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Mr. Chairman, ladies and gentlemen of the committee,

My name is Frans Mustert; I am President and CEO of Oceana Resorts, a group of 9 hotels in Myrtle Beach. I am the chairman of the Tourism Expenditure Review committee, which goes by the acronym TERC.

Our committee was created by the legislature in 2001 to oversee the usage and application of State Accommodation taxes. The specific statute I am referring to is Chapter 4 of Title 6 of the code of laws of the State of South Carolina. It spells out the manner our committee is to operate and the authorized usage of State Accommodation taxes. It spells out how the funds are to be divided between general funds, specific advertising and promotional funds and what percentage of the funds is to be used for Tourism related expenditures. The committee reviews annually all Accommodation tax expenditures for compliance with the statute.

Allow me to go back in time when the accommodation tax was created. The original accommodation tax statute was passed and signed into law in the early eighties and the main purpose was to increase tourism in the state of South Carolina thru Advertising and Promotion. The idea was to increase tourism which would increase the tax base and hence tourism advertising and promotions would continue to be funded at ever larger levels. The funds could also be used by the counties and municipalities with larger tourism activity to service the additional needs tourism would impose on those jurisdictions. In order to make sure that a minimum percentage of the fund would be used for direct tourism advertising and promotions the legislature wrote into the bill that at least 30% of the funds had to be spend by an established tourism promotion organization such as a Convention and Visitors Bureau or a Chamber of Commerce. The remainder 65% could be used for tourism promotion, the promotion of the arts and for other promotions and services. The legislation was vague at best, ambiguous and was lacking various definitions to ensure that the funds were used for the purpose the legislature intended.

Initially a joint legislative committee was charged with the oversight of the expenditures which duties were later delegated to the DOR when such special committees were abolished.

In 2001 because of restructuring and the need for closer and more precise oversight the creation of TERC was enacted.

I have chaired the committee for the last eight years and I would like to share with you today the amount of funds which for one reason or another have not been used and are still not used for the purposes we feel the legislature intended.

For political reasons the law was passed by the legislature with a Robin hood provision which would re-distribute some of the funds from the larger tourism destinations in the state to those counties which have little if any tourism activity. In 1982 this amounted to less than \$ 1,000,000.00 and because of some acceleration clause has now reached in excess of \$ 3,000,000.00. I am not telling you that this money is wasted as I am sure those counties with little tourism activity has put this money to good use. It is not used however for the promotion of tourism as the original intent was of the A-Tax statute. Neither do I believe that the legislature intended this fund to grow to the magnitude as it has.

The 65% fund or the fund which was intended to be used for tourism related expenditure has been used for various purposes which I am sure was not intended by the legislature. Because of the way the law was written the purposes for which the A taxes can be used are subject to various interpretations.

As the chart of Mr. Prosser showed some 32% of the funds are used for "Tourism related public services". Or some \$ 8,000,000.00. Even though some of these services can legitimately be attributed to tourism it is our contention that some 75% of these funds are used for services which the county or municipality should provide from the general funds and which should not be paid by tourism taxes.

The chart also shows that 21% or \$ 5,000,000.00 is used for Tourism related events meaning festivals, sporting events, fairs, parades, etc. It is our experience that most of these events are serving the local community rather than attract tourism. The municipality is required to report the tourism impact of such expenditures but the numbers reported vary widely depending on who does the reporting and how the numbers were obtained.

Our efforts in having the statute clarified thru the BAT bill or having the statute re written have been in vain mostly because of the opposition of the Municipal Association and the Association of Counties.

Even though I am only addressing the State Accommodation taxes at this time, which amounts to around \$ 40,000,000.00, I would like to bring to your committee's attention the local tourism taxes as well which amount to an additional amount of in excess of 100 million dollars and are supposedly subject to similar limitations as the state A Taxes however are not subject to direct oversight.

It appears that some 140 million dollars is collected from our tourists with only a small percentage used to increase the economic activity of tourism and improve the sustainability of this very important if not the most important economic segment of the State of South Carolina.

In closing I appreciate the work and review your committee is doing and hope you will be able to re-direct these funds to its proper usage: the pure and simple promotion of tourism in our state paid for by the tourists and collected by the tourism industry.

I will be glad to answer any questions.

Thank you for your attention.