

Understanding the Cuyahoga County Hotel Bed Tax

By William Tarter, Jr., MPA

Introduction

One month ago, *Cleveland.com* reported that Cuyahoga County Executive Armond Budish had asked Destination Cleveland for a portion of the revenue received by the organization through the countywide hotel bed tax, to instead be directed towards public financing of a multi-million dollar expansion of Quicken Loans Arena. For more information on the specific breakdown of how the Cavaliers, the County, the City and Destination Cleveland are proposing to pay for that deal, please see an excellent piece by Rich Exner:

[http://www.cleveland.com/datacentral/index.ssf/2016/12/who_will_pay_for_the_quicken_l.ht
ml](http://www.cleveland.com/datacentral/index.ssf/2016/12/who_will_pay_for_the_quicken_l.html).

A significant portion of the public contribution to Quicken Loans expansion will come from the Cuyahoga County hotel bed tax. I wanted to better understand the hotel bed tax, so I wrote this document as a private citizen and on my own time, to share with others on how it works.

In this paper, I will examine the original passage of the hotel bed tax, the current allocation of funds for the hotel bed tax, as well as its role in what is being proposed for Quicken Loans Arena.

The County Hotel Bed Tax

The Ohio Revised Code permits counties to add up to 6 percent tax to hotel stays and other transactions related to the hospitality industry.ⁱ There are examples of counties, including Cuyahoga, where municipalities charge their own lodging tax in addition to County lodging taxes. In this document, we will focus on the County portion of the tax in Cuyahoga County.

Starting in 1992, Cuyahoga County has had at least a 4.5 percent hotel bed tax rate. That 4.5 percent is divided two ways: 3 percent of the tax revenue (by state law) went/goes to the visitor and tourism bureau of the county, in this case Destination Cleveland, and 1.5 percent went towards paying the construction bonds on the Rock and Roll Hall of Fame.

In 2010, Cuyahoga County Commissioners added an additional 1 percent to the hotel bed tax, beginning in 2011, in order to help finance the Cleveland Convention Center. This brought the total amount of the Cuyahoga County bed tax to 5.5 percent.

Below, is a graphic of how the 2014 hotel bed tax was distributed. *See Graphic A - 2014 Hotel Bed Tax Distributions, with marked Port Authority/Rock Hall.*ⁱⁱ

Graphic A - 2014 Hotel Bed Tax Distributions, marked Port Authority/Rock Hall

 FISCAL DEPARTMENT Financial Services/ LODGING TAX Chart of Disbursement of Bed Tax Collections						
2014	TOTAL	PORT AUTHORITY	ADMINISTRATION	MEDICAL MART	MUNICIPALITY	DESTINATION
Monthly Bed Tax	COLLECTIONS	Rock-N-Roll	FEE		(IF NOT COLLECTING THEIR OWN)	CLEVELAND
Collections	5.50%	1.50%	3.00%	1.00%	33.33%	REMAINING BALANCE
January	1,084,853.33	295,839.48	23,670.39	191,335.85	1,688.67	572,318.94
February	1,280,118.95	349,088.39	27,930.92	225,774.91	1,818.48	675,506.25
March	1,223,881.66	333,752.50	26,703.94	215,856.30	1,813.36	645,755.56
April	1,475,689.32	402,420.49	32,198.09	260,267.71	2,139.94	778,663.09
May	1,516,082.61	413,435.75	33,079.40	267,391.87	2,255.25	799,920.34
June	1,722,685.86	469,776.46	37,543.64	303,841.45	2,553.55	908,970.76
July	1,911,601.04	521,293.63	41,709.21	337,149.53	3,314.43	1,008,134.24
August	1,997,192.73	544,634.45	43,576.76	352,245.38	2,585.37	1,054,150.77
September	1,955,490.27	533,262.20	42,666.85	344,890.31	3,763.47	1,030,907.44
October	1,924,307.76	524,758.71	41,986.51	339,390.64	1,934.87	1,016,237.03
November	1,835,289.14	500,483.33	40,044.16	323,690.44	3,003.73	968,067.48
December	1,651,685.53	450,414.61	36,038.17	291,308.18	2,678.81	871,245.76
TOTALS	19,578,878.20	5,339,160.00	427,148.04	3,453,142.57	29,549.93	10,329,877.66

Source: Cuyahoga County

The Cuyahoga County Hotel Bed Tax Changes

The 1.5 percent portion of the tax was to expire in November, 2014, when payments on the construction bonds of the Rock and Roll Hall of Fame were complete. However, Cuyahoga County Council instead renewed that 1.5 percent tax for another 40 years, and through an agreement with the Cuyahoga County Mayors and Managers Association and the Mayor of Cleveland, that money was then designated towards Destination Cleveland (in addition to the 3% that Destination Cleveland was already allocated by statute). That was especially timely, because that money was used for capital projectsⁱⁱⁱ and freed up other budgeted Destination Cleveland dollars that were used other for visitor-related activities, as well as preparation for the Republican National Convention (RNC).^{iv} Upon receiving the reallocation, Destination Cleveland entered into a separate agreement with the Rock & Roll Hall of Fame to provide 25% of the 1.5% hotel bed tax revenue to support the Rock and Roll Hall of Fame Induction Ceremony taking place in Cleveland at least every three years (eventually it will be every other year – projected to start in 2018).^v

Now, in essence, the County Executive is proposing to reallocate a portion (but not all) of that 1.5 percent to pay back part of the county bonds over the next 19 years to finance the Quicken Loans Arena renovation. More on that later.

What the hotel bed tax brings in now

Destination Cleveland was given \$10.3 million in 2014, \$11.4 million in 2015 and \$11.8 million in 2016 (Graphic B) from hotel bed tax revenue (that's the 3% they get by state law). According to Destination Cleveland, before any of the revenue is allocated to marketing the region, Destination Cleveland fulfills a capital obligation of \$1.5 million per year toward repayment of the Gateway bonds (through 2023) and an obligation that ranges from \$200,000 – \$1,000,000 per year toward the Convention Center and Global Center for Health Innovation.

With the aforementioned extension of the hotel bed tax in 2014, Destination Cleveland now also receives the 1.5% (now that the Rock Hall construction bonds are paid off). That equals an additional \$5.9 million in hotel bed tax revenue in 2015 and \$6.1 million so far in 2016. As noted above, 25% of those funds are provided to the Rock & Roll Hall of Fame to support the induction ceremony in Cleveland. *See Graphic B - 2016 Hotel Bed Tax Revenue, column Port Authority/C.A.R.E.S. (see footnote iii for definition of C.A.R.E.S.).*

Graphic B - 2016 Hotel Bed Tax Revenue, column Port Authority/C.A.R.E.S.



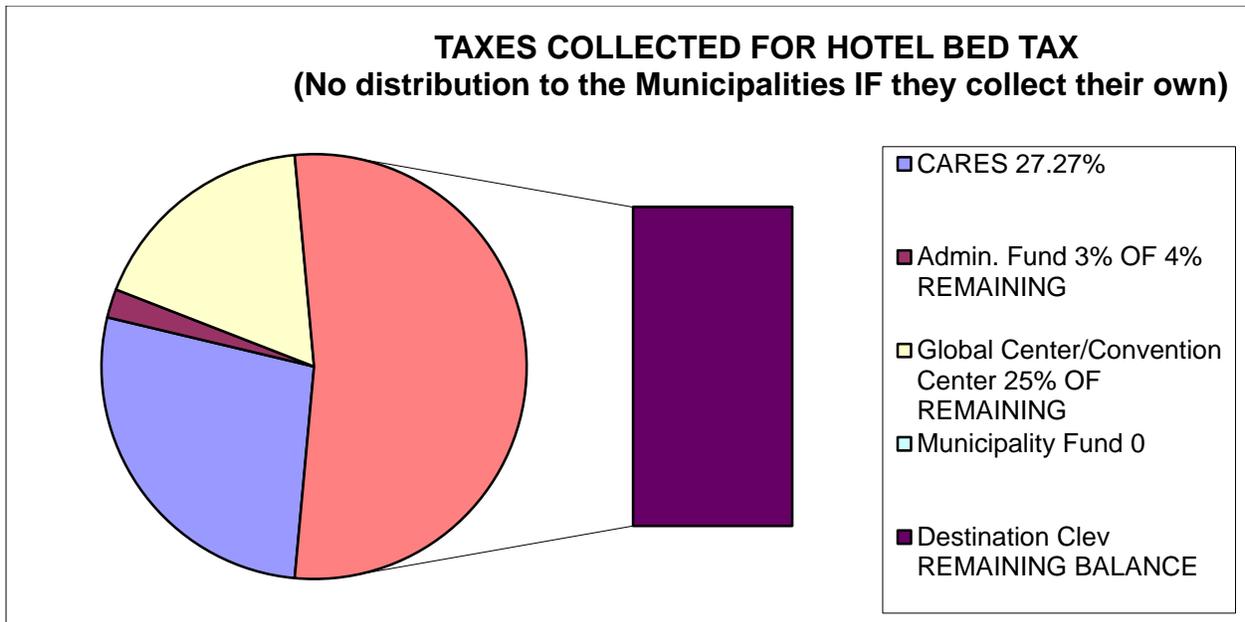
FISCAL DEPARTMENT						
Financial Services/ LODGING TAX						
Chart of Disbursement of Bed Tax Collections						
2016	TOTAL	PORT AUTHORITY	ADMINISTRATION	MEDICAL MART	MUNICIPALITY	DESTINATION
Monthly Bed Tax	COLLECTIONS	(C.A.R.E.S.)	FEE		(IF NOT COLLECTING THEIR OWN)	CLEVELAND
Collections	5.50%	1.50%	3.00%	1.00%	33.33%	REMAINING BALANCE
January	1,164,341.87	317,516.04	25,404.73	205,355.27	2,354.03	613,711.80
February	1,534,941.03	418,578.42	33,490.84	270,717.92	1,788.38	810,365.47
March	1,540,477.48	420,088.21	33,611.66	271,694.41	1,962.60	813,120.60
April	1,597,454.44	435,625.83	34,854.90	281,743.46	2,104.26	843,125.99
May	1,877,018.70	511,862.99	40,954.70	331,050.26	2,185.79	990,964.96
June	2,089,876.18	569,909.24	45,599.03	368,591.98	2,430.14	1,103,345.79
July	2,371,397.08	646,679.98	51,741.50	418,243.89	2,754.52	1,251,977.19
August	3,219,299.31	877,902.91	70,241.93	567,788.63	3,750.37	1,699,615.47
September	2,341,634.65	638,563.76	51,092.18	412,994.67	1,798.80	1,237,185.24
October	2,162,130.99	589,613.14	47,175.56	381,335.58	3,877.38	1,140,129.33
November	2,611,111.54	712,050.13	56,971.83	460,522.40	2,497.86	1,379,069.32
December	0.00	0.00	0.00	0.00	0.00	0.00
TOTALS	22,509,683.27	6,138,390.65	491,138.86	3,970,038.47	27,504.13	11,882,611.16

Source: Cuyahoga County

How the money is distributed, with a \$10.00 sample figure of how the money is allocated*:

AUDITS	Actual %	Sample Figure	Basic %
Amount Collected	5.50%	\$10.00	5.50%
CARES	27.27%	\$2.73	1.50%
Admin. Fund	3% OF 4% REMAINING	\$0.22	4%
Global Center/Convention Center	25% OF REMAINING	\$1.76	
Municipality Fund	0	\$0.00	
Destination Cleveland	REMAINING BALANCE	\$5.29	

*This is an accurate sample figure chart for the revenue spending generated in 22 of the 29 cities in Cuyahoga County that collect hotel bed tax. These 22 cities collect a city hotel bed tax on top of the county hotel bed tax. There is a slightly different county allocation formula for the remaining 7 cities that do not collect a city hotel bed tax. That is the "Municipality Fund" part of the "Graphic B" table.



Source: Cuyahoga County

Proposal to Direct Funds to Quicken Loans Arena

Of that additional 1.5% revenue (remember, \$6.1 million this year), subject to approval by Destination Cleveland and County Council, a portion of that money would be used towards the county construction bonds for the renovation of Quicken Loans Arena. The final schedule is yet to be determined but could be \$1 million in the first year and increasing every year to \$3.8 million in the final year of 2035.^{vi}

The correlation between the hotel bed tax, tourism, and recent success in sports

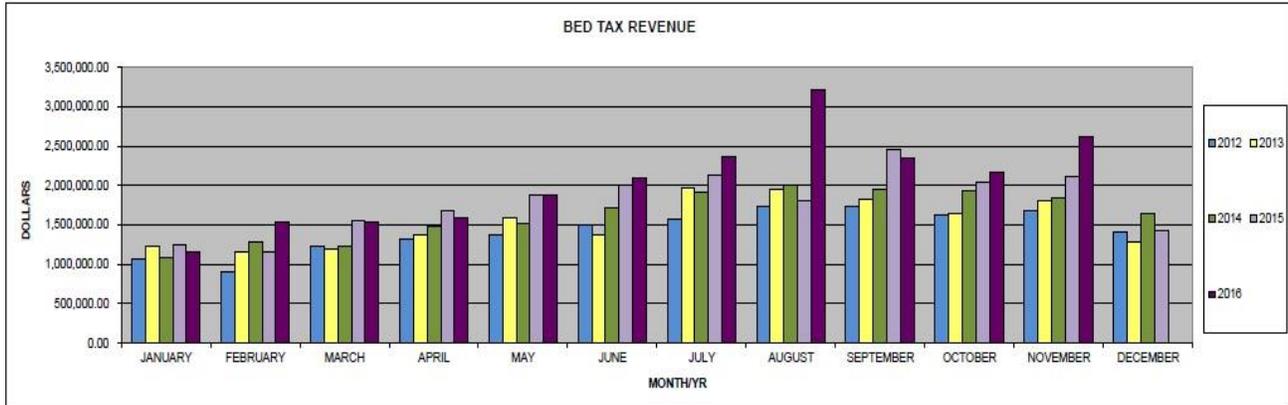
A recent review of the revenue that comes in from the hotel bed tax seems to show a strong correlation between milestones in Downtown Cleveland development, for example, the opening of the Horseshoe Casino in 2012, the opening of the Cleveland Convention Center in 2013, the return of LeBron James to Cleveland in 2014, the Finals for the Cavaliers in 2015, and the Finals for the Cavaliers and the World Series for the Indians in 2016. There was also additional revenue jumps with the addition of hotels in the Downtown Cleveland area including the Hilton Convention Center hotel^{vii}, the Aloft hotel, the Kimpton, the Metropolitan at The 9, and others. See *Graphic C - Monthly Hotel Bed Tax Revenue 2012-2016*

Graphic C - Monthly Hotel Bed Tax Revenue 2012-2016

MONTHLY Distributions
2012 TO 2016
Charted based on Time of Collection.

RNC: REPUBLICAN NATIONAL CONVENTION
Casino opened up in May 2012
CAVS PLAYOFFS-April-June 2015
Indiana Playoffs

Monthly Distributions	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTALS
2012	1,060,652.46	901,396.79	1,233,020.29	1,312,701.15	1,378,224.38	1,507,556.53	1,567,485.21	1,728,681.84	1,726,348.04	1,628,327.69	1,685,107.93	1,414,077.28	17,143,579.59
2013	1,230,998.33	1,163,893.20	1,200,194.21	1,381,236.99	1,596,008.29	1,369,105.02	1,962,945.89	1,949,834.34	1,819,121.87	1,648,331.87	1,806,764.02	1,283,182.39	18,411,616.42
2014	1,084,853.33	1,280,118.95	1,223,881.66	1,475,689.32	1,516,082.61	1,722,685.86	1,911,601.04	1,997,192.73	1,955,490.27	1,924,307.76	1,835,289.14	1,651,685.53	19,578,878.20
2015	1,239,489.80	1,155,143.71	1,549,116.50	1,687,397.27	1,880,952.39	2,006,773.89	2,135,202.71	1,813,800.18	2,456,792.94	2,049,758.62	2,117,561.14	1,431,596.79	21,523,585.94
2016	1,164,341.87	1,534,941.03	1,540,477.48	1,597,454.44	1,877,018.70	2,089,876.18	2,371,397.08	3,219,299.31	2,341,634.65	2,162,130.99	2,611,111.54		22,509,683.27



**CURRENTLY THERE ARE 150
LODGING ESTABLISHMENTS IN CUYAHOGA COUNTY**

Source: Cuyahoga County

Conclusion

With such events and visitor increases taking place, it is understandable that the county would want to reallocate money from the hotel taxes to the stadiums. In theory, many people who stay in the hotels for the sports teams, are contributing to the maintenance of the stadiums. That is not to say that all of the hotel stays are related to sports, but events such the Championship Parade and the playoffs with the sport teams bring visitors to stay in the hotels.

Additionally, the reallocation proposition of the hotel bed tax aligns with County Executive Armond Budish’s pledge to not issue any new county bonds without a dedicated revenue source.

I hope this paper was helpful to understanding the hotel bed tax. Thanks for reading!

Sources:

i

http://www.tax.ohio.gov/portals/0/communications/publications/brief_summaries/2009_brief_summary/lodging_tax.pdf

ii http://council.cuyahogacounty.us/pdf_council/en-US/Legislation/Ordinances/2014/O2014-0020H%20Enact%20Chapter%20717%20of%20Code%20authorizing%20extension%20of%20the%20Capital%20Improvement%20Bed%20Tax.pdf

iii Technically, the Ohio Revised Code, Section 5739.09 (2D) reads that the 1.5% must be used for the “acquisition, construction, and equipping of a port authority educational and cultural facility in the county.” Initially this was used for the Rock and Roll Hall of Fame, but when the money was reallocated to County (and subsequently to Destination Cleveland) in 2014, the County decided to name the 1.5% after *the cause/purpose* of the tax vs. whom it was going to. Hence, on County documents, instead of saying “Port Authority/Rock Hall,” the 1.5% program is called “Port Authority/C.A.R.E.S.” which stands for “Contributions for the Acquisition of Real Education Services.” <http://codes.ohio.gov/orc/5739>

iv <http://wclv.ideastream.org/news/cuyahoga-county-council-may-extend-life-of-hotel-bed-tax>

v Destination Cleveland

vi http://www.cleveland.com/datacentral/index.ssf/2016/12/who_will_pay_for_the_quicken_l.html

vii Please note that hotel bed taxes paid by guests who stay at the county-owned Hilton Downtown Cleveland hotel are collected like other hotel bed tax revenue, but are recycled back into the building, by way of the county paying on the construction bonds for the project.

<http://wsj.com/articles/welcome-to-cleveland-heres-your-taxpayer-subsidized-room-key-1468014412>