



Charles Skold
59 State Street, Apt. 67
Portland, ME 04101
Phone: (207) 329-3838
Charles.Skold@legislature.maine.gov

HOUSE OF REPRESENTATIVES
2 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0002
(207) 287-1400
TTY: MAINE RELAY 711

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Testimony of Rep. Charles Skold presenting
LD 632 - An Act to Allow a Local Option Sales Tax on Short-term Lodging to Fund Affordable Housing
Before the Joint Standing Committee on Taxation

Senator Grohoski, Representative Cloutier, and esteemed members of the Committee on Taxation, I am Charles Skold, representing part of Portland in House District 119. I am honored to be here to present LD 1298, An Act to Allow a Local Option Sales Tax on Short-term Lodging to Fund Affordable Housing.

I know this committee is familiar with the idea of a local option sales tax, but this version that I am presenting today, a local option lodging tax on short term rentals, is structured in a very specific way that I hope will earn your consideration and support. So I want to begin with being very clear about what this bill does, and what this bill does not do.

This bill would:

- Allow municipalities the authority to levy a 2% lodging tax on short-term rentals in their municipality.
- Allow municipalities to do so only by referendum vote within that municipality.
- Allow that tax to be only 2%, not more or less, which would be collected in that municipality along with the state lodging tax.
- Allow that tax to be collected only on the sale of short-term lodging of less than thirty days.
- Require that if a municipality adopts this tax, that 2% of the revenue remain at the state assessor to cover their administrative costs.

- Require that if a municipality adopts this tax, they notify the assessor at least 90 days before the tax goes into effect.
- Require that if a municipality adopts this tax, that fifteen percent of the generated revenue is directed to Maine Housing to fund programs for affordable housing in rural areas of the state.
- Require that if a municipality adopts this tax, they use the remaining generated revenue only for programs for affordable housing within that municipality.

This bill would not:

- Mandate that any municipality raise the lodging tax.
- Allow city councilors to raise the lodging tax without a referendum by the people they represent.
- Apply to restaurants, or to the sale of any other good, or to any rental period of thirty days or longer.

There are many reasons to support this proposal including home rule and helping municipalities around the state who are asking for this option. The biggest reason I support this bill, and the reason I am bringing it forward, is to help provide affordable housing for Mainers. We have heard over and over that Maine is in a housing crisis right now. Maine has a housing shortage of more than 80,000 units. We need more tools and resources to meet this housing demand, and this bill allows municipalities to be an active partner with the state in meeting the housing needs of their own communities.

In many areas of our state, housing units are being purchased and converted into short-term rentals. It is estimated that currently about 30% of every housing sale is an investment purchase rather than intended to be someone's primary residence. Now, short-term lodging plays a very important role in our state and our tourism economy. But the reality is that each housing unit converted to short-term lodging takes away housing units from families or individuals who would love to stay and live in their town close to family and friends, but who are being driven away by lack of supply and high prices. This bill does not detract at all from the importance of short-term lodging in our economy, but it allows municipalities heavily impacted by this trend to recover some benefit and use that revenue to help meet their own housing needs.

You may hear in today's hearing some opposition to the idea of a local option tax. Respectfully, I submit that many of the reasons to oppose this tax are not

questions for this committee to decide, but are rather questions for local communities to decide for themselves.

As an example, consider the claim that a local option tax will have a negative impact on the local tourism economy, whether it is a concern that an extra 2% will drive away tourists, or that the owners won't be able to adequately pass on their costs to the visitors, or that the local economy will suffer because fewer short-term renters will be visiting. These concerns may or may not be true to reality. Rhode Island has a combined lodging tax of 13%, and Connecticut has a lodging tax of 15%, and their tourism and short term rental market is doing fine. But these concerns are better suited for local communities themselves, when they are deciding whether or not to adopt this 2% additional tax. All we are saying is let the communities have that conversation. Let them weigh the costs and the benefits, relative to their context and experience and community makeup, and have the option of this tax if at the end of the day their community decides it would be best for them.

Another concern is that the presence of a local lodging tax in one community could be unfair to those other communities that never adopt it. I don't think that is the right way to look at it because this is not a zero-sum game. If some communities with higher tourism say they need this additional revenue stream in order to offset the costs that come with higher tourism, we should let them have that option. And for those that don't want it, they can choose to not adopt it. Additionally, this bill would ensure that the revenue generated from a local lodging tax to help fund housing in one area is shared with the entire state, through sending fifteen percent to Maine Housing for affordable housing in rural areas.

Another important concern often raised is the appropriateness for a local option lodging tax under Maine's Constitution. My answer is that yes, such a tax is constitutional if the legislature authorizes it. Right now a municipality is barred from raising its own lodging tax only because this legislature has not consented to it. Maine's Constitution says that "no tax or duty shall be imposed without the consent of the people or their representatives in the Legislature." Well, through this bill, the Legislature would be giving its consent for a very specific tax to go into effect on the condition that a majority of a municipality's voters request it. Another portion of Maine's Constitution says the legislature shall never suspend or surrender the power of taxation. This bill is not a suspension or a surrender of the power of taxation. Rather, it would amount to a delegation, under the legislature's power and under its authority to revoke such a delegation at any time by changing the law regarding a local option lodging tax.

Lastly, In DAFS prior testimony on a similar proposal they asked that if the committee does move forward with a local option sales tax, that it should be as simple as possible so as to ease compliance and administrative burden for all involved. That is why this proposal allows only a 2% tax. There will not be some municipalities adding a 0.5% tax, and others adding a 1.5% tax. There will be uniformity that if a community adopts this tax, it will be a 2% tax, on short-term lodging only, with a proscribed way they can use the revenue for affordable housing programs.

Maine is a great place to visit, it really is, but it's an even better place to live. We need to be doing all we can to ensure that Mainers can continue to live in the communities they know and love, and this proposal is one great way we can help municipalities do that.

Thank you and I'm happy to answer any questions you may have.

Rep. Charles A. Skold
District 119