

HOUSE BILL 1651

TESTIMONY FROM FRITZ SMITH

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Good morning Chairman Kirkland, and to members of the Committee. I appreciate the opportunity to testify about the deliberations surrounding HB 1651, which would amend a previous Act from 1971 as it relates to taxes collected on hotel room rentals. This Bill as we understand it, would expand the definition of who is responsible for collecting the tax from just the operator of the hotel - to now include "intermediaries," or persons who are not an operator but facilitates the booking of hotel reservations.

We also understand that the Bill would expand the definition of rent or consideration received for occupancy to any amount charged by an intermediary to an occupant and retained by the intermediary.

In my capacity as Vice President of Tourism at the Philadelphia Convention & Visitors Bureau, I am responsible for executing sales and marketing activities to attract leisure visitors from around the world to come and visit the numerous magnificent historical, art and cultural, retail, and fine dining attractions in Philadelphia and the surrounding region. There is a particular emphasis on convincing these travelers that there is so much to do in Philadelphia that they must stay one or more nights.

As a result, hotel room nights that we generate are one of our key measurements. Indeed there are very specific room night goals and economic impact that we are accountable for to our Board of Directors. Consequently, the hotel community is a very critical constituency for me and my organization. Our organization is funded to a very substantial degree by the room occupancy

taxes generated by guests staying at our hotels, be they business, meeting and convention, or leisure visitors. The PCVB serves as the official tourism promotion agency, or TPA, for the city and county of Philadelphia.

I also serve on the Board of the Pennsylvania Tourism and Lodging Association, or PTLA which is the leading trade association whose mission is to promote and protect the interests of the hospitality and tourism industry in Pennsylvania. We also serve as the member state association for the American Hotel & Lodging Association (AH&LA). The PTLA was established in 1981 and is governed by a 36-member Board of Directors and has more than 600 state-wide members. I would like to acknowledge Barry Wickes, the Executive Director of PTLA who is here with us (point to Barry).

Additionally, I serve on a Board of Advisers for the Pennsylvania Association of Convention & Visitors Bureaus, or PACVB, a not for profit association for the officially designated tourist promotion agencies (TPAs) within Pennsylvania. The PACVB was founded in 1972 and is governed by a 13-member Board of Directors. The PACVB association seeks to maximize the professionalism of its members and to communicate to the general public, government officials, and other appropriate audiences, the importance of the travel, tourism and hospitality industry to the Commonwealth of Pennsylvania's economic wellness. I would like to acknowledge Rob Fulton, the Executive Director of PACVB who is also here with us (points to Rob).

Both of these organizations, PTLA and PACVB, in their Board deliberations, have discussed HB 1651 and its potential impact on the Commonwealth's travel and tourism industry. Both Boards have contemplated taking a position on the Bill. In the course of these deliberations, and in lengthy discussion, it has become apparent that many of the members see a need for gathering more information; from the many industry sectors who have a stake in the matter. These sectors include:

government officials, the hotel community, the on-line travel agencies or OTA's, who we interpret as being the primary subject of the legislation, as well as other segments of the travel industry who participate in the distribution channel, or who generate hotel room nights and can be interpreted as "intermediaries."

Accordingly, the two organizations, PTLA and PACVB, have formed a joint task force to analyze the Bill. I am appearing here as the head of this task force, which currently consists of three hotel Executives from a diverse cross-section of the state, as well as the Executive Director of the Greater Philadelphia Hotel Association, and Mister Wickes and Mister Fulton.

At this stage in our analysis of HB 1651 we are still in a neutral position and are diligently examining all sides of the issue. We are examining similar efforts in multiple city, municipal, and state jurisdictions to collect from the OTA's the difference in revenue between the "wholesale," and "retail" rates at the tax levels established in those jurisdictions. We are also participating in the discussions at the national level with the many associations who have taken a position on some proposed Federal legislation which affects the issue and could have ramifications at the state and local level. We have spoken to numerous executives and government relations officials from major hotel chains, on-line travel agencies, and brick and mortar travel agencies, as well as professional colleagues at other convention and visitors bureaus and state and local hotel associations to keep abreast of their positions and on legal rulings in their jurisdictions.

We fully understand the argument, some make, that there is tax revenue which perhaps rightly should be remitted to the local taxing authority on mark-ups of hotel reservations, though we await legal clarification as to this matter as it relates to Pennsylvania specifically. Many of us who are participating in these discussions feel torn because there are constituents who are very important

to us who are affected that are on different sides of the issue. The OTA's are clearly an industry partner that generates business for our communities.

There are certain points that we can however make with clarity at this stage:

One: If such legislation is enacted, we are clear that the hotels and other lodging facilities should in no way ever be expected to collect the differential in tax revenue and that this must be codified.

Two: We feel strongly that any revenue which is potentially collected should be dedicated to tourism promotion efforts and not allocated to the General Fund. Pennsylvania's State Tourism Marketing budget, once an industry leader, has been very adversely affected by recent budget cuts, and we believe that this is having a harmful effect on the industry, contributing to job loss and contraction in tax revenue. If revenue is to be collected from the industry, we believe strongly that it should be re-directed into ways that will generate more travel.

Three: We would like the Committee to consider some language that would ensure that there are no unintended consequences which could affect sellers of travel who are not the intended target of this legislation. The hotel industry is heavily dependent upon intermediaries who bring business to them via a very complex and constantly evolving distribution system. There are other jurisdictions in the U.S. in which fairly similar legislation was passed, where it was interpreted by some as an attempt to collect revenue from a much broader group of travel professionals than was originally envisioned.

In summary, the joint task force of the PTLA and PACVB is carefully monitoring this issue and stands ready to assist the Chairman and Committee members in future deliberations of this bill. We appreciate the efforts that Chairman Kirkland, his staff, and the other members of the Committee have made with

respect to bringing it to light, and to working hard to further the interests of the tourism industry, the second largest industry in the Commonwealth of Pennsylvania.

Thank you for this opportunity and I would be happy to answer any questions.