

City of Wimberley
City Hall, 221 Stillwater
Wimberley, Texas
Minutes of Special Meeting of City Council
August 12, 2015 at 5:00 p.m.

City Council meeting called to order at 5:00 p.m. by Mayor Steve Thurber.

Councilmembers Present: Mayor Steve Thurber and Councilmembers Bob Dussler, Cindy Anderson, Matt Meeks, Pam Showalter, and John White.

Staff Present: City Administrator Don Ferguson and City Secretary Cara McPartland

Workshop Session

Discuss and consider issues relating to the possible implementation of a Hotel Occupancy Tax (HOT) in the City of Wimberley.

Mayor Thurber outlined procedures and time limits for speakers.

Wimberley resident, Cathy Moreman, Executive Director of The Wimberley Valley Chamber of Commerce (the Chamber) spoke on her professional and personal background, including her work with various local service organizations in support of the community. After attending a 2013 conference, Ms. Moreman and the Chamber Board determined to play to Wimberley's strengths as an arts and cultural community and work toward supporting those elements of our community. She noted the creation of the member-based arts organization known as the Wimberley Valley Arts and Cultural Alliance and submission of an application for Wimberley to become a cultural district. She anticipated a response from the State of Texas on whether or not Wimberley's application is approved. She spoke on the success of the Wimberley Bootiful campaign and its boost to tourism.

Ms. Moreman stated that her experiences attending Texas Chamber of Commerce executive conferences have shown clearly that there is a benefit to cities that have a HOT tax, and has yet to hear how a HOT tax is detrimental. She stated that a HOT tax is an instrument used to promote communities and businesses, which does not hurt anyone. Ms. Moreman said that with increased tourism comes increased sales tax dollars. She emphasized that if the Chamber thought there was any reason to believe a HOT tax would not be good idea for our community "we wouldn't be here." She introduced consultant John Ball of Retail Solutions Group, LLC to give a presentation of his research on possible implementation of a local HOT tax.

John Ball, Principal with Retail Solutions Group, LLC, spoke of his professional background, qualifications, expertise, and details of the contract between himself and the Chamber.

Mr. Ball presented:

- Facts regarding HOT tax and its implementation

- Wimberley as the only area city without a local HOT tax and one of the few in Texas without a local HOT tax
- Lost revenues to local businesses and the City
- HOT tax is paid by overnight guests and governed by State law (Tax Code, Chapter 351)
- Hotel occupancy rates for area cities compiled by year
- Statistics on Wimberley occupancy rates
- Comparison to 22 area cities that do collect a local HOT tax and amount of HOT funds generated for the sole purpose of promoting tourism and the lodging industry in their communities
- In spite of increasing occupancy rates over the past 9 years, Wimberley has the lowest occupancy rate when compared to 22 area cities
- Projected increases in room rates based on a 7% local HOT tax
- Lack of evidence that a local HOT tax would be detrimental to occupancy rates
- Projected revenue generated from a 7% local HOT tax over the next 5 years and reasoning for setting the local HOT tax rate at 7%
- Belief that flood recovery would have been enhanced, had local HOT tax revenues been available to promote Wimberley as a viable place to visit post-flood
- State-mandated two-part test that must be met before spending any local HOT tax revenue
- Every expenditure of HOT tax funds must fit into one of nine statutorily provided categories
- Special rules for cities with populations of less than 125,000 relating to expenditures of HOT tax funds
- Recommendation that an advisory committee made up of local citizens should be established to determine the exact usage of funds to increase tourism and enhance the lodging industry with the committee's terms of service defined by City Council
- Focus on increasing mid-week tourism
- Details on administration of a local HOT tax
- Details on delegating management of funded activities
- HOT tax funds to be kept in a separate account and must not comingle with any other funds or accounts
- References to various attachments to the presentation, including sample forms used by other cities

Mr. Ball reiterated that a local HOT tax is not a tax on Wimberley residents, but is a tax on overnight guests who already pay a local HOT tax in other Texas cities that they visit. Mr. Ball stated he found no information that a HOT tax is detrimental to the local lodging industry or to the city that enacted it. He said cities and businesses in general prosper with a HOT tax when it is wisely budgeted and spent on attracting increased tourism and hotel occupancy. Mr. Ball closed with a recommendation, in concurrence with the Chamber, that the City enact an ordinance authorizing the levy of a local HOT tax and establish a tax rate of 7%.

Mayor Thurber commended both groups on their efforts to work together on this issue.

Albert Valera, Chairperson for the Wimberley Valley Tourism and Lodging Association (WVTLA) and owner of two local hotels (one inside city limits and one outside of the ETJ), distributed handouts to Council. He thanked Council for listening the “lodging side of the story,” Mayor Thurber for facilitating the mediation process to have open dialogue with the Chamber, and City Administrator Ferguson for time spent in vetting issues. Mr. Valera’s presentation included:

- Background and formation of the WVTLA
- Impact of the flood on the local lodging industry and inopportune timing of a local HOT tax discussion
- How the lodging industry helps the greater good of the community
- Statistics on WVTLA membership, number of rooms available inside/outside city limits and ETJ, and number of rooms lost as a result of the Memorial Day Weekend flood
- Statistics on lodging revenue inside the City and ETJ, with actual revenues stated as \$5,500,000
- Wimberley lodging described as primarily a “cottage industry”
- Current expenditures of \$120,000 by the lodging industry to promote Wimberley, individual lodging facilities, amenities, restaurants, events, venues, etc.
- Net impact of the loss of the current \$120,000 expenditure to promote tourism
- How to spend money wisely to promote tourism
- Use of social media, such as the post-flood posting videos on Facebook, considered a more effective way to bring back tourists
- How to best use “the pot of money” that a HOT tax would bring
- Council’s task to consider the impact of its decision on a local HOT tax on the community’s economic prosperity
- “Responsible tourism” described as balancing the influx of people into Wimberley with the City’s ability to provide the infrastructure to support it
- HOT tax revenues cannot be used for infrastructure build-out
- Promote tourism in a focused way so that it increases off-peak (Sunday-Thursday of first and fourth quarters) visitors
- HOT tax funding as a funding tool, not a strategy, which has yet to be articulated
- Lack of compelling evidence supporting a local HOT tax
- Willingness of WVTLA to subordinate its interests and agree to a local HOT tax under certain conditions
- Disputed growth rate statistics (for area cities collecting a local HOT tax) as presented by Mr. Hall for the 2000-2014 time period
- Specific statistics on lower occupancy rates in Cedar Park and Lakeway after implementing a local HOT tax
- What factors drive implementation of a HOT tax, which work well, and the need for a defined plan for spending HOT revenue
- The political process as “unraveling” the advisory committee process
- Importance of collaboration and trust among hoteliers, the City, the Chamber, and others
- Texas Hotel and Lodging Association President Scott Joslove’s reference to the City of Snyder as an example of HOT tax planning that makes sense

Mr. Valera stated it is less about whether the City has a HOT tax or not, but more about how a HOT tax program could be made effective and whether this is the time to implement a HOT tax. He referenced an online chart that indicates there are an equal number of rooms inside and outside city limits, but he said the important thing with any tax is that it has to factor in what context the tax being applied in. He said if hoteliers raise rates in order to “pass through” the cost of the additional HOT tax, then rooms outside city limits will look more affordable to guests. Regarding charging guests an extra 7% HOT tax, Mr. Valera cited his personal contact with prospective guests who are concerned about spending and saving money on vacations. He said that hoteliers could shift toward a different target market, however, the challenge is to not give away the base of money hoteliers have now to go figure out the new market. He cited statistics showing that 14 “mom and pop” hoteliers account for 60% of the total \$5,500,000 in lodging revenue and for 64% of the total number of rooms rented, as opposed to big hotel chains.

Mr. Valera said his research conclusively shows Wimberley receives 150,000 overnight guests on a yearly basis and estimated conservatively that Wimberley sees about 300,000 day-trippers annually. He stated no one controls the flow of when tourists come in or leave, but it happens based on the dispersed advertising and marketing efforts currently in place. He displayed a chart representing the cumulative sales of the entire lodging industry over a 14-year period, plotted by quarter, and “de-seasonalized.” He noted the trend line over four quarters showing the first and fourth quarters as predominantly lower than the third and fourth quarters, which is also reflected in the merchant revenue data. Mr. Valera said bringing in more tourists would not correct the deficit in the first and fourth quarters or solve the problem of bringing in more visitors Sundays through Thursdays. He stated a shift in mindset is required from “organic tourism” to “responsible tourism,” because of the danger of overwhelming our infrastructure. He suggested focusing on the problems of the deficient first and fourth quarters and the 33,000 guests we are missing.

Mr. Valera felt we should stop talking about a HOT tax and start talking about tourism and get away from a “me, too” mentality. He said that the category allocation is not a plan for spending HOT tax revenue and the plan needs to be developed first. For Wimberley to be a model, Mr. Valera asked how we have a deliberate process to bundle things end-to-end so we can target specific segments that are available during off-peak and bring in the aforementioned 33,000 guests. He said we need to get away from an interest group focus to more of a collective community focus and felt more collaboration is needed to solve this problem.

If Council insists on implementing a HOT tax, Mr. Valera recommended a 2.25% HOT tax rate to solve the problem of attracting 33,000 additional tourists and noted that increased prices will result in decreased demand, if a 7% HOT tax is implemented.

Mr. Valera referenced the Memorandum of Consensus handout and provided details on specific processes in the document (such as ranking/spending of allocated funds) intended to increase transparency and to make sure the Advisory Committee acts as the banker to allocate those funds. Mr. Valera stressed that hoteliers prefer that a HOT tax not be approved, but if it is, he recommended the following: that Council vote as soon as possible on this issue; if a HOT tax is approved, the rate should not exceed 2.25%; appointment of an advisory committee and associated processes (as noted in handout); delay of any HOT tax collections to make the

effective date January 1, 2016 to allow time to work out many unresolved details; place a moratorium on collecting a HOT tax on reservations currently booked; and make-up of the Advisory Committee. Mr. Valera recommended that four members on the Advisory Committee should be from the lodging association, one from the Chamber, one representing merchants, and one representing the arts, with the WVTLA and Chamber in agreement on this composition. He provided details on the Advisory Committee's responsibilities and behaviors and its focus on bringing a return of more tourists to the community. Mr. Valera discouraged politicization of the appointment process for Advisory Committee nominees and closed by stressing that change is a team sport, together is better, community is always first, and trust is the glue that holds all of this together.

Mayor Thurber called a brief recess at 5:50 p.m. and reconvened at 6:01 p.m.

Council discussion included:

Councilmember White commented on statistics given by both sides of this issue and felt that a direct price increase to guests due to a HOT tax would prevent rebuilding efforts. He said the type of persons who comes here are not typically business people and large groups want to be in one centralized location. He said hoteliers do pay this tax, because "they are foregoing their own necessary cost increase to collect a HOT tax." Over his many years in business, Councilmember White said nothing has been successful in increasing tourism in winter months and questioned throwing money at this problem. He said a HOT tax will hurt the middle-ground hotelier and did not see this as a promotional tool to bring more tourists in. If more tourists did come to Wimberley, he questioned where we would put them and cited Fourth of July crowds as an example.

Councilmember Showalter expressed concerns about assigning causality to a HOT tax, citing hotel occupancy statistics of other cities, which may be influenced by multiple factors. One study that she found indicated that a HOT tax has a depressing effect on small lodging institutions, which is typical of Wimberley's lodging industry. She understood the reasoning behind a 2.25% HOT tax rate, but was not choosing a percentage at this time. Regarding the State's 6% HOT tax collections, discussion between Councilmember Showalter and Albert Valera noted the State's collections from Wimberley lodging do not return to Wimberley, but are reallocated and spent by the State to market Texas tourism in general. Local lodging owner, Bill Appleman, offered that most lodging owners have fairly expensive properties, therefore, pay higher WISD taxes than most home or store owners, also pay a franchise tax, and 8.25 State sales tax, if selling retail merchandise. Discussion between Councilmember Showalter and Albert Valera addressed how the WVTLA arrived at the \$120,000 figure currently spent by the lodging industry on marketing, what that money is now being spent on, and what effect potential HOT tax fund availability might have on that \$120,000 figure in the future. Mr. Valera said the lodging industry would still spend the same \$120,000, but would just have "double the pot." Discussion between Councilmember Showalter, City Administrator Ferguson, and Albert Valera addressed the strict regulations on exactly how HOT tax funds must be spent (not for capital expenditures) and criteria for the so-called "two-prong" test that must be met. Councilmember Showalter expressed concern that an additional HOT tax and associated revenue, if implemented, might be a "wash" due to decreasing "heads in beds" and sales tax revenues. Mayor Thurber

reminded that HOT tax funds cannot be used to supplement City funds and City Administrator Ferguson emphasized that HOT funds cannot be commingled with any other funds, must meet the aforementioned “two-prong” test, and strongly suggested that the Advisory Committee present a marketing strategy and make recommendations to Council on any HOT tax fund expenditures.

Councilmember McCullough spoke on past acrimony over this issue and questioned how the City’s infrastructure would handle an additional 33,000 tourists to fill the first quarter void. He stated that typically the first quarter is his time to recover. He felt that the City needs to focus on public infrastructure and questioned how the Advisory Committee will be objectively appointed without becoming overly political. He said putting the common good above infighting is paramount. He asked what lodging owners would do with the 1% retained from the total HOT tax collected. Discussion addressed the potential bookkeeping/paperwork burden on lodging owners to collect and account for their 1% portion of the total HOT tax and the possibility of a “sunset clause” that would allow Council to reconsider a HOT tax after a 2-3 year period, based on “crystal clear” evidence on its performance and results. City Administrator Ferguson advised that the budget process allows for an annual review on the productivity of a HOT tax program. Councilmember McCullough emphasized the importance of an objective appointment process for the Advisory Committee, as well as focusing on increasing first and fourth quarter tourism.

Councilmember Anderson spoke on the need to quantify the data, measure, and review performance. She said that while business may be great for some in certain quarters, it probably is not as good as it could be. She felt that having too much business is a good problem because it creates demand, more marketability, and will spill over to increase sales tax revenue. Comparing a HOT tax to the sales tax that tourists pay to buy merchandise (and looking at both perspectives), Councilmember Anderson did not believe that a HOT tax will cause people to not come to Wimberley. She said the destination is what determines a tourist’s choice about where to go and that Wimberley offers a variety of lodging options for tourists of every budget to choose from. She stated that having HOT tax revenues will help increase tourism and have the associated benefit of increasing sales tax collections. She noted that increased sales tax collections can be used to improve our infrastructure, which is more important since Wimberley relies on sales taxes rather than property taxes for its revenue. She said the HOT tax will be charged to the end user who chooses to spend disposable income in Wimberley, not to the hotelier. She did not see an extra 5% or 7% as being a “budget breaker” for most tourists. Councilmember Anderson stated we need to look at every option available, especially after the catastrophic flood, and said there are plenty of towns around us who are doing better than we are with their incremental growth over the last nine years. She said the only way to find out is to implement a HOT tax and gauge it. Acknowledging earlier concerns expressed about community politics, Councilmember Anderson expressed confidence in Wimberley’s ability to come together and thrive and really wanted to take a look at implementing a HOT tax.

Councilmember Dussler echoed earlier comments commending both sides for reaching some areas of consensus on this issue and thanked them for their efforts. He said he needs more time to reconcile John Ball’s and Albert Valera’s data before coming to a conclusion on the value or lack of value of a HOT tax. He looked forward to the process of figuring out whether we need a HOT tax, and if so, at what rate.

Mayor Thurber closed by asking both groups for input to assist Council in choosing the best Advisory Committee, which if approved, would be charged with a developing a detailed plan on how to spend HOT tax funds, and how to quantify the HOT tax program's results. He asked to keep politics out of this and agreed with Mr. Valera that whatever plan is used, it needs to be a model, good for the community, and something we can be proud of, thereby assuring that the plan will work at achieving its stated goal.

Hearing no further comments, Mayor Thurber called the meeting adjourned.

Adjourn

Mayor Thurber called the meeting adjourned at 6:40 p.m.

Recorded by:



Cara McPartland

These minutes approved on the 20th of August, 2015.

APPROVED:


Steve Thurber, Mayor