



Staff Report

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TO: Mayor and City Council
THROUGH: Steve Powers, City Manager
FROM: Kacey Duncan, Deputy City Manager

SUBJECT:

Transient Occupancy Tax supported activities

Ward(s): All Wards

Councilor(s): All Councilors

Neighborhood(s): All Neighborhoods

ISSUE:

Transient Occupancy Tax supported activities and potential changes to City Council policy and funding.

RECOMMENDATION:

Information only.

SUMMARY AND BACKGROUND:

This report responds to two areas of discussion - grant funded special events and ongoing support for major tourist attraction and cultural organizations. At its April 26, 2017, meeting, the Budget Committee reviewed the Cultural and Tourism Fund FY 2017-18 proposed budget and questioned transient occupancy tax-supported activities.

Chapter 56 of the Salem City Charter defines the uses for the City's transient occupancy tax revenues. Annually, the City Manager recommends expenditure budget appropriations in the Cultural and Tourism Fund in each of four charter-defined areas:

1. Enhancement and beautification of vehicular and pedestrian entrance-ways to the city;
2. Urban beautification generally;
3. Improvements to or operation of major tourist attraction or cultural facilities;
4. Activities performed directly by the city or through contracts which promote use of Salem for

conventions, conferences, seminars, or for general tourism.

Salem Revised Code (SRC) Chapter 37 governs the financial requirements for collection and disbursement of the transient occupancy tax revenues. In November 2016, the City Council approved a revision to SRC Chapter 37 to assign 25 percent of the annual net transient occupancy tax receipts to the City's destination tourism marketing organization, Travel Salem.

SRC Chapter 16 provides the "job description" for the Cultural and Tourism Advisory Board (TOT Board) in its advisory capacity to City Council. In addition, City Council Policy C-1 provides further direction to the TOT Board regarding Cultural and Tourism Fund budget recommendations, most specifically related to the award of grant funding.

FACTS AND FINDINGS:

Grant Funded Special Events

The TOT Board references Chapter 56 of the City Charter, SRC 16, and City Council Policy C-1 in developing or revising grant application materials, scoring matrices, and performance goals for the recommendation of transient occupancy tax funding. The current performance goals of the TOT Board are increasing room nights / tax revenue, increasing the estimated economic impact of tourism in Salem, and enhancing the quality of life for Salem residents.

In advance of each new fiscal year and as part of budget development, the Board reviews and scores dozens of grant applications in three categories defined in Policy C-1:

1. Operating funds for major tourist attraction or cultural facilities (e.g., Deepwood Estate, Historic Elsinore Theater, Salem Multicultural Institute);
2. Operating funds for special events (e.g. World Beat Festival, Salem Art Festival, Capital Cup Soccer Tournament); and
3. Capital asset improvement project funding (for qualified major tourist attraction or cultural facilities).

For the FY 2017-18 grant cycle, the TOT Board received 47 total applications and recommended 30 for funding. As a subset of that total, 35 applications were received for special event operating funds with 18 recommended for award.

Issue:

It was reported to the Budget Committee that a focus for the TOT Board in its scoring was the potential for return on investment of transient occupancy tax funding. Special event applications receiving low, non-qualifying scores were deemed to have less potential for a return on investment through the generation of room nights at Salem lodging establishments. Several of the non-qualifying applications were either events or applicant organizations that had previously received funding. Other non-qualifying applications included organizations that also receive funding for the operation of a qualified major tourist attraction or cultural facility.

Potential Solution:

Staff is recommending adding a fourth grant category to City Council Policy C-1. The new category - *operating funds for major tourist attraction or cultural facility promotional event* - would focus on special events that promote a qualifying facility, and through that promotion, contribute to the operating organization's long-term viability. This new grant category would contribute to the TOT Board's funding goal of enhancing the quality of life for Salem residents. The grant outcomes would not directly focus on a more immediate return on investment of transient occupancy tax revenues, but rather on promoting the qualified facility. To accommodate this recommendation, revisions would be required to City Council Policy C-1. Grant application materials, including a scoring matrix, would need to be developed. Example application materials and policy revisions are included with this report as Attachment 1.

Ongoing Support for Major Tourist Attraction and Cultural Organizations

The grant program conducted by the TOT Board has been in existence for several decades. The grant program provides operational support for major tourist attraction or cultural facilities and special events, as well as capital improvement funding for qualified facilities.

Issue:

From FY 2010-11 through FY 2015-16, actual transient occupancy tax receipts increased from \$2.2 million to \$3.6 million per year. The level of total grant funding has varied over the six years and never exceeded \$440,000. Over this highlighted period, the total grant appropriation has been divided among 9 to 11 qualifying facilities, 15 to 25 special events, and 3 to 5 capital improvement projects. During the same period, the allocation to maintain transient occupancy tax-eligible parks has increased from \$342,590 to \$1,179,350 and support to the City's destination tourism marketing organization has increased from \$479,000 to \$771,420.

Potential Solution:

Staff is recommending to increase the appropriation for the grant program to \$500,000 in FY 2018-19. It is also recommended that each subsequent year, the appropriation be augmented by the percentage increase of transient occupancy tax receipts comparing the two most recently completed fiscal years. As an example, at the point of budget development for FY 2019-20, the \$500,000 total appropriation would be augmented by the percentage increase realized in transient occupancy tax receipts between FY 2016-17 and FY 2017-18 (the two most recently completed fiscal years).

It is also recommended that City Council Policy C-1 be revised to provide for the percentage allocations to each of the grant categories, including the proposed new category to promote facilities, as demonstrated in Attachment 2 to this report. Table 1 of Attachment 2 compares the percentage allocations currently in City Council Policy C-1 and the recommended change to the policy. Table 2 of Attachment 2 demonstrates a scenario for allocating the \$500,000 appropriation for the grant program.

Attachments:

1. Promotional Event Recommended Application and Policy Revisions
2. Policy Percentage Allocations for Grants, Example Funding Allocation