

Robert Cennamo

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	SUBJECT	City Council Bill #18-0189 Short-Term Residential Rentals – Regulation and Taxation

CITY of
BALTIMORE
MEMO



TO

DATE:

July 17, 2018

The Honorable President and
Members of the City Council
Room 400, City Hall

Attention: Ms. Natawna Austin

We are herein reporting on City Council bill 18-0189, the purpose of which is to extend the hotel tax to certain transactions facilitated by hosting platforms; requires the licensing of short-term residential rental units; defines certain terms; provides for the denial, suspension, or revocation of short-term residential rental licenses under certain circumstances; provides for judicial and appellate review of administrative decisions relating to the licensing of short-term residential rental units; imposes certain penalties; clarifies and conforms related provisions; provide for a special effective date; and generally relating to the regulation and taxation of short-term residential rentals.

Analysis

This fiscal analysis is broken down in three sections: hotel tax, licensing and operational concerns.

Hotel Tax Revenue Potential

Airbnb, the nation’s largest hosting intermediary, has rapidly expanded across the Baltimore region with a 42% year-over-year growth rate of active listings. In addition to Airbnb, other hosting intermediaries such as HomeAway and VRBO list short-term residential rentals. Proceeds from the rental of these units would be subject to the hotel tax under the proposed legislation. For this analysis, Finance is assuming that Airbnb has a 95% market share.

As of April 2018 there are 1,263 active hosts in Baltimore City, accounting for 2,105 active rental units available at an average daily rate (ADR) of \$120 per unit. The Finance Department estimates that short-term rentals could generate between \$587,000 and \$1 million in hotel tax revenues on an annual basis as proposed by this legislation.

CC Bill 18-0189 - Fiscal Impact		
	With 58% Occupancy	With 100% Occupancy
Active Listings	1,478	1,478
Days Listed	60	60
Total Room Days	88,680	88,680
Occupancy Rate	58%	100%
Average Daily Rate	\$120	\$120
Taxable Revenue	\$6,172,128	\$10,641,600
Est'd Short-Term Rental Revenue	\$587,000	\$1,011,000

* The analysis above assumes that the inventory of rentals are unhosted units
 * The analysis above assumes that active hosts are limited to only two rental units as stated in the proposed legislation; therefore, the number of active listings is reduced from 2,105 to 1,478

The Department proposes the following two amendments that would benefit the City in terms of hotel tax revenues:

- Remove the limitations on the number of licenses each property owner may obtain.
- Remove the annual 60 day limit for un-hosted rentals.

By removing these two restrictions, Finance estimates that the sale of short-term residential rentals could generate between \$1.6 million to \$2.2 million in additional hotel tax revenues. Please note that Article II, Section 40(e) of the Baltimore City Charter mandates that at least 40% of hotel tax proceeds are designated for the City's convention sales and tourism marketing arm, Visit Baltimore.

Licensing Revenue Potential

The proposed legislation also introduces licensing requirements for short-term residential rental facilities. The current bill sets a license fee of \$100 per dwelling unit. It is uncertain what the impact that the licensing restrictions would have on the number of available rentals, but using current data with the proposed limit on the number of units the City would be able to generate about \$148,000 in licensing revenues. However, it is expected that the additional revenue would offset the cost of administering this program.

This analysis assumes no material shift in the market supply for short-term rentals if the current proposed legislation is passed; furthermore, the revenue impact of the licensing restrictions could be more significant than shown here.

Operational Concerns

The current version of the bill creates operational challenges that are cause for concern. As proposed, the City would be overlapping operational efforts by having two different agencies regulating and licensing subsections of rental housing related activities. The Department of Finance would need to increase the number of employees and its technological capabilities to manage the licensing of short-term residential rentals. The Department of Housing currently has the trained staff and infrastructure to absorb in their existing operation the licensing and inspection proposed by this legislation.

The Department of Finance recommends that the City maximize efficiencies by asking the Department of Housing responsible for the licensing and inspection. The Department of Finance retains the hotel tax collection from short-term rental units proposed by this bill.

Conclusion

City Council Bill 18-0189 would have a direct, positive impact on the City's finances. Moreover, it is a necessary step to adapt to an ever-changing vacation and tourism market. For these reasons, the Department of Finance supports City Council Bill 18-0189 with amendments to the restrictions on the number of units, number of rental days, and licensing oversight.

cc: Henry Raymond
Kyrion Banks