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*Testimony of Rep. Charles Skold presenting*  
**LD 1298 - 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 Perry, 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 1% 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 1%, not more or less, which would be collected in that municipality along with the 9% 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, they use the generated revenue only for programs for affordable housing within that municipality.

This bill would not:

- Raise the state lodging tax.
- 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. In the Labor and Housing Committee where I sit, we have heard testimony from Maine Housing that across the state Maine has a housing shortage of more than 80,000 units. In the last biennial budget this legislature appropriated historic funding for housing, but even that huge effort is leading to only about 4,000 new units, about 5% of the demand. This legislature can continue to provide much needed funding for housing, but this is an all-hands on deck situation. 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.

Now I want to go over some of the reasons not to support this bill, that you have heard in recent testimony for similar proposals, or that you may hear in today's hearing. Respectfully, I submit that you can place most of the opposition in two buckets: questions for this committee to decide, and questions for local communities to decide.

First, I want to go over the opposition concerns that are not questions for this committee, but are more appropriately questions for local communities to decide on their own. These include a concern for any potential negative impact on the local tourism economy, whether it is a concern that an extra 1% 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 lodging tax of 12%, 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 1% 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.

The second grouping of concerns are questions that I do think this committee needs to consider.

One is whether it makes sense to allow a kind of competitive environment among municipalities that may differ in whether or not their short-term lodging tax is the 9% state tax, or the 10% state-plus-municipal tax. I think the answer is yes, this is fine. We have home rule. We have a free market. Our towns already make many individual efforts to attract and encourage visitation, such as deciding to offer free parking or deciding to raise revenue with paid parking. And actually this kind of municipal lodging tax can have positive spillover benefits on neighboring towns. If my community adopted this 1% tax, we would get the benefit of raising revenue for housing, and if that extra 1% does impact any visitor's decision about where to lodge, the neighboring communities would also benefit when that visitor decides to go lodge there instead.

Other legitimate concerns for this committee are those presented by the Department of Administrative and Financial Services. Those include constitutionality, administrative burden, and simplicity.

Is a local option lodging tax valid under Maine's Constitution. It is 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, if this Legislature consents to this specific 1% tax, there is nothing preventing us from saying the tax can only go into effect if the people of a municipality, themselves, also consent to it. Any local option sales tax is Constitutional if the Legislature consents to it, which is exactly what we are asking the legislature to do.

For the issue of administrative burden, you will notice that this gives the assessor 2% of raised revenue to cover costs, and ninety days notice before the tax goes into effect. If this is not enough to cover costs, or not enough notice, I welcome suggestions from DAFS and can work with them and this committee to determine the right percent and the right notice.

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 1% tax. There will not be some municipalities adding a 0.5% tax, and others adding a 5% tax. There will be uniformity that if a community adopts this tax, it will be a 1% 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