

Andrew Klein

FROM	NAME & TITLE	Andrew Kleine, Chief
	AGENCY NAME & ADDRESS	Bureau of Budget and Management Research Room 432 (410)396-4941
	SUBJECT	City Council Bill No.10-0467 Hotel Tax

CITY of
BALTIMORE
MEMO



TO

DATE: May 5, 2010

Honorable President and
Members of the City Council
C/O Karen Randle
Room 409, City Hall

This bill proposes that the hotel tax rate be increased from 7.5% to 10%.

Analysis

Hotel room charges are currently taxed an additional 7.5% or the room price. By state law, 40% of the City's hotel tax receipts must be appropriated to Visit Baltimore. Debt service for the Convention Center expansion is also appropriated from the existing hotel tax but is a fixed amount and will not impact additional revenues.

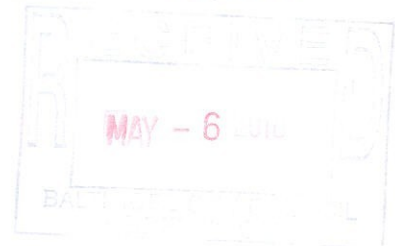
The increased rate is not expected to significantly impact demand for hotel rooms for several reasons:

- Studies show that the primary driver of hotel demand is income, both personal and business. As income increases, hotel demand increases. Hotel prices are a secondary driver of demand.
- The hotel industry proposed a surcharge to increase tourism. Forty-percent of this rate increase will go to Visit Baltimore for promotion of the City as a tourist destination and convention site.
- The tax has not been increased since 1996.

Most of the impact of this tax is on visitors to the City. The proposed increase will have little impact on City residents.

Fiscal Impact

It is estimated that the increase in the hotel tax will yield an additional \$2.6 million for Visit Baltimore and an additional \$3.9 million in revenue for the City. An 11 month estimate is utilized to accommodate a transition period during the month of July 2010.



FY 2011 Hotel Tax Revenue Increase		
Current Legislation		
	(Current)	
Proposed Rate	7.5%	10.0%
Est'd Revenue	\$21,399,000	\$28,532,000
Less: Debt Service	\$4,596,000	\$4,596,000
Gross Revenue to General Fund	\$16,803,000	\$23,936,000
Less: Visit Baltimore 40% Appropriation	\$8,560,000	\$11,413,000
Net Revenue to General Fund	\$8,243,000	\$12,523,000
General Fund Increased Revenue (11 months)		\$3,923,000
Visit Baltimore Increased Revenue (11 months)		\$2,616,000

Recommendation

The Finance Department urges the passage of this rate increase as the additional revenue is needed to fill critical budget gaps for Fiscal 2011. This proposal is part of a \$50 million revenue package that shares the burden of new taxes and fees among residents, non-residents, businesses and nonprofit organizations. The new revenue will contribute to a comprehensive plan for closing the City's \$121 million budget gap. The plan closes 60% of the gap with spending reductions and 40% with revenue enhancements.

CC: Edward J. Gallagher
Angela Gibson

Visit our website @ www.baltimorecity.gov