

Testimony of Nate Cloutier

Before the Joint Standing Committee on Taxation
February 13, 2024

In Opposition to LD 1298, "An Act to Allow a Local Option Sales Tax on Short-term Lodging to Fund Affordable Housing"

Senator Grohoski, Representative Perry, and distinguished members of the Joint Standing Committee on Taxation: My name is Nate Cloutier, and I am here today on behalf of HospitalityMaine, representing more than 1,300 restaurant and lodging establishments of all sizes across the state. HospitalityMaine opposes LD 1298, "*An Act to Allow a Local Option Sales Tax on Short-term Lodging to Fund Affordable Housing.*"

We had hoped to be able to provide comment on this bill and LD 996 from Representative Gramlich, "*An Act to Allow a Municipality to Establish a Local Option Sales Tax*" at the Public Hearing for LD 1893 from Representative Strout, "*An Act to Allow a Municipality to Impose a Fee on Short-term Rentals for the Benefit of That Municipality.*" We appreciate that the committee generally considers bills of a similar nature at a single public hearing because it can be difficult for stakeholders and businesses affected by legislation to attend three separate public hearings on a single issue. We understand there were extenuating circumstances as to why LD's 1298, 996, and 1893 deviated from the traditional process and appreciate the opportunity to reiterate our same concerns today that we outlined in LD 1893. **Moreover, we appreciate the committee's recent unanimous vote of ought not to pass on the previous lodging tax bill and encourage the committee to do the same with this and any subsequent local option sales tax legislation.**

LD 1298 would allow a municipality to impose a local option sales tax of 1% on short-term lodging that is subject to the state sales and use tax if approved by referendum of the voters in that municipality. The revenue received from the tax must be used in municipal programs that support affordable housing development in that municipality. The point was well taken from the previous public hearing wherein there was robust discussion regarding the potential legal differences between a fee and a tax. Our position is the same. Regardless of what it is termed, an additional financial burden placed on the consumer that increases lodging costs is not something we can support.

Our organization has been consistent in our opposition to increasing the tax burden on businesses here in Maine. 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%). This bill is a clever way of subtly increasing consumer lodging costs on a potentially large portion of the state's lodging properties while not having to broadcast a 10% tax rate. However, the end result is still the same. 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-friendly community.

We are not unsympathetic to the housing crisis in Maine; however, we don't see this bill as the best mechanism to combat the issue. Maine's rainy-day fund is so full we had to recently take funds out of it. In the last budget, the state also funded K-12 education at 55% and funded revenue sharing at 5%, meeting both statutory obligations. A consistent argument made in this committee is that service centers are left covering a disproportionate burden of costs that is not shared by neighboring municipalities. Instead of looking at new taxes, the committee might

consider the current breakdown of revenue sharing 1 and 2 and evaluate whether the existing framework is suitable.

If the Committee were to move forward with this legislation, we'd like to point out our concern with the definition in the bill of "program for affordable housing." It states the funds could be used for, "other programs that provide assistance for or support affordable housing." This seems well-intended, but municipalities lack the resources and expertise that come with statewide organizations such as Maine Housing. This provision essentially allows municipalities to pick organizations that may or may not be appropriate to receive the funds. Any tax increase on the consumer should demand that the funds are spent in the most efficient and effective manner.

Many small businesses across the state are still feeling the lingering impacts of the pandemic. 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. Lodging both in New England and the United States fared much better than Maine last year. This is no indication that raising lodging costs on consumers 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 1298, 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 industries.

Given the recent reasoning and precedent with LD 1893, we urge the committee to move immediately into work session following the conclusion of the public hearing and kill this bill from the same reasons just two weeks ago.

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