Testimony of Joseph P. Riley, Jr., Mayor of the City of Charleston, to the Tax Realignment Committee (TRAC) Local Accommodations and Hospitality Tax Subcommittee hearing – October 7, 2010

I am submitting testimony to this subcommittee concerning recommendations from the SC Tourism Alliance that make substantial changes to the distribution of State Accommodations Tax. I also want to address proposed changes to the collection and oversight of Local Accommodations Tax funds and Local Hospitality Tax funds.

A critically important point that cannot be overstated is that the Tourism Alliance recommendations have brought to light **again** State government actions that directly affect local governments and their revenues. The State government needs to concentrate their efforts on State issues. Local governments are closest to the people and are better equipped, through experience and proximity, to handle local problems. We are directly accountable to the voters in our cities, towns and counties. More than half of the nearly 120,000 citizens of Charleston live within a 10-minute drive of our City Hall. They see us every day, they attend the meetings of our City Council, and they can see first hand, in person, the work that we do on their behalf and how we make decisions. Home Rule was a desperately needed reform of our State government, yet the State government continues to take action that negatively affects local revenue – while having no effect on state revenue. Eroding Home Rule, as these proposals do, is a dangerous trend that seems to be gaining momentum in Columbia. In fact, one of the

Tourism Alliance proposals would give the state a portion of local taxes. Over the past few years, state actions that directly affect local revenues include:

1. Reduction of vehicle property tax assessment ratios from 10.5% to 6% beginning in 2002. The City of Charleston estimates that since 2002, this has cost us in excess of $15 million in taxes.
2. Reduction of the local option Sunday alcohol permit fee from an annual cost of $7,800 to $3,000, a reduction of 61.5%. The City estimates this action has cost us $3,000,000 since 2000.
3. Loss of ability to collect a Franchise Fee from Telecommunications companies. The City's 3% franchise fee was replaced by a 1% business license fee that although projected by the State to be revenue neutral because more telecommunications companies would be taxed, has in fact cost the City of Charleston hundreds of thousands of dollars since 2004.
4. A law passed in 2008 mandated that the penalty period for paying parking tickets could not start until after payment was 30 days late. This has cost us approximately $75,000 a year.
5. With Act 388, the State now dictates to local governments how much property tax revenue they can raise, taking away a key local power. Local property taxes were not and are not out of control – the City has not raised its millage rate but once in the last 10 years. In fact, the City's millage rate has dropped by 53% in those same 10 years. But the state, which doesn't rely the revenue to fund its

own operations, now limits the amount a municipality can raise its millage each year.

The potential recommendations that may come out of this TRAC process are more of the same -- local governments and those other local entities that desperately rely on the support of the City's State Accommodations tax funding face being told how to spend locally-generated revenue by those who are far from the trenches getting things done that need to be done – attracting visitors and generating dollars that can be reinvested in tourism-generating enterprises.

The Tourism Alliance proposals would directly affect the City of Charleston's accommodations tax funds. Based on 2009/2010 fiscal year revenues, we would lose $755,000 under the proposed changes to State Accommodations Tax distribution formula.

Accommodations tax revenue collected totaled $3,304,749, but already $304,867 is withheld from our funds under the existing "Robin Hood clause" to support areas without tourism. Seventy-five cents of every $1 earned over and above the prior year's revenue goes to these other areas. So for all of the hard work done in our community to generate revenue locally, we get 25 cents on the dollar on additional tourism revenue. The portion of "Robin Hood clause" funding has also grown substantially over time because the Department of Revenue has based the distribution on the prior year's number, draining funding away from the areas that generate the lion's share of South Carolina's tourism revenue. First tier counties (those generating less than $50,000 annually) started out at $50,000 annually when the law was first established. That is now up to $143,000 a year. Second tier counties (those generating between $50,000 and $400,000) that started out getting a $15,000 supplement to their own earnings are now up to $41,600 annually. That is an existing problem with the distribution formula and we would be in favor of changes that will cap the "Robin Hood" distributions at the 2010 levels.

We do not support any of the other redistribution changes proposed starting with the 5% to SCPRT and an additional 3% to the 11 South Carolina Tourism Regions (SCATR). This seems to be an obvious shift of a state budget problem onto funds generated and used locally in support of tourism. We support SCPRT and the SCATR system, but NOT at the expense of taking money away from our local groups that are ABSOLUTELY key to putting "heads in beds" at an increasing rate. These changes would result in a loss of about $296,000 of the $755,000 I mentioned earlier.

The biggest winner in the recommendations before the TRAC would be the local Designated Marketing Organization or DMO. Our DMO is the Charleston Area Convention and Visitors Bureau – a great organization and a tremendous partner to the City of Charleston. They currently receive 30% of our accommodations tax or about $892,000 for fiscal year 2009-2010. Under this proposal, they would receive another

$459,000 from the City, or a 51% increase. And that is just from Charleston – they are also the DMO for other counties and municipalities in the Tri-County area. The loss of this $459,000 from the City's share will have a disastrous effect on our ability to attract tourists to Charleston.

Let me explain. The loss of the total $755,000 means that the funds we normally commit to funding tourism generating organizations will fall from approximately $1,270,000 a year to $515,000 a year at a time when most of these organizations are suffering their own financial distress, partly due to STATE funding being completely eliminated. Who are these groups? Only the lifeblood of tourism in Charleston – the Charleston Museum, Spoleto Festival USA and Piccolo Spoleto, The Charleston Wine & Food Festival, The Southeastern Wildlife Exposition, the South Carolina Aquarium, the South Carolina Maritime Festival, the Lowcountry Children's Museum, and many, many others. In 2011 and 2012, you can add the PGA tournament at Kiawah Island. Let me ask, is it more important to give the CVB another $459,000, in addition to the $892,000 they already receive, instead of funding the groups that actually put on the events that bring visitors to Charleston again and again? We don't think so. We think these recommendations are unwise and very dangerous to the wonderful success story that is Charleston – one that involves a great city, a great CVB, and great events that attract hundreds of thousands of visitors.

What else have we done with the funding that these sources of revenue provide? We have not only invested in the groups that bring tourists to our city, but also in the infrastructure that these groups rely on to provide visitors a world-class experience that will bring them back to South Carolina again and again. For example, we use this funding to help us provide the largest police department in the State of South Carolina – for without a safe city, there would be no tourists. Our police department has over 400 sworn officers, and our total public safety expenditures makes up more than 50% of the city's total operational budget.

Over the years, we have also used this funding to renovate historic sites and provide new venues to bring additional tourists to Charleston. Among the capital projects in which we have we have invested this funding include:

1. The $15 million Family Circle Tennis Center – a city owned and financed project completed in 2000 that produced the finest East Coast tennis facility between Miami and New York City, that made possible our hosting of a tier one women's tennis tournament in Charleston annually (a tournament that would have been lost to South Carolina if the city had not stepped up and built this facility). This facility hosted the first Davis Cup match ever in this state and was that was also one of the keys in Charleston being named last month as the Best Tennis Town in America by the US Tennis Association, an Award announced at the USTA's US Open, giving our community important exposure on an international stage.

2. The $18.6 million renovation of the historic Dock Street Theatre completed last year, a prime venue for Spoleto Festival USA and our resident theatre company Charleston Stage, among many other regular tourism-generating events in our city.
3. The $4.8 million renovation of Market Head hall – a key hub in the historic fabric of our city that brings tourism to South Carolina and generates tourism revenue.
4. The in-progress, $142 million renovation of the Gaillard Auditorium, a 50/50 public/private partnership sponsored and coordinated by city. This project will produce the finest concert hall in the Southeast and also greatly enhanced exhibit and banquet space, which will obviously greatly improve tourism and conference possibilities.
5. The $8 million renovation of the Gibbes Museum of Art, a project that will modernize the facility and make much more of the facility available to display the priceless collection of the Carolina Art Association, which enhances the cultural opportunities that are attractive to visitors.

These are just a few of the important tourism-generating capital projects we have used these crucial State Accommodations fees to fund. To reduce the amount of funding available for these kinds of projects simply means fewer venues, attractions and the human capital it takes to bring tourists to South Carolina, and an overall lower quality experience for the visitors that do come. I do not think anyone wants this outcome.

Now, to address the Tourism Alliance's proposal on the Local Accommodations Tax and Local Hospitality Fee. We take exception to the spending of these funds coming under the purview of a Tourism Expenditure Review Committee. These are city-specific revenues and are spent in strict compliance with state law with close monitoring by our finance personnel, our internal and external auditors and our City Council. An appointed board in Columbia should not be imposed upon us and other municipalities to tell us how to spend our money. It is once again making assumption that those far from our communities know better than we do how to manage our local governments and the programs in our communities.

Finally, having the South Carolina Department of Revenue collect local accommodations and hospitality taxes and take 1% off the top accomplishes nothing but taking a process that works and making it more costly, cumbersome, and bureaucratic. We can collect and enforce collection of these funds. And enforcement at the local level is much more effective.

Again, the City of Charleston opposes the proposed changes to the state accommodations tax distribution formula and the changes proposed to local accommodations and hospitality funds.

Thank you for your time and for the opportunity to address this subcommittee.