

Monroe A. Miller Jr.
19 Big Spruce Lane
Waynesville, NC 28786
May 19, 2014

Subject: E-mail Dialog between Vicki Hyatt, John Hood and Sarah Curry (JLF) regarding TDA 2% Increase.

The following is an interesting dialog initiated by Vicki Hyatt, editor for the Mountaineer, regarding the Haywood County TDA 2% increase controversy. Vicki Hyatt initiates a series of questions based on a column written by John Hood, (Hood is president of the John Locke Foundation), and responded to by Sarah Curry, Director of Fiscal Policy Studies, John Locke Foundation.

[**Editors Note:** E-mails are in chronological order.]

On Wed, Apr 23, 2014 at 7:59 AM, John Hood <jhood@johnlocke.org> wrote:
Putting NC Growth in Context
April 25, 2014

By JOHN HOOD

RALEIGH — Where are America's economic hotspots?

If you answer that question based solely on what politicians or pundits say, you might well get it wrong. You might think that Sunbelt states consistently outperform Frostbelt states, or that California's economy is a basket case. And if your media diet is limited enough, you might think that North Carolina's recent economic performance has been lackluster or even poor.

None of these propositions is supported by the facts.

There are many different ways to measure economic growth. Each has its pros and cons. Some years ago, researchers at the Federal Reserve Bank of Philadelphia came up with a useful way to communicate the available data. They constructed a monthly "Coincident Index" of four measures: the unemployment rate, the number of jobs, average wages and salaries, and the hours worked in manufacturing (which is a proxy for overall hours of employment). The Philly Fed's index was then adjusted for trends in total state output. Over time, then, changes in each state's Coincident Index track closely with changes in the state's gross domestic product (GDP).

The result is a useful indicator of economic activity published monthly, just after the statistics come out from the federal government. So which states are experiencing the strongest economic performance? Let's look first at the year-to-year changes in the index.

From March 2013 to March 2014, the U.S. as a whole posted index growth of about 3 percent. Faster growth rates were found in 21 states, including North Carolina (3.6 percent). The top 10 were North Dakota (6.4 percent), Oregon (5.7 percent), South Carolina (4.9 percent), Maine (4.8 percent), Nevada (4.7 percent), Massachusetts (4.5 percent), Colorado (4.3 percent), Texas (4.2 percent), Indiana (4.2 percent), and Rhode Island (3.9 percent).

A fair objection would be that a single 12-month period isn't enough of an answer to the question. Some states may have outperformed the nation for years while others are only now making up lost ground from the Great Recession. So I also examined the index trends over three years (since March 2011) and over five years (since March 2009). Expanding the scope of analysis does yield different conclusions.

For example, over the five-year span, Maine, Nevada, Colorado, and Rhode Island drop out of the top 10, to be replaced by Utah, Ohio, Michigan, and California. It's certainly true, as partisans of the Lone Star State point, that Texas has far surpassed California in job growth and most other economic measures in recent times. But California still performs better than the average state, given its attractive location, physical and human assets, and role in international trade.

Also notice that the economies of Indiana, Ohio, and Michigan are doing relatively well. Plenty of economic potential remains in the country's industrial heartland, as long as adverse state policies don't get in the way (see "Illinois, state of.")

As for North Carolina, our index growth was far worse than the national average from 2009 to 2011. It has exceeded the national average since 2011. Some critics question the relevance of standard measures to describe North Carolina's economy given a large, unexpected drop in labor-force participation that began in early 2013. But they overstate their case.

The U.S. Bureau of Labor Statistics computes a measure of labor utilization that includes people who have dropped out of the labor force. It's called the U-5 unemployment rate. North Carolina's U-5 rate averaged 9.3 percent during 2013, significantly higher than the familiar U-3 unemployment rate, which averaged 7.9 percent. But that's true in every state. From 2011 to 2013, North Carolina's U-5 rate dropped 2.5 percentage points — one of the largest declines in the country. In other words, even if you account for people dropping out of the labor force, North Carolina's labor market has improved faster than those of most other states.

Why are some states doing better than others? That's a fascinating debate for another day. The place to start, however, is with a clear understanding of which states are, in fact, doing better.

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Hood is president of the John Locke Foundation.



From: Vicki Hyatt <vhyatt@themountaineer.com>
Date: Thu, 15 May 2014 10:21:41 -0400
To: "jhood@johnlocke.org" <jhood@johnlocke.org>
Cc: Jonathan Key <jkey@themountaineer.com>, Jessi Stone <jstone@themountaineer.com>
Subject: Re: Column for April 25

Hi John,

Our newspaper regularly runs your column online and in print as space permits. I met you briefly when you were stopping by newspapers in Western North Carolina years ago.

We'll be covering the JLF assessment of the occupancy tax issue in Haywood County when it is discussed May 19 and there were a few questions I was hoping we could get answered in advance.

1) Local occupancy taxes started everywhere in North Carolina at the request of the tourism industry, which was seeking a uniform way for accommodation owners to better promote their business. The process requires either a city or county to receive the blessing of the General Assembly, and then approval from the county governing board before it is enacted. The county merely serves as a conduit for the industry funds.

Your study seems to vilify Haywood for following an avenue where a targeted industry can self-tax. Do you object to this form of industry promotion only in Haywood County, or in counties and cities across the state?

2) Your study indicates any increase in the occupancy tax rate should be put forward in a referendum, a requirement not stipulated in the state law. Is your organization suggesting this change needs to be made in the state law, or do you just want a different standard in Haywood?

3) Your study seems unclear on where the funds come from and where they are going. While the county reference is used often, Haywood only receives a small fee for administration of the pass-through industry funds. Your study states that decisions on how to allocate funds are made by the HCTDA with the help of the Tourism Product Development Committee that operates within TDA. However, there is no product development committee or earmarked product development funds at this point. This would only be true if the General Assembly approves the local industry request to allow a higher rate. Do you stand behind each statement in the study on these points?

4) Your study also states large capital projects have been asked for and denied. How would your organization characterize the Maggie Valley Festival Grounds, which has been built with the help of TDA funds? Your report also states additional funding would likely not be used for capital projects, yet the proposed legislation specifically states otherwise. What do you have to say about this issue?

5) The comparison occupancy tax rate only compares the county rate in adjacent counties, not the county + city rate in areas such as Franklin and Robbinsville, which brings the total to the amount proposed in Haywood where no municipalities levy a charge. The report also neglected to say Jackson County is authorized to increase the rate to 6 percent if the local tourism industry officials request it. Was overlooking the total tax rate in nearby cities, where the majority of the overnight accommodations are located, intentional or an oversight?

Since the meeting is Monday, I would appreciate these clarifications by the end of the week if possible. Thanks in advance for your consideration.

Vicki Hyatt, editor
Mountaineer Publishing, Inc.

There are certainly differing points of view within the industry on whether the rate should be increased, and stakeholders in the county have vigorously debated the issues. I find it curious that a "think tank" would take on a single local issue such as this, and find it disturbing an organization which is supposed to rely on facts to reach a conclusion could begin its thesis on such misinformation.

From: Sarah Curry <scurry@johnlocke.org>
Subject: Questions about OC Report
Date: May 16, 2014 1:48:09 PM EDT
To: <vhyatt@themountaineer.com>
Cc: Becki Gray <bgray@johnlocke.org>

Vicki,

I am responding to the questions you sent John Hood regarding the Occupancy Tax report. First, I wanted to say thank you for taking the time to read the report. I appreciate your questions and I hope I answered them with enough detail. I am including the questions you asked along with my response in italics below each respective question.

1) Local occupancy taxes started everywhere in North Carolina at the request of the tourism industry, which was seeking a uniform way for accommodation owners to better promote their business. The process requires either a city or county to receive the blessing of the General Assembly, and then approval from the county governing board before it is enacted. The county merely serves as a conduit for the industry funds. Your study seems to vilify Haywood for following an avenue where a targeted industry can self-tax. Do you object to this form of industry promotion only in Haywood County, or in counties and cities across the state?

As a principle of individual liberty and freedom, our organization promotes referendums for tax increases so that the entire public can have an input on the pending tax. The sales tax serves as a good example, before a county can increase the sales tax, it must pass a vote of the people. In the case of the occupancy tax, those that are being taxed have no say in the tax they are paying since the majority of people visiting Haywood are from out of town or out of the county. So in principle, we object to any tax that is imposed without the taxpayer having a voice against or for the tax. This is not a specific stance towards the occupancy tax in your county, we object to occupancy taxes across the state by principle.

2) Your study indicates any increase in the occupancy tax rate should be put forward in a referendum, a requirement not stipulated in the state law. Is your organization suggesting this change needs to be made in the state law, or do you just want a different standard in Haywood?

Yes, we argue that the method in which the occupancy tax is approved should be changed statewide.

3) Your study seems unclear on where the funds come from and where they are going. While the county reference is used often, Haywood only receives a small fee for administration of the pass-through industry funds. Your study states that decisions on how to allocate funds are made by the HCTDA with the help of the Tourism Product Development Committee that operates within TDA. However, there is no product development committee or earmarked product development funds at this point. This would only be true if the General Assembly approves the local industry request to allow a higher rate. Do you stand behind each statement in the study on these points?

To address the funds location, we used data from the HCTA on the level of funding generated from the occupancy tax and for the spending of those funds we used the HCTDA funding worksheet from the most recent year. The Department of Revenue and the Department of Commerce reports were cross-referenced to ensure accuracy of tax collections.

After reading your comment, I did more research and found that the committee would only be created upon the passage of the legislation. After confirming this, we have updated the report to state that the HCTDA directs the funds, not the committee. Thank you for bringing my attention to this mistake. To clarify, explanation of the legislation was requested from legislative staff and this was their response. This is the information I used when writing the report, and I misunderstood the information about the committee in Haywood.

“The only other Product Development Fund, funded by an occupancy tax, that I’m aware of is in Buncombe County. Buncombe’s Product Development Committee is established by the county TDA, and

the majority of committee members must be hotel operators/owners. I think there is a drafting error in HB 307 because there is no provision for the establishment of the TDA, only for the Product Development Committee. I spoke with the drafter, and he said this was an oversight. As currently drafted, the board of county commissioners would appoint members to the Product Development Committee, and the voting members must represent the various zip codes in the county. The bill also states specifically who the 4 nonvoting members are. Therefore, to answer your question whether there are other committees appointed the same way as under H307, the answer is no since there is only one other and that committee is appointed by the TDA, not the county commissioners.”

4) Your study also states large capital projects have been asked for and denied. How would your organization characterize the Maggie Valley Festival Grounds, which has been built with the help of TDA funds? Your report also states additional funding would likely not be used for capital projects, yet the proposed legislation specifically states otherwise. What do you have to say about this issue?

The reference in the report was made towards the proposed sports complex and an ice skating rink - both of these projects have not received funding from the HCTDA. There was no mention or reference to the festival grounds. Again, the legislative staff also addressed the issue regarding capital projects and their response is below:

“The money may only be spent on tourism-related capital projects, which would include buildings. Generally speaking, any project would have to increase the use of lodging facilities in the county.

On a final note, the bill as currently drafted does not conform to the House Finance Committee’s Guidelines on Occupancy Tax, which requires that at least 2/3 of occupancy tax proceeds be spent on tourism promotion. Under this bill, 100% of the proceeds would be spent on tourism-related capital projects.”

Because the current law does not conform to the House Finance Committee’s Guidelines on Occupancy Tax, it is under the assumption in the report that the bill would be amended to meet those guidelines and the provision allowing proceeds to be spent on capital projects would be removed. Current guidelines state that at least two-thirds of the proceeds from the occupancy tax must be used to promote travel and tourism and the remainder must be used for tourism-related expenditures, which may include beach nourishment. If the bill were to be enacted meeting the current guidelines, at least two-thirds of the Haywood County occupancy tax proceeds would be used to promote travel and tourism, not capital projects.

5) The comparison occupancy tax rate only compares the county rate in adjacent counties, not the county + city rate in areas such as Franklin and Robbinsville, which brings the total to the amount proposed in Haywood where no municipalities levy a charge. The report also neglected to say Jackson County is authorized to increase the rate to 6 percent if the local tourism industry officials request it. Was overlooking the total tax rate in nearby cities, where the majority of the overnight accommodations are located, intentional or an oversight?

The report did not focus on the maximum allowable tax in the counties; it focused on the actual and tax rate the counties were currently using. The rates that were used were the county rates, and that was done using a chart published by the Department of Commerce. Since Haywood is proposing an increase to their county rate, we felt it to be an accurate comparison to only include the county rates.

Again, thank you for taking the time to read the report, and if you have any further questions, please do not hesitate to give me a call. Thanks and I hope you have a great weekend.

-Sarah

Sarah Curry
Director of Fiscal Policy Studies
John Locke Foundation
200 W. Morgan Street, #200
Raleigh, NC 27601

Website: www.johnlocke.org
E-mail: scurry@johnlocke.org
Phone: (919) 828-3876
Fax: (919) 821-5117