

TO: Mayor and City Council

FROM: Steve Powers, City Manager
Mayor/City Manager's Office

DATE: January 29, 2018

SUBJECT: **Transient Occupancy Tax (TOT) Update**

In December I provided an update that the events scoring issue had been resolved by the Transient Occupancy Tax (TOT) advisory board and that a recommendation would be provided on the request from the cultural and historical facilities to receive an annual fixed 15 percent TOT allocation. The cultural and historical facilities' request, referring to the fixed 25 percent to Travel Salem: *"We therefore request that the facilities are similarly funded through a fixed percentage which would help to stabilize daily operations. Our request to the council is for a 15% allocation to be shared among the nine organizations."*

As the City considers sustainable services, and as the community provides input on priority areas, policy discretion should be retained by City Council. TOT is an essential funding source for some parks and for city maintenance of city-owned cultural and historical facilities. TOT has been a critical funding source for parks and entryway improvement projects.

While a set percentage is efficient from a process standpoint, flexibility is limited and optimal allocation of resources, as determined by City Council, is constricted. A fixed percentage decreases flexibility to support parks and facilities that draw tourism. An arbitrary allocation fails to account for how well the facilities contribute to intended outcomes, such as tourism and sustaining the City-owned cultural and historical facilities.

If City Council chooses to move to a fixed percentage, there are several policy and implementation questions to consider.

- What, if any, eligibility criteria will there be for the cultural and historical facilities? There are ten facilities that have requested TOT funding for the upcoming fiscal year. Does the percentage fluctuate if the number of facilities changes?
- Should the 15 percent fixed percentage include special events and projects from applicants that are not a cultural or historical facility?
- Is an equal share for each facility the most beneficial use of the funds? Is each facility's programming and community outreach the same? Should the importance of the TOT allocation to a facility be a consideration? For example, a facility's TOT portion may be 75 percent of their overall budget. For another facility, TOT may be a much smaller portion of the organization's total budget.

- What do the cultural and historical facilities offer that benefit tourism (a tourist staying overnight or traveling more than 50 miles away), the City's ability to maintain the cultural or historic facility owned by the City or that are part of a City property, or the promotion of the designated purposes of the TOT Fund? Should there be a method that can create a greater distribution to those who operate a facility on City property (even those not City-owned such as the Carousel and Gilbert House) with the allocation, or a portion of allocation, being tied to metrics such as people served?

TOT is a complicated area, with many statutory and policy limitations. If City Council wishes to consider a fixed percentage, a City Manager taskforce to review the implementation issues for FY 18-19 is recommended. The taskforce would include representatives from the cultural and historic facilities and the TOT board.