

Department of Legislative Services  
Maryland General Assembly  
2008 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 131

(Senator King, *et al.*)

Budget and Taxation

Ways and Means

---

**Municipal Corporations - Hotel Rental Tax**

---

This bill authorizes a municipality to impose a maximum 2% hotel rental tax. The tax may not be imposed by a municipality that • has a current hotel rental tax revenue sharing agreement with the county it is located in; • is located in a county that does not impose a hotel rental tax; or • is located in a county that distributes at least 50% of hotel rental taxes collected to promote tourism in the county. If an eligible municipality imposes the tax, the county may impose a hotel rental tax within the municipality that is lower than the rate imposed outside the municipality. Also, if a municipality imposes a hotel rental tax, it must distribute the same percentage of hotel rental tax revenues to the county convention and visitors bureau as is distributed from the county hotel rental tax. A municipal hotel rental tax may not be imposed on a hotel with 10 rooms or less.

---

**Fiscal Summary**

**State Effect:** None.

**Local Effect:** Revenues could increase by \$2.6 million for municipalities in Montgomery County and by \$19,000 for municipalities in Somerset County from a 2% municipal hotel rental tax. Expenditures would not be directly affected.

**Small Business Effect:** Potential meaningful. Allowing municipalities to impose a hotel rental tax may result in different tax rates between competing businesses.

---

**Analysis**

**Current Law:** Counties have the authority to impose and collect a hotel rental tax up to the limits designated by the Annotated Code of Maryland. Authorized rates vary by

county but may be as low as 3% in Frederick County to as high as 8% in Allegany and Baltimore counties. Harford County does not collect a hotel rental tax.

In Code Home Rule counties (Allegany, Caroline, Charles, Kent, Queen Anne's, and Worcester) and in Calvert, Cecil, Garrett, and St. Mary's counties, tax revenues attributable to a hotel located in a municipality is required to be distributed to the municipality. In addition, the Maryland Municipal League indicates that three counties (Anne Arundel, Prince George's, and Talbot) have revenue sharing agreements with certain municipalities within the county. The county collecting the tax may subtract a reasonable sum for administrative costs. In Allegany County, any revenues attributable in excess of the 5% tax rate goes to the county's general fund. Additionally, Dorchester County must distribute 80% of the tax revenues to the municipality in which the tax was collected. Carroll, Garrett, Frederick, Washington, and Wicomico counties have provisions requiring a certain amount of hotel rental tax revenues be used for tourism and the general promotion of the county. Harford County does not impose a hotel rental tax.

**Local Fiscal Effect:** In fiscal 2006, counties collected \$87.9 million in hotel rental taxes, as shown in **Exhibit 1**. Of this amount, \$15.9 million was collected in Montgomery County and \$81,000 was collected in Somerset County. Montgomery and Somerset counties are the only two counties that impose a hotel rental tax that do not have revenue sharing agreements with municipalities or dedicate at least 50% of hotel rental tax revenues to promoting tourism.

Assuming a 5% annual growth rate in hotel revenues and that 50% of the hotel rental taxes are collected from hotels located within a municipality, revenues could increase by approximately \$2.6 million for municipalities located in Montgomery County and by \$19,000 for municipalities located in Somerset County from imposing a 2% municipal hotel rental tax. A municipality that chooses to impose a hotel rental tax would likely incur some expenses relating to the administration of and collection of the tax.

**Additional Comments:** Counties are the primary unit of local government in Maryland, responsible for basic services such as police, fire, local corrections, sanitation, local highways, and parks and recreation. In addition, counties are responsible for funding public schools, libraries, local community colleges, local health departments, and the circuit courts. Compared to counties, municipalities in Maryland provide a more limited array of public services. Municipalities account for only 4% of total local government expenditures. In five counties, municipal governments account for over 15% of local government expenditures. **Exhibit 2** shows local government expenditures in fiscal 2004 for counties and municipalities (the most recent in which data is readily available). County expenditures include the local school systems, library boards, health departments, and local community colleges.

Public works and public safety are the two largest functions of municipal governments, comprising approximately 65% of municipal expenditures. Common public services performed by municipalities include street lighting, trash/refuse collection, snow removal, and street maintenance. Police protection, planning/zoning, leaf collection, and water services are provided by at least one-half of municipalities. Unlike county governments, municipalities do not fund local school systems and community colleges, which account for over 50% of local government expenditures.

Most of the 156 municipalities in Maryland are relatively small: 60% of municipalities have fewer than 2,500 residents and only 5% have more than 25,000 residents. Approximately 15% of the State's residents live within municipalities (excluding Baltimore City). On the Eastern Shore and in Western Maryland, nine counties have over 30% of their residents living in municipalities.

---

### **Additional Information**

**Prior Introductions:** HB 518 of 2007, a similar bill, received a favorable with amendments report from the House Ways and Means Committee and passed the House. The Senate Budget and Taxation Committee took no action on the bill. SB 402 of 2007, also a similar bill was referred to Budget and Taxation. The committee took no action on the bill. A similar bill was introduced as SB 520 in 1992. The bill passed the Senate with amendments and was referred to the House Rules and Executive Nominations Committee. No further action was taken on the bill.

**Cross File:** HB 178 (Barve, *et al.*) – Ways and Means.

**Information Source(s):** City of Rockville, City of College Park, Baltimore City, Kent County, Prince George's County, Worcester County, Maryland Municipal League, Maryland Association of Counties, Department of Legislative Services

**Fiscal Note History:** First Reader - February 11, 2008  
mcp/hlb Revised - Senate Third Reader - April 1, 2008  
Revised - Enrolled Bill - May 6, 2008

---

Analysis by: Erik P. Timme

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510

---

**Exhibit 1**  
**County Hotel and Motel Taxes**

<b>County</b>	<b>County Tax Rates FY 2006</b>	<b>FY 2006 Revenues</b>	<b>Per Capita Revenues</b>	<b>Revenue Sharing Agreement</b>
Allegany	8.0%	\$727,041	\$10	Y
Anne Arundel	7.0%	14,587,109	29	Y
Baltimore City	7.5%	20,787,548	33	N/A
Baltimore	8.0%	8,406,864	11	N/A
Calvert	5.0%	519,919	6	Y
Caroline	5.0%	0	0	Y
Carroll	5.0%	191,117	1	N
Cecil	5.0%	129,096	1	Y
Charles	5.0%	822,751	6	Y
Dorchester	5.0%	229,439	7	Y
Frederick	3.0%	1,053,719	5	N
Garrett	5.0%	1,271,653	43	Y
Harford	0.0%	0	0	N
Howard	5.0%	3,295,797	12	N/A
Kent	5.0%	212,896	11	Y
Montgomery	7.0%	15,869,779	17	N
Prince George's	5.0%	6,165,903	7	Y
Queen Anne's	5.0%	480,819	11	Y
St. Mary's	5.0%	552,163	6	Y
Somerset	5.0%	80,633	3	N
Talbot	4.0%	975,316	27	Y
Washington	6.0%	750,919	5	N
Wicomico	6.0%	624,474	7	N
Worcester	4.0%	10,209,181	210	Y
<b>Statewide</b>		<b>\$87,944,136</b>	<b>\$16</b>	

Source: Department of Legislative Services

---

Note: N/A indicates that there are no municipalities within the jurisdiction.

---

**Exhibit 2**  
**Local Government Expenditures**  
**Fiscal 2004**  
**(\$ in Millions)**

<b>County</b>	<b>County</b>	<b>Municipal</b>	<b>Total</b>	<b>Percent Municipal</b>
Allegany	\$202.6	\$13.4	\$216.0	6.2%
Anne Arundel	1,477.3	56.5	1,533.8	3.7%
Baltimore City	2,810.9	0.0	2,810.9	0.0%
Baltimore	2,209.6	0.0	2,209.6	0.0%
Calvert	286.2	8.5	294.7	2.9%
Caroline	84.0	11.1	95.1	11.7%
Carroll	449.9	38.1	488.0	7.8%
Cecil	231.1	20.2	251.2	8.0%
Charles	469.8	13.5	483.3	2.8%
Dorchester	95.1	18.1	113.1	16.0%
Frederick	650.2	90.3	740.6	12.2%
Garrett	101.5	5.8	107.2	5.4%
Harford	675.3	37.7	712.9	5.3%
Howard	1,035.0	0.0	1,035.0	0.0%
Kent	57.2	6.5	63.7	10.1%
Montgomery	3,995.6	154.0	4,149.6	3.7%
Prince George's	2,683.2	103.5	2,786.7	3.7%
Queen Anne's	149.4	1.4	150.8	0.9%
St. Mary's	269.4	1.9	271.4	0.7%
Somerset	64.1	4.6	68.7	6.7%
Talbot	85.8	59.1	144.9	40.8%
Washington	310.0	78.7	388.7	20.3%
Wicomico	232.8	43.3	276.0	15.7%
Worcester	168.7	94.5	263.2	35.9%
<b>Statewide</b>	<b>\$18,794.6</b>	<b>\$860.6</b>	<b>\$19,655.2</b>	<b>4.4%</b>

Source: Department of Legislative Services