with a range from around \$7,500 for a 1 percent tax to around \$15,000 for a 2 percent tax assuming current trends in lodging sector revenues continue (Table 8). These values do not change substantially with assumed changes in revenues from current levels. With a 2 percent increase in revenues, the estimated impact ranges from around \$7,700 with a 1 percent tax to \$15,300 with a 2 percent tax. A 2 percent decrease in revenues leads to a range from approximately \$7,400 with a 1 percent tax to \$14,700 with a 2 percent tax.

### **Summary and concluding remarks**

A lodging tax is a fiscal tool available to local people to pass along some of the costs of tourism development to the tourists themselves. Lodging taxes are very common among Colorado municipalities and counties, including many neighboring jurisdictions to Custer County. Our estimates indicate that, under typical Colorado county policy conditions, Custer County could expect to generate approximately \$15 thousand per year from a lodging tax. Depending upon how the local policy is written, this tax revenue could be used to market local tourism and/or provide public services in support of the tourism industry. As always, the devil is in the detail and many details, such as who would administer funds and how individuals would become fund administrators, and whether \$15 thousand per year is enough to be useful, remain to be established. It appears that there may be an opportunity for Custer County voters to consider such a policy in the near future. We hope that the information provided in this policy brief helps to inform the discussion surrounding the desirability of a lodging tax in Custer County such that improved governance and an improved standard of living might be facilitated.

<sup>3</sup> Some of the variation in these rates is because rates for bed and breakfasts and ranches can include some or all meals and additional activities. It was not possible to separate these costs out of the total rate, so the total rate was used in the calculation.



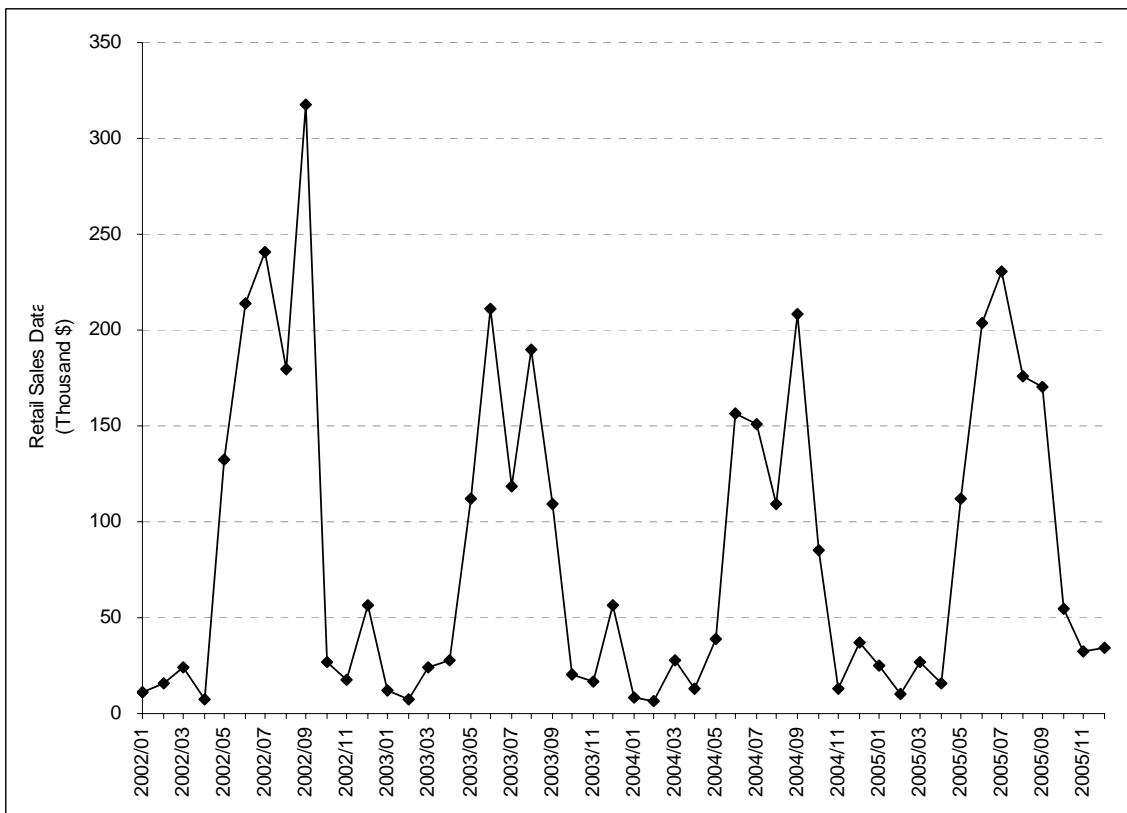


Figure 1: Custer County Lodging Sector Revenues, 2002-2005

Source: Colorado Department of Revenue Note: Values are in Real 2005 dollars.

Table 7: Custer County lodging sector average annual revenues, 2002-05, Thousands 2005 US\$

January	14.20
February	9.69
March	25.71
April	16.02
May	98.86
June	196.39
July	185.33
August	163.76
September	201.18
October	46.76
November	19.80
December	45.94
Annual	750.65

Table 8: Estimated impact of a lodging tax in Custer County

	Current Trend			2% Increase in Revenues			2% Decrease in Revenues		
	1%	1.50%	2%	1%	1.50%	2%	1%	1.50%	2%
January	140	210	280	140	220	290	140	210	280
February	100	150	190	100	150	200	90	140	190
March	260	390	510	260	390	520	250	380	500
April	160	240	320	160	250	330	160	240	310
May	990	1,480	1,980	1,010	1,510	2,020	970	1,450	1,940
June	1,960	2,950	3,930	2,000	3,000	4,010	1,920	2,890	3,850
July	1,850	2,780	3,710	1,890	2,840	3,780	1,820	2,720	3,630
August	1,640	2,460	3,280	1,670	2,510	3,340	1,600	2,410	3,210
September	2,010	3,020	4,020	2,050	3,080	4,100	1,970	2,960	3,940
October	470	700	940	480	720	950	460	690	920
November	200	300	400	200	300	400	190	290	390
December	460	690	920	470	700	940	450	680	900
Annual	7,510	11,260	15,010	7,660	11,480	15,310	7,360	11,030	14,710