



City of Somerville, Massachusetts
Office of the City Auditor
Katjana Ballantyne
Mayor

To: City Council Finance Committee
From: Ed Bean, Finance Director/City Auditor
Re: Response to 25-0252 -Short-Term Rental Revenue
Date: March 5, 2025

The state's room occupancy excise tax rate is 5.7% of rental sales. In addition to the state excise, Massachusetts cities and towns are permitted to charge a local room occupancy excise up to 6%. Somerville adopted a local room occupancy excise tax back in 2009. The local room occupancy excise tax automatically applies to short term rentals. The local excise applies to the same occupancies as the state excise. Hence, the rate charged to short-term rentals is the combined state room occupancy tax and local room occupancy tax of 11.7% of rental sales.

The local room occupancy excise of 6% is collected by the State Department of Revenue and distributed back to cities and towns on a quarterly basis. The DOR does not break out the short-term rental portion of the excise tax revenue in their reports, unless specifically requested by a City or Town. Somerville made such a request.

DOR reports short-term rental occupancy excise tax for the past 4 quarters as follows:

12/6/2024 - \$240,472
8/31/2024- \$239,603
5/31/2024 - \$188,486
2/29/2024- \$124,943

TOTAL = \$793,504

A city that has adopted the local room occupancy excise may adopt a local option community impact fee of up to 3% of rent regarding transfers of occupancies of two categories of short-term rentals. Based on the last 4 quarters of short-term rental excise tax revenue and assuming the 3% community impact fee of 3% is applied to the two categories of short-term rentals, then a reasonable estimate of the 3% impact fee would be **\$396,752** on an annual basis.

However, there are restrictions on how a municipality spends these funds. The revenue from the short-term rental occupancy excise tax is general fund revenue. The revenue from the local option community impact

fee of 3% is partially restricted. Thirty-five percent (35%) of the impact fee must be dedicated to affordable housing or local infrastructure projects. A local infrastructure project is defined as a capital project for which a community could borrow. The 35% is accounted for in a “receipts reserved for appropriation” account. The remaining 65% is general fund revenue unless the city through legislative action votes to supplement the 35% for affordable housing or local infrastructure projects. In that case, the remaining 65% is accounted for in “receipts reserved for appropriation.”

I hope this answers all questions.