Agenda: Discuss and Consider 2018– 2019 HOT Budget

Background:

Hotel Occupancy Tax (HOT) has grown 109% since 2011, with the largest gains being in 2014/2015 (13% YOY actual growth) and 2016/2017 (10% YOY). No perceptible growth was appreciated in 2015/2016 and 7% growth is projected for the current year. Much of the current year growth is attributed to first quarter gains from the housing of Hurricane Harvey victims and recovery agents and is not expected to flow through to the following year.

HOT Trajectory	2008/09:	$ 1,185,113 (actual)
	2009/10:	$ 881,012 (actual)
	2010/11:	$ 954,785 (actual)
	2011/12:	$ 925,000 (budget) / **$1,110,979 (actual)**
	2012/13:	$ 1,050,000 (budget) / **$1,295,683 (actual)**
	2013/14:	$ 1,284,000 (budget) / **$1,476,939 (actual)- 5% growth**
	2014/15:	$ 1,373,880 (budget)/ **$1,674,120 (actual)- 13% growth**
	2015/16:	$ 1,579,962 (budget)/ **$1,675,659 (actual)- 0% growth**
	2016/17:	$ 2,000,000 (budget)/ $1,839,089 (actual)- 10% growth
	2017/ 18:	**$2,000,000 (budget)/ $1,959,266 (forecasted M. Moser 018)**

Growth has been fueled in part by growth of supply. In 2011, Smith Travel Report reported 2,421 limited service units and 2,294 full service units. In 2011, there was no accounting of vacation rental units. In 2018, hotel supply has grown by 7% in limited service and 5% in full service. There are also 2,800 vacation rental units registered.

Growth in revenues has been affected mostly by increasing average daily rates (ADR). In 2011, Source Strategies reported Galveston ADR at $128.08, while in 2017, ADR was reported by Source Strategies as $145.35.

For several years after Hurricane Ike, the Board elected to undervalue the tax in order to limit budgets and build a reserve for the organization. In May, the Board established a by-laws policy to maintain a 4 month operating threshold in reserve. The reserve is fully funded, but continued discussion revolves around the need to set aside resources to meet deductibles and FEMA counterpart matches in the case of a future contingency.

Controller M. Moser recommended a 4% increase over the projected 2018 actual of $1,959,266, which would establish the 2019 goal at $2,037,637.

Based on the City forecasting model, City Controller M Loftin recommended $2,128,300, or an 8% increase over projected 2017/2018 actuals.

Projection by Percentage

2,000,000	1%	2,020,000
	2%	2,040,000
	3%	2,060,000
	4%	2,080,000
	5%	2,100,000

Committee Discussion and Recommendations:

TDAC members are forecasting slowed growth next year with gains coming predominately in rate and not in occupancy. Of those surveyed at TDAC, average increases are projected at 1 to 3%.

TDAC recommended a 3% increase over the $2 million budget for a projected target of $2,060,000

After considerable deliberation, the Finance committee recommended a 2% increase over the $2 million budget for a projected target of $2,040,000.