



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156

Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

March 22, 2018

Honorable Burt Jones
Chairman, Senate Insurance and Labor
327-A Coverdell Legislative Office Building
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 694 (LC 43 0996S)

Dear Chairman Jones:

The bill would create add another category of rentals exempt from the \$5.00 per night fee imposed by O.C.G.A. § 48-13-50.3(b). In addition to the exemption provided to extended stay rentals, rentals made by an organization exempt from taxes under Section 501(c)(3) of the federal Internal Revenue Code to another 501(c)(3) organization would not be subject to the fee. The exemption would be effective July 1, 2018.

Impact on State Revenue

A similar bill, LC 43 0844S, applied a similar exemption to all room rentals by nonprofit owner-operators of inns. Georgia State University's Fiscal Research Center (FRC) estimated that the revenue effect of the exemption of all room rentals by nonprofit innkeepers would be between \$1 million and \$1.4 million in FY 2019, growing to \$1-\$1.7 million in FY 2023. Given that this version of the bill requires that the party renting the room also be a nonprofit for the rental to be exempt, the cost of exemption is expected to be much smaller. Unfortunately, no data are available on which to base a firm estimate, but it appears unlikely that the cost to state revenues would reach \$1 million in the foreseeable future.

An appendix adapted from the prior fiscal note is attached for background on the extent of known nonprofit inns operating in the state.

Impact on Expenditures

The bill would not result in significant new expenditures by the Department of Revenue.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin". The signature is written in a cursive style with a horizontal line at the end.

Greg S. Griffin
State Auditor

A handwritten signature in blue ink that reads "Teresa A. MacCartney". The signature is written in a cursive style.

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Based on the limited available data as to potentially-qualifying inns as well as definitions provided within Department of Revenue (DOR) Rule 560-13-2-.01, the estimated state hotel-motel tax revenues from nonprofit inns are as detailed in Table 1. Details of the analysis follow after the table.

Table 1. Estimated State Hotel-Motel Tax Revenues from Nonprofit Inns

(\$ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
High Estimate	\$1.4	\$1.5	\$1.5	\$1.6	\$1.7
Low Estimate	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0

To estimate the revenue to the state of exempting a portion of rentals by nonprofit innkeepers, it is necessary to estimate the number of eligible innkeepers who could claim this exemption, along with the number of rooms and the occupancy rate of those rooms over a year. However, no sources could be found from which to definitively identify innkeepers and facilities that would qualify. Potentially-eligible operations were identified from a list of several known religious-based overnight camps and retreats in the state as well as internet research into similar operations. In addition, at least two non-religious, nonprofit-operated inns are known to exist in the North Georgia mountains, the Len Foote Hike Inn and Enota Mountain Resort. Other inns located at various state parks may also be eligible if the inn itself is owned and operated by a 501(c)(3) nonprofit rather than a state entity.

Operations that were included in the estimates are those that provide lodgings that meet DOR regulatory definitions of a “hotel” and would thus be subject to the tax under current law. DOR’s Rule 560-13-2-.01 defines a “hotel” and a “hotel room” as follows:

"Hotel" means a building that has 5 or more hotel rooms under common ownership, regardless of the name of the facility and regardless of how the facility classifies itself.

"Hotel room" means a room (or suite of conjoined rooms offered as a single accommodation) (i) in a hotel (ii) that is used to provide private sleeping accommodations to paying customers and (iii) that typically includes linen or housekeeping service. A hotel room is usually occupied by transients or travelers who do not enjoy an exclusive right or privilege with respect to the room, but instead merely have an agreement for the private use or possession of the room. A room is a hotel room only if the customer has the right to exclude other customers from the room.

Based on these definitions, it is assumed that many of the identified religious camps and retreats, for example those with lodgings consisting only of cabins or bunkhouses, would not be considered hotels. However, six religious camps and retreats, operated by nonprofits, were identified in Georgia as having facilities that would likely be defined as hotels. Of these facilities, there are an estimated 574 hotel rooms subject to the tax. The two identified non-religious inns together have an estimated 30 rooms.

Occupancy rates for these facilities are unknown, but it is also unknown how many additional, qualifying facilities may be operating in the state. Thus, for the low case estimates, a 90 percent average occupancy rate is assumed for the known 604 rooms, further assuming this accounts for all eligible facilities and rooms, resulting in annual estimated revenues under current law of approximately \$1.0 million for FY 2018. For the high case, it is assumed that there are 50 percent more eligible rooms, but that the average occupancy rate for all rooms is 80 percent, resulting in high case estimated annual revenues of approximately \$1.3 million for FY 2018. Eligible rooms are assumed to grow at between zero and 5 percent per annum from FY 2018 through FY 2023.