

CITY COUNCIL REPORT

DATE: May 31, 2017

TO: Mayor, Vice Mayor, and Councilmembers

FROM: Heidi Hansen, Economic Vitality Director

CC: Josh Copley, Barbara Goodrich, Shane Dille, Christina Rubalcava,
Leadership Team

SUBJECT: Bed, Board, & Beverage/Booze (BBB) History, Allocations, and Revenues

This is in response to a council request for information on the Bed, Board, and Beverage/Booze (BBB) tax history, allocations, and revenues.

HISTORY:

The BBB tax was originally adopted by the Flagstaff voters in 1988. The tax is a 2% levy on the gross sales of revenue generated from hotels, motels, campgrounds, bars, and restaurants, and is in addition to all other taxes. The tax was originally approved for a 10-year period and allocated to fund Tourism, Beautification, Economic Development, and Administration. In 1996, this tax was renewed for a 15-year period and the allocation changed, by ordinance, as shown on the following table.

| Allocation | 1988 | 1996 | % Change |
|-----------------------------|--------------|--------------|---------------|
| Tourism | 48.5% | 30.0% | -18.5% |
| Economic Development | 16.5% | 9.5% | -7.0% |
| Arts and Science | 0.0% | 7.5% | 7.5% |
| Administration | 3.0% | 0.0% | -3.0% |
| Beautification | 32.0% | 20.0% | -12.0% |
| Parks and Recreation | 0.0% | 33.0% | 33.0% |

The tax was again renewed in 2010 until 2028 without any additional change in allocation.

Tourism is considered an 'operational fund' where the primary activity is dedicated to the administration of programs. These programs are marketing and promotions, public relations, sales, creative services, and visitor center operations. Included in the budget for Tourism is a marketing plan intended to provide guidance in determining markets, promotion directed at these markets, and measurement tools. The Visitor Center programs include the Visitor Center (including the gift shop) and Train Station Operations.

Economic Development is considered an 'operational fund' where the primary activity is dedicated to the administration of programs. While this fund may have capital expenditures, it is not its chief function. This fund focuses on business retention and expansion and attraction as well as workforce development. In addition, the City funds the Business Incubator and the new Innovation Mesa Business Accelerator program, structured to allow local entrepreneurs to work in a supportive environment to develop ideas into commercial business models.

Arts and Sciences is considered an 'operational fund' where the primary activity is dedicated to the administration of select programs either through staff or contractual relationships. Most of the funds are distributed by a grant process to grantees that use the funds for arts, science, and cultural projects and for the operations of arts, science and cultural agencies. A small portion of the funds are dedicated to purchasing public art.

Beautification primarily funds capital streetscape projects and then subsequently funds the maintenance for these when completed.

Parks & Recreation has shifted from capital programming for the improvements in local parks as well as our Flagstaff Urban Trail System (FUTS). Funding is now primarily directed to the ongoing maintenance of the improvements originally funded with these dollars as well as recreation programming. The programs administered using these funds include Beautification, Community Design, Heritage Preservation, and Redevelopment.

BBB ALLOCATIONS:

TOURISM:

Tourism is the guidance, management, marketing, accommodation, promotion and encouragement of tourists.

The BBB ordinance allows for the designation of a Tourism Commission. The Tourism Commission is responsible for:

- Developing and transmitting to Council an annual plan outlining their program recommendations for the coming year,
- Making recommendations to council on budgetary and marketing plans,
- Establishment of a visitor center,
- Establishment of an education program which allows for scholarships to the hospitality program at NAU,
- Promoting activities that enhance the community image and quality of life, and
- Retaining appropriate staff to implement approved programs.

Currently, we have a seven-person commission.

Funding: Tourism BBB is the only funding source to maintain the staffing at the Convention and Visitors Bureau and Visitor Center as well as the administering of all marketing and media relations programs.

ECONOMIC DEVELOPMENT:

Economic Development is the encouragement, promotion, and assistance of the expansion of economic activity for the purposes of expanding revenue and providing jobs to the community.

The BBB ordinance allows the Council to either act as or designate an Economic Development Commission. The Commission is responsible for:

- Developing and transmitting to Council an annual plan outlining their program recommendations for the coming year,
- Making recommendations to Council on budgetary allocations including but not limited to:
 - Developing and acquiring and distributing advertising (marketing) material to promote economic development,
 - Providing financial assistance programs to stimulate relocation and retention of industrial projects of Flagstaff, and
 - Retaining appropriate staff to implement approved programs.

Currently, Economic Development does not have a Commission. ED works with the Economic Collaborative of Northern Arizona (ECoNA) and several other community partners.

Funding: Economic Development BBB is the only funding source to maintain the staffing and administering of programs. Economic Development also receives funding through the City's General Fund, but those funds are limited to paying a portion of the debt service on the Business Incubator. Economic Development BBB funds pay the remainder of the debt service.

ARTS AND SCIENCES:

Arts and Sciences is defined as support for Flagstaff arts, scientific and cultural activities, events, and organizations to provide direct and indirect citizen participation and enhancement of the overall quality of life and community image including support of public art.

The BBB ordinance allows the public art program to be administered by the Beautification/Public Art Commission. The Commission is responsible for:

- Developing and transmitting to Council an annual plan outlining their program recommendations in line with the annual budget process,
- Making recommendations to Council on budgetary allocations including but not limited to:
 - Developing and supporting the Flagstaff arts, scientific and cultural activities, events and organizations to provide direct and indirect citizen participation, and opportunities for enhancement of the overall quality of life and community image,
 - Developing, acquiring and distributing material to promote arts and science,
 - Developing financial assistance programs to stimulate artistic and scientific activities in Flagstaff, and
 - Retaining appropriate staff to implement approved programs.

Currently, we have a seven-person commission.

Funding: Arts and Science BBB is the only funding source to maintain the staffing and administering of programs.

BEAUTIFICATION:

Beautification is defined as any modification of the urban physical environment to increase pleasure to the senses or pleurably exalt the mind or spirit or strengthen the urban design framework of the City.

The BBB ordinance allows for the designation of the Beautification/Public Art Commission, which is responsible for:

- Making a recommendation to Council concerning the annual budgetary allocation of the beautification and public art portions of this tax to include but not limited to:
 - Purchase, installation, or modification of landscaping and irrigation systems,
 - Purchase, removal or modifications of billboards and nonconforming signs,
 - Beautification of buildings and facilities, streetscapes and gateways,
 - Development and support of the City's public art program, and
 - Purchase or lease of easements or property necessary for beautification.

Currently, we have a seven-person commission.

Funding: Beautification BBB is the only funding source to maintain the staffing and administration of programs.

PARKS AND RECREATION:

Parks and Recreation is defined as the development and management of public parks, recreational facilities, and programs which are available to the residents and visitors including funding the FUTS.

The BBB ordinance allows for the designation of the Parks and Recreation Commission, which is responsible for:

- Making a recommendation to Council concerning the annual budgetary allocation of the Parks and Recreation portion of this tax to include but not limited to:
 - Developing Parks and Recreation facilities and programs as needed to benefit the community and its visitors,
 - Funding for the FUTS development and maintenance, and
 - Developing, acquiring, and distributing material to promote Parks and Recreation.

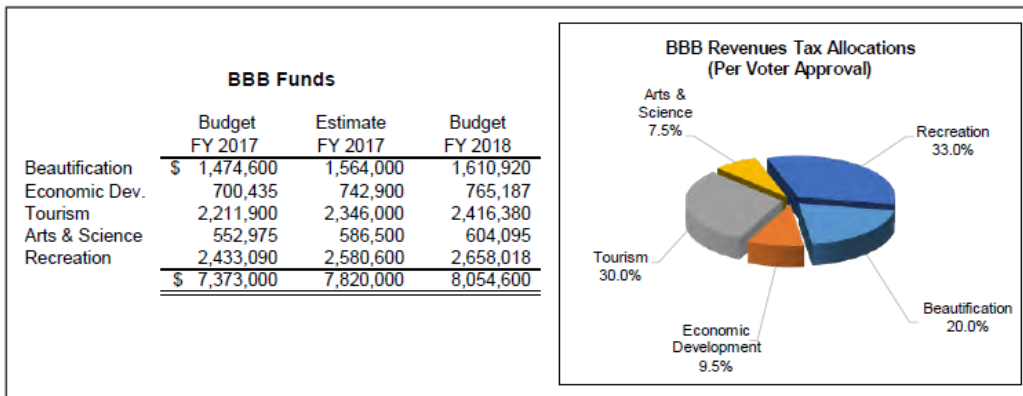
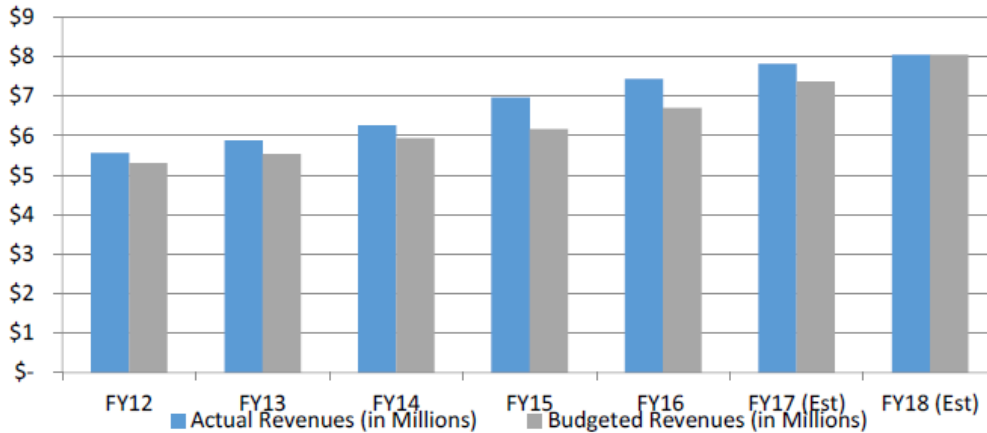
Currently, we have a seven-person commission.

Funding: Parks and Recreation BBB is not the only funding source to maintain the staffing and administering of programs. Parks and Recreation also receives funding through the City's General Fund.

BBB FY2018 REVENUES:

Revenue for FY 2018 is projected to increase slightly over FY 2017 estimates. Activities funded with the revenues have made operating adjustments necessary to reflect a balanced budget to the increased sales tax receipts and these changes are reflected within each five-year plan.

Bed, Board, and Beverage (BBB) Tax Revenues



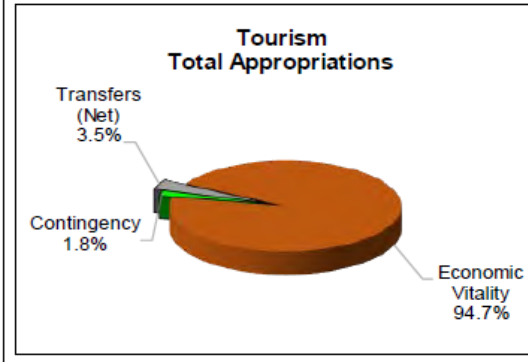
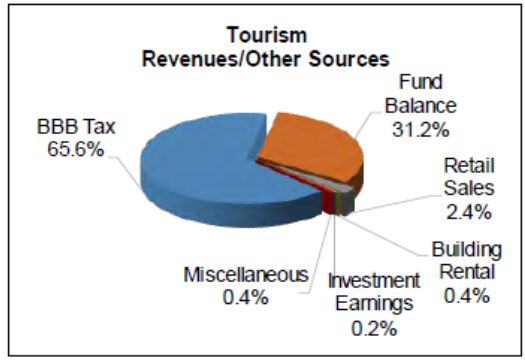
TOURISM FUND:

Total resources available in FY2018 are approximately \$3.7 million, of which an estimated \$2.4 million is from the BBB tax. The remaining \$1.3 million is housed in the Tourism Fund Balance at \$1.1 million with the other revenues accounting for retail sales, building rental, and other earnings.

The total appropriations are approximately \$2.8 million, which includes \$2.1 million for Tourism. Tourism includes General Administration, Marketing, Sales, Media/PR Relations, and the Film Office. The \$2.1 million is the base figure for the CVB’s overall marketing program with \$492,000 allocated to the Visitor Center, \$50,000 for contingency, and \$97,000 transferred to other funds (library and general fund).

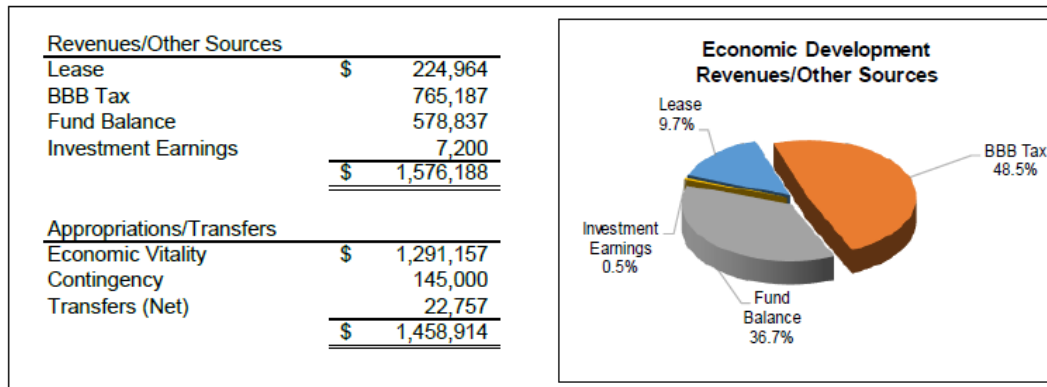
| Revenues/Other Sources | |
|------------------------|---------------------|
| BBB Tax | \$ 2,416,380 |
| Fund Balance | 1,148,325 |
| Retail Sales | 86,612 |
| Building Rental | 13,369 |
| Investment Earnings | 5,742 |
| Miscellaneous | 13,528 |
| | <u>\$ 3,683,956</u> |

| Appropriations/Transfers | |
|--------------------------|---------------------|
| Economic Vitality | \$ 2,617,794 |
| Contingency | 50,000 |
| Transfers (Net) | 97,738 |
| | <u>\$ 2,765,532</u> |



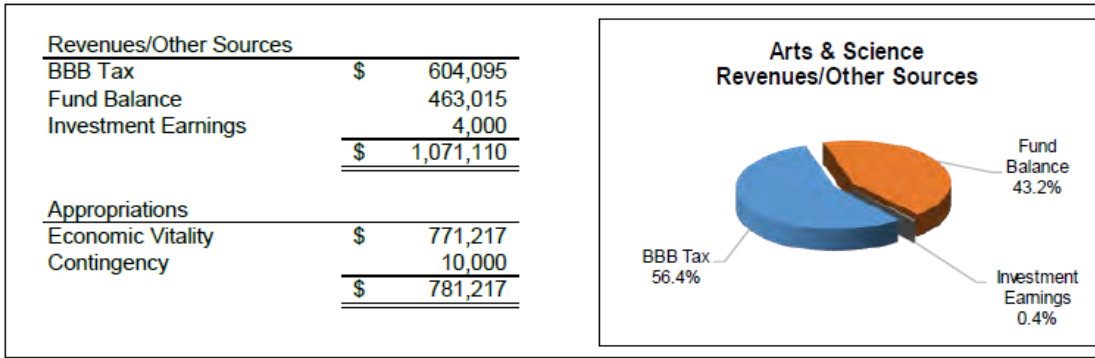
ECONOMIC DEVELOPMENT FUND:

The City will continue to seek targeted industries to relocate to the community. Those industries will be complementary to existing businesses or will be supportive of community goals. Total resources allocated to this effort are approximately \$1.6 million, of which \$765,187 is from the BBB dedicated taxes for economic development, lease revenue of \$225,000 and fund balance of \$578,837.



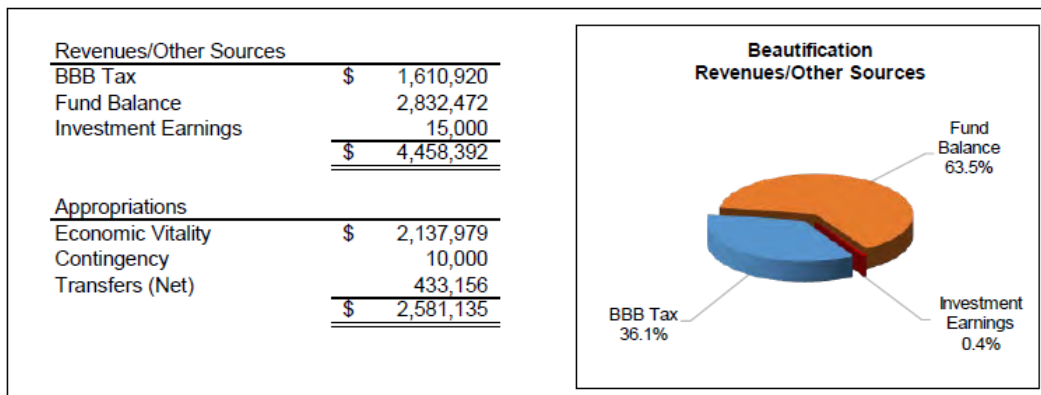
ARTS AND SCIENCE FUND:

Total resources available for Arts and Science activities are approximately \$1.1 million, including estimated revenues from the BBB tax of \$604,095. Expenditures include: Public Art for \$252,000, Service Partner Contracts for \$450,000, and the Science Foundation for \$25,000.



BEAUTIFICATION FUND:

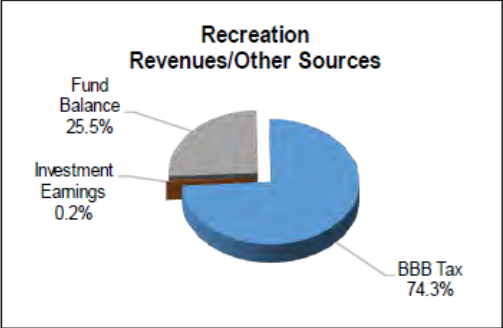
Total resources available for Beautification Fund activities amount to \$4.5 million. Expenditures from this fund are primarily for beautification operations and capital improvements in streetscape projects. Some of the major projects include the US 89 medians – Fanning to Marketplace, Downtown, Non-Gateway and Buffalo Park parking improvements. A \$433,156 transfer to the General Fund is used primarily for the maintenance of streetscapes.



PARKS AND RECREATION FUND:

There are appropriations in the amount of \$502,500 in FY 2018 for Recreation Fund activities and projects. Expenditures in this fund are capital in nature and include basketball court resurfacing and repair at Codgill and Ponderosa, new restroom facilities at Buffalo and Thorpe parks and upgraded playground equipment at Thorpe, Mobile Haven, and Smokerise parks. Per discussion with City Council in the spring 1996 retreat, Council concluded this funding should support the expansion of existing facilities and the associated maintenance. Over the past several years, the City Council has re-examined the use of these funds and in FY 2018 directs \$1.3 million to fund recreational programming, \$1.5 million to fund FUTS maintenance, BBB recreation fields operation and maintenance. These are funded via a transfer to the General Fund.

| <u>Revenues/Other Sources</u> | |
|-------------------------------|---------------------|
| BBB Tax | \$ 2,658,018 |
| Investment Earnings | 6,600 |
| Fund Balance | 913,723 |
| | <u>\$ 3,578,341</u> |
| <u>Appropriations</u> | |
| Public Works | \$ 502,500 |
| Transfers (Net) | 2,779,516 |
| | <u>\$ 3,282,016</u> |



RECOMMENDATION / CONCLUSION

This report is for information only.