

Testimony of Nate Cloutier

Before the Joint Standing Committee on Taxation
January 23, 2024

In Opposition to LD 1893, "An Act to Allow a Municipality to Impose a Fee on Short-term Rentals for the Benefit of That Municipality"

Senator Grohoski, Representative Perry, and distinguished members of the Joint Standing Committee on Taxation: My name is Nate Cloutier, and I am submitting comment on behalf of HospitalityMaine, representing more than 1,300 restaurant and lodging establishments of all sizes across the state. HospitalityMaine **strongly opposes** LD 1893, "An Act to Allow a Municipality to Impose a Fee on Short-term Rentals for the Benefit of That Municipality".

This bill would allow municipalities to enact through referendum a fee on all lodging currently subject to the 9% lodging tax—hotels, inns, campgrounds, B&Bs, and camps and cottages.

Our organization has been consistent in our opposition to increasing the tax burden on businesses here in Maine. In a post-pandemic stimulated economy, our opposition to an increase in the lodging tax is only more steadfast.

This bill is more troubling than the traditional local option sales tax bills that have been in front of this committee for a couple of reasons:

- There is no limit on the percentage increase that a municipality could impose on top of the already sizeable 9% lodging tax.
- The bill does not contain language requiring the funds to be used for a certain unmet need in a community.

Forgive me as I pick on Portland a bit. Let me preface that I'm a former resident and love the food scene. However, frankly, we see this as a way for cities like Portland to institute an excessive tax on lodging facilities with no check on the amount or how the funds would be used. As written, this green lights municipalities to use a new tax mechanism to fund projects that could be unworthy of consideration. Raising taxes isn't popular in a state like Maine. In 2016, a proposal to raise taxes on Mainers earning a certain income threshold narrowly won by a 1.5% margin. This was so unpopular that the next legislative session swiftly overturned this measure. Towns like Harrington, Pittsfield, Caribou, Fairfield, and the like aren't going to benefit from this proposal. Will the aforementioned towns vote to approve a tax increase on their neighbors running a small business? Likely not. Will larger cities like Portland? If history is any indication, you can bet your bottom dollar they will.

As mentioned, Maine already has a sizeable lodging tax at 9%. Only five states have a state lodging tax of 10% or greater; those are: Connecticut (15%); Hawaii (14.25%); Rhode Island (12%); Michigan (12%), and New Jersey (11.6%). Our closest neighbor, New Hampshire, would likely encourage us to pursue an increase in the lodging tax as their lodging tax is 9% and sales tax is 0%. The higher the lodging tax and the higher the overall tax burden is, the more harmful it is to Maine's employers and reputation as a business community.

As written, the full tax amount would be returned to the municipality. Maine's rainy-day fund is so full we had to

take funds out of it. Maine's towns and counties received an influx of stimulus funds throughout the pandemic. In some spots, the funds were so great that communities struggled to exhaust them before Treasury deadlines. Through the American Rescue Plan Act (ARPA), Maine's municipalities received \$500M and counties received \$260M. In the last budget, the state also funded K-12 education at 55% and funded revenue sharing at 5%, meeting both statutory obligations. While municipalities may have recovered, many small businesses across the state are still feeling the impact of COVID. The restaurant and lodging industry suffered unprecedented setbacks throughout the pandemic.

As you can see from the graph on the following page, data provided from STR, hotel occupancy from January 2023 – December 2023 is down over 5% from the previous year. While the average daily rate has increased \$6/room in 2023 compared to 2022, the revenue has decreased over \$5/room. You'll also see that lodging both in New England and the United States fared much better than Maine last year. This is no indication that a lodging tax wouldn't further harm these statistics.

Maine's lodging industry plays a vital role in the greater economy. According to the American Hotel and Lodging Association:

- Hotel guest spending in the Maine economy is \$3.3 billion annually.
- Hotels generate \$1.8 billion in wages and salaries in Maine.
- Hotels employ nearly 37,000 jobs in Maine.
- Hotels generate \$847 million in total taxes to the state.

LD 1893, and similar taxation bills, is one of, if not the biggest threat to the lodging community this session. This bill would be irreversibly harmful to Maine's lodging, hospitality, and tourism industry. We urge the committee to move immediately into work session following the conclusion of the public hearing and kill this bill as a signal of support to Maine's lodging and business community.

Thank you, and I would be happy to answer any questions you may have.

Year to Date - December 2023 vs December 2022

	Occ %		ADR		RevPAR		Percent Change from YTD 2022					
	2023	2022	2023	2022	2023	2022	Occ	ADR	RevPAR	Room Rev	Room Avail	Room Sold
	United States	63.0	62.6	155.62	149.24	97.97	93.39	0.6	4.3	4.9	5.2	0.3
New England	63.7	63.4	188.78	179.58	120.20	113.78	0.5	5.1	5.6	5.2	-0.4	0.1
Maine	60.2	65.2	184.67	178.53	111.22	116.34	-7.6	3.4	-4.4	-4.6	-0.2	-7.8