



FREDERICK COUNTY COUNCIL

Local Government Fiscal Estimate of Legislation

CONTACT INFORMATION AND GENERAL INSTRUCTIONS

Bill Number/Reference:	16-13
Bill Title:	Change Frederick County's Hotel Rental Tax Rate from 3% to 5%
Local Government Agency:	Frederick County Division of Finance
Prepared By:	Lori Depies
Title:	Director
Phone Number:	301-600-1753
E-Mail Address:	ldepies@frederickcountymd.gov
Due Date:	August 8, 2016
Date Submitted:	August 1, 2016

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Date:																																											
Please respond to the questions below. If you prefer to provide responses or additional information in a separate file or document, send the file or document in a separate e-mail to rcherney@frederickcountymd.gov with the bill number/reference in the subject line.																																											
1.	Describe the impact of this proposed legislation on your agency (operations, revenues, expenditures, etc). If there is no impact, <u>please explain why.</u>																																										
<p>The proposed change to the Hotel Rental Tax Rate for Frederick County from 3% to 5% will have a positive fiscal impact primarily to the Frederick County Tourism Council. Currently the Tourism Council receives the net proceeds of the hotel rental tax collections after the County's administrative fee and Visitor Center Set-Aside. The net proceeds allow the Tourism Council to fund various current and future programs such as the TRIPP program, Destination Development, Main Streets and the marketing and operations of Visit Frederick.</p> <p>The proposed legislation does not address the change to the County administrative fee, it is addressed in the revised Memorandum of Understanding with the Tourism Council. The revised MOU changes the administrative fee from 2.61% of the collections to a flat fee of \$1,300 per hotel annually, escalating by 1% each year after the first year. It is not anticipated that there will be any substantial change in the County revenue due to the revised administrative fee.</p> <p>It is anticipated that a hotel development incentive program will be established by the Tourism Council that will offer a rebate or dedication of a portion of the tax collected solely from an incentivized new hotel project. The rebate is proposed to be 70%-85% of the hotel rental tax collected from a hotel and conference center that meets the criteria established by such a program and will service a predefined level of debt for a period of up to 25 years.</p> <p>The chart below shows the proposed use of funds from a 5% Hotel Rental Tax in Frederick County using actual FY15 collections extrapolated to the total taxable revenue available for illustration. This information was included in the staff report to the County Council for consistency.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 45%;">Annual hotel room rental revenue</td> <td style="width: 15%; text-align: right;">\$46,459,167</td> <td style="width: 40%;"></td> </tr> <tr> <td>Hotel tax collections at 3% rate</td> <td style="text-align: right;">\$1,393,775</td> <td>Actual 12 mo. collections used for illustration.</td> </tr> <tr> <td>Collection per 1 percentage point of tax rate</td> <td style="text-align: right;">\$464,592</td> <td></td> </tr> <tr> <td colspan="3"> </td> </tr> <tr> <td>Revenue at hypothetical 5% tax rate</td> <td style="text-align: right;">\$2,322,958</td> <td></td> </tr> <tr> <td colspan="3"> </td> </tr> <tr> <td>County Admin. Fee</td> <td style="text-align: right; border-bottom: 1px solid black;">\$35,100</td> <td><i>a</i> \$1300 per hotel, 27 hotels, escalating 1% per year.</td> </tr> <tr> <td style="text-align: right;">Net of County Admin. Fee</td> <td style="text-align: right;">\$2,285,791</td> <td></td> </tr> <tr> <td colspan="3"> </td> </tr> <tr> <td>Visitor Center set aside (10%)</td> <td style="text-align: right; border-bottom: 1px solid black;">\$228,579</td> <td><i>b</i> Debt service is \$180-191,000/year, remainder into Visitor Center reserve fund</td> </tr> <tr> <td style="text-align: right;">NET AVAILABLE FOR PROGRAMS (NAP)</td> <td style="text-align: right;">\$2,057,212</td> <td></td> </tr> <tr> <td colspan="3"> </td> </tr> <tr> <td>12.5% of NAP for Main Streets</td> <td style="text-align: right;">\$257,151</td> <td><i>c</i></td> </tr> <tr> <td>12.5% of NAP for expanded TRIPP program</td> <td style="text-align: right;">\$257,151</td> <td><i>d</i></td> </tr> </table>		Annual hotel room rental revenue	\$46,459,167		Hotel tax collections at 3% rate	\$1,393,775	Actual 12 mo. collections used for illustration.	Collection per 1 percentage point of tax rate	\$464,592					Revenue at hypothetical 5% tax rate	\$2,322,958					County Admin. Fee	\$35,100	<i>a</i> \$1300 per hotel, 27 hotels, escalating 1% per year.	Net of County Admin. Fee	\$2,285,791					Visitor Center set aside (10%)	\$228,579	<i>b</i> Debt service is \$180-191,000/year, remainder into Visitor Center reserve fund	NET AVAILABLE FOR PROGRAMS (NAP)	\$2,057,212					12.5% of NAP for Main Streets	\$257,151	<i>c</i>	12.5% of NAP for expanded TRIPP program	\$257,151	<i>d</i>
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12.5% of NAP = Destination Development - community promotions, ag-tourism, other joint economic development/tourism projects	\$257,151 <i>e</i>
62.5% = Visit Frederick marketing & operations	\$1,285,757 <i>f</i>

Notes:

a) County Admin. Fee is currently 2.61% of the collections with a 3% tax rate. Proposal sets a fee of \$1300 per hotel annually, escalating by 1% each year after the first year.

b) Visitor Center set-aside is established in State enabling legislation, with the percentage set by the County. Ten percent of the collection is the existing set-aside, which does not cover debt service on the Tourism building. With the tax rate at 5%, the set-aside would cover debt service with a remainder going into a reserve for Tourism building capital expenditures plus exhibit and orientation film replacement.

c) Main Streets fund would provide Main Street marketing dollars to Frederick County communities that are Certified Maryland Main Streets or, at a reduced funding level, participating in the State's Maryland Main Street Affiliate Program (Purpose: To assist smaller towns and communities to work with the Maryland Department of Housing and Community Development and use the National Main Street Center's Main Street Four Points: Economic Vitality, Design, Promotion and Organization and Maryland's Fifth Point: Clean, Safe & Green, to strengthen the economic potential of their traditional business district.) The Main Street promotion budgets for all eligible communities in each category (certified or affiliate) would be totaled. Each Main Street or Main Street Affiliate would receive a proportional share of the category fund equal to their percentage of the combined Main Streets budgets. Max award would be half of the category fund total.

d) Expanded TRIPP program would provide an approximately 25% increase in the allocation for the Tourism Reinvestment in Promotion & Product program, enabling applicants for non-local advertising awards to receive a larger award in relation to their match. Currently a 50% match is required. This increase could allow TRIPP to fund 60% of ad placements, increasing the amount of out-of-county advertising for the successful applicants.

e) Destination Development fund: community promotions - sponsorship of events & initiatives that correlate to TCFC marketing priorities. Joint economic development/tourism funding would provide dollars to be used toward projects undertaken jointly by local economic development agencies and the Tourism Council. Examples include ag-tourism marketing initiatives, film industry coordination and promotion, and sports tourism.

f) Remainder funds Visit Frederick (Tourism Council) operations and marketing.

No infrastructure development fund to be provided from countywide collections. Instead, a Hotel Development Incentive rebate/dedication model is proposed, where up to 85% of the Hotel Rental Tax generated by a hotel that meets the program's criteria can be dedicated to the project's debt service for a period of up to 25 years.

2.	Please indicate whether the proposed legislation will affect small businesses in Frederick County, and if it will, please provide any information you may have which could be useful in determining the economic impact on small businesses.
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Because the Tourism Council funds various programs to increase tourism in Frederick County, many small businesses will be positively impacted by the proposed legislation to increase the hotel rental tax rate from 3% to 5%. The tax is paid by the consumer and passed through the hotel to the County, therefore not increasing

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the operating costs to the hotels. A hotel rental tax rate of 5% is comparable to surrounding jurisdictions and should not impact the hotel occupancy rate for the County.

FISCAL IMPACT SUMMARY – SHOW (DECREASE) IN PARENTHESES

REVENUES

3. Analysis of **estimated increase (or decrease) in government revenues**. Please estimate below any anticipated increase (or decrease) in revenues resulting from this legislation. Please be aware of any delayed effective dates in the bill or other factors that may cause revenue increases/decreases to begin in later years.

<u>Source</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Administrative Fee	N/A	N/A	N/A	N/A	N/A
TOTAL \$	\$	\$	\$	\$	\$

Please explain how the above estimated increase(s) or decrease(s) were arrived at, including any calculations and/or assumptions made. Please also explain any variation if the revenue increase(s)/decrease(s) are not constant.

N/A - There is no substantial change in revenue anticipated from the revision to the administrative fee.

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<u>EXPENDITURES</u>						
4.	Analysis of estimated increase (or decrease) in government expenditures . Please estimate below any anticipated increase (or decrease) in expenditures resulting from this legislation. Please be aware of any delayed effective dates in the bill or other factors that may cause expenditure increases/decreases to begin in later years.					
<u>A. Salaries & Wages</u>		<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
FTE Employees - _____ # of positions						
Fringe Benefits						
TOTAL (Salaries, wages & benefits)		\$	\$	\$	\$	\$
N/A	Please provide an explanation of the need for the number and type of any personnel listed above, including (1) what specific provision(s) of the bill necessitate additional staff; (2) what the duties of each type employee will be; and (3) why existing personnel cannot absorb the additional work. Please also certify the wage/salary rate and % fringe rate (if differing rates apply) for each personnel classification.					
<u>B. Other Operating Expenses</u>		<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Technical/Special Fees, Grants/Subsidies Communications-Phone, Postage Travel, Food, Auto, Fuel & Utilities Contractual Services Supplies Equipment-Replacement Equipment-Additional Land & Structures, Fixed Charges Other (Please Specify on Extra Page(s))						
TOTAL (Expenditures)		\$	\$	\$	\$	\$
N/A	On the next page, please provide brief descriptions/breakdowns of the above "Other Operating Expenses."					
	Please explain below any additional calculations or assumptions made in estimating the "Other Operating Expenses" that will help us to understand the amounts and timing of the expenses.					
N/A – It is not anticipated that this legislation would create the need for additional staff or increase the operating expenses of the County.						

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4. (cont'd)

C. Operating Expense Descriptions/Breakdowns

Please provide below a short description of the specific purpose of each expense listed under 4B. If any amount(s) listed under 4B represent(s) a total of multiple expenses, provide a breakdown of the fiscal 2017 amount with a short description of each expense (for example, if \$2,500 is listed for Communications – Phone, Postage, a statement such as “\$1,500 for cellphone charges for two new inspectors and \$1,000 for postage for mailings to permittees to notify them of changes to inspection requirements.”)

Fiscal 2017 Expenditures

Technical/Special Fees, Grants & Subsidies description/breakdown	\$
Communications – Phone, Postage description/breakdown	\$
Travel, Food, Auto Operations, Fuel & Utilities description/breakdown	\$
Contractual Services description/breakdown	\$
Supplies description/breakdown	\$
Equipment-Replacement description/breakdown	\$
Equipment-Additional description/breakdown	\$
Land & Structures, Fixed Charges description/breakdown	\$
Other (Please Specify) description/breakdown	\$

Please submit BY E-MAIL to: Ragen Cherney, Legislative Director/Chief of Staff
Frederick County Council • E-Mail: RCherney@FrederickCountyMD.gov