

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 402
Budget and Taxation

(Senator Hogan, *et al.*)

Municipal Corporations - Hotel Rental Tax

This bill authorizes a municipality to impose a maximum 3% hotel rental tax. If a municipality imposes the tax (1) any room tax revenue sharing arrangement between the municipality and a county shall be null and void; and (2) the county may impose a hotel rental tax within the municipality that is lower than the rate imposed outside the municipality.

Fiscal Summary

State Effect: None.

Local Effect: Municipal revenues could increase by approximately \$5.0 million annually for municipalities within six counties that currently do not have a revenue sharing agreement with the county. Expenditures would not be directly affected.

Small Business Effect: Potential meaningful. Allowing municipalities to impose a hotel rental tax may result in different tax rates between competing businesses.

Analysis

Current Law: Counties have the authority to impose and collect a hotel rental tax up to the limits designated by the Annotated Code of Maryland. Authorized rates vary by county but may be as low as 3% in Frederick County to as high as 8% in Allegany County. Harford County does not collect a hotel rental tax.

In Code Home Rule counties (Allegany, Caroline, Charles, Kent, Queen Anne's and Worcester) and in Calvert, Cecil, Garrett, and St. Mary's counties, tax revenue attributable to a hotel located in a municipality is required to be distributed to the municipality. In addition, the Maryland Municipal League indicates that three counties (Anne Arundel, Prince George's, and Talbot) have revenue sharing agreements with certain municipalities within the county. The county collecting the tax may subtract a reasonable sum for administrative costs. In Allegany County, any revenue attributable in excess of the 5% tax rate goes to the county's general fund. Additionally, Dorchester County must distribute 80% of the tax revenue to the municipality in which the tax was collected. Carroll, Garrett, Frederick, Washington and Wicomico counties have provisions requiring a certain amount of hotel rental tax revenues be used for tourism and the general promotion of the county.

Local Fiscal Effect: In fiscal 2004, counties collected \$70.4 million in hotel rental taxes, of which 20% or \$14.0 million were collected in a jurisdiction without a municipal revenue sharing agreement as shown in **Exhibit 1**. Counties without such an agreement included Montgomery, Somerset, Washington, and Wicomico. Carroll and Frederick counties also do not have a revenue sharing agreement but they did not impose a hotel rental tax in fiscal 2004.

Assuming that 50% of the hotel rental taxes were collected from hotels located within a municipality, municipal revenues could increase by approximately \$5.0 million annually for municipalities within these six counties. A municipality that chose to impose a hotel rental tax would likely incur some administrative expenses for the administration of and collection of the tax.

A municipality that receives a portion of the county hotel rental taxes either through agreement or as required by statute would see a minimized benefit because any existing revenue sharing provisions would be voided.

Additional Comments: Counties are the primary unit of local government in Maryland, responsible for basic services such as police, fire, local corrections, sanitation, local highways, and parks and recreation. In addition, counties are responsible for funding public schools, libraries, local community colleges, local health departments, and the circuit courts. Compared to counties, municipalities in Maryland provide a more limited array of public services. Public works and public safety are the two largest functions of municipal governments, comprising 63% of municipal expenditures in fiscal 2004. Common public services performed by municipalities include street lighting, trash/refuse collection, snow removal, and street maintenance. Police protection, planning/zoning, leaf collection, and water services are provided by at least one-half of municipalities.

Unlike county governments, municipalities do not fund local school systems and community colleges, which account for over 50% of local government expenditures. Municipalities account for only 4% of total local government expenditures. In five counties, municipal governments account for over 15% of local government expenditures. **Exhibit 2** shows local government expenditures in fiscal 2004 for counties and municipalities. County expenditures include the local school systems, library boards, health departments, and local community colleges.

There are 156 municipalities in Maryland. Based on July 2005 population estimates, approximately 15% of the State's residents live within municipalities (excluding Baltimore City). On the Eastern Shore and in Western Maryland, nine counties have over 30% of their residents living in municipalities. Municipalities in Maryland are relatively small, with 60% having fewer than 2,500 residents and 5% having more than 25,000 residents. Frederick with 57,900 residents is Maryland's largest municipality, followed by Gaithersburg with 57,700 residents and Rockville with 57,400 residents.

Additional Information

Prior Introductions: A similar bill was introduced as SB 520 in 1992. The bill passed the Senate with amendments and was referred to House Rules and Executive Nominations Committee. No further action was taken on the bill.

Cross File: HB 518 (Delegate Barve, *et al.*) – Ways and Means.

Information Source(s): Town of Bladensburg, City of Rockville, City of College Park, Kent County, Montgomery County, Prince George's County, Washington County, Worcester County, Maryland Municipal League, Maryland Association of Counties, Department of Legislative Services

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ncs/hlb

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Exhibit 1
County Hotel and Motel Taxes

County	County Tax Rates		FY 2004 Revenues	Per Capita Revenues	Revenue Sharing Agreement
	FY 2004	FY 2007			
Allegany	5.0%	8.0%	\$446,228	\$6	Y
Anne Arundel	7.0%	7.0%	11,264,733	22	Y
Baltimore City	7.5%	7.5%	16,825,505	27	N
Baltimore	8.0%	8.0%	7,130,807	9	N
Calvert	5.0%	5.0%	528,181	6	Y
Caroline	0.0%	5.0%	0	0	Y
Carroll	0.0%	5.0%	0	0	N
Cecil	5.0%	5.0%	10,480	0	Y
Charles	5.0%	5.0%	724,633	5	Y
Dorchester	5.0%	5.0%	208,062	7	Y
Frederick	0.0%	3.0%	0	0	N
Garrett	4.0%	5.0%	869,470	29	Y
Harford	0.0%	0.0%	0	0	N
Howard	5.0%	5.0%	2,780,027	11	N
Kent	3.0%	5.0%	27,467	1	Y
Montgomery	7.0%	7.0%	12,695,573	14	N
Prince George's	5.0%	5.0%	4,314,223	5	Y
Queen Anne's	3.0%	5.0%	196,255	4	Y
St. Mary's	5.0%	5.0%	483,360	5	Y
Somerset	3.0%	5.0%	46,887	2	N
Talbot	3.0%	4.0%	644,939	19	Y
Washington	6.0%	6.0%	669,232	5	N
Wicomico	4.0%	6.0%	563,337	6	N
Worcester	4.0%	4.0%	10,009,637	202	Y
Statewide			\$70,439,036	\$13	

Source: *Local Government Finances in Maryland*, Department of Legislative Services

Exhibit 2
Local Government Expenditures
Fiscal 2004
(\$ in Millions)

County	County	Municipal	Total	Percent Municipal
Allegany	\$202.6	\$13.4	\$216.0	6.2%
Anne Arundel	1,477.3	56.5	1,533.8	3.7%
Baltimore City	2,810.9	0.0	2,810.9	0.0%
Baltimore	2,209.6	0.0	2,209.6	0.0%
Calvert	286.2	8.5	294.7	2.9%
Caroline	84.0	11.1	95.1	11.7%
Carroll	449.9	38.1	488.0	7.8%
Cecil	231.1	20.2	251.2	8.0%
Charles	469.8	13.5	483.3	2.8%
Dorchester	95.1	18.1	113.1	16.0%
Frederick	650.2	90.3	740.6	12.2%
Garrett	101.5	5.8	107.2	5.4%
Harford	675.3	37.7	712.9	5.3%
Howard	1,035.0	0.0	1,035.0	0.0%
Kent	57.2	6.5	63.7	10.1%
Montgomery	3,995.6	154.0	4,149.6	3.7%
Prince George's	2,683.2	103.5	2,786.7	3.7%
Queen Anne's	149.4	1.4	150.8	0.9%
St. Mary's	269.4	1.9	271.4	0.7%
Somerset	64.1	4.6	68.7	6.7%
Talbot	85.8	59.1	144.9	40.8%
Washington	310.0	78.7	388.7	20.3%
Wicomico	232.8	43.3	276.0	15.7%
Worcester	168.7	94.5	263.2	35.9%
Statewide	\$18,794.6	\$860.6	\$19,655.2	4.4%

Source: Department of Legislative Services