Jonathan Schechter – "Corpus Callosum" Column
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In November, local voters will be asked to re-instate the lodging tax.

The lodging tax is levied on hotel rooms, short-term condo rentals, and the like, and a two percent lodging tax was in place from 1986 through 1994. Since then, Teton County's voters have thrice refused to re-authorize it, most recently in 1998. During the last year, however, local government's desire to replace funds they've had to cut – whether directly through lodging tax receipts, or indirectly through additional sales taxes paid by additional tourists – has put the lodging tax back into play.

My next two columns will go into the pros and cons of re-instituting a lodging tax. Today, however, I'll focus on the underlying reason for even considering the lodging tax: boosting local government's coffers.

Let's start with three basic facts.

First, this fiscal year the Town and County cut a collective $5 million from their operating budgets, roughly one-eighth of the combined total. Hence the interest in generating additional income, especially because sales taxes are local governments' single biggest source of revenue.

Second, the lodging tax is essentially a perfect tax, especially in an election year.

Why? Because nearly all of it is paid by tourists. Someone else pays; we benefit; the perfect tax.

Third, the lodging tax is a horribly inefficient way to raise money for local government.

By law, the purpose of the lodging tax is to promote tourism. To that end, state statute requires spending at least 60 percent of lodging tax proceeds on promotion. Another 30 percent can be spent on "visitor impact services," while the remaining 10 percent must go to local government.

Had a two percent lodging tax been in place during fiscal 2010, the Wyoming Department of Revenue estimates it would have generated $3.5 million. Do the math, and $2.1 million would have gone to tourism promotion, $1.05 million could have gone to support visitor impact services, and $350,000 would have gone to local government's operations.

Do a bit more math, and this means we would have needed a 28 percent lodging tax to fully offset this year's $5 million budget cut. That's a pretty inefficient way to raise $5 million.

Thankfully, things are both more complicated and more favorable than that. In particular, had the lodging tax been in place, the 30 percent earmarked for visitor impact services could have been used to offset the Town and County's contribution to START. In addition, some of the 60 percent could have been used to offset Town and County expenditures on things like the visitors center. So, a more realistic accounting would have around $2 million going to tourism promotion, and perhaps $1.5 million to local government operations. Do the math again, and this means we would have needed a 6 percent lodging tax to fully offset the $5 million cut from this years' combined budgets. Still not horribly efficient, but a lot better than 28 percent.

But efficiency is not the goal here. Nor is plugging the entire $5 million shortfall. If either were, there's a clear way to do it: Man up, take responsibility for our own actions, and generate $5 million by raising the sales tax by one-half percent. That would take local sales tax to 6.5 percent, or what Driggs currently levies.

It would also give local government complete control over all the tax raised, giving them the option to support – or not support – tourism to the degree they saw fit.

The annual cost to the typical Teton County resident? Assuming she didn't buy a car or build a house, around $25. This is because tourists would pay 40 to 50 percent of that $5 million, with local businesses, construction, car purchases, and big-spending residents accounting for the rest.

Local officials briefly considered raising the sales tax, but then rejected burdening local taxpayers in favor of burdening tourists. While this was politically shrewd, in my view it has two problems: one political, one intellectual.

The political problem is that it conflates two distinct issues: raising money for local government's coffers, and raising money to support the tourism industry. At a certain level, this is shrewd: Who could oppose having other people pay so we can benefit? However, it also runs the risk of alienating voters who might favor supporting local government, but won't do so because they oppose further promoting Jackson Hole. This is essentially what happened the last time the lodging tax came up for a vote, and it's not clear how much voter sentiment has changed. As a result, it took some political courage for the electeds to put the issue on the ballot.

The intellectual problem is that, conceptually, asking tourists to pay while we benefit is little different than the mindset that has led to our huge federal deficits. With the lodging tax, tourists will pay for what we enjoy today; with federal deficit spending, future generations will pay for what we enjoy today. Different scale, different rationale, same basic principle.

But the issue at hand is the lodging tax, not a sales tax. So why beat the dead sales tax horse? Two reasons. First, if local government revenues continue to deteriorate, some future group of electeds may decide to re-visit raising the sales tax rather than continue to cut spending.

Second, the local sales tax issue shines a light on a larger problem, a national political environment in which officials opt for easy political decisions while avoiding difficult fiscal ones. Politically, the results can't be argued with; fiscally, such political cowardice is running the country into a ditch.

The roots of this situation go back at least three decades. In 1978, Californians enacted Proposition 13, which put a cap on property taxes. At the time, property taxes were a key source of revenue for California; not coincidentally, at the time California's infrastructure – its roads, schools, public works, and the like – ranked among the nation's finest.

In the short run, California's state and local governments found it relatively easy to cope with Prop 13's revenue constrictions. Over time, however, the revenue knife wielded by Prop. 13 went from cutting fat to cutting meat to cutting into bone. As a result, California's infrastructure is now among the nation's worst; ditto its government finances.

But while fiscal problems take a while to manifest themselves, political expediency takes hold instantaneously. Prop. 13 catalyzed an anti-tax tsunami which helped sweep President Reagan into office, and he used his bully pulpit to convince Congress to cut taxes. However, while Reagan was a fabulous politician, fiscally he was a horrible leader, for his legacy has been decades of officials doing the politically easy thing – cutting taxes – without concomitantly doing the politically difficult thing – cutting spending (Bill Clinton being a notable exception).

The fiscal result of Reagan's "leadership" is the current budget mess; the political result is that raising taxes has become a third rail. In particular, since Reagan's time, not only has tax-cutting become the sine qua non of being a Republican, its political potency has intimidated all but the bravest of Democrats (and yes, I know that “brave Democrat” is pretty much an oxymoron).

Today, the only place where we seem to find bi-partisanship is in the area of fiscal- irresponsibility-cum-political-cowardice. This has created the economic equivalent of going on a 30 year bender and, as with any bender, once you get started, it’s awfully hard to stop. But facts is facts, and the net result of all this voodoo economics is that the US and many states are deeply in debt.

Why mention this? Because getting out of this 30 year bender-of-a-mess will require government to both take in more revenue (i.e. higher taxes) and spend less (i.e. cut programs). Yet as Schechter’s maxim points out, economics change faster than perceptions, and perceptions change faster than politics. Today, even though the economics of our fiscal mess are crystal clear, perceptions are only starting to catch up with reality. Worse still, it will likely take our political establishment another decade or so to summon the courage necessary to face this reality (you’ll know we’re getting close when some Republican suggests raising taxes and isn’t immediately pilloried for being a RINO).

Thankfully, both the Town of Jackson and Teton County have enjoyed prudent financial management and the courage necessary to make cuts. As a result, they’re in solid financial shape. But whacking one-eighth of the budget is not trivial, and should the trend continue, my concern is that, as was the case in California, we might wake someday to find ourselves having gone from cutting fat to cutting meat to cutting bone.

So our elected officials are right in seeking to raise revenues. And politically they did the smart thing in proposing the lodging tax. But I’m sorry more consideration wasn’t given to raising the sales tax because, until leaders at all levels point out tough realities and push through even tougher solutions, national and state finances will remain a mess.

In particular, if we as a nation ever want to de-voodoo our economics, we have to be willing to make sacrifices. Before making major sacrifices, though, we’ll first have to practice by making some minor ones. And that’s what increasing local sales taxes would have been: a minor sacrifice – trivial financially, but huge symbolically. Why? Because if a place as wealthy and broad-minded as Teton County needs additional revenues, yet isn’t willing to raise taxes by an average of $25/resident, how can we hope the nation will ever be willing to take the larger measures needed to put our financial house in order?

At this point of course, the issue is moot, for there is no sales tax increase on the table. Instead, in six weeks voters will decide whether to re-institute a lodging tax. In my next two columns, I’ll take a closer look at what that might mean.