FROM			CITY of BALTIMORE MEMO
	NAME & TITLE	Henry Raymond, Director of Finance HR	
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	SUBJECT	CCB 18-0293 - Baltimore Tourism Improvement District - Establishment	

TO

DATE: November 8, 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 18-0293, which calls for the establishment of the Baltimore Tourism Improvement District (BTID). In general, the bill defines its boundaries, management, duties, requirements for its establishment and dissolution, as well as the implementation and enforcement of the assessment supplemental surcharge, which represents the funding source for the additional marketing efforts promoting the City's tourism industry.

Background

Tourism improvement districts started in late 1980's and became popular in many cities on the West coast, especially in California. Reports provided by Visit Baltimore suggest that the establishment of such districts in other areas of the country have improved booking activity and revenues. There are currently more than 150 active tourism improvement districts and the reports suggested that material increase in lodging revenues has been realized in these areas after the establishment of these districts. However, the results are not conclusive in attributing the full success to these districts in areas with existing budget for the promotion of this market.

Tourism improvement districts are regular business improvement districts, but they are specifically focused on the promotion of hospitality market in their locations. The City currently has four special benefits or business districts: Downtown Management District, Midtown Community Benefit District, Waterfront Management District and Charles Village Community Benefit District. In general, these districts were created to promote markets within the districts and to provide supplemental security, maintenance services, amenities in public areas, provide park and recreational programs and functions to the business and resident interests within these key areas in the City.

Each of these districts are primarily funded by a supplemental surcharge imposed to residents and businesses within them, which are annually authorized by the City's Board of Estimates. The following table summarizes some of the legal and financial details for the existing benefit districts in comparison with the proposed BTID:

Baltimore City Business Districts - Comparison	Downtown Management District	Midtown Community Benefit District	Waterfront Management District	Charles Village Community Benefit District	Baltimore Tourism Improvement District
Formation Requirement	58.0%	58.0%	58.0%	58.0%	50.0%
Termination Requirement (Within Protest Period)	Election - 40% Participation	Election - with 58% of votes	Election - with 58% of votes	Election - with 58% of votes	Election - with 75% of votes
Renewal Cycle	No sooner than 4 no later than 5 years	4 Years	4 Years	4 Years	10 Year
Protest Period	4 Years	4 Years	4 Years	4 Years	Annual
Surcharge Rate	0.2239%	0.1320%	0.1700%	0.1250%	2.0%
Est'd Revenue (FY 2018)	$6,481,000	$1,484,000	$2,433,000	$850,000	$6,945,000
Renewal Date	6/30/2022	6/30/2020	4/23/2019	6/30/2022	TBD

The above table details certain structural differences between the existing benefit districts and the proposed BTID. The information suggests that the proposed BTID requires less participation for its formation and more requirements for its termination. Additionally, the regional boundaries of the proposed BTID would encompass all hotels within the City while the other four districts are limited to residents and businesses within specific areas. This represents a concern in terms of uneven marketing efforts for hotels not in proximity to the downtown area, where most of the hospitality activity occurs.

Fiscal Analysis

The City has historically allocated resources for the development and sustainability of its hospitality and tourism industry. Recently, the Department of Finance presented a report responding to the City Council Taxation, Finance and Economic Development Committee's resolution 18-0104R, which included details of City subsidies to its tourism and hospitality industry. The report showed that the City has not only provided direct subsidies to this industry by the allocation and designation of its Hotel tax revenues, but has also indirectly supported the industry by the partial absorption of the Convention Center's operational deficit, the creation of Tax Increment Financing (TIF) districts including hotels, and the development of hospitality projects through PILOT agreements.

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 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 Defict**
1997-2018*	$199,141,093
2019 Budget	$13,970,440
Total	**$213,111,533**

*Preliminary unaudited totals

This legislation proposes the implementation of a special assessment charge to fund the additional marketing efforts for the BTID, which needs to be approved by 2/3 of its voting committee.

The following table summarizes the potential revenues to be generated by the proposed special assessment charge at various rate levels for the next four years as well as the estimated baseline support to be provided to Visit Baltimore from Hotel tax:

Estimated Revenues Supporting Tourism - Scenario Analysis				
Alternative Surcharges	Fiscal 2020 Estimate	Fiscal 2021 Estimate	Fiscal 2022 Estimate	Fiscal 2023 Estimate
0.50%	$1,769,000	$1,805,000	$1,842,000	$1,880,000
1.00%	$3,537,000	$3,610,000	$3,684,000	$3,759,000
1.50%	$5,306,000	$5,414,000	$5,525,000	$5,638,000
2.00%	$7,074,000	$7,219,000	$7,367,000	$7,517,000
Est'd Baseline Funding to Visit Baltimore	$13,440,000	$13,715,000	$13,996,000	$14,283,000

Other Considerations:

Assessment Charge-Tax Increase

The proposed special assessment charge is considered an indirect increase in the City's hotel tax rate. To that effect, BBMR has investigated what the impact on hotel stays if an additional tax were added to the existing 9.5% rate. It has been difficult to find much evidence regarding this effect. One study from 1988 stated that advocates usually say that a small tax is fully passed along to customers (who are usually from out of town) and that this increase does not reduce hotel stays; however, this study found that typically these increases are not small and they do have a negative impact on demand. Contrary to this statement, another study from 1991 suggested that hotel demand appears to be almost perfectly inelastic, and that the imposition of an additional tax does not reduce demand for hotel rooms. Overall the small amount of evidence BBMR has been able to locate provides mixed evidence regarding the effects of this tax increase, although the evidence leans toward there being no or minimal impact in demand.

Tax Competitiveness

The burden placed on residents and businesses in the City is significant in comparison to both other local jurisdictions and major cities nationwide. Even though City residents would not represent the majority of the individuals subject to the proposed supplemental assessment charge, the combined burden of state and local taxes may have a potential negative impact in accomplishing the ultimate goal of increasing booking sales. The following table compares the combined sale and lodging taxes among competitive cities in the region:

Neighbor Cities - Tax on Tourism Activity Comparative Table			
Location	Sales Tax	Lodging Tax	Combined
Washington, DC	6.00%	14.95%	20.95%
Philadelphia, PA	8.00%	8.50%	16.50%
Baltimore City*	6.00%	9.50%	15.50%
Pittsburgh, PA	7.00%	7.00%	14.00%
Richmond, VA	5.30%	8.00%	13.30%
Raleigh, NC	7.25%	6.00%	13.25%

* A 2% assessment charge would place the Baltimore City at 18.5% tax on lodging activity.

The City currently charges the highest property, transfer, and recordation tax rates among the seven largest Maryland counties, and imposes the maximum possible local income tax rate under State law.

Budget Flexibility

The proposed supplemental assessment charge represents an indirect tax, which will limit the City's options and flexibility to increase the City's hotel tax in the event of a future economic downturn.

In recent years, significant tax increases have only been used selectively in response to clear financial crises. For example, in Fiscal 2011, at the peak of the recession, the City increased rates for energy, income, hotel, and parking taxes. These tax increases, combined with significant expenditure reforms on civilian pension and health benefits among others, allowed the City to survive the economic downturn with only modest service impacts to City residents.

The City's revenues historically track closely with the health of the national economy. The United States has now entered its tenth consecutive year of expansion, the second longest since World War II, which increases the chances of a recession in the short to mid-term. In a future economic downturn, the City will have limited revenue options to choose from.

<u>Conclusion</u>

The Finance Department considers the promotion of the tourism industry a key initiative for the improvement and development of overall business activity in the City, specially in the downtown area; however, the establishment of a Tourism Improvement District may not necessarily be the only option the City has to accomplish this goal, especially when significant resources are allocated to this on an annual basis.

The City's average occupancy rate averaged 64% in Fiscal 2018. It is unclear how this effort may increase demand in City rooms without reductions to average daily rate per rooms, which at the end may be a neutral impact on taxable revenues.

It is unclear how the additional funding from this surcharge would be utilized to materially increase marketability of the City and why the creation of the BTID represents the only option the City has to make its visitation and tourism industry more competitive.

The Finance Department does not oppose to this legislation.

cc: Henry Raymond
Kyron Banks