



May 26, 2017

Mr. Bill Rich
County Manager
Hyde County
P.O. Box 188
Swan Quarter NC, 27885

Dear Bill:

I wanted to follow up in writing from last week's conversation when we discussed the Hyde County occupancy tax and potential options for enhancing its future effectiveness as an economic development and quality of life asset.

I have been tracking North Carolina occupancy taxes for many years and have published an annual report since 2013 which profiles the uses and rates of occupancy taxes at the county and municipal level. The report is provided via complementary download on our firm's website and that of the North Carolina Restaurant and Lodging Association. Hyde County currently has one of the most unusual occupancy tax arrangements in the state, as none of the tax that is collected is legislatively mandated for either the promotion of the county as a tourism destination or for specific tourism-related uses. The original 1991 legislation specifies that the county may use the proceeds from the tax "for any public purpose." This is exceptionally broad language compared to most of the other 161 counties and cities that collect an occupancy tax, particularly since the North Carolina House of Representatives first adopted legislative guidelines concerning the use of the taxes in 1997. There are only 10 counties in the state that allow funding for *any* non-tourism-related expenses, and only seven that allow the use of the occupancy tax *entirely* for non-tourism-related expenditures.

Hyde County and Ocracoke Island are at a competitive disadvantage without having a dedicated source of destination promotion funding. Some nearby coastal destinations and their current tourism marketing budgets include the following:

Outer Banks/Dare County	\$2.9 million
Crystal Coast/Carteret County	\$2.5 million
Currituck County	\$2.4 million
Wilmington/New Hanover County	\$1.4 million

All of these counties have dedicated at least a portion of their occupancy tax entirely to tourism promotion. Other portions of their tax are dedicated to tourism-related expenditures, including beach renourishment, convention centers, or to fund services needed due to the impact of tourism, such as fire and sanitation.

The 2006 legislation authorizing the Hyde County Board of Commissioners to create an Ocracoke Township Tourism Development Authority and add an additional 2% occupancy tax in Ocracoke Island is within the 1997 legislative guidelines, because it states that the “Authority shall use at least two thirds of the proceeds distributed to it to promote travel and tourism in the district and shall use the remainder for tourism related expenditures in the district.” This additional 2% tax would not only make Ocracoke more competitive with other destinations (particularly if used to help drive shoulder season visitation), but would also help fund quality of life enhancements that benefit residents and visitors alike.

A majority of cities and counties that collect an occupancy tax in North Carolina levy more than a 3% room tax upon their visitors. As average daily room rates have increased substantially in hotels in recent years, many cities and counties have reaped the benefits of increased reinvestment of their occupancy taxes in tourism promotion and other tourism-related uses. Occupancy tax rates in nearby coastal destinations include the following:

Carteret County	6%
Currituck County	6%
Dare County	6%
New Hanover County	6%
Onslow County	6%
Brunswick County	6% (in most of the county)

Put simply, Hyde County and Ocracoke are leaving “money on the table” by not having an occupancy tax rate that is similar to that of competitive destinations, money that could boost Ocracoke’s promotion of the island and fund tourism-related services.

The proposed 2% occupancy tax also represents an opportunity for the island’s hospitality sector to have greater control of the funds it collects. Per the 2006 legislation authorizing the tax and the TDA, “At least one third of the members must be individuals affiliated with businesses that collect the tax in the district, and at least one half of the members must be individuals currently active in the promotion of travel and tourism in the district.” There is a very uncertain environment in Raleigh right now as to the future control of occupancy taxes and how they can be spent. Bills have been introduced or discussed that would allow cities and counties to change the allocation of occupancy taxes to fund everything from streets and sidewalks to traditional economic development.

Given that many North Carolina cities and counties are seeking new revenue sources because they are unwilling to increase property taxes, I believe now is an ideal time to secure this funding stream for the good of Ocracoke’s future tourism success. I strongly recommend that the county and its tourism stakeholders support the additional 2% tax for the good of both the businesses and residents of Ocracoke Island.

All the best,

Chris Cavanaugh
President