

Ad Hoc Committee Report
City of Hollister Transient Occupancy (Hotel) Tax Rate
August, 31, 2019

Members: Honor Spencer, Councilmember, District 3.
Marty Richman, Councilmember, District 4.

The City of Hollister's Transient Occupancy Tax (commonly called the Hotel Tax) is imposed under the provisions of the California Revenue and Taxation Code, Division 2, Part 1.7, Chapter 1, Occupancy Taxes [7280 - 7283.51].

It is a General Fund Tax that applies to most transient occupancies lasting for a period of 30 consecutive calendar days or less. Local implementation is detailed in Hollister Chapter 3.32. - Uniform Transient Occupancy Tax.

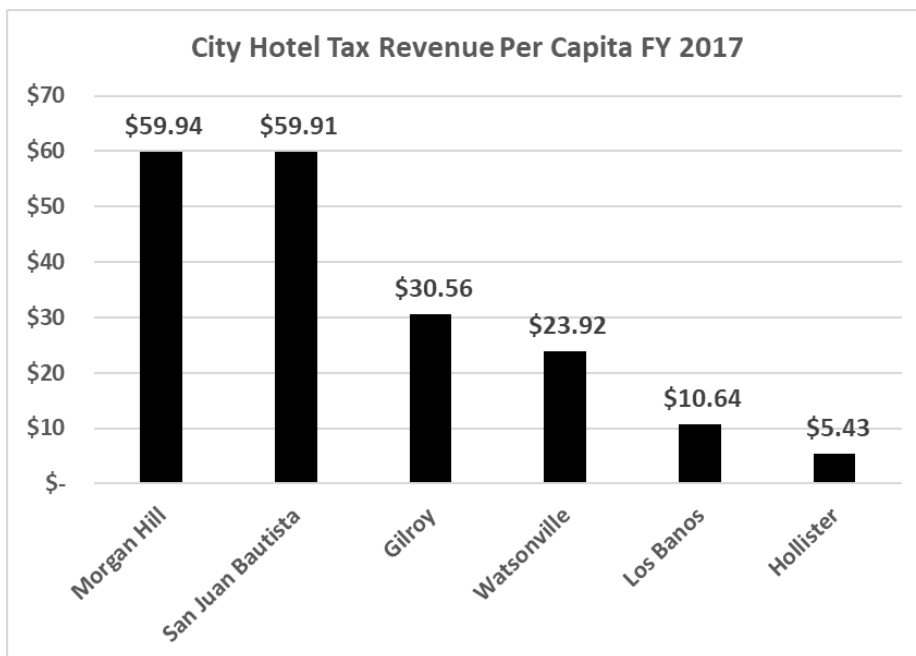
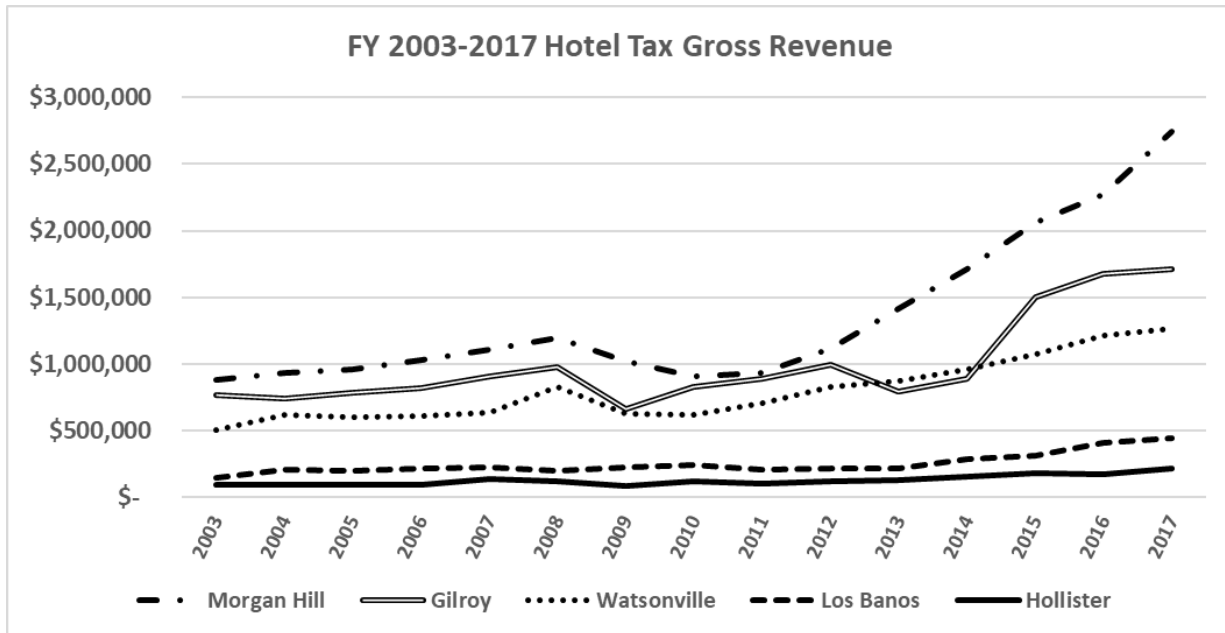
The purpose of the hotel tax is to require visitors to the city to contribute revenue to cover the city services they use while staying, such as public safety, parks roads, and infrastructure maintenance. The tax is a way to create additional revenue for the city without increasing taxes on residents.

Hotel taxes are among the most widely applied optional taxes. Of the state's 482 cities, 421 or over 87 percent, have a hotel tax. Most of the 61 cities without a hotel tax have populations of less than 20,000.

Hotel taxes are a significant source of revenue for many cities, especially business and tourist destinations. Historically, Hollister's hotel tax revenue has been among the lowest in the region in total and per capita. In FY 2017 the City of Monterey had annual hotel tax revenue of \$23.2 million, Santa Cruz \$9.3 million, Morgan Hill \$2.7 million, Gilroy \$1.7 million, Watsonville \$1.3 million, Los Banos \$446,000, and Hollister only \$218,000.

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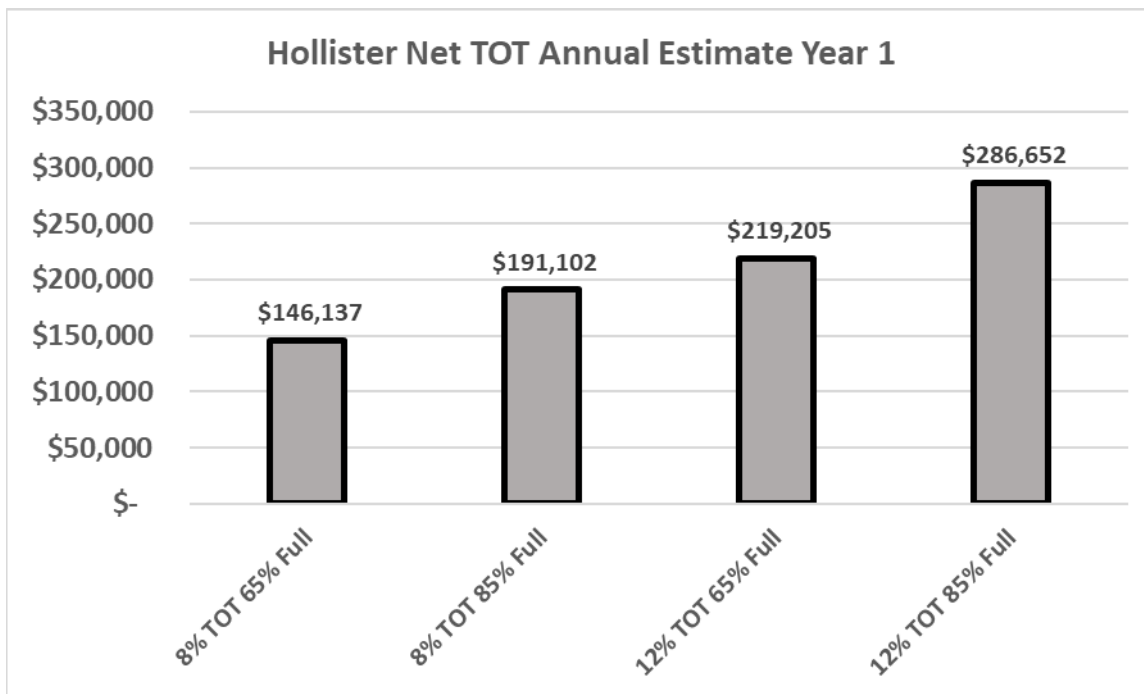
A history of hotel tax revenue in Hollister and nearby locations is included in the following charts; the cities of Santa Cruz and Monterey, busy tourist destinations on the ocean, have been omitted.



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Hollister's gross hotel tax revenue was approximately \$545,000 for FY2018-19 due to the addition of the 77-room Fairfield Inn & Suites; however, to aid in the development the city is returning \$2 million in hotel tax revenue to the developer over an estimated 10-year period using a 70 percent developer/30 percent city split. Therefore, the estimated total annual net increase in hotel tax revenue at the current tax rate will be between \$70,000 and \$95,000 over FY2017.

The chart estimates the total **net** hotel tax based on tax rate and occupancy rates and the development agreement paybacks.



The current Hollister hotel tax rate of 8 percent became effective 1/1/1998; it is among the lowest rates in the state. As of 3/31/2019, 345 (82 percent) of the cities and 67 percent of the counties have hotel tax rates exceeding Hollister's, including San Juan Bautista and San Benito County, now 12 percent. Based on the Fairfield Inn & Suites development agreement, if Hollister's hotel tax rate remains at 8 percent the effective useable tax rate for that property will be only 2.4 percent for approximately 7.5 more years.

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In the election of 2014, the city council unanimously voted to place Measure L, a proposal to raise the hotel tax to 12 percent, on the November ballot. Measure L was soundly defeated with a 68 percent no vote; a 67 percent yes vote is required to raise the tax.

There was no campaign to explain the need for the proposed increase to the voters and the city council did not even submit a ballot argument in support of Measure L.

Recap of facts bearing on the recommendation:

1. The current hotel tax rate of 8 percent, over 20-years old, is among the lowest fifth in the state. The county and San Juan Bautista rates are both at 12 percent and more than 100 cities have hotel taxes of 12 percent or higher.
2. The cost of providing public services has outpaced inflation during the two-decade period since the Hollister rate was enacted.
3. Hollister's hotel tax revenue has historically been the lowest of comparable regional cities. Because of the reimbursement agreement with the Fairfield Inn & Suites, the net hotel tax revenue will increase little for at least 7 years unless the rate increases.
4. Over the past few years the city has spent more than \$500,000 of discretionary funds to promote tourism and economic development.
5. The city should expect support from most of the business community, but opposition from some small hotel owners.
6. A 12 percent tax rate is estimated to initially add approximately a net \$145,000 annually to the city's General Fund and reduce the Fairfield Inn & Suites development agreement payoff term by 3 years, depending upon the economy.
7. Thereafter, the hotel tax net from the Fairfield Inn & Suites will increase by 50 percent.

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Recommendation:

Based on the above, the ad hoc committee recommends that the city council place on the ballot for voter approval a measure to increase the Hollister hotel tax rate to twelve (12) percent so visitors to the city will contribute a fair share to cover services such as public safety, parks, roads, and infrastructure maintenance.