



Economic Development Report

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A LODGING TAX FOR CUSTER COUNTY? ISSUES AND ANSWERS¹

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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 |
| Total | 13 | 149 | 357 | |

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.³ 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.

³ 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.

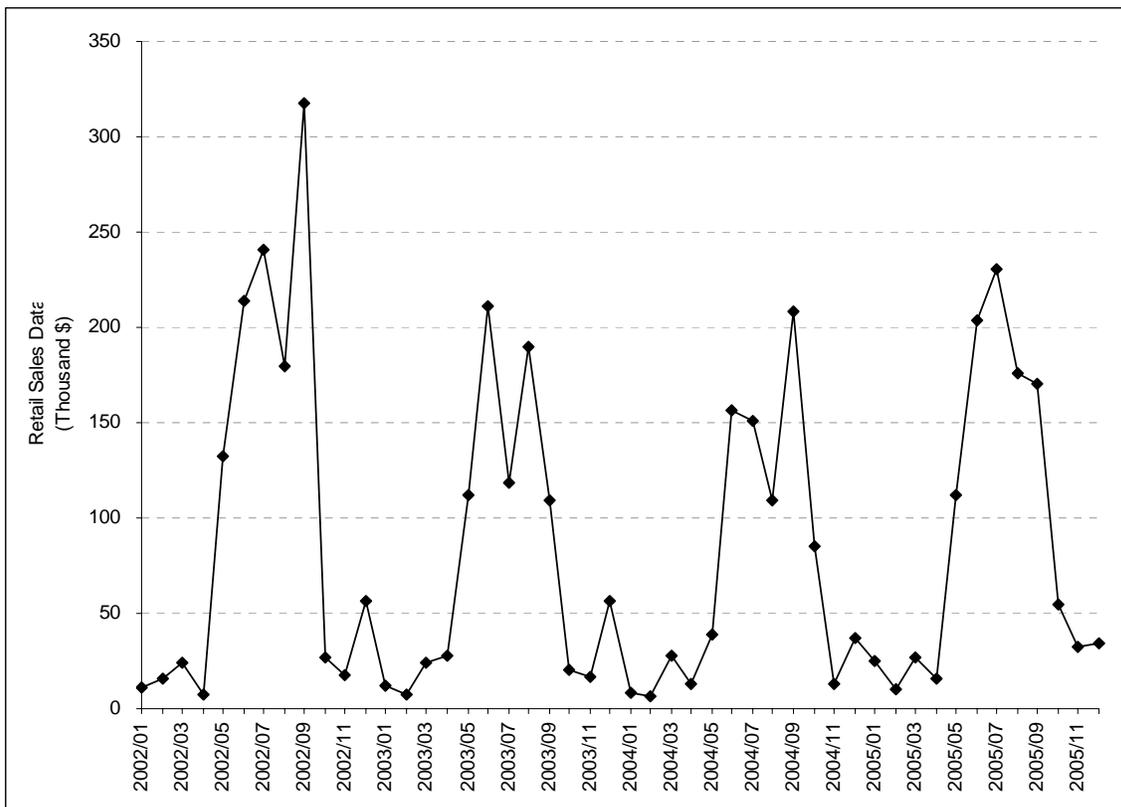


Figure 1: Custer County Lodging Sector Revenues, 2002-2005

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 |