

Lodging Tax and the Building Boom

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Houses and condos are being built in Orange Beach at an incredible rate. Biking down the beach road always turns up signs of new construction, but there is a cost.

A Lodging Tax increase is proposed, raising the rate from 11% to 13%, financing the infrastructure needed to create more building. "We have five or six condominiums coming online in the near future and we have a record number of building permits being filed for," said Mayor Tony Kennon in a Facebook video. "The added growth cannot handle the infrastructure needed for the traffic that we have."

Let's look at this lodging-tax increase from another perspective. An increase from 11% to 13% is 2% in real terms, but relative to 11% it is an increase of 18%. Illustrating the point, 11% lodgings tax times $0.18(18\%) = 1.98\%$ or a 2% increase.

Thinking of it as an 18% increase will not change the mindset of the people affected by the tax. Europe has an 18% tax in real terms and people still go to St. Tropez on vacation, but it makes one pause and reflect, considering this type of tax increase is a trend across Alabama, according to John Sharp of AL.com.

Lodgings tax is not the critical-decision point for vacationers, because people are going to go on vacation no matter what the lodgings tax is, provided they have room on their cards. Too much building is a critical-decision point for local residents.

The overview is about understanding 40 percent of private sector jobs were created in the housing-construction industry from 2001 - 2005 (pre-recession), according to John Richmond of the Federal Reserve in Richmond.

We now have a glimpse of just how vital construction jobs are to economic growth, evidenced in 2016 by the number of building permits issued in Orange Beach: 2011 - 745; 2012 - 910; 2013 - 1129; 2014 - 1283; 2015 - 1312; 2016 - 1599, according to Community Development. Revenue from permits mirrors the number of permits issued: 2011 - \$200,245; 2012 - \$215,207; 2013 - \$541,710; 2014 - \$592,402; 2015 - \$1,603,006; 2016 - \$1,704,583.

The data supports Mayor Kennon's claim of record increases in residential and business construction, perhaps even a bellwether of confidence in the local economy, as if one feeds off of the other.

If economic prosperity feeds off of new construction, planning the lodging tax expenditure is crucial. "The City is proposing a 2 percent lodging tax increase resulting in an estimated \$5,000,000 per year. These additional funds will help with the maintenance of the beaches, maintaining and investing in new infrastructure, and addressing traffic issues," said Ford Handley, Finance Director for the City of Orange Beach.

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“Moving the intersection of Alabama 180 or Canal Road, and Alabama 161 a few hundred yards south (by McDonald’s) is a remedy officials here believe will improve traffic — and cost a bundle,” wrote John Mullen in the *Lagniappe*.

I submitted a Public Records Request for a copy of any Master-Plan Documents, detailing how the new lodging-tax revenue would be spent. Renee Eberly, Orange Beach City Clerk responded, “No internal ‘draft master plan’ has been created as the issue is still being publicly discussed.”

One assumes the additional tax dollars will be used to support co-pays for infrastructure grants. “Federal and State monies (Grants) are getting harder to come by and they require matching funds,” said Mayor Kennon in a Facebook video.

The key issue is we, the people, do not know what the master plan is for spending the additional \$5 Million in tax revenue generated each year. Having a grasp of the balance between costs, efficiencies and investing for growth is a technique espoused by the Harvard Business Review, but can only be achieved by working with constituents, discussing parameters of the plan like we did with Horizon 20/20 (2006). Otherwise we are going to have to trust our elected officials, letting them make the right decision at the right time.

Not everyone agrees with the tenant of trusting government officials with minimal oversight. Unrestricted development is not what local residents want, trusting elected officials to modify zoning laws to respect their wishes for less development has not happened.

Some argue zoning-regulation amendments are the only way to control growth in Orange Beach. Less growth means less demand for more growth, meaning less demand for more taxes. Limiting growth also puts upward supply-and-demand pressure on property values, being a positive result, generating wealth for residents.

Others hold that wealth and happiness are two different things. It would make the locals happy if the City of Orange Beach spent this revenue to finance a public beach for residents, accessed with a card like the Recreation Center, used by families, children and grandchildren, as opposed to being seen to be chasing the creation of wealth.

Lodgings Tax as a function of infrastructure spending, including beach re-nourishment and traffic solutions is supportable, solving our traffic problems today, but we cannot seem to balance this equation with the please-restrict-development desire of our residents. This is the cost.

ENDS.