



Proposed Short-Term Rental Tax Potential Impacts in Steamboat Springs

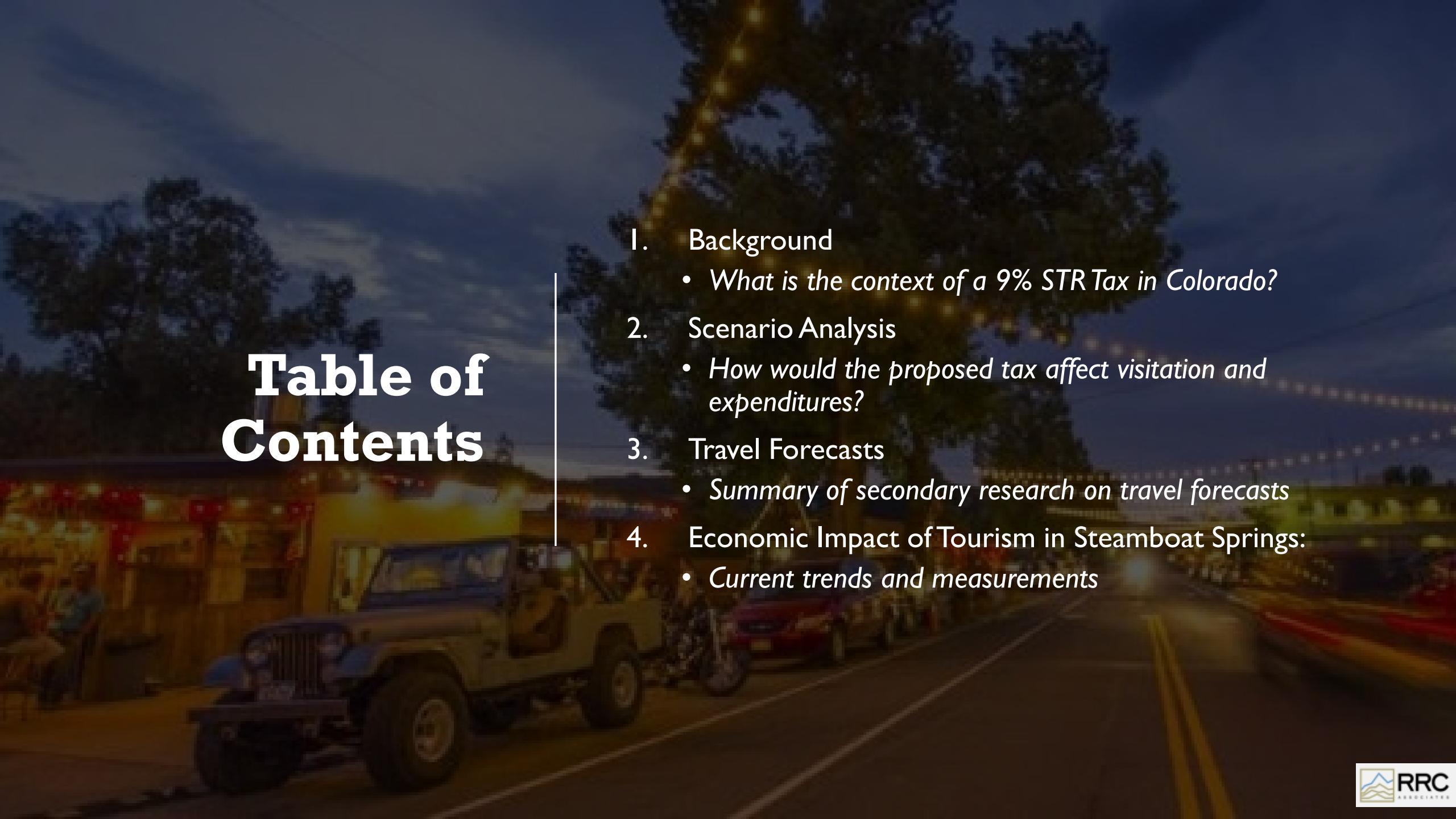


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Summary of Findings

- The proposed 9% STR tax in Steamboat Springs would increase the cumulative sales tax on STRs to 20.4%, which would be the 3rd highest rate in the mountain region (among 32 municipalities profiled).
- While a complete study would be necessary to estimate the potential impact of the 9% STR tax, a variety of scenarios were analyzed:
 - Research in other communities suggests that a 9% STR tax would most likely result in a 3.6% decrease in demand for STRs (all else being equal). In other words, the tax would reduce demand for staying in a short-term rental by 3.6% (or 3 to 4 room-nights per 100). Those visitors might stay in other lodging types instead.
 - Further, this tax would most likely result in a 2.0% decrease in demand for Steamboat as a destination by the STR visitor segment. In other words, 2% of visitors who would have stayed in short term rentals would visit somewhere other than Steamboat Springs because of the STR tax.
- Per DestiMetrics, on-the-books lodging occupancy in western mountain destinations for the Nov-Feb 2022/23 period is pacing down 0.8% from 2021/22 and pacing up 0.7% from 2019/20.
- U.S. Travel Association predicts that 2022 will outpace 2019 for domestic leisure travel and that total travel spending (including business and international) will surpass 2019 by 2024.

Context of Proposed STR Tax

Compared to other mountain municipalities

With a 9% STR Excise Tax:

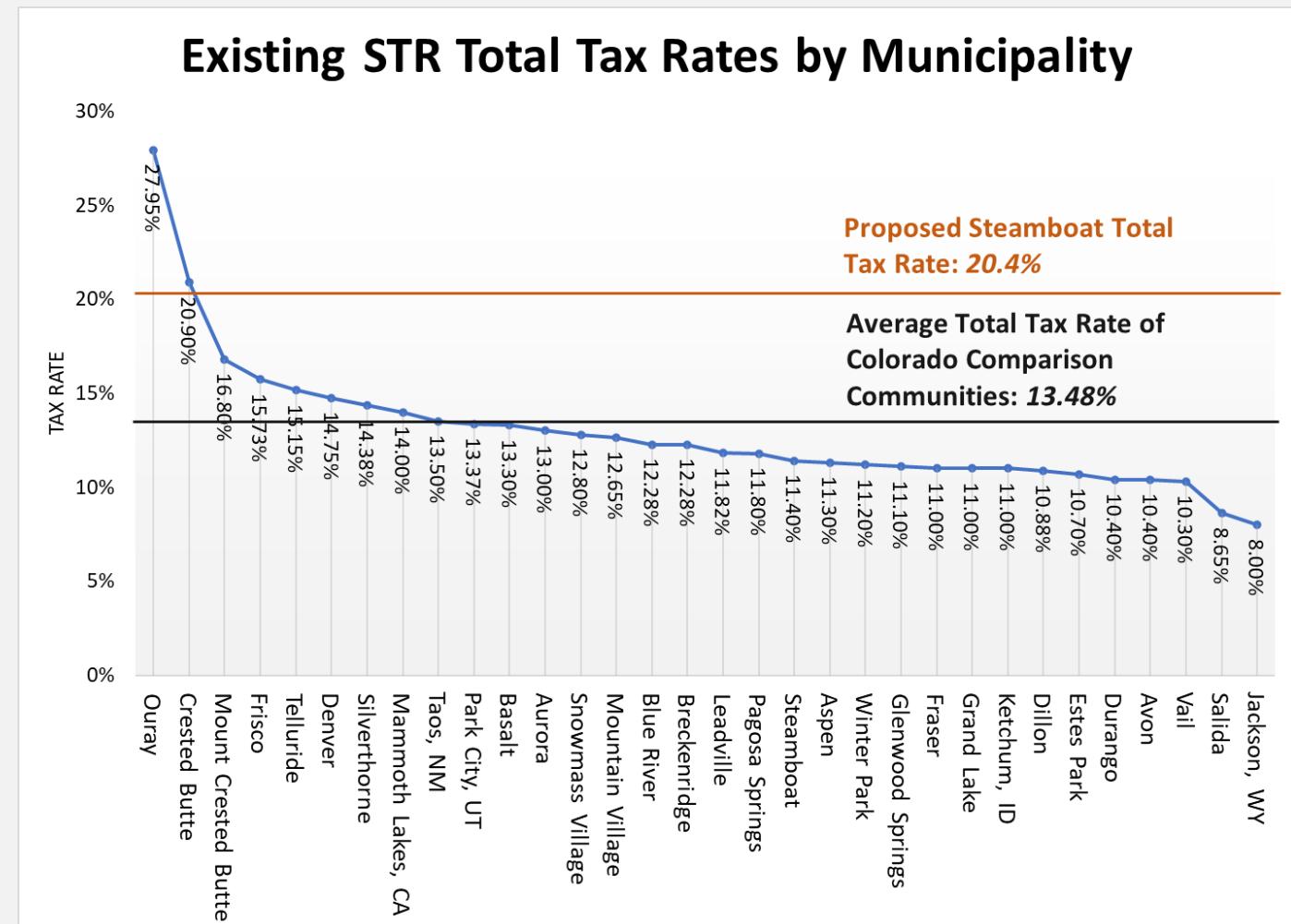
3rd

1 of 6

- **At 9%, Steamboat's proposed STR tax would be the 3rd highest STR-specific excise tax in Colorado and 3rd highest total tax rate on STRs (sales, lodging, excise, plus other relevant taxes)**
- **Steamboat's measure is one of 6 proposed ballot measures to increase municipal taxes and/or fees in comparison communities within Colorado**

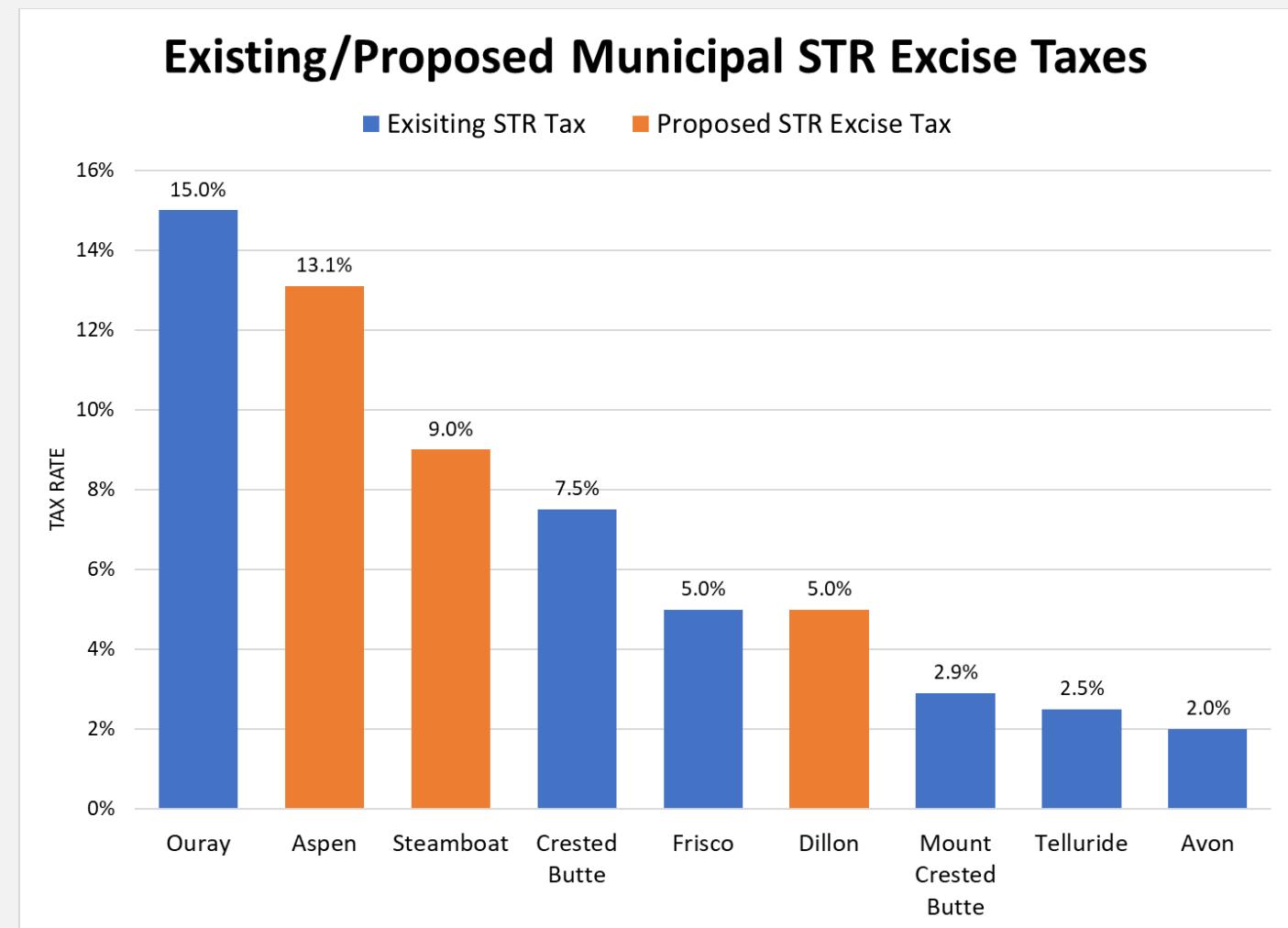
Total Cumulative STR Tax Rates

- **A 9% Excise Tax would increase Steamboat's total cumulative STR tax rate from 11.4% to 20.4%.** This would bring Steamboat's total STR tax rate to the 3rd highest in compared municipalities.
- A 20.4% total STR tax rate would be **51% higher than the Colorado comparison community average (13.48%)** and **66% higher than the median rate (11.8%).**



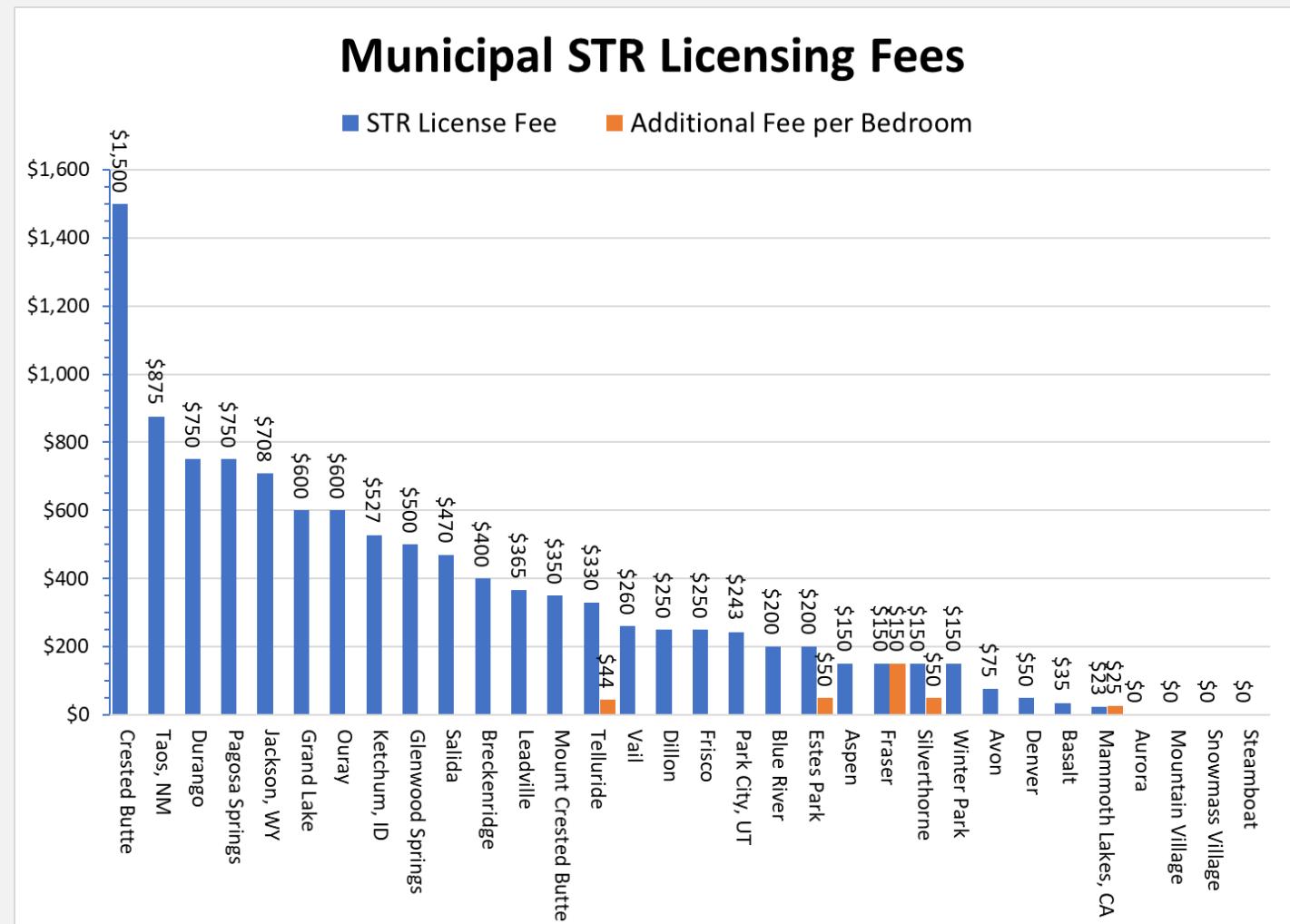
Excise Tax Context: Existing and Proposed

- Steamboat's measure is the second highest proposed municipal STR excise tax on the ballot this fall.
- Aspen and Dillon are also proposing increases to preexisting tax rates, specifically targeting STRs.
 - Note that STRs would also be subject to other city, county, and state sales and lodging taxes, in addition to the STR excise taxes shown in the chart. Total cumulative tax rates on STRs would accordingly be higher than shown (as displayed on the previous page).



Other STR Context: Licensing Fees

- **Fees vary widely across the state to register and renew STRs.**
 - All comparison communities required a permit or license at minimum to operate an STR.
 - Steamboat Springs has no fee associated with the STR license currently, but one is forthcoming
- Salida is proposing a **112% increase** in its initial STR licensing rate this fall, from **\$470 to \$1,000** (the annual \$200 renewal fee would remain unchanged).
 - This would make Salida's STR licensing fee the **2nd highest** in the comparison group.



Travel Forecasts

U.S. Travel Association, Smith Travel Research/Tourism Economics, Inntopia

U.S. Travel Association – Spending Forecast

Domestic leisure spending already surpassed 2019 levels in 2021, with another 2% increase predicted for 2022, totaling \$741 B.

International leisure travel is predicted to surpass 2019 levels in 2025 (103%).

2021
2024

2025

Total Travel spending is expected to surpass 2019 levels (103%) by 2024

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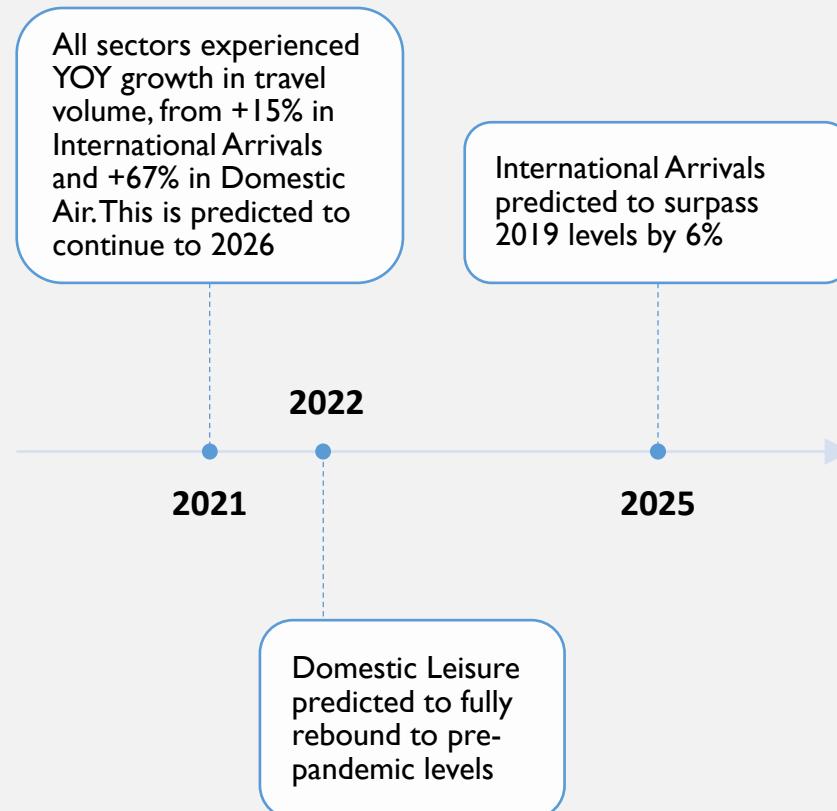
U.S. TRAVEL FORECAST - SPENDING (ADJUSTED FOR INFLATION)*

	ACTUAL			FORECAST				
	2019	2020	2021	2022	2023	2024	2025	2026
Total Travel Spending	\$1.17 T	\$722 B	\$886 B	\$1.05 T	\$1.15 T	\$1.21 T	\$1.24 T	\$1.26 T
Business	\$306 B	\$101 B	\$122 B	\$222 B	\$270 B	\$287 B	\$287 B	\$286 B
Leisure	\$867 B	\$622 B	\$764 B	\$827 B	\$880 B	\$920 B	\$952 B	\$970 B
Domestic	\$992 B	\$682 B	\$846 B	\$941 B	\$1.01 T	\$1.04 T	\$1.05 T	\$1.06 T
Leisure	\$722 B	\$589 B	\$731 B	\$741 B	\$765 B	\$783 B	\$797 B	\$803 B
Business	\$270 B	\$93 B	\$115 B	\$201 B	\$244 B	\$256 B	\$256 B	\$255 B
Transient	\$157 B	\$63 B	\$80 B	\$124 B	\$146 B	\$151 B	\$151 B	\$150 B
Group	\$113 B	\$30 B	\$35 B	\$77 B	\$98 B	\$105 B	\$105 B	\$104 B
International**	\$181 B	\$41 B	\$40 B	\$109 B	\$141 B	\$167 B	\$186 B	\$198 B
Leisure	\$145 B	\$33 B	\$33 B	\$87 B	\$115 B	\$137 B	\$155 B	\$167 B
Business	\$36 B	\$8 B	\$7 B	\$22 B	\$26 B	\$30 B	\$31 B	\$31 B
Transient	\$22 B	\$5 B	\$4 B	\$15 B	\$17 B	\$19 B	\$19 B	\$19 B
Group	\$14 B	\$3 B	\$3 B	\$7 B	\$10 B	\$12 B	\$12 B	\$12 B

Domestic leisure travel spending has already surpassed pre-pandemic levels, even when adjusted for inflation—though it is projected to remain \$46 billion below where it should have been in 2022 if not for the pandemic.

Domestic business travel is finally picking up and volume is expected to reach 81% of pre-pandemic levels in 2022 and 96% in 2023. Nevertheless, spending, when adjusted for inflation, will not fully recover to pre-pandemic levels within the range of the forecast.

U.S. Travel Association – Travel Volume Forecast



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U.S. TRAVEL FORECAST - VOLUME

	ACTUAL			FORECAST				
	2019	2020	2021	2022	2023	2024	2025	2026
Total # of trips	2.40 B	1.60 B	2.04 B	2.31 B	2.45 B	2.55 B	2.60 B	2.64 B
Domestic person-trips	2.32 B	1.58 B	2.02 B	2.26 B	2.38 B	2.47 B	2.52 B	2.55 B
Leisure	1.85 B	1.40 B	1.77 B	1.88 B	1.94 B	2.00 B	2.03 B	2.06 B
Business	464 M	181 M	250 M	377 M	446 M	476 M	483 M	487 M
Auto	2.13 B	1.50 B	1.89 B	2.09 B	2.20 B	2.27 B	2.30 B	2.33 B
Air	189 M	79 M	131 M	170 M	189 M	204 M	212 M	214 M
International Arrivals*	79.4 M	19.2 M	22.1 M	53.3 M	65.1 M	76.5 M	84.6 M	89.8 M

International inbound travel is making a big comeback, aided by the recent drop of pre-departure testing. It is projected to grow rapidly through the rest of 2022, and then grow at a slower pace in 2023-2026. A full recovery to pre-pandemic levels (volume and spending) is not expected until 2025.

Source: U.S. Travel Association and Tourism Economics, *Travel Forecast*, July 5, 2022

U.S. Travel Association – Travel Price Index

- Changes to the TPI are predicted to slow in the coming years.
 - Food away from home and gas are predicted to decrease nationally 2023
 - Lodging will retain recent price increases, although the rate of growth slows beginning in 2023

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U.S. TRAVEL FORECAST - TRAVEL PRICE INDEX, YOY % CHANGE

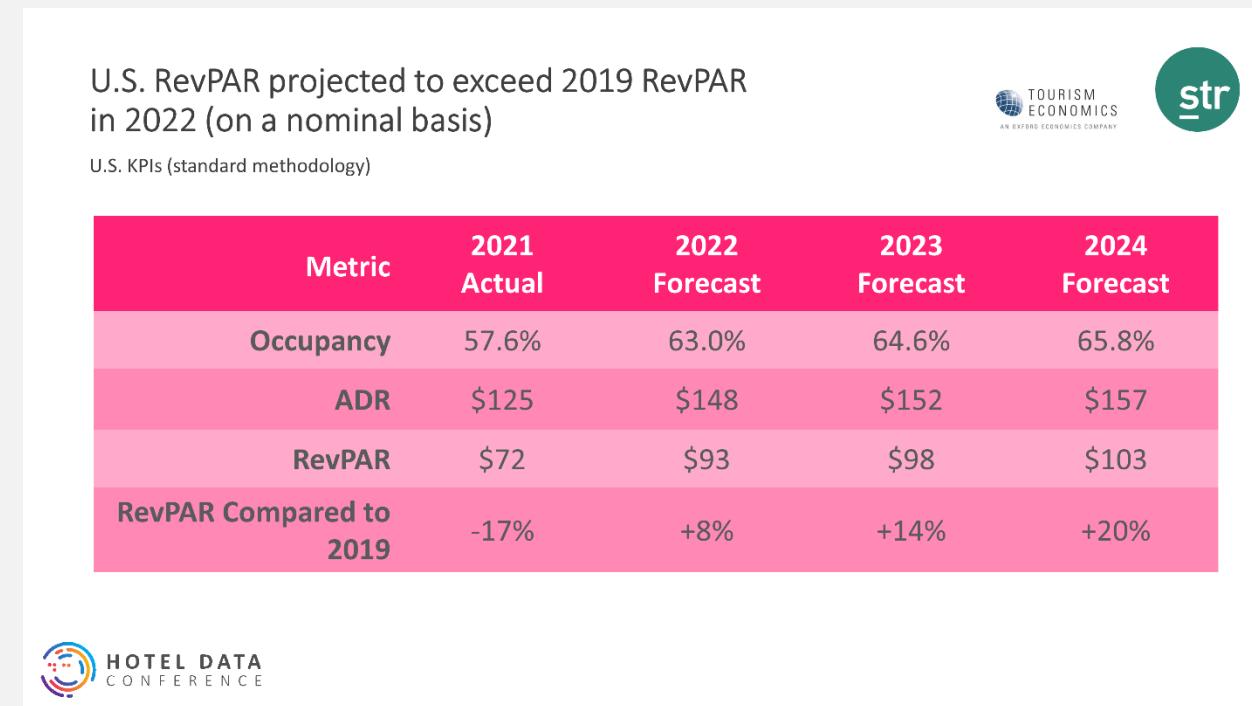
	ACTUAL			FORECAST				
	2019	2020	2021	2022	2023	2024	2025	2026
Travel Price Index	1.9%	-5.8%	9.0%	10.8%	0.1%	1.4%	1.8%	2.0%
Food Away from home	3.1%	3.4%	4.5%	3.3%	-0.9%	0.2%	0.9%	1.4%
Lodging away from home	0.9%	-22.9%	21.7%	18.1%	3.2%	3.1%	2.6%	2.9%
Motor Fuel	-3.6%	-16.3%	35.8%	31.2%	-5.6%	-0.4%	1.7%	6.5%
Public Transportation	0.3%	-12.3%	1.7%	5.8%	3.8%	3.1%	3.0%	2.7%
Consumer Price Index	1.8%	1.2%	4.7%	7.4%	2.1%	1.7%	2.0%	2.1%

Source: U.S. Travel Association and Tourism Economics, *Travel Forecast*, July 5, 2022

STR & Tourism Economics Hotel Forecast

“The outlook for hotel performance remains positive”

- Revenue per available room (RevPAR) remains on track for full recovery this year on a nominal basis but not until 2025 when adjusted for inflation.
- Demand and occupancy have trended with predictions, with pricing continually exceeding expectations.
- Strong leisure sector demand combined with a return of business travel has pushed 2023 forecasted demand to historic levels.



Sources:

STR, TE lift ADR projections further in revised U.S. hotel forecast, August 11, 2022

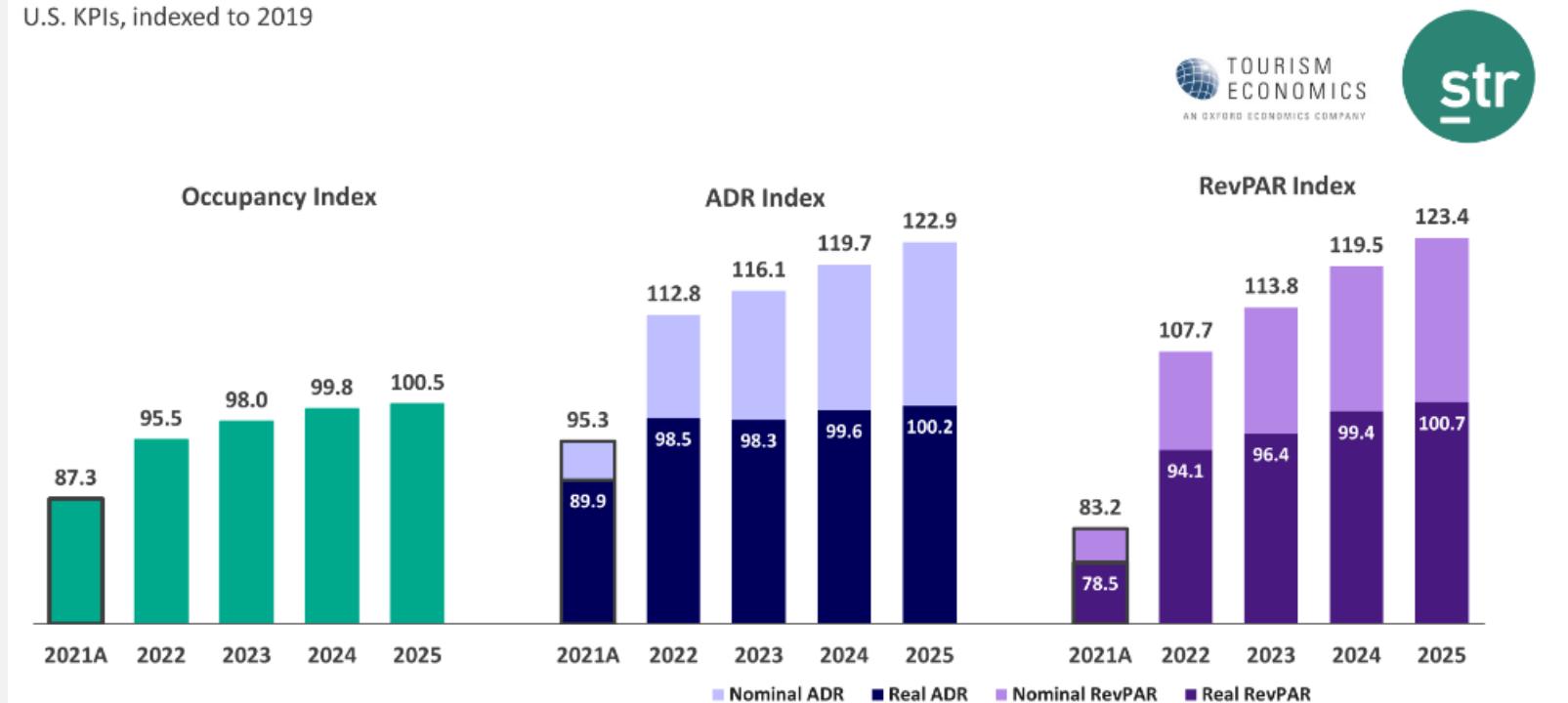
STR, TE upgrade forecast to full U.S. RevPAR recovery in 2022, June 6, 2022

STR & Tourism Economics Hotel Forecast

“The outlook for hotel performance remains positive”

- Tourism Economics "anticipates slow economic growth in 2023 but not a recession, as a combination of cooling aggregate demand and easing supply constraints will help slow inflation."
- "In this context, with leisure demand supported by solid household finances and an ongoing recovery of group and business travel, lodging performance gains are expected to continue, though at a much slower pace than experienced this year."

Relative to 2019, RevPAR projected to fully recover (in real terms) in 2025
U.S. KPIs, indexed to 2019



Sources:

STR, TE lift ADR projections further in revised U.S. hotel forecast, August 11, 2022

STR, TE upgrade forecast to full U.S. RevPAR recovery in 2022, June 6, 2022

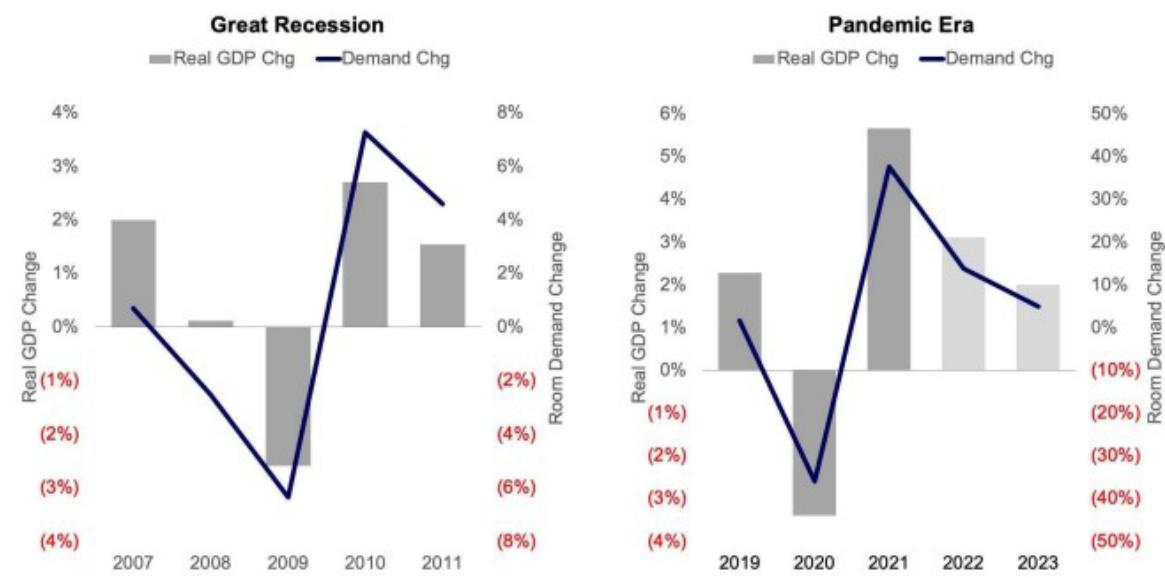
STR & Tourism Economics RevPAR Forecast

Economic Downturn & Hotel Risk

- With the recession risk, “any looming downturn is likely to be smaller than what the hotel industry saw in 2020....and concerns about things like rising gas prices are often overblown.”
 - Gas price inelasticity is absorbed by traveler.
- 1/3rd of hotels are driving increased ADR & RevPAR, showing additional room for market growth.
- Rates traditionally do not reverse with inflation, as reflected in STR forecasts.

Why a (Potential) Recession Matters ...

GDP Correlates to Hotel Demand

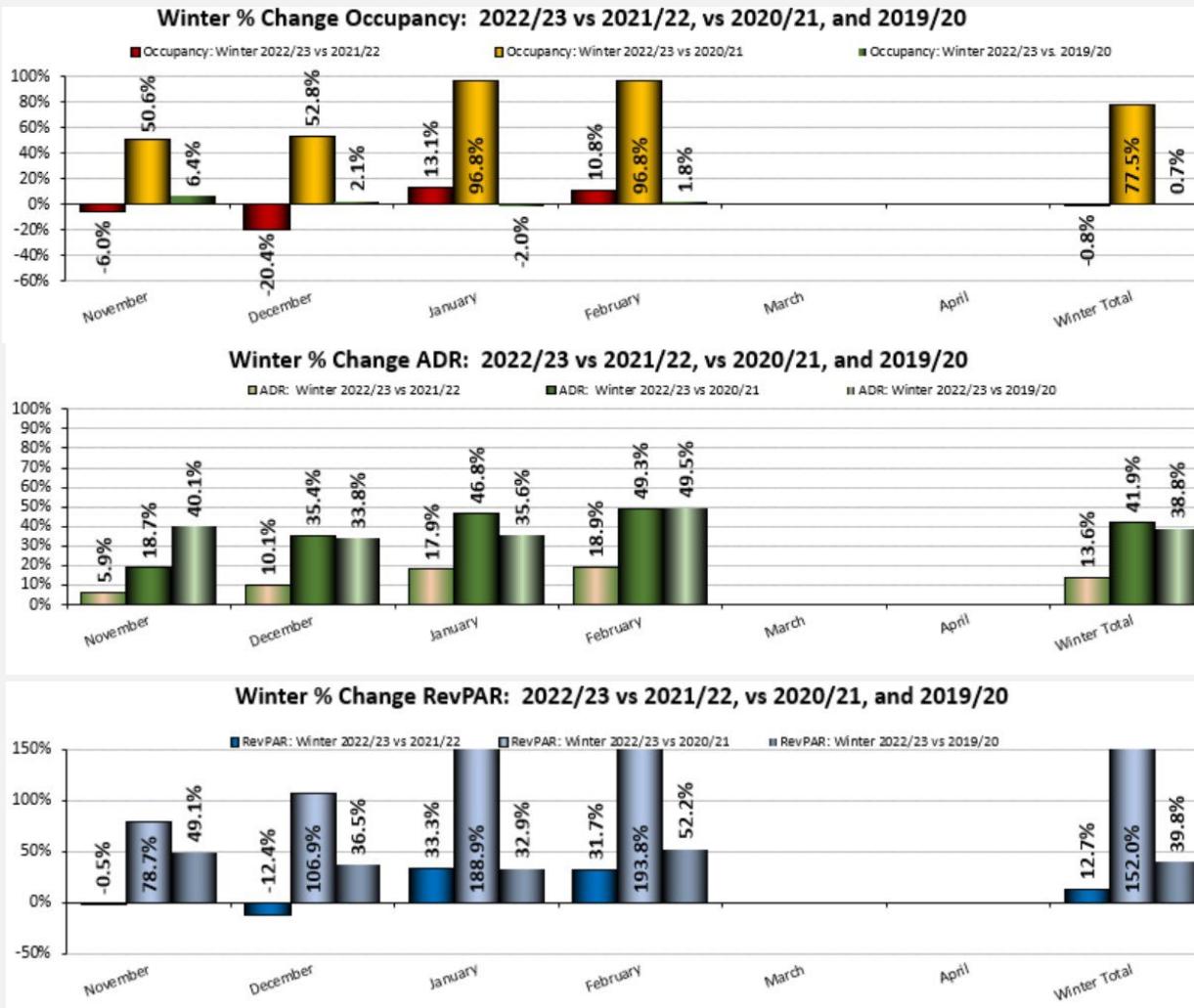


Source: Oxford Economics, STR, © 2022 CoStar Realty Information, Inc.

CoStar

Sources: STR, TE upgrade forecast to full U.S. RevPAR recovery in 2022, June 6, 2022
CoStar, Why hoteliers might not need to fret over a recession, August 18, 2022

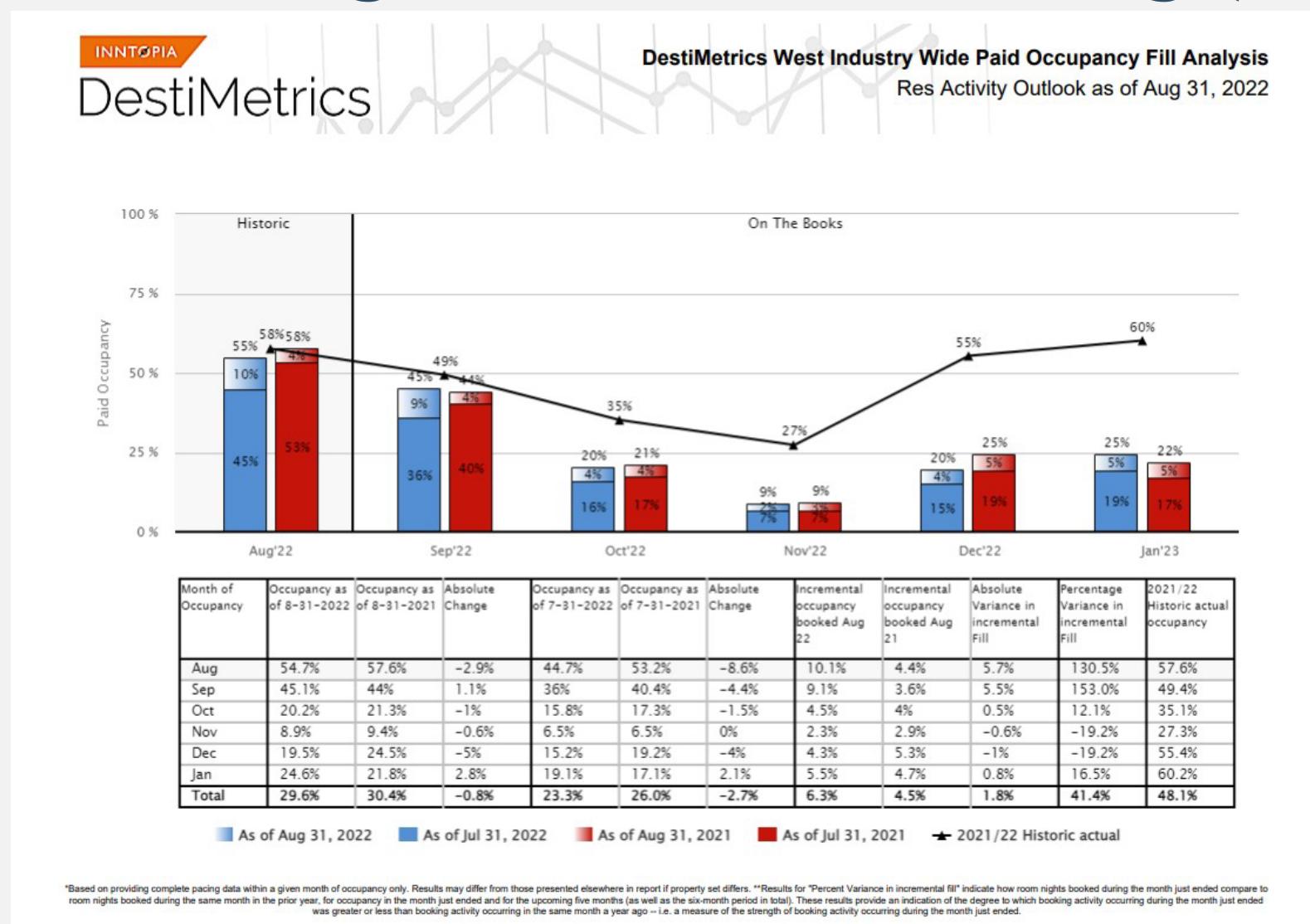
Inntopia: West Region Market Briefing (Sep. 2022)



Upcoming Winter 22-23 Lodging Bookings

- Compared to:
 - 2021-22: Occupancy -0.8%, ADR +13.6%, +12.7% RevPAR
 - 2020-21: Occupancy +77.5%, ADR +42.0%, +152.0% RevPAR
 - 2019-20: Occupancy +0.7%. ADR +38.8%, +39.8% RevPAR
- Inntopia/Destimetrics data includes 17 western U.S. mountain destinations (but not Steamboat)

Inntopia: West Region Market Briefing (Sept. 2022)



Source: Inntopia, Booking Pace Turns Positive, Room Rates Remain High, and we get an Economic Surprise, September 2022. (Data as of 8/31/2022)

Inntopia: West Region Market Briefing (Sept. 2022)

- Higher incremental fills for the Aug '22 – Jan '23 period have translated to a “+41.4% increase in Booking Pace, which has broken a 7-consecutive month cycle where overall pace had declined YOY.”
 - Higher August, September, October, and January bookings offset -19.2% bookings in November and December
- The amount of Summer 2022 Absolute Room Nights booked is slightly down from 2021 (89.6% to 93.7%) while the share of revenue banked/booked for the summer is up (95.4% to 92.0%)
 - Compared to Summer 2020, both metrics are up by 28.9% and 66.4% respectively
 - Compared to Summer 2019, nights booked is down 16.4% and revenue is up 19.7%
- Booking Lead Times are 31% longer than 2019 and 4.1% longer than 2021

Inntopia: Conclusions (Sept. 2022)

Occupancy

- Declines compared to last summer are likely to continue, minus a late fall surge of visitors
- An absence of COVID spikes will encourage early winter bookings
- Changing K-12 School breaks and high ADRs will likely cause December '22 to continue pacing below December '21
- Increased occupancy late summer will likely not offset aggregate declines in July and August, causing Summer 2022 to remain below Summer 2019 bookings
- A +0.7% on-the-books occupancy YOY gain for Winter 22-23 is a positive sign given deteriorating economic conditions

Inntopia: Conclusions (Sept. 2022)

Booking Pace

- Booking Pace has increased for the first time this year, but caution should remain when considering volume going forward
- Increases show the intention of travelers to continue choosing mountain destinations, even with record high rates and economic trends

ADR

- Rising rates are coming at the expense of occupancy this summer and possibly this winter
- ADR gains have offset occupancy decreases compared to pre-pandemic years. Considering staffing and capacity issues, this could be a positive combination for some communities

Scenario Analysis

Expectation of Demand Change

Expected Change in Demand

Estimation of Elasticity of Demand – Price Sensitivity

- It is typically assumed that lodging property managers seek to maximize revenue generated by their properties, and local governments seek to maximize lodging tax revenues. Price necessarily impacts the level of demand for both the property and the destination.
- Price changes should be considered at the destination, or total travel costs, level.
- Lodging generally, and STR rentals more specifically, may be considered complementary to the total basket of goods purchased on a trip to a destination (e.g., lift tickets, food, fuel, etc.).
- STRs and hotel stays are imperfect substitutes. Price is only one evaluation point being considered by a visiting group, in addition to amenities, location, size, etc.
- Price sensitivity (elasticity) for Steamboat as a destination likely varies by season and relative to nearby communities that may be viewed by travelers as substitutable.

Expected Change in Demand

Potential Behavior Changes by visitors who use STRs

1. (Worst Case) – A potential visitor decides not to visit Steamboat at all. They are priced out due to this tax.
2. A potential visitor may decide to still rent the STR, pay the tax, and either reduce spending elsewhere, or reduce the number of nights spent, or both.
3. A potential visitor may decide to still rent a lower priced STR, pay the tax, and maintain spending elsewhere.
4. A potential visitor may stay in an STR outside Steamboat, thus removing this portion of the local spending.
5. A potential visitor changes to a similarly priced hotel (within Steamboat) that is not subject to the new tax. While this reduces the revenue for the STR operator, it likely creates little to no change for the other businesses where a visitor may patronize. However, some change may be expected that is reflective of the difference in spending by hotel stayers compared to STR (e.g., food purchases).
6. (Best case) A potential visitor may have no change to their travel plans and spending.

The variety of potential responses makes precise estimation of impact challenging absent a full study.

Expected Change in Demand

Lodging is a piece of overall trip expenditures

- Average spending in market by those groups who spend on lodging.¹

\$2,119 in total in Steamboat local area

\$1,149 on lodging

- Share of total spending on lodging

54.2%

- Percent increase in total trip price due to proposed 9% STR tax²

4.9%

1. Source: RRC Associates Economic Impact of Summer Tourism, 2021

2. Does not include travel expenditures to arrive at the destination.

Expected Change in Demand

Elasticity of demand (ED) for visitation to Steamboat is expected to be inelastic with respect to the proposed tax

- “Inelastic” suggests that the percent change in demand is less than the percent change in price of the trip ($ED < 1$; in absolute value).
- Previous estimations of ED using various travel cost or direct lodging price changes for destinations like Steamboat have suggested the value to be between 0.1 and 0.7, with 0.4 being the likely expectation.¹
- Using this expectation, we would anticipate this 9% STR tax to generate a 3.6% decrease in demand for STRs (all else being equal)
- Further, this tax would increase in-market trip cost by 4.9%, which in turn would create a 2.0% decrease in demand for the destination by this visitor segment. This result should be considered a high end of potential impact, because it does not estimate total travel costs.

1. Taxing the Travelers: A Note on Hotel Tax Incidence (Collins, Stevenson, 2017)

SUMMARY: Selected Findings

- The proposed 9% STR excise tax would be the 3rd highest STR total tax rate among comparable mountain destinations
- The increased tax would likely suppress demand for STRs by 3.6% and for Steamboat by 2.0% (among those who stay in STR lodging)
- Tourism is an important component of the Steamboat Springs economy and tax base
- Travel forecasts suggest that the rebound of travel, particularly leisure travel, will continue



Proposed Short-Term Rental Tax Potential Impacts in Steamboat Springs

Thank You



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