


FROM	NAME & TITLE	Robert Cenname, Chief <i>RC</i>	CITY of BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall (410) 396-4941		
	SUBJECT	City Council Bill 18-0104R – Subsidies to Baltimore City’s Hospitality and Tourism Industry - Now and in the Future		

DATE:

TO

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

November 1, 2018

Attention: Ms. Natawna Austin

We are herein reporting on CCB 18-0104R, which calls for representatives from multiple City agencies and quasi-agencies to appear before the City Council to discuss the subsidies that the City of Baltimore has provided to the hospitality and tourism industry. Additionally, a purpose of the hearing is to ensure that any future subsidies to the industry are conditioned upon the recipients’ commitment to create quality jobs.

Background and Analysis

The City has historically allocated resources for the development and sustainability of its hospitality and tourism industry. City direct subsidies to this industry have come in the form of allocation and designation of its Hotel tax revenues, partial absorption of the Convention Center operational cost, creation of Tax Increment Financing (TIF) districts and development of projects through PILOT agreements.

The following section details the major direct contributions the City has historically made to support by the hospitality and tourism industry:

- **Hotel Tax: Convention Center Bond Fund** - The Convention Center Bond Fund was established in Fiscal 1995 to budget for hotel tax revenue. This revenue was dedicated to support the debt service incurred to finance one-third of the \$151.0 million cost expansion of the Baltimore Convention Center. The fully expanded and renovated Convention Center facility reopened in April 1997. The City charges a 9.5% tax on a hotel’s gross revenue. Any revenues in excess of the above referenced debt service payment are transferred to the General Fund.

The following table shows that as of Fiscal 2018 the City has paid \$94.9 million in debt service for the renovation of the Convention Center. The Fiscal 2019 Budget of \$4.6 million represents the last amortization payment for debt issued for this renovation:

Convention Center Facility	
Fiscal Year	Debt Service
1998-2018*	\$94,893,657
2019 Budget	\$4,562,625
Total	\$99,456,282

*Preliminary unaudited totals

- Hotel Tax: Visit Baltimore** - Pursuant to Article II, section 40(e) of the Baltimore City Charter, the City is required to budget an amount equal to at least 40% of the revenue derived from the Hotel Tax to Visit Baltimore, whose primary responsibility is to promote tourism in the City. General Fund appropriations for Visit Baltimore began in Fiscal 1997.

The City and Visit Baltimore recently signed an agreement establishing that for Fiscal 2019 through Fiscal 2021, the City is committed to a subsidy contribution not to exceed \$15 million from the calculated 40% of hotel tax revenues, and to receive a grant from Visit Baltimore of up to \$3 million when proceeds exceed this value. The agreement also establishes that after Fiscal 2022 the City's commitment is not to exceed \$14 million with a grant of up to \$3 million when the 40% calculation exceeds this value.

The following table shows that the City has subsidized Visit Baltimore by \$199.1 million between Fiscal 1997 and Fiscal 2018, and has appropriated \$13.9 million for Fiscal 2019 Budget:

Visit Baltimore	
Fiscal Year	Operating Deficit
1997-2018*	\$199,141,093
2019 Budget	\$13,970,440
Total	\$213,111,533

*Preliminary unaudited totals

- Convention Center Operations Subsidy** – The Convention Center was created by City ordinance to specifically promote the City's hospitality industry by providing space and support services for meetings, trade shows, conventions and other functions conducted by local and national organizations. Proceeds from the Convention Center operations are considered General fund revenues, used to calculate the operating deficit, which is partially subsidized by the City.

Section 10-640(f) of the Economic Development Article of the State law requires the State of Maryland to pay for two-thirds of the operating deficit and the City is responsible for the final third. In the most recent legislative session, this law was extended through December 31, 2029.

The City has historically contributed with an annual average of \$2.6 million to cover the Convention Center operating deficit. The cumulative cost between Fiscal 1997 and Fiscal 2017 is about \$30 million, and the Fiscal 2019 Budget is \$2.7 million:

Convention Center Facility	
Fiscal Year	Operating Deficit
2011-2018*	\$20,442,844
2019 Budget	\$2,662,746
Total	\$23,105,590

*Preliminary unaudited totals

- **Tax Increment Finance (TIF) Projects**

Tax Increment Financing (TIF) Bonds are special obligations of the City secured by the incremental increase in property taxes resulting from development projects. The City has designated property tax revenues for the development of three TIF districts that included the construction of major hotels: Harbor Point, East Baltimore Development Initiative (EBDI) and the Convention Center Hotel.

Harbor Point

Harbor Point is a 27-acre mixed-used development site located on the waterfront west of Fells Point and just south and east of the growing Harbor East neighborhood. According to the current plan, the Development will be completed in three phases and is expected to reach full build out by 2023. With each phase, there will be constructed certain public and other infrastructure improvements that are expected to be financed by bond proceeds. When completed, the Development is expected to include 1.6 million square feet of office space, over 900,000 square feet of residential space, 220,000 square feet of retail space, and 20,000 square feet of hotel/condominiums with approximately 3,300 structured parking spaces and 9.5 acres of open space, plazas and parks. As June 30, 2018, the outstanding principal balance is \$75,125,333.

Issuance Date	Amount Issued	Debt Service Paid through FY18
12/5/2016	\$38,590,000	\$3,819,307
7/28/2016	\$36,720,333	\$1,135,753
Total	\$75,310,333	\$4,955,060

East Baltimore Development Initiative (EBDI)

EBDI is an 88-acre mixed-used development site located in the East Baltimore section of the City in close proximity to the Johns Hopkins medical complex. Development completed to date includes approximately 457 mixed income rental and for-sale housing units, approximately 687,000 square feet of life science technology space, approximately 29,000 square feet of retail, a 5.5 acre community park green space, approximately 1,450 parking spaces, a seven-acre Pre K-eight grade public school and Early Childhood campus, and 572 bed student housing building, a Marriott Residence Inn hotel and 49 townhomes. As June 30, 2018, the outstanding principal balance is \$81,300,000.

Issuance Date	Amount Issued	Debt Service Paid through FY18
5/22/2008	\$39,705,000	\$18,406,393
5/22/2008	\$15,000,000	\$1,859,349
2/19/2009	\$23,595,000	\$1,459,044
Total	\$78,300,000	\$21,724,786

Convention Center Hotel

The Convention Center Hotel consists of approximately 883,000 gross square feet, including 757 hotel guest rooms, a full service restaurant, lobby bar, a convenience/sundries store, approximately 56,554 gross square feet of meeting space, including a ballroom of approximately 24,000 gross square feet. It also includes a parking garage of approximately 570 parking spaces.

The construction of the Convention Center Hotel was funded with Revenue Bonds issued by the City in 2006. The repayment of debt for these bonds is anticipated to be paid from the revenues generated by the Hotel. Property Tax revenues generated by the Hotel above the base level, as part of a Tax Increment Financing (TIF) District, will be dedicated to the repayment of the debt costs. In addition, the Hotel Tax revenues generated only by the Convention Center Hotel are also dedicated to the debt payment.

From Fiscal 2013 through Fiscal 2018, the City has dedicated \$45.8 million in Real, Personal and Site-specific hotel tax revenues for the payment of the Convention Center Hotel TIF debt service, and the Fiscal 2019 Budget from these three sources is estimated at \$7.2 million.

Convention Center Hotel				
Fiscal Year	Real Property	Personal Property	Hotel tax	Total
2013-2018*	\$23,407,580	\$1,930,000	\$20,487,204	\$45,824,784
2019 Budget	\$3,812,231	\$367,000	\$3,059,000	\$7,238,231
Total	\$27,219,811	\$2,297,000	\$23,546,204	\$53,063,015

*Preliminary unaudited totals. Data prior FY 2013 is not included in this table.

As June 30, 2018, the outstanding principal balance of the Convention Center Hotel debt is \$268,755,000.

Debt Service Paid		
Issuance Date	Amount Issued	through FY18
2/8/2006	\$300,940,000	\$205,470,955

- **PILOT Projects**

Inner Harbor East Hotel, LLC and Inner Harbor East Garage, LLC

The City entered into a Development Agreement with Inner Harbor East Hotel, LLC (IHEH) on July 23, 1997 to construct a 750 room, four star quality hotel with related amenities and a 600- space parking garage at Inner Harbor East on a parcel bound by Fleet Street, President Street, Aliceanna Street and East Falls Avenue. On June 10, 1998, the City approved the Amended and Restated Development Agreement in order to incorporate certain changes in the design, financing and ownership of the project, including the separation of the project into two development entities, IHEH for the hotel and Inner Harbor East Garage, LLC (IHEG) for the parking garage.

The PILOT agreement by and between the Mayor and City Council and IHEH and IHEG approving a PILOT for a 750-room hotel and a 600-space parking garage at Inner Harbor East as authorized by City Council ordinances 98-253 and 98-254, approved and effective on April 23, 1998. The PILOT commenced on July 1, 2002. It has a term of 25 years and will end on June 30, 2027. The Hotel Developer shall pay to the City upon the PILOT commencement Date and on or before September 30 thereafter, in lieu of the ordinary municipal portion of real property taxes that are

exempted by Section 2.01 of PILOT agreement, a payment in lieu of taxes in an amount equal to One Dollar (\$1.00) for each July – June 30 (or other) tax year during the PILOT term.

The Hotel Developer was billed in 2004 at \$1.00 per year for 25 years. The PILOT is paid in full. The Hotel Developer is responsible for paying state taxes.

Conclusion

City Council Bill 18-0104R is a resolution calling for a hearing to discuss the City's subsidies to the hospitality and tourism industries. Through both direct and indirect sources, the City has invested significantly in these industries over the past twenty years.

cc: Henry Raymond
Kyron Banks