SB 458

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 458 (Senator Astle, *et al.*)

Finance and Budget and Taxation Economic Matters and Appropriations

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Tourism Promotion Act of 2008

This bill requires the Governor to consider whether to include an amount of sales and use tax revenue derived from tourism-related classification codes set by the Comptroller in the annual appropriation to the Maryland Tourism Development Board Fund. The Maryland Tourism Development Board is required beginning in fiscal 2011 to provide at least $2.5 million in annual grants to destination marketing organizations. Beginning in 2012, the Department of Business and Economic Development is required to annually report to the Governor and the General Assembly on the effectiveness of the Tourism Promotion Act.

Portions of the bill take effect July 1, 2008, although the funding portions of the bill take effect October 1, 2008.

Fiscal Summary

State Effect: General fund expenditures could increase beginning in FY 2010 if the Governor provides some or all of the qualifying tourism tax increment to the Maryland Tourism Development Board Fund. In addition, there would be corresponding special fund revenue and expenditure increases for the fund. Mandated grants to destination marketing organizations beginning in FY 2011 could be made with existing Tourism Fund resources.

Local Effect: Local destination marketing organization revenues and expenditures would increase by $1.5 million annually beginning in FY 2011 from Maryland Tourism Development Board grants.

Small Business Effect: Meaningful for tourism-reliant industries.

Analysis

Bill Summary: On or before August 1 of each year, the Comptroller is required to report to the Governor on the amount of tourism tax revenue that the Governor is required to consider whether to appropriate this amount is defined as the "qualifying tourism tax increment."

The qualifying tourism tax increment is calculated by considering tourism tax revenues, which are sales and use tax revenues collected from the retail sale of tourist-oriented goods and services determined by the classification codes set by the Comptroller, that 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%. The bill states that the qualifying tourism tax increment is not required to be funded in the State budget. The bill also states the General Assembly's intent that the total annual appropriation to the Tourism Fund not exceed by $5 million the sum of the current fiscal year's mandated general fund appropriation and the portion of the preceding fiscal year's qualifying tourism tax increment included in the State budget by the Governor. For fiscal 2010 and 2011 only, the bill requires the qualifying tourism tax increment to be calculated based on a 5% sales and use tax rate for fiscal 2008 and 2009.

On or before October 1 of each year beginning in 2012, DBED, in cooperation with the board and the Maryland Association of Destination Marketing Organizations, must report to the Governor on the effectiveness of the mandated general fund appropriation and qualifying tourism tax increment in increasing visitor attendance and spending.

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 of whom 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; and
- 5 shall be appointed by the Speaker with 2 from the private sector.

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 monies 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:

Qualifying Tourism Tax Increment: General fund expenditures for the Tourism Fund would increase beginning in fiscal 2010 if the Governor provides funding based on the qualifying tourism tax increment. **Exhibit 1** shows potential Tourism Fund revenues by source.

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

	2010	2011	2012	2013
GF Mandated Appropriation (Existing)	$6	$6	$6	$6
Qualifying Tourism Tax Increment	$2.8	$6.5	$10.3	$10.8 (assumption)
Potential Fund Appropriation*	$8.8	$12.5	$16.3	$16.8

*Fiscal 2012 assumes legislative intent to cap total appropriation increase at $5 million.

Source: Department of Legislative Services; Board of Revenue Estimates

The bill requires that the qualifying tourism tax increment 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. The bill requires the Comptroller to adjust the calculation of revenues for fiscal 2008 and 2009 based on a 5% sales and use tax rate.

The bill states the General Assembly's intent that the total annual appropriation to the Tourism Fund not exceed by $5 million the sum of the current fiscal year's mandated general fund appropriation and the portion of the preceding fiscal year's qualifying tourism tax increment included in the State budget by the Governor. For example, if the qualifying tourism tax increment included in the Governor's fiscal 2010 budget was $2.8 million, then assuming the general fund appropriation for fiscal 2011 was equal to the mandated minimum appropriation of $6 million, the total fiscal 2011 appropriation could not exceed $13.8 million. Exhibit 1 assumes that the general fund appropriation for each fiscal year is $6 million.

Grants and Financial Assistance: The bill specifies that the board must expend, beginning in fiscal 2011, $2.5 million annually for grants to local destination marketing organizations. Legislative Services assumes these grants could be handled with the existing revenues of the Tourism Fund. This fiscal estimate assumes all of the tourism fund revenues would be expended each year. In fiscal 2008, the destination marketing organizations received $1.5 million in special funds.

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 2012. 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 $1.0 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 tourism-related businesses. Small business revenues would thus increase to the extent of their representation in Maryland's tourism industry.

Additional Information

Prior Introductions: None.

Cross File: HB 1097 (Delegate Doory) – Economic Matters and Appropriations.

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

Fiscal Note History:	First Reader - February 21, 2008
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