

**Department of Legislative Services**  
 Maryland General Assembly  
 2008 Session

**FISCAL AND POLICY NOTE**

House Bill 1097 (Delegate Doory)  
 Economic Matters and Appropriations

**Tourism Promotion Act of 2008**

This bill increases annual funding for the Maryland Tourism Development Board Fund beginning in fiscal 2010 from general fund appropriations and tourist-oriented sales tax revenues. The Maryland Tourism Development Board is required to provide at least \$2.5 million in annual grants to destination marketing organizations and financial assistance to the Office of Tourism Development. Beginning in 2013, the Department of Business and Economic Development is required to annually report to the Governor on the effectiveness of the Tourism Promotion Act.

The bill takes effect July 1, 2008.

**Fiscal Summary**

**State Effect:** Mandated appropriations would increase general fund expenditures by \$3 million in FY 2010, decreasing by 5% annually. General fund and Transportation Trust Fund revenues would decrease beginning in FY 2011, due to diversion of tourism-oriented sales tax revenues to the Maryland Tourism Development Board Fund, with corresponding revenue and expenditure increases each year for the tourism fund.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	\$0	\$0	(\$5,142,500)	(\$10,986,000)	(\$11,444,100)
SF Revenue	0	3,000,000	5,331,000	12,285,900	17,204,400
GF Expenditure	0	3,000,000	2,500,000	2,025,000	1,573,800
SF Expenditure	0	3,000,000	8,000,000	13,000,000	18,000,000
Net Effect	\$0	(\$3,000,000)	(\$10,311,500)	(\$13,725,100)	(\$13,813,500)

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** Local destination marketing organization revenues and expenditures would increase by \$2.5 million annually beginning in FY 2011 from Maryland Tourism Development Board grants.

**Small Business Effect:** Meaningful for tourism-reliant industries.

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## Analysis

**Bill Summary:** In fiscal 2010, the Governor is required to increase, from \$6 million to \$10 million, the minimum general fund appropriation in the annual budget bill to the Maryland Tourism Development Board Fund. Beginning in fiscal 2011, the minimum proposed general fund appropriation may not be less than 5% below the prior fiscal year's appropriation. The annual operating budget of the Office of Tourism Development is to continue to be financed from the general fund.

Beginning in fiscal 2011, the Treasurer is required to deposit into the tourism fund tax revenues collected from the retail sale of tourist-oriented goods and services if such revenues are above a certain level. This threshold level is set at one-half of the difference between the amount collected two years prior and the amount collected three years prior, if that difference is an increase greater than 3%.

If the total appropriation to the tourism fund in any fiscal year is greater than \$5 million over the amount in the preceding fiscal year, then any surplus is required to be credited back to the general fund.

Subject to the approval of the Secretary of Business and Economic Development, the board is required, beginning in fiscal 2011, to provide grants of at least \$2.5 million to destination marketing organizations, and financial assistance to the Office of Tourism Development.

On or before October 1 of each year beginning in 2013, DBED, in cooperation with the board and the Maryland Association of Destination Marketing Organizations, shall report to the Governor on the effectiveness of this bill in increasing visitor attendance and spending, and provide its recommendation as to whether the Office of Tourism Development is able to be self-sufficient through the tourism fund.

The bill also encourages local governments to reevaluate their policies governing the way in which revenues derived from local hotel and motel taxes are shared amongst each local government and the destination marketing organizations.

**Current Law:** The Maryland Tourism Development Board was established to promote the coordinated, efficient, and beneficial development of travel and tourism in Maryland. The board consists of 24 members of whom:

- 14 shall be appointed by the Governor in consultation with the Secretary of Business and Economic Development and with the advice and consent of the Senate;
  - 3 shall be appointed by the Governor and be directors or chief executive officers from among the destination marketing organizations officially recognized by the Maryland Office of Tourism Development.
- 5 shall be appointed by the President of the Senate, with 2 from the private sector;
- 5 shall be appointed by the Speaker with 2 from the private sector; and

The Governor, the Speaker, and the President must ensure that specific factors are taken into consideration when making their appointments. Board members serve staggered three-year terms. Members serve without compensation, but are reimbursed for travel and other necessary expenses.

The board's responsibilities include:

- drafting and implementing both a five-year strategic plan for the promotion and development of tourism within the State and an annual marketing plan;
- encouraging the development of new tourism resources, products, businesses, and attractions in the State;
- reviewing existing and proposed taxes, fees, licenses, regulations, and regulatory procedures affecting tourism and tourism businesses in the State and evaluate their impact on the tourism industry's ability to create jobs and generate income; and
- spending fund moneys for the planning, advertising, promotion, assistance, and development of tourism and travel industries within the State.

For fiscal 2006 and each year thereafter, the Governor must include in the annual budget bill a proposed general fund appropriation of at least \$6 million for the tourism fund.

**Background:** The Office of Tourism Development is a subdivision of the Division of Tourism, Film, and the Arts within DBED. The Office of Tourism Development encourages travel in Maryland from around the State, country, and world through advertising, public relations, promotions and events, literature, and direct sales efforts. The office is supported with general funds, receiving \$5.5 million in general funds in

fiscal 2007. The fiscal 2008 general fund appropriation is \$4.9 million and the fiscal 2009 allowance is \$5.1 million.

The Maryland Tourism Development Board, within the Office of Tourism Development, promotes Maryland tourism through various media by administering a program of local matching grants for local tourism development. The board is supported through general funds and special fund revenue generated from advertisements in board-produced magazines. In fiscal 2007, the board had general fund expenditures of \$7.0 million. The fiscal 2008 appropriation for the board includes \$6.4 million in general fund expenditures, and \$600,000 in special fund expenditures. The fiscal 2009 proposed State budget includes \$7.0 million in general funds and \$600,000 in special funds.

**State Fiscal Effect:**

*General Fund Appropriations to the Tourism Fund:* General fund expenditures would increase by \$3 million in fiscal 2010 to bring the total fund appropriation to \$10 million from the fiscal 2009 allowance of \$7 million.

Beginning in fiscal 2011, the Governor is required to include in the annual budget bill a general fund appropriation that is not less than 5% below the preceding year's level. Therefore, the general fund appropriation is required to be at least \$9,500,000 in fiscal 2011, \$9,025,000 fiscal 2012, and \$8,573,750 in fiscal 2013.

*Tourism-oriented Sales Tax Revenue Appropriation:* General fund revenues would decrease by \$5,142,500 in fiscal 2011, \$10,260,866 in fiscal 2012, and \$11,444,127 in fiscal 2013 due to the transfer of tourist-oriented sales tax revenues to the tourism fund. Transportation Trust Fund (TTF) revenues would also decrease by \$2,668,023 in fiscal 2011, \$714,134 in fiscal 2012, and \$795,581 in fiscal 2013 from the deposit of tourism-oriented sales tax revenues into the fund. **Exhibit 1** shows new tourism fund revenues by source.

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**Exhibit 1**  
**Tourism Fund Revenues by Source**  
**(\$ in Millions)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
GF Mandated Appropriation	\$10.0	\$9.5	\$9.03	\$8.57
Total Tourism-oriented Sales Tax Revenue		41.06	10.99	12.24 (assumption)
GF Share		5.14	10.26	11.44
TTF Share		0.36	0.71	0.80
TTF Funds Reverting to GF		2.33	0	0
Total Funds Reverting to GF		35.56	0.01	0
Tourism Fund Appropriation	10.0	15.0	20.0	20.81

Source: Department of Legislative Services; Board of Revenue Estimates

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TTF receives 6.5% of all State sales tax revenue beginning in fiscal 2009; the general fund receives the rest. Thus, 93.5% of any tourism-oriented sales tax revenues directed to the tourism fund will be comprised of general fund revenue losses, and 6.5% from TTF revenue losses.

The bill requires that the tourism-oriented sales tax revenues be defined under classification codes the Comptroller deems applicable after consultation with the Department of Budget and Management. Because these classification codes have not yet been identified, this analysis has used 10 classification codes that are most closely associated with the tourism industry in Maryland. The Board of Revenue Estimates has forecasted Maryland sales tax gross receipts for selected industries through fiscal 2010. Legislative Services assumes that tourism-oriented sales tax revenue growth would remain constant for fiscal 2011 affecting the fiscal 2013 distributions to the tourism fund.

Since the bill caps annual growth of the tourism fund at \$5 million, and mandates a \$10 million general fund appropriation in fiscal 2010, the maximum total appropriation in fiscal 2011 is \$15 million. Therefore, up to \$5 million in additional funds from

tourism-oriented sales tax revenues may be deposited into the tourism fund in fiscal 2011. In fiscal 2011, there would be approximately \$41,046,500 in tourism-oriented sales tax revenues in accordance with the formula in the bill. After applying the \$5 million cap, all but \$5,142,500 of the \$41,046,500 would be credited back to the general fund.

Notably, the bill in effect, transfers money from the TTF to the general fund in years when the growth cap is exceeded and there is a surplus from tourism-oriented sales tax revenues. Thus, in fiscal 2011, 6.5% of the \$35,919,325 surplus above the \$15 million cap, or \$2,334,756, is TTF funds that would revert to the general fund. In 2012, only \$759 in TTF funds would revert because the cap would only be exceeded by \$11,675. In 2013, no TTF funds would revert because the cap is not reached.

*Grants and Financial Assistance:* The bill specifies expenditures the board must make beginning in fiscal 2011 presumably from the tourism fund including \$2.5 million annually for grants to local destination marketing organizations and financial assistance to the Office of Tourism Development. This fiscal estimate assumes all of the tourism fund revenues would be expended each year.

*Department of Business and Economic Development Report and Recommendations:* The bill requires DBED, in cooperation with others, to report to the Governor and the General Assembly on the effectiveness of the bill, and to provide its recommendations on October 1 of each year beginning with 2013. This requirement could be handled with existing resources.

**Local Revenues:** Most destination marketing organizations are run by local governments. Therefore, local revenues to various destination marketing organizations would increase by \$2.5 million annually beginning in fiscal 2011. It is assumed that the entirety of these revenues would be expended by the destination marketing organizations.

**Small Business Effect:** The preamble to the bill states that every dollar spent on marketing the State produces a \$28.24 return on investment to Maryland's economy. Therefore, any additional expenditure made pursuant to this bill would create a significant increase in revenues for tourist-related businesses. Small business revenues would thus increase to the extent of their representation in Maryland's tourism industry.

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 458 (Senator Astle, *et al.*) – Finance and Budget and Taxation.

**Information Source(s):** Board of Revenue Estimates, Department of Business and Economic Development, Department of Legislative Services

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