



GAO

Government Accountability Office

New Mexico Office of the State Auditor

Transparency Report Lodgers' Tax Expenditures

Lodgers' Tax Provides Revenue to Develop the Tourism Industry

Local governments in New Mexico have the option of imposing a lodgers' tax on rentals of motel and hotel rooms, trailer camps and several other rental settings. Municipalities and counties have two years to expend collected revenues and typically expend carryover funds in each annual budget.

Revenue. Every vendor providing lodging within the county or municipality that imposes a lodgers' tax is responsible for collecting that tax. If the county or municipality collects more than \$250,000 in lodgers' tax revenue, the governing body must conduct random audits of vendors to confirm compliance.

Expenditures. Currently, the law provides that, for Class A counties or municipalities with a lodgers' tax greater than two percent, 50 percent must be used to advertise, publicize and promote tourist-related attractions, facilities and events. The remaining 50 percent of revenues may be used for collecting and administering the tax; for tourist-related facilities, attractions or transportation systems; or for financing capital items associated with tourist-related facilities, attractions or transportation systems. If the tax is two percent or less, one-fourth of the revenue must be used to advertise, publicize and promote tourist-related attractions, facilities and events.

In determining whether an expenditure is an appropriate use of lodgers' tax revenues, local governments reported that they consider:

- Will the event or use of funds bring people from out of town?
- Will the out-of-town visitors stay at motels, hotels, motor or trailers courts or other lodging facilities?
- Will out-of-town visitors be eating at local restaurants?
- Will out-of-town visitors frequent other stores, sites or attractions in the local area?

The law does not further specify the types of acceptable expenditures. The law also does not mandate particular disclosures of expenditures at the county or municipality level. Given the broad discretion that counties and municipalities have in spending lodgers' tax revenue, the expenditure disclosures of the municipalities that the OSA received for Fiscal Year 2014 in connection with this Transparency Report appear to be consistent with the lodgers' tax Act.

Lodgers' Tax In a nutshell



Enacted in 1969, the Lodgers' Tax Act (Sections 3-38-13 et seq., NMSA 1978) enables an optional tax, imposed at the city or county level, on persons using commercial lodging accommodations. The tax provides revenues to administer the taxing program and to promote tourist-related events and other activities including advertising for promotion of events and supporting tourist-related facilities. The Act requires a five-member Lodgers' Tax Advisory Board appointed by the mayor or county commission chairman.

Learn More

For data on New Mexico lodgers' tax receipts visit:

The Bureau of Business and Economic Research:

<https://bber.unm.edu/econ/ltryear.htm>

New Mexico Department of Finance & Administration:

http://nmdfa.state.nm.us/Financial_Distribution.aspx

Case Studies

The Office of the State Auditor conducted the following case studies, examining municipalities that impose a five percent lodgers' tax. Some of these municipalities also impose hospitality fees, convention center fees, and other items that may apply to the same transactions as the lodgers' tax.

Albuquerque: The City of Albuquerque reports that it uses lodgers' tax revenues for advertising, publicizing and promoting certain recreational and tourist facilities as well as acquisition and construction of such facilities as provided by law. The City of Albuquerque's expenditures of lodgers' tax revenue were payments for the following:

1. Debt service (\$5,115,000)
2. Albuquerque Convention & Visitors' Bureau operations (\$4,264,000)
3. Hispano Chamber of Commerce (\$581,000)
4. Indian Pueblo Cultural Center (\$30,000)
5. American Indian Chamber of Commerce (\$49,863)
6. SMG Convention Center management company (\$190,000)

Carlsbad: The City of Carlsbad reports that it uses lodgers' tax revenue to defray costs of advertising, publicizing, and promoting tourist-related attractions, facilities and events of the municipality or county and tourist facilities within the area. The City of Carlsbad also uses lodgers' tax funds for the Chamber of Commerce's management of its conference center as well as operations for its performing arts center and other promotional events. The City of Carlsbad's largest expenditures of lodgers' tax revenue were payments for the following:

1. Chamber of Commerce general advertising (\$303,083)
2. City facility management (\$282,333)
3. Erosion control at Pecos River Village (\$253,434)
4. Paving at Pecos River Village (\$80,875)
5. Museum exhibit expenses (\$46,314)
6. Nuclear Summit advertising (\$40,234)

Gallup: The City of Gallup reports using lodgers' tax revenues for the purposes of advertising, publicizing and promoting facilities and tourist attractions, and for acquiring, constructing and maintaining certain facilities related to tourism. The City of Gallup's largest expenditures of lodgers' tax revenue were for the following:

1. Debt service (\$420,999)
2. Red Rock Park Event Center operating costs (\$259,419)
3. Chamber of Commerce advertising (\$145,000)
4. National Junior High School Rodeo Finals Rodeo (\$119,534)
5. El Morro addition (\$55,333)
6. Chamber of Commerce Convention Center contract (\$50,000)

Summary of Case Study Data

Municipality	FY14 Audited Revenue*	FY14 Reported Expenditure
Albuquerque	\$10,789,915	\$10,229,863
Carlsbad	\$ 1,867,404	\$1,154,266
Gallup	\$ 1,253,927	\$1,518,467
Hobbs	\$ 1,524,140	\$1,573,328
Las Cruces	\$ 1,910,846	\$2,244,392
Santa Fe	\$ 8,376,475	\$8,000,000
Taos	\$ 1,034,548	\$ 1,119,928

* Revenue does not include rollover from previous years.

Hobbs: The City of Hobbs reports using lodgers' tax revenues for advertising; promoting certain recreational and tourist-related attractions, facilities and events; and acquiring, establishing and operating tourist-related attractions, facilities or transportation systems. The City of Hobbs' largest expenditures of lodgers' tax revenue were for the following:

1. Payments to the Lea County Economic Development Corporation in connection with airline subsidies for the Lea County Regional Airport (\$500,000)
2. City of Hobbs security in connection with the Hobbs United States Specialty Sports Association League (\$228,604)
3. Lea County Fair and Rodeo Board (\$150,000)
4. Lea County Event Center (\$127,500)
5. Lea County Economic Development Corporation for airline advertising (\$106,674)
6. Southwest Symphony (\$91,990)

Las Cruces: The City of Las Cruces breaks its lodgers' tax budget into administration, sales and marketing expenditures, expenditures for the convention center, and sponsorships. The largest line items in the City of Las Cruces lodgers' tax budget were for the following:

1. Advertising (\$580,835)
2. General administration (\$355,327)
3. Sales and marketing purchased services (\$340,684)
4. Convention Center purchased services (\$128,496)
5. Sales and marketing classified employees (\$114,244)
6. Sales and marketing general travel (\$92,493)

Santa Fe: The City of Santa Fe reports that it uses lodgers' tax revenues for the purpose of advertising, publicizing and promoting facilities and tourist attractions; acquiring, constructing and maintaining tourist attractions and recreational facilities; and for all other legally permissible purposes. The City of Santa Fe also imposes a tax on lodging specifically for the Convention Center at an additional rate of two percent, with the revenue used to service debt associated with the Convention Center. In contrast, lodgers' tax revenue finances the operations of the Convention Center. The City of Santa Fe's largest expenditures of lodgers' tax revenue were for the following:

1. Debt service for the Convention Center (\$2,285,714)
2. Marketing for the Convention Center (\$1,714,286)
3. Payments to the Convention and Visitors' Bureau for the Convention Center's operations (\$1,142,857)
4. Arts Commission (\$1,142,857)
5. Special uses allocations distributed to the Convention and Visitors' Bureau for marketing (\$1,114,286)
6. Transit, solid waste and police and fire overtime in support of tourism activity (\$600,000)

NOTE: The City of Santa Fe's Fiscal Year 2015 annual financial audit contained a finding indicating the City overspent its lodgers' tax fund by \$104,024.

Taos: The Town of Taos reports its lodgers' tax is used for marketing and promotion of Taos, visitor center operations, chile line transportation operations, and convention center operations. The Town of Taos' largest expenditures of lodgers' tax revenue were for the following:

1. Payments to Griffin & Associates for advertising and marketing (\$369,818)
2. Visitors' Center personnel costs (\$217,918)
3. Town's portion of a public transportation grant match (\$208,470)
4. Visitors' Center operating costs (\$132,316)
5. Interfund transfer for the Civic Center (\$52,041)
6. Payments to DMC Broadcasting for advertising and marketing (\$18,620)