

Short Term Rentals Task Force

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Task Force Members



Park Board – Bryson Frazier and Kay Terry

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Hotel Occupancy Tax (HOT) Overview - Loftin



- State HOT established in 1959 – Provide funding stream for tourism development
- Early 1970's legislature allowed cities to collect local HOT
- Purpose: Ensure that cost of tourism is borne, at least in part, by tourists themselves
- Six cities – Corpus Christi, Galveston, Port Aransas, Quintana, South Padre Island and Surfside – get a rebate of state HOT for beach maintenance, restoration and safety
- Also allowed cities to collect additional two percent HOT and dedicate it to building convention centers and related hotel facilities

Issues to Consider - Bakko



- Legislative session underway: Pre-emption legislation will be a risk again
- Local hospitality industry is critical to the island economy
- HOT issues affect hotel industry, resident owners of STRs, and absentee owners of STRs
- HOT is major funding source for Park Board and important funding source for City
- Impact of STRs in neighborhoods is paramount concern

Current Situation in Galveston - Frazier



- Visitors pay fifteen percent of hotel or short-term rental lodging in Galveston
- City levies nine percent HOT including seven percent basic local HOT and two percent for Convention Center
- State returns two percent of its six percent state tax collected in Galveston to the City of Galveston for beach maintenance and safety
- The Park Board registers STRs and collects the local HOT from hotels and STR owners – One staffer is dedicated to this function
- Park Board software features include online registration, tax calculation, and tax payment.
- City Auditor's office audits HOT payers – Recent results
- Cash received is deposited with US Bank as trustee and the bank dispenses to the Park Board, the Convention Center Operator and to the City as required by the bond covenants

Task Force Assignment Frazier



Two questions:

1. What are other cities doing in reaction to the possibilities of adopting Voluntary Collection Agreements with short-term rental platforms?

AND

2. Why does the State's collection of the hotel occupancy tax inside the City of Galveston appear to be larger than the local hotel occupancy tax on a per penny basis?

Voluntary Collection Agreements (VCAs) and Internet Platforms - Glywasky/Bulgherini



- Major internet companies – Airbnb, VBRO – offering agreements to collect local HOT taxes in return for shielding their clients
 1. Platform provides lump sum payment to the city each month with no associated detail on the location, frequency, volume and revenue from rentals.
 2. City waives liability of member hosts for previous unpaid local HOT that should have been paid before contract entered into the platform,
 3. City can still audit STR owners who come to their attention through some other means; although there will be an argument whether those STR owners were identified through the use of the platform
 4. Lump sum payment would include currently registered hosts who are already paying the city directly.
 5. The limited information provided results in a practical inability to audit and to identify whether a given property is current in its HOT payment.

VCA Concerns - Glywasky/Bulgherini



- Hosts still need to register because of the quality of life issues in neighborhoods
- All hotel occupancy taxpayers need to be treated fairly and equally under the Tax Code - forgiveness of non payers under the no look back provision rankles those who have been faithfully paying their taxes
- Sounds almost too good to be true from a revenue standpoint
- Some platforms offer in the VCA to require hosts to first register with their city government where such is required
- All feature thirty day termination for either party - good and bad
- We have used non payment of HOT as a method to quickly shut down undesirable operations such as the Krewe of Swingers operation - we will probably lose that tool.



Eight Texas Cities Surveyed - Loftin

- Five have no VCAs: New Braunfels, Lubbock, Dallas, South Padre Island, Irving
 - All cite concerns over same VCA provisions that concern us
 - Each is satisfied with own registration and collection efforts using custom software and/or consultant to identify unregistered properties
- Three with VCAs: Corpus Christi, Plano, Houston
 - Less concern about VCA provisions partly because STR revenue is considered small part of overall HOT revenue
 - Little or no audit focus or strategy at this point

Two Out-of-State Cities Surveyed - Frazier



- One with VCA – Breckinridge, CO
 - 90% of their HOT from STRs. VCAs began in 2020
 - 3,800 STR properties
 - VCA convenient for taxpayers – with State and County entering VCAs, felt they had to follow suit
 - Had one of their best summers on record, revenue wise. Happy with VCA
 - Cited concerns over same VCA provisions that concern us, but felt VCA more reliable and convenient than individual reporting
 - Appears VCA helped with underreporting
- Both focused on compliance – Destin, FL & Breckinridge, CO
 - Increased license/registration fees and made them annual
 - Used revenue to pay for compliance officers, auditors and third-party assistance

State Versus Local Hot Collections - Loftin/Frazier



- Amount of revenue difference since state accepted VCAs as part of a settlement agreement with STR platforms
- All Airbnb and HomeAway hosts pay the state through the VCA agreement
- City is already collecting from many Airbnb and HomeAway hosts directly whose taxes would be diverted to the VCA agreement payment – Our gain would be less than the state

Short-Term Rentals: A Growing Phenomenon? - Frazier



- 2,827 STRs registered with Park Board dispersed throughout the island (see map)
- Hotel occupancy tax originally conceived as a way to simultaneously provide for amenities and services and ensure that tourists would pay a fair share of the cost of service arising from tourism
- STRs are not new, but growth apparently was spurred in 2020 by the pandemic
- State collections from VCAs provided by State Comptroller

Local Hot vs State HOT - Loftin



- Until FY 2018 – City HOT penny exceeded that coming from the state
- Totals should match – STR enforcement is the difference
- FY20: State collected \$558,000 per penny through Airbnb and HomeAway
- FY20: City collected est. \$292,000 from hosts using Airbnb and HomeAway
- FY20: Signing a VCA would have added \$266,000 per penny to the City’s total, but the City would lose details and cut collection costs on balance of \$292,000 collected from registered properties (\$2.4M annually for City 9%)

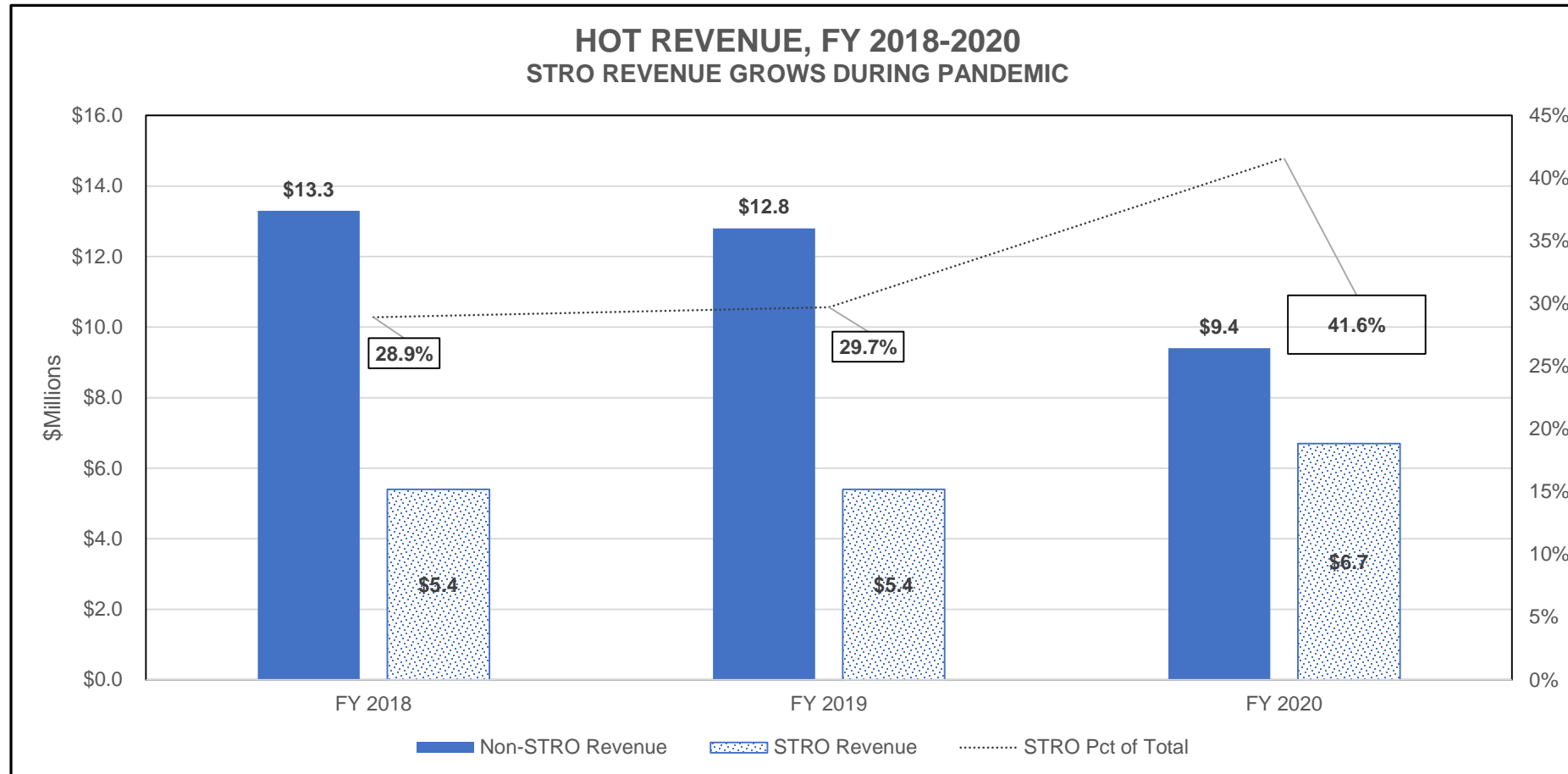
State Fiscal Year (September- August)	City Penny	State Penny	State Penny Over/(Under) City
SFY08 Actual	\$1,185,248	\$1,073,922	(\$111,326)
SFY09 Actual	\$881,012	\$843,148	(\$37,864)
SFY10 Actual	\$954,785	\$877,087	(\$77,698)
SFY11 Actual	\$1,110,979	\$1,139,019	\$28,040
SFY12 Actual	\$1,295,683	\$1,236,101	(\$59,582)
SFY13 Actual	\$1,411,513	\$1,365,587	(\$45,926)
SFY14 Actual	\$1,476,939	\$1,459,290	(\$17,649)
SFY15 Actual	\$1,674,120	\$1,610,161	(\$63,959)
SFY16 Actual	\$1,675,659	\$1,650,055	(\$25,604)
SFY17 Actual	\$1,839,089	\$1,785,118	(\$53,971)
SFY18 Actual	\$2,069,408	\$2,094,305	\$24,897
SFY19 Actual	\$2,008,858	\$2,114,283	\$105,425
SFY20 Actual	\$1,721,524	\$1,988,420	\$266,896

Recent Revenue Trends - Frazier



- Short-term rentals have increased their market share significantly in the last three years.
- Since FY2018, STRs have grown as a percentage of total HOT collections by 13%, going from 29% to 42% in FY2020.
- Since March 2020, they have averaged 44%, and from June to September 2020, averaged over 50%. In FY2021, the trend continues with STRs averaging 40% since October 2020.
- Part of the increase is attributable to the pandemic and hotels being shut down or limited for a period; i.e., it amplified the increase of STRs as a percentage of total HOT. But part of the increase is also attributable to a rise in popularity.

Local HOT Down in 2020, but HOT paid by STRs Grew



Path Forward/ Steps Underway - Frazier



- Communications to educate and motivate unregistered property owners to register
 1. Water bill message board in December (< five responses)
 2. Full page water bill insert this month to provide more information for unregistered owners
 3. Updating and adding to the information on Park Board website
 4. Title companies to include HOT fact sheet in their closing documents
- Identify and audit unregistered STRs
 1. Firm hired by Park Board (Azavar) identifying potential non-compliant STRs – so far 105 found, \$300K total HOT per year
 2. City Auditor in FY20 completed 68 tax audits on noncompliant properties, identifying 47 unregistered STRs - \$162K total HOT

Moving Forward: Register, Register, Register - Frazier



1. Utilize water consumption historical data as a tool in identifying and/or auditing individual registered and unregistered properties: Can reveal how much water is being consumed in prime STR periods.
2. Consider mass mailing to residential water customers who may be unregistered STR owners: Would require additional resources.
3. Strike up dialogue with STR platforms about City registration requirement.
4. Consider increasing registration fee and/or making it annual: Use revenue for compliance activities.
5. Continue to monitor revenue results closely.



Questions and Discussion