

**NOTICE OF MEETING
CITY COUNCIL OF THE CITY OF GALVESTON
THURSDAY - JANUARY 28, 2021 - 9:00 A.M.
VIRTUAL ZOOM MEETING
TELEPHONE: (409) 797-3510**

WORKSHOP AGENDA

1. DECLARATION OF A QUORUM AND CALL MEETING TO ORDER
2. ROLL CALL
3. DISCUSSION ITEMS
 - 3.A. Clarification Of Consent And Regular City Council Agenda Items - This Is An Opportunity For City Council To Ask Questions Of Staff On Consent And Regular Agenda Items. (30 Minutes)
 - 3.B. Discussion Of The City Marshal Program And Code Enforcement (Robb/Brown – 30 Minutes)
 - 3.C. Discussion Of The Short Term Rental Platform Contract (Glywasky/Loftin – 30 Minutes)

Documents:

[STRO SURVEY RESULTS OCTOBER-DECEMBER 2020.PDF](#)
[SHORT TERM RENTAL PRESENTATION TO CITY COUNCIL 1.28.2021 FINAL.PDF](#)

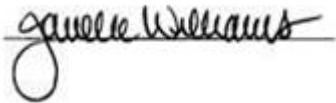
- 3.D. Receive And Discuss A Recycling Report From City Staff (S. Van Slyke – 30 Minutes)
- 3.E. Discussion Of Mardi Gras (B. Maxwell – 20 Minutes)
- 3.F. Council Operations (Brown – 20 Minutes)
 - a. Discussion of in-person meetings
 - b. Procedure for reserving conference rooms for Council Member/Constituent meetings
- 3.G. City Updates (Quiroga/Brown – 15 Minutes)
 - a. Discussion of commercial city lights
 - b. Discussion of the 49th Street Project
- 3.H. Discussion Of The Removal Of Appointees To Board And Commissions Pursuant To City Code Chapter 2, Art. II, Section 2-52 "Standards Of Conduct" And Section 2-61 "Removal Of Board, Commission Or Committee Member" (Robb/Quiroga - 15 Minutes)
- 3.I. Report Of City Council's Park Board Representative (Collins/Brown - 10 Minutes)
4. EXECUTIVE SESSION
 - 4.A. Pursuant To Texas Gov't Code 551.071- Consultation With Attorney, An Executive Session Will Be Conducted To Discuss And Receive Legal Advice Concerning Pending Litigation And/Or A Settlement Offer, Or On A Matter In Which The Duty Of The Attorney To The Governmental Body Under The Texas Disciplinary Rules Of Professional Conduct Of The State Bar Of Texas Clearly Conflicts With This Chapter, Related To The Following:

4.A.1. Briefing On Proposed Litigation Related To The Properties At 407 12th Street, 2225 Victory, And 1418 30th Street

4.A.2. Cause No. 4:19-CV-00458, City Of Alvin Et Al Vs. Comcast, In The United States District Court For The Southern District Of Texas Houston Division

5. ADJOURNMENT

I certify that the above Notice of Meeting was posted in a place convenient to the public in compliance with Chapter 551 of the Texas Government Code on January 22, 2021 at 12:30 P.M.

A handwritten signature in black ink, appearing to read "Janelle Williams", written over a horizontal line.

Janelle Williams, City Secretary

IN ACCORDANCE WITH THE PROVISIONS OF THE AMERICANS WITH DISABILITIES ACT (ADA), PERSONS IN NEED OF A SPECIAL ACCOMMODATION TO PARTICIPATE IN THIS PROCEEDING SHALL, WITHIN THREE (3) DAYS PRIOR TO ANY PROCEEDING, CONTACT THE CITY SECRETARY'S OFFICE, SUITE 201, 823 ROSENBERG, GALVESTON, TEXAS 77550 (409-797-3510).

**SURVEY OF TEXAS CITIES AND VOLUNTEER COLLECTION AGREEMENTS
OCTOBER-DECEMBER 2020**

Factor and City	Galveston	New Braunfels	Corpus Christi	Plano	Houston
HOT Revenue- Local	\$13.5M - 9%; FY 21 Park Board Budget	FY 20 Budget amount is \$4M at 7% rate.	\$15.5M - FY21 Budget	\$9.3M - FY21 Budget	FY21 Budget - \$12.98M Tourism Promotion Special Revenue Fund and \$63.675M in Convention & Entertainment Fund; 19% fo arts \$16M
HOT Revenue- State	\$3.1M - 2%; FY21 Park Board Budget	No State HOT revenue sharing	\$3.65M - FY21 Budget	No revenue sharing	No revenue sharing
Local STRO HOT Revenue	\$1.8M	\$800K (FY19)	N/A	Plano has no registration program for hotels or for STROs; VCAs are generating \$240K per year	Probably 5000 STR's now; \$3 million annually but could be more because recent element
State STRO HOT Revenue	\$1.1M	None	2% state rebate	None	None
Software Used	Galveston.com application; Azavar	LodgingRevs	MuniRevs	Collections logged and tracked in spreadsheets.	Online registration but not for STRs, unique ID number, homegrown system developed in house.
VCAs in place and for how long?	Under consideration	None	Airbnb and Homeaway for 2 years	Airbnb since May 2019 and Homeaway since Feb 2020	Houston First: Contracted with Airbnb July 2019 and Homeaway January 2020.
Evaluation of STRO/HOT Software and/or VCA Experience	To be determined	Very pleased with LodgingRevs; Software is easy to navigate and intuitive	In process of switching to MuniRevs - they were impressed with interactive site and useful data	VCAS are generating revenue they would not have had otherwise, so they are happy	Satisfied with system and approach.; increased compliance considerably (less than 100 to \$5000)
Audit Methodology - STRO Host Property	N/A	N/A	3rd party hired to perform audits. City auditor involved in limited capacity	Recognize the limit on audit rights but feel they can still investigate when a complaint is filed	None
Audit Methodology - STRO Platform	N/A	N/A	None right now - is a concern that Airbnb won't report individual info. Hoping MuniRevs will help	Platform audits are not funded; Compliance is reviewed in a very general way	Too new; no audits yet
Housing Units (per Census)	31,500	33,688	131,136	216,453	1,316,348
Occupied Housing Units (per Census)	20,756	29,780	116,580	204,115	1,188,662
Occupancy Rate	65.9%	88.4%	88.9%	94.3%	90.3%

**SURVEY OF TEXAS CITIES AND VOLUNTEER COLLECTION AGREEMENTS
OCTOBER-DECEMBER 2020**

Factor and City	Galveston	Lubbock	Dallas	South Padre Island	Irving
HOT Revenue- Local	\$13.5M - 9%; FY 21 Park Board Budget	\$5.6M per FY21 Budget	13% - \$66M FY21 Budget	\$10.6M	\$28M (9%)
HOT Revenue- State	\$3.1M - 2%; FY21 Park Board Budget	No revenue sharing	No revenue sharing	\$2.74M (for beach maintenance)	\$4.77M (Brimer bill)
Local STRO HOT Revenue	\$1.8M	Approx.10% of total (400 properties), \$500,000	\$2-3M	\$6.3M (60% of total HOT	Less than fifty voluntary registered, \$6000 per quarter; expect to gain \$100,000 per quarter
State STRO HOT Revenue	\$1.1M	None	None	2% state rebate - have seen growth in state penny value	None
Software Used	Galveston.com application; Azavar	LodgingRevs	LodgingRevs; Five year agreement at \$100K per year; includes online functionality for owners and data scraping service	Granicus/Host Compliance - \$20k per year cost	LodgingRevs being put in place; Compliance hotline to be employed; \$25-30K per year; self-contained
VCAs in place and for how long?	Under consideration	City has sought platforms without success; no VCA in place.	Not yet but still under consideration by Council committee	No VCA. Same concerns - aggregate reporting, no individual property info	None, see above instead; no host information.
Evaluation of STRO/HOT Software and/or VCA Experience	To be determined	Very pleased with LodgingRevs except software navigation isn't easy	Very happy with Lodging revs; VCAs still being considered as convenience for property owners	Contracted with Avenue Analytics to collect local hotel tax. No info on consideration of VCAs.	Granicus, Azavar, LodgingRevs,HCL responded to RFP expect good results but just getting underway
Audit Methodology - STRO Host Property	N/A	No audits of STRs; in-house audits of hotels	New registrants are paying two years back taxes	Avenue Analytics	N/A
Audit Methodology - STRO Platform	N/A	N/A	N/A	Bi-annual. Also has FT employee that monitors software and platforms. Citations for noncompliance	LodgingRevs to handle this under contract
Housing Units (per Census)	31,500	109,673	590,607	7,604	92,427
Occupied Housing Units (per Census)	20,756	97,499	520,915	1,551	85,310
Occupancy Rate	65.9%	88.9%	88.2%	20.4%	92.3%

Short Term Rentals Task Force

January 28, 2021

Task Force Members



Park Board – Bryson Frazier and Kay Terry

City Attorney Don Glywasky

City Auditor Glenn Bulgherini

Assistant City Manager Finance Mike Loftin

Executive Director Technology Services Hope Dean

City Controller Tammy Jacobs

Director of Policy and Governmental Relations – Sally Bakko

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%)

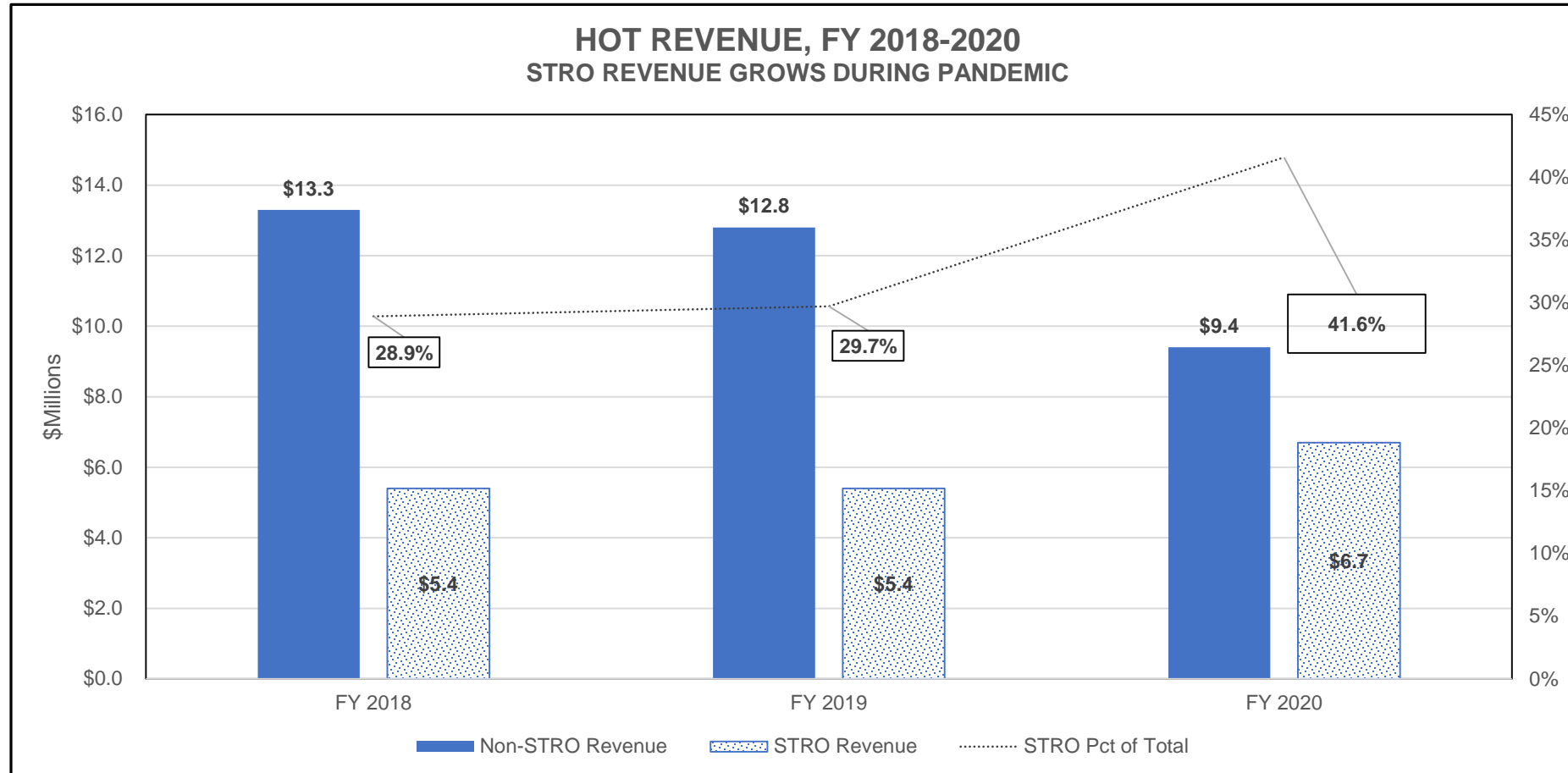
State Fiscal Year (September- August)	City Penny	State Penny	State Penny Over/(Under) City
SFY08 Actual	\$1,185,248	\$1,073,922	(\$111,326)
SFY09 Actual	\$881,012	\$843,148	(\$37,864)
SFY10 Actual	\$954,785	\$877,087	(\$77,698)
SFY11 Actual	\$1,110,979	\$1,139,019	\$28,040
SFY12 Actual	\$1,295,683	\$1,236,101	(\$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

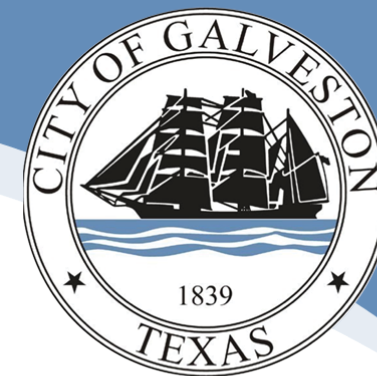


- Communications to educate and motivate unregistered property owners to register
 1. Water bill message board in December (< five responses)
 2. Full page water bill insert this month to provide more information for unregistered owners
 3. Updating and adding to the information on Park Board website
 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