

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 646 (Senators Bromwell and Hoffman)
Budget and Taxation

Baltimore City - Hotel Room Tax - Convention Center Promotion

This bill extends the 7.5% hotel room tax limit in Baltimore City until July 1, 2002. For fiscal 1998 through 2002, Baltimore City must appropriate at least 40% of the proceeds of the hotel room tax for convention center marketing and tourism promotion. Adjustments may be made to the allocation in the succeeding fiscal year if the actual tax revenues differ from the budgeted projections.

This bill is effective July 1, 1997.

Fiscal Summary

State Effect: Potential indeterminate increase in revenues; potential indeterminate decrease in expenditures.

Local Effect: Baltimore City would be required to spend \$4.62 million in FY 1998 on convention center marketing and tourism promotion; out-year expenditures would depend upon hotel room tax receipts. Indeterminate effect on revenues.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

Background: The 7.5% limit on the hotel room tax in Baltimore City was imposed for fiscal 1997 by Chapter 665 of 1996. Baltimore City had originally budgeted for a 9.9% hotel room tax, an increase from the previous year's rate of 7%. The fiscal 1997 limit represented an anticipated \$3.4 million decrease in projected revenues.

State Effect: Dedicated local funds for convention center marketing and tourism promotion could potentially decrease State contributions towards these activities. The Department of

Business and Economic Development contributed \$1 million for fiscal 1997 to the Baltimore Area Convention and Visitors Association (BACVA), whose overall budget is approximately \$6.2 million in fiscal 1997. Baltimore City was also allowed to use up to \$5 million in Highway User Revenues to pay the costs of convention center marketing and debt service. It is expected that BACVA will be able to supplement the \$4.62 million in dedicated funds from Baltimore City with approximately \$800,000 in privately raised funds. This is approximately \$600,000 short of the \$6 million budget that BACVA has stated that it needs to be competitive. As hotel tax revenues are projected to increase in the out-years, it is expected that such funding gaps will substantially decrease. To the extent that promotion activities are effective, State tax revenues could increase.

Local Effect: The hotel room tax of 7.5% is expected to generate \$11.55 million for fiscal 1998 based on hotel rental receipts of \$154 million. Baltimore City would therefore be required to budget at least \$4.62 million towards convention center marketing and tourism promotion. To the extent that convention center marketing and tourism promotion activities are effective, city tax revenues could increase.

Small Business Effect: Under the bill, small businesses in the lodging industry would continue to pay a 7.5% tax for hotel room rates through fiscal 2002. According to the Maryland Hotel and Motel Association, there are approximately 25 hotels in Baltimore City. In addition, any bed and breakfast or other business that lets out rooms for fewer than 30 days would be impacted. To the extent that a competitive tax rate increases business through meetings, conventions, and tourism these facilities would benefit.

To the extent that convention center marketing and tourism promotion activities are effective, small businesses involved in tourism and convention activities would benefit from the increased spending. According to information provided by the Department of Business and Economic Development (DBED), there are 2,200 businesses directly involved in the tourism trade in Maryland, 95% of which are small businesses. (This number does not include retail service stations.) The tourism industry provides approximately 80,000 jobs in the State, and accounts for \$5.8 billion in direct spending in Maryland. This bill would impact mainly those businesses located in Baltimore City; approximately 35% of leisure visitors to Maryland visit the city. It is estimated that on average nationwide, \$950 is spent per delegate for an average three-day convention.

Information Source(s): Baltimore City, Maryland Hotel and Motel Association, Baltimore Area Convention and Visitors Association, Department of Fiscal Services

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