

When It Comes to Hotel Occupancy Tax, LOCAL IS EVERYTHING

By Ted Kamel

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While the economy in Texas is not completely recession proof, the full impact of a weakening national economy on the local hotel industry is an open question. With a healthy supply of new rooms that hit the local Texas markets in the last two years, the strong hotel fundamentals of recent years are not expected to vanish overnight, either.

Major hotel markets in Texas are maintaining healthy average daily rates in part due to the strong convention and meetings segment, as well as a continuing growth in newer construction. Quality brands in markets large and small also continue to attract not only new investors but also the guests to rent their rooms in more modern upscale franchises.

Franchisees are still optimistic about hotel/motel properties, and so are their investors. The competition in financing hotel properties has increased significantly. The stronger buyers are going to be better capitalized to weather any economic storm Texas might feel over the next couple of years. Cities should carefully examine ways to maintain and improve their lodging providers' occupancy rates, and community leaders need to re-examine how hotel occupancy tax (HOT) dollars are expended. Both will have a direct and lasting impact on HOT revenues now and in the future.

Checking into the Numbers to Guide Cities Through the Next Year

- The Governor's Office on Economic Development and

Tourism reports Texas lodging room revenues gained a strong 9.4 percent by the end of 2008.

- Room nights sold, the measure of real demand, increased by 4.2 percent. Occupancy rates gained .2 percent over 2007, to 62.6 percent in 2008.
- Total room inventory in Texas expanded by more than 13,000 rooms in 2008.

Interestingly, consumers are renting hotel rooms at higher rates, as midscale, high-priced suites and mid-upscale chains are showing the highest increase in room revenues, evidenced by revenue gains driven in part by rates at or above \$90.

Economic Factors

Increased average room rates will help enhance HOT revenue for the state and cities collecting the tax due to two major factors:

- Newer, modern, upscale franchises have entered not only major travel markets, but smaller markets as well.
- Existing franchises that sold over the last two years have undergone or are undergoing renovations that will, in turn, drive up room rates and HOT revenues.

A key factor that will continue to drive the state's lodging industry is that Texans account for a full 50 percent of all visitor spending on hotels and other travel-related services. International visitors account

for about 10 percent, and residents from other states account for 40 percent. The gross domestic product (GDP) of the Texas travel industry now exceeds \$24 billion. Only oil and gas production and related manufacturing has a significantly greater GDP. According to a recent statewide study, travel spending directly generates at least 100 jobs in 170 Texas counties. Approximately 47 counties are impacted with at least 1,000 jobs. Further, travel's pending impact is more important for many of our non-metropolitan areas of the state.

Promoting Locally

- *Know your local base*

Marketing approaches should be stepped up to reach out to those who need lodging locally and statewide. The state comptroller has indicated that for 2009-2010, HOT collections are expected to increase by 13 percent to \$733 million, yet other reports have indicated differently. Regardless, cities should start by getting to know their existing lodging base well and next learning what is in the pipeline.

- *Examine whether local HOT revenues are impacting occupancy rates*

On the local level, examine how HOT revenues are being spent to directly impact occupancy rates. Focus the budget on areas that will have the greatest impact on attracting overnight guests to your community. Avoid funding projects or well-intentioned civic groups with HOT dollars that really only target local citizens. With more than half the rooms being

filled by Texans, concentrate on how to get your city's lodging numbers up with strategic, local planning efforts.

- ***Partner with local tourism bureaus and chambers of commerce***

Coordinate with your chamber and other groups to make sure that every civic event has links to your lodging providers on the Internet. Market your lodging providers within your city to every group, large and small. Provide local tourism bureaus with the most current information about your city's festivals and important major events so they can incorporate them into regional marketing efforts. These groups can fill rooms during slower periods with reunions, meetings, conferences, and other events.

To further market new or current properties, encourage local chambers to consider new and exciting ideas that will lure more overnight stays. The newest craze in the hotel industry is indoor water parks. Business hotels that fill up during the week tend to suffer on the weekends. Leisure hotels do well on the weekends, but find it hard to fill rooms during the week. Hotel property water parks are becoming the new generation of destination travel, giving communities the marketing edge. Encourage and work with developers on a shared vision of improving your city's tourism product.

Major lodging providers should be properly listed with full descriptions on search engines and travel-related Web sites. Encourage pictures of each property, along with all amenities, and link properties to your city's Web site, where travelers seek information about key city destinations, festivals, and other events.

Finally, monitor and influence the marketing from the Governor's Office on Economic Development and Tourism. That site, [\[tx.us/index.aspx\]\(http://tx.us/index.aspx\), provides insightful information on statewide marketing efforts to increase occupancy levels.](http://travel.state.</p></div><div data-bbox=)

- ***Monitor local tourism trends and marketing efforts***

Technology has opened up competition and opportunity for enhanced tourism traffic. Periodically perform Internet and newspaper research for regional efforts that encourage tourism and increased lodging occupancy.

- ***Encourage and streamline local lodging renovations***

Work with local chamber and community leaders, including lenders, to assist lodging providers that need help with upkeep and remodels. Any time hotels don't keep up with repairs and renovations, they lose customers. Then they must lower rates, which translates to lower HOT revenues.

- ***Know your local owners***

Keep up with the possible sale of certain lodging properties within your jurisdiction. First, you want to ensure that all local HOT taxes are paid in full before any transfer of ownership takes place. Second, your local chamber might assist the seller in finding a buyer who will have the funds to renovate and even change the brand to an upscale franchise. Most franchisors require major renovations when there is new ownership of existing properties. The end result will be a boost in sales and HOT revenues. With our economy changing, properties might indeed change hands. A complete audit is recommended before the sale is complete to ensure that your city is paid in full all HOT due and to provide the new owner a clearance of tax liability going forward. Under Texas successor liability laws, the new owner might be liable for HOT not paid by the previous owner.

- ***Educate and partner with local lodging operators***

Cities should view themselves as educators and partners by informing hotel operators of their responsibilities. Foremost, cities should enhance local ordinances and return forms. Analyzing returns and audits on a regular basis is increasingly as important, with audits occurring about every four years. Audits are more important in an economy where properties have turnover in operators. A compliance ethic is an ongoing process, with training and communication being contributors.

Keeping HOT Local

The challenge for Texas cities in 2009 is twofold. First, cities should concentrate on new and innovative approaches to increase occupancy, while getting to know who the local lodging providers are. Second, there must be an equal amount of focus on increasing hotel tax collections and doing so with ongoing auditing, training, and compliance programs. Improving the city's HOT revenues will improve the overall hospitality environment and the quality-of-life for all citizens.

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