Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 5241 (Substitute H-1 as reported without amendment)
Sponsor: Representative James Koetje
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 5-12-04

RATIONALE

The hotel-motel tax revenue that Kent County uses to finance the construction of the De Vos Place Convention Center is available only to counties with populations under 600,000. Kent County's population, however, is expected to exceed that number by the 2010 census, making it ineligible to collect the tax. Evidently, this will leave the county unable to make the bond payments on the convention center. The $220 million De Vos Place, located in Grand Rapids, was financed by the sale of approximately $90 million in bonds, which will not be retired until 2032.

Some people believe that Kent County should be permitted to continue collecting the hotel-motel tax, even after the county's population has exceeded 600,000, to enable it to continue making payments on its bond debt.

CONTENT

The bill would amend the accommodations tax Act to allow a county to continue collecting an excise tax on hotels and motels after it no longer meets the population criteria, if the county qualified when it enacted an ordinance to levy the tax.

Under the Act, a county that has a population of less than 600,000 and a city of at least 40,000 may enact an ordinance "to levy, assess, and collect an excise tax from all persons engaged in the business of providing rooms for dwelling, lodging, or sleeping purposes, except in hospitals or nursing homes, to transient guests, whether or not membership is required for the use of the accommodations". The tax rate may not exceed 5% of the total charge for accommodations.

Under the bill, if a county met the population requirements on the date it enacted an ordinance under the Act, the county could continue to levy, assess, and collect the tax.

MCL 141.862

BACKGROUND

Permissible Uses of the Tax

The accommodations tax Act states that revenue from the excise tax may be used to pay for financing of the acquisition, construction, improvement, enlargement, repair, or maintenance of convention and entertainment facilities, including the payment of principal and interest, when due, on bonds or other evidence of indebtedness issued by the county for convention and entertainment facilities. The revenue also may be used for the current or future annual rental payable by the county to an authority organized pursuant to State law for the purpose of acquiring, constructing, improving, enlarging, repairing, or maintaining the convention and entertainment facilities and leasing them to the county. Additionally, the revenue may be used for the promotion and encouragement of tourist and convention business in the county.

Convention Facility Development Fund

Counties with a population exceeding 600,000 may levy a hotel-motel tax under the State Convention Facility Development

Act, which imposes a tax between 1.5% and 6% of the room charge, depending on the number of rooms in a hotel and the city in which it is located. Revenue from the tax is deposited into the Convention Facility Development Fund and disbursed to local units of government to acquire, construct, improve, enlarge, renew, replace, or lease a convention facility; to repair, furnish, or equip a convention facility; or to refinance those activities.

The tax imposed by this Act may not be collected after December 31, 2015.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bill would allow Kent County (or any other county with a population of 600,000 and a city with at least 40,000 residents) to continue collecting its hotel-motel tax if the county's population was less than 600,000 when the tax was enacted, even if its population later increases beyond that. The change would ensure that counties with growing populations, such as Kent, could continue to collect the tax to pay off bond debt without finding new sources of revenue. Since the bond payments for the De Vos Place will not terminate until 2032, it would not help the county to levy a tax under the State Convention Facility Development Act, which does not permit tax collections after 2015.

Opposing Argument

By permitting the tax to be collected when Kent County's population exceeds 600,000, the bill would allow the county to continue collecting a tax that was imposed without the consent of the voters. The Kent County board of commissioners first enacted the hotel-motel tax in 1975 without putting the matter before the general public for a vote. The board subsequently amended the ordinance in 1989 and 2002.

Response: Under the accommodations tax Act, the hotel-motel tax is enacted through an ordinance passed by the county board of commissioners. A vote of the people is not required.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: David Zin