

March 15, 2016

Testimony 3/15/16 - Tourism Funding Account

Dear Sen. Joan Hartley, Rep. Chris Perone, and members of the Commerce Committee,

My name is Jeffrey Muthersbaugh. I am the owner of The Nehemiah Brainerd House Bed & Breakfast in Haddam, I am Vice President of the CT Lodging Association and I Chair the CT Bed & Breakfast Association and I SUPPORT **Bill H.B. No. 5576** to provide dedicated tourism marketing funding.

Presently, tourism marketing is funded with Occupancy tax collections. When Governor Malloy directed that tourism marketing funding be increased after years of being funded at one dollar, the lodging industry began to rebound in Connecticut.

- Occupancy tax collections **increased by \$11 million** from \$105,663,996 in FY 2014 to \$116,281,201 in FY 2015. This is an essential revenue stream, not expenditure. *Source: CT Dept. of Revenue, FY 2014-2015 Annual Report, www.ct.gov/drs*
- With a 15% state occupancy tax, the lodging industry financially supports many of the Connecticut's programs beyond tourism marketing.

In addition, it supports the continuous growth of Connecticut jobs.

- The hospitality and leisure supersector is made up of two parts: the arts, entertainment, and recreation sector, and the accommodation and food services sector.
- As of Dec. 2015, 159,100 jobs are in this supersector, up from 155,000 jobs in 2014. This supersector grows CT jobs year over year, with **20,600 jobs added** since the beginning of the recession in 2008. *Source: CT Dep. of Labor, www.ctdol.state.ct.us*

At present Connecticut's occupancy tax is directed into the general fund and the legislature determines the amount to be allocated to tourism marketing. Whenever there are deficits, the temptation is there to cut funding for tourism marketing, which is actually counter-productive. It's like unplugging the cash register because we want to decrease the electric bill. We are proposing that a percentage of the occupancy tax currently being collected be directly allocated to tourism marketing with the balance then going to the general fund. This account would be performance based through annual occupancy tax collections. With a set percentage going to tourism marketing, planning and execution of advertisements, etc. can be more stable and the industry will continue to grow, generating more tax revenue with a larger expenditure on marketing, which will increase growth further so that we can begin to properly compete with other tourism markets in New England and other parts of the country.

In addition, H.B. No. 5576 also creates a level of taxation specific to Bed & Breakfasts at 10%. Let me explain why this is important:

Presently, with 15% lodging tax, B&Bs are required to separate breakfast, which is included in the room cost, from the room cost. To clarify, the state puts a value of 10% of the room cost on breakfast and we need to charge sales tax at 6.35% for that amount. The balance of the room is taxed at 15% occupancy tax. Here is the practical result:

At our Inn, if you stay in the Library Suite at \$189 per night, the state considers your breakfast to be worth \$18.90. If you stay in our Victorian Room at \$155 per night, the state considers your breakfast to be worth \$15.50. The reality is that the people who stay in both rooms are eating the same breakfast at the same table. One is "paying" \$18.90 and one is "paying" \$15.50. To make matters worse, if you stay in our Laurel Cottage Guest House for \$300 per night, because we don't serve breakfast to them (they have their own kitchen), their room is taxed at the full

15%, which means that when they get their total bill with tax included, they are paying more than the people who get breakfast. The system is really not fair.

On top of that, the record keeping is quite onerous on the B&B owners. We need to calculate 10% of the room cost and charge 6.35% on that and submit that to the state on a sales tax form and we need to calculate 85% of the room cost and charge 15% on that and submit that to the state on an occupancy tax form. When you are a small business like most B&Bs are and you're making beds, cleaning bathrooms, making breakfast, taking reservations, doing marketing and all the other things that need to be done and it's just one or two of you doing that, dedicating the amount of time it takes to calculate and fill out multiple reports to the state is a burden.

H.B. No. 5576 eliminates a part of that burden. The bill dictates that the room and breakfast are all taxable at 10% occupancy tax. One simple calculation, one report and no more explaining to guests why one person at the table is eating an \$18 breakfast while another person is eating the same breakfast for \$15!

Why 10% occupancy for B&Bs and not 15%? It is to assist these small businesses in being competitive and helping them increase their business. Right now, if you stay in our guest cottage (which has a two night minimum), you are paying \$90 in occupancy tax for your two night stay. That's a lot of money that could otherwise go to tickets to a show at Goodspeed, dinner at a nice restaurant, rides on the Essex Steam Train or any number of things that can put money directly into other businesses in the area and boost the economy. We have also had people decrease the number of nights because, when they add up the tax, it's too much. We are losing business and that goes for every B&B in this state. The large hotel members of the CT. Lodging Association understand this and are supporting a lower occupancy tax specifically for B&Bs to help us. B&Bs in CT are closing at an alarming rate and we need to give them every bit of help we can. The decrease in tax revenues to the state based on B&B's submitting one tax at 10% is negligible but will be a tremendous help to these businesses.

I ask you today to support H.B. No. 5576 so we can maximize the economic impact of travel and tourism in Connecticut and give relief to the small businesses which are our B&Bs. Tourism is an essential economic driver for the well-being and future of Connecticut.

Thank you for your time, effort and your support for a better Connecticut.

Sincerely,

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