

Baltimore Hotel Corporation
36 South Charles Street #1600
Baltimore, MD 21201

TO: Honorable President and Members of the City Council
c/o Karen Randle, Executive Secretary

FROM: M. J. Brodie *MJ Brodie*
Chairman

DATE: April 28, 2010

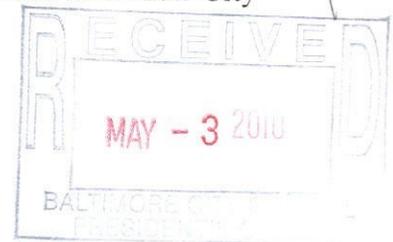
SUBJECT: City Council Bill 10-0467
Hotel Room Tax – Rate

The Baltimore Hotel Corporation (the "Corporation") has been asked to comment on City Council Bill 10-0467, an ordinance for the purpose of increasing the hotel room tax from 7.5% to 10.0%, effective July 1, 2010. The Corporation was established by Ordinance 05-128 to oversee the 757-room Hilton Baltimore, which opened on August 22, 2008 (three weeks prior to the September 2008 events in the financial markets, which resulted in the economic downturn).

The Corporation understands the budget gap that the City needs to close for FY 2011. We also recognize that the City has not increased the hotel room tax in more than ten years. We believe that the City Council should understand the economic factors that have impacted the City hotel industry in recent years, because the basic and critical way to improve the environment for all of the City hotels and to offset the impact of the room tax increase is to find more and better ways of promoting Baltimore as a convention and meeting destination.

From 2002 through 2007, the Baltimore hotel market was very robust. In 2005, the City hotel occupancy averaged 71.2%. By 2007, the City's hotel occupancy rate declined to 65.8%. By 2008 and 2009, occupancy had decreased to 60.8% (7.6% decline) and 56.9% (6.4% decline) respectively. In the first three months of 2010, the City hotels achieved a 49.5% occupancy rate, no increase when compared to the first three months of 2009. The Hilton Baltimore occupancy rates for 2009 (its first full year of operations) was at the City's average; it is above the City average in 2010 by 3.2%, as of March 31, 2010.

With the addition of the 757-room Hilton in August 2008 and several new smaller privately financed hotels, supply (i.e., number of hotel rooms in the market) in 2008 increased by 8.4%; demand for those hotel rooms increased by only 0.1%. Supply increased by 8.6% in 2009 (reflecting a full year impact of the Hilton and other new City hotels); demand increased by 1.9%.



When examining revenue per available room (RevPAR), the standard financial measurement used to compare revenue of hotels over different time periods and to other markets, the City hotels reported a 16.6% RevPAR decline in 2009 over 2008, comparable to the 16.7% nation-wide RevPAR decline. Baltimore was not alone in this regard. In the first three months of 2010, RevPAR decreased 12.5% when compared to the first three months of 2009. PKF Hospitality Research, in its March 2010 Hotel Horizons Report--Baltimore Edition (conducted for the Baltimore Metropolitan Statistical Area, which includes Baltimore City and the suburban markets, including Thurgood Marshall BWI Airport), projected that the Baltimore hotel market will not see occupancy and RevPAR improvements until 2011.

When the City hotels are facing the economic challenges of the nation-wide recession, with lower occupancy rates, declining RevPAR, supply additions and limited demand growth, then hoteliers have a legitimate concern that new room taxes may make Baltimore less competitive with other hotel markets. Baltimore is a group-oriented hotel market; that is, more than 55% of all hotel demand (especially in the large downtown hotels) is derived from conventions and meetings. To reverse the declining occupancy rate for the City hotels, we must increase demand, and **the optimal way to achieve higher demand is to bring more conventions and large meetings to Baltimore.**

Given all of these factors, the Corporation supports the need for the City to raise additional tax revenues at this time to close the budget gap, including the increase in the hotel room tax. Under the current funding formula for Visit Baltimore, 40% of the incremental room taxes will be provided to Visit Baltimore. To offset the impact of the higher taxes on the City hotels and to blunt any message from cities that Baltimore is less competitive, a heightened sales effort--especially by Visit Baltimore--is vital. The Corporation requests that the City Council explore ways to use the incremental room tax revenues provided to Visit Baltimore to attract more conventions and meetings to Baltimore for 2011 and all future years.

cc: Kaliopé Parthemos
Angela Gibson