

Agenda Item: Discuss and Consider Value of 2020-2021 Hotel Occupancy Tax

Background: Original forecast estimates followed national and state guidance from destination marketing associations recommended a minimum 25% reduction of 2018-2019 revenues for the upcoming fiscal year of 2020-21. Applied to Park Board revenues, this would represent a per penny value of \$1,506,665.00 for the upcoming fiscal year, compared to actual earned revenue of \$2,008,886.00 in 2018-19. This is comparable to the organization's 2014-15 budget year.

Original projections for the current fiscal year have shown to be conservative. As of April, year to date HOT earnings are down 14% from budget and 16% for the same fiscal period in 2019-20. May was projected to be down 90% year over year and registered at 91% below, while June to September forecasts were estimated at 65% of the previous year's earnings. While HOT has not yet been collected for May, initial industry reports for the hotel sector indicate that May occupancy was down month over month by 10%, while rate fell only 7.7% compared to last year for a collective revenue loss of only 16.8%. Short term rentals are expected to perform equally well and the summer in general appears to be only minimally affected by the epidemic given people's propensity to visit outdoor, recreational destinations.

While summer has always been the highest producing revenue quarter, continued productivity throughout the year is important.

The 2019 summer season (June to August) produced 42% of total revenues (compared to 48% in 2014), with the spring shoulder season (March to May) generating 25% of total revenues, together these quarters account for 68% of all HOT collections. The fall shoulder season (Sept to Nov) is the third highest producer at 19% of total revenues, or less than half of the summer season (\$394,761 in Fall vs \$840,788 in Summer). The lowest generating quarter is the winter, registering 14% of collections.

The Fall and Winter seasons are fortified by special events and group and convention business. The off season also benefits from year round cruises. While summer 2020-2021 can be expected to follow previous year's performance, the question of fall events and group business is still undefined. The following synopsis defines the current level of estimated contribution of particular city wide events and bookings related to group, meeting and convention sales.

Fall and Winter Events

September

Shrimp Fest

October

Fishing Rodeo

Artoberfest

Harvest Moon Regatta

November

Lonestar Rally

Dickens

December

Iceland & Trail of Lights

January

Chili Fest

Restaurant Week

February

Mardi Gras

The following table details either the estimated economic impact in hotel rooms or revenue, or where that information does not exist, or the registered uptick in occupancy and revenues per the Smith Travel Report (STR) compared to a non-event weekend in the same month.

EVENT	DATES	KNOWN / EST ROOM NIGHTS	EST HOTEL REV	NON-EVENT HOTEL REV	DIFFERENCE
Shrimp Festival	SEP 27-28	101	\$ 14,774		\$ 14,774
Galveston Fishing Rodeo	SEP 27-OCT 25	579	\$ 72,340		\$ 72,340
Galveston Greek Festival	OCT 12-13	73	\$ 9,121		\$ 9,121
ARToberFEST	OCT 19-20		\$ 1,272,869	\$ 1,257,333	\$ 15,536
Island Oktoberfest	OCT 25-26	441	\$ 55,099		\$ 55,099
Lone Star Motorcycle Rally	OCT 31 - NOV 3		\$ 2,085,270	\$ 1,383,294	\$ 701,976
Fall Flounder Classic	NOV 1 - DEC 29	219	\$ 25,728		\$ 25,728
Santa Hustle Half Marathon	DEC 21-22	1411	\$ 174,005		\$ 174,005
Dickens on the Strand	DEC 6-8		\$ 1,134,223	\$ 876,267	\$ 257,956
Yaga's Chili Quest	JAN 18-19		\$ 861,359	\$ 829,498	\$ 31,861
Mardi Gras! Galveston	FEB 13-24		\$ 3,003,427	\$ 2,005,690	\$ 997,737
				TOTAL HOTEL REVENUE	\$ 2,356,132

Based on these calculations, the loss of October – March special events would represent a potential \$-2.36M reduction in hotel revenue.

Group and Convention Business

The Galveston Island Convention Center is booked 51 days in the final four months of the calendar year (Sept to December), compared to 59 days in 2018-19. While there was significant uptick in GICC bookings for September (up 12 days for this month year over year), the following three months are down an accumulative 20 days compared to last year.

In meeting sales, we expect to see a loss of 6,100 room nights from group bookings when comparing Q1 and Q2 for FY 2019-2020 and 2020-21. Historically, group sales has booked in excess of 70,000 room nights per year.

First quarter (Oct-Dec 2020) definite bookings are down significantly from Oct-Dec '19 due to COVID concerns. However, second quarter bookings are projected to increase 25% over the same period in 2019-20.

Under the current course of events, group and convention sales could see a rebound similar to the leisure market.

However, increased infection rates moving into mid-summer or fall could provoke another series of postponements or cancellations.

Group and meeting business is estimated to generate 20% of total business, with leisure accounting for 80%.

Smith Travel Report 2020-2021 Galveston Forecasts

A fee for service STR forecast projects a collective -7.5% drop in hotel revenues from 2019 to 2021. This is based on a reduced revenues in both the off season and high season months.

STR PROJECTED HOTEL REVENUE		
		% Change from '18-'19
FY 18-19	148,242,251	
FY 19-20*	124,177,916	-16.2%
FY 20-21*	137,071,582	-7.5%

Committee Recommendations

TDAC deliberated and recommended Scenario A (11% reduction from 2018-2019 actuals), indicating that they expected pick up for next summer to be similar to past seasons, but had general concerns regarding the off season months.

FOC deliberated and recommended Scenario C (25% across the board reduction) and asked for additional information. The supplemental "Historical Trends with Projections – Custom Forecast" is being provided as a supplement to this brief.