

CITY COUNCIL REPORT

DATE: February 23, 2018

TO: Mayor, Vice Mayor, and Councilmembers

FROM: Heidi Hansen, Economic Vitality Director, Trace Ward, Convention and Visitors Bureau Director, Karl Eberhard, Community Design and Redevelopment Manager, and Rebecca Sayers, Parks and Recreation Director

CC: Barbara Goodrich, Shane Dille, Leadership Team

SUBJECT: BBB Revenue, Projects, and Return on Investment (ROI)

This is in response to a request for information regarding Bed, Board, and Beverage (BBB) tax revenue, projects, and return on investment (ROI).

**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 and Recreation has shifted from capital programming for land acquisition, park development, and FUTS trails to the ongoing maintenance of the improvements originally funded with these dollars as well as recreation programming.

**DISCUSSION:**

***Request 1: Share what projects the BBB tax assisted with, dollar amounts for each project, and what was the Return on Investment (ROI) to the community.***

The BBB fund was originally created as a mechanism for our City to promote Flagstaff as a premier travel destination. The idea was that having a strong marketing program would assist in increasing visitation and in turn would help with the overall economic impact and quality of life for our residents. When we see increased BBB revenue from visitation, all key BBB sectors receive more to support their program efforts. Below you will see highlights from each of these sectors. Please note that this is not an exhaustive list.

**TOURISM:**

BBB funds utilized for our City’s tourism marketing arm to be repurposed for direct sales and marketing efforts have been paying off at an average rate for the past 5 years of 9% increase in gross BBB collections per year. This is an approximate average of a half million dollars per year increase.

Fiscal Year	Gross BBB Tax Collection
FY2013	\$5,903,018
FY2014	\$6,309,745
FY2015	\$6,981,772
FY2016	\$7,452,864
FY2017	\$7,874,968

The greater economic impact of tourism for Flagstaff, which takes into account the total spend and not just the tax on bed, board and beverage, based on studies, is somewhere between \$600 and \$700 million per year. Currently, the Convention and Visitors Bureau, along with the Arizona Office of Tourism, has commissioned Northern Arizona University (NAU) Research Department

to conduct a tourism study to better understand where these and other statistics are today, since we know there has been a significant growth since the last study was performed in 2014.

Visitors don't just show up. There is a psychology to purchasing travel and the Flagstaff Convention and Visitors Bureau use primary and secondary research along with current technology, such as behavioral targeting, a creative approach that speaks to the psychographics of the potential visitors to bring the best possible results for Flagstaff.

This is especially true when it comes to the international visitor. This visitor needs to be aware of the destination and then they need to be assured that it is going to be a safe and fulfilling travel experience for them and their family in order to be inspired to visit. Here's an example: In 2005, Flagstaff had approximately 10,000 visitors from Australia. Our CVB International Travel Trade Sales Manager knew there was potential in this market and made it a focus for her work plan. Flagstaff was the first Arizona destination to target this market and actively work to get into the itineraries of tour operators and online travel agencies in Australia. Today, we receive over 100,000 Australians a year and the Arizona Office of Tourism has now begun to follow suit and it now targeting this market with us in 2018.

The traveling public around the world goes through a process to buy travel. This process is different depending on the country, distance in time to travel and motivation for travel, but what stays the same is three important components: awareness, inspiration and motivation. All of which the CVB utilize each year with our BBB funds.

**Awareness: Did you know? And, here is why you should care...**

Sales missions to key origin cities, Media missions, Familiarization tours (FAMS), Marketing strategies, Website and Search Engine Optimization.

**Inspiration: This could be you...**

Videos, Hero photography, Social media influencers, Inspirational information (Print and digital) Social media channels, Social media ambassadors, User generated content (UGC), and Sweepstakes.

**Motivation: Plan your trip...**

Packaging, Pricing, Tour operator partners, Online travel agencies (OTAs), Itineraries, and Planning tools.

**ROI - Key Accommodations Metrics and Marketing Outcomes:**

Our key accommodations are healthy in Flagstaff, which is why we are seeing new properties being built – the builders and owners of hotels are doing feasibility studies and are seeing tremendous potential.

Calendar Year	Occupancy	AVG. Daily Rate	Rev Per Available Room
2013	66.4	82.24	54.61
2014	70.0	85.71	59.99
2015	74.4	92.84	69.04
2016	74.9	97.21	72.78
2017	75.2	101.58	76.41

The CVB utilizes a Marketing Rule of 5 – always leveraging multiple customer touchpoints from paid, earned and owned media, to Visitor Center walk-ins, events, travel trade and stakeholder partnerships. We focus our campaigns on our 'Destination for all seasons' slogan. Therefore, we

have campaigns that are for all seasons and specifically targeted to attract visitors from one season to the next. We have seen success year over year with our marketing efforts and have received several awards from the Arizona Office of Tourism (AOT), Destination Marketing Association International (DMAI), Arizona Interactive Marketing Association (AZMIA), AVA (not an acronym) Digital Award, Hermes Creative Award, American Institute of Graphic Arts (AIGA), and City of Flagstaff City Manager's Award of Excellence.

Due to the complexity of each year's marketing program and results, we will be reporting on our previous year's results for this council report. For the 2017, the CVB marketing had over 300 digital banners, carousels, and emails which yielded a 79.25% increase. We also had 8 Woobox (mechanism to help grow email subscribers) campaigns, 36 outward facing print advertisements, 12 inward facing print advertisements, 4 inserts that went into the Arizona Republic, Silicon Valley Business Journal, Phoenix Business Journal, and San Francisco Times, 2 NAIPTA bus wraps for National Travel and Tourism Week, 1 digital billboard in the Legends District in downtown Phoenix, and hosted our flagstaffarizona.org website. All of this was done by utilizing the following campaigns; Hero, Duality, Characters Welcomed, Oddly Arizona, Feet Matter, Spectacle of Festivals, Spring Training, and National Travel and Tourism Week.

Our social media platforms all showed increases:

Facebook Likes: 84,157 = for the year, increase of 16%

Twitter Followers: 8,245 = for the year, increase of 8%

YouTube Upload Views: 768,382 = for the year, increase of 96%

Instagram Likes: 35,135 = for the year, increase of 45%

Flagstaff Happening eblast subscribers: 5,050, increase of 1%

Lastly, Flagstaff visitation has grown from 4.6 million visitors to over 5 million plus visitors in the past four years.

### **ECONOMIC DEVELOPMENT:**

Economic Development BBB funds go toward our efforts with business attraction, retention, and expansion for the entire city. We utilize the funds to build strong economic development partnerships with the Arizona Commerce Authority, Arizona Association of Economic Development (AAED), Arizona Forward, Economic Collaborative of Northern Arizona (ECoNA), Coconino County Career Services, Flagstaff Chamber of Commerce, Northern Arizona University, Coconino Community College, and Northern Arizona Council of Governments (NACOG).

In 2017, Economic Development staff assisted with the following:

- Worked with nineteen new businesses that entered the market in 2017. This equated to 385 new jobs for the citizens of Flagstaff;
- Attended several tradeshows in key industry sectors of advanced manufacturing, bioscience, technology innovation and retail. The tradeshows attended are as follows: Consumer Electronic Show, BIO International, Bio MedDevice and International Council of Shopping Centers. Staff met with hundreds of prospects in an effort to recruit them to the Flagstaff area;
- Hosted ten site inspections;
- Worked with Nestle Purina on odor mitigation;
- Created 2 Business Resource events that were free to the community that went over social media trends, internships, how to hire a veteran, minimum wage law, and more.

- Worked with the Auto Park Association and City Council to clear the way for a potential sale of lot 8. Preparations for securing right of way for Flagstaff Urban Trail Systems (FUTS) trails on lots 8 & 9 are in progress. Staff also worked to clear hurdles for the new owner of lot 11 to ensure construction on the lot continues to move forward;
- Held the following stakeholder meetings:
  - 113 Meetings with various businesses addressing retention and expansion programs, workforce, data, incentive programs, and development process navigation;
  - 40 meetings on policy development including the development of an *Adaptive Reuse Program* and a *Waste to Profit Policy*;
  - 40 meetings on marketing efforts from providing exposure for Flagstaff Economic Development in the international magazine Innovation and Technology Today, and contributing to the interdepartmental Visit. Discover. Grow. campaign;
  - 39 Workforce Development meetings focused on Automotive Technician Pipeline Enhancements, Career and Technical Education, Employer Resource events;

Overall ROI, assisted with \$38 million in new commercial construction including 2 new healthcare facilities, 3 new hotels, the new Mercedes facility at the Flagstaff Auto Park, 2 new student housing complexes with retail centers, and 32 acres of City-owned land sold for a hotel, event space and corporate offices.

**PARKS AND RECREATION:**

**Parks that are funded and maintained with BBB dollars:**

BBB Parks (0567) FY18 Budget = \$1,544,467 (including operating capital of \$125,000/year)

- BMX “The Basin
- Bushmaster Park
- Bow & Arrow Park
- Continental Sports Park
- Foxglenn Park
- McMillan Mesa Park
- Thorpe Softball Complex

**BBB Operating capital recent projects:**

- Resurfaced tennis and basketball courts at Bushmaster Park (\$60,000)
- Installed ADA adaptive outdoor fitness area at Bushmaster Park (\$50,000)
- Installed automatic access gate at the south entrance to Bushmaster Park (\$5,000)
- Replaced the roof of the Ramada at BMX “The Basin” (\$5,000)
- Regraded and replaced the sod at Continental Field #1 (\$35,000)
- Re-lamped the ballfield lights on Fields #1 and #2 at the Continental Sports Complex (\$10,000)
- Repaired and replaced fence fabric and addition of a mid-rail at Continental Field #2 (\$10,000)
- Replaced 6,000 square feet of sod at the Foxglenn East Soccer Field (\$10,000)
- Laser-leveled all infields at Foxglenn, Continental, and Thorpe Softball Complex (10 fields) (\$30,000)
- Installed an adaptive swing amenity at McMillan Mesa Park (\$1,500)

- Chip-sealed parking lots at Continental, Foxglenn, and Thorpe Softball Complex (\$150,000)

**BBB Recreation FY18 one-time capital funded projects:**

- Restroom Facilities at Buffalo Park and Thorpe Park (\$300,000) (estimate)
- New adaptive playground at Thorpe Park and accessible surfacing (\$168,000)
- Aquaplex cabana and locker room repairs/remodel (\$325,000) (estimate)
- Upgrade playground equipment at Mobile Haven and Smokerise parks (\$150,000)
- Hal Jensen tennis court replacement (\$400,000)

**BEAUTIFICATION:**

**Route 66 Landscaping:**

BBB Beautification funds were first used to landscape the space between Route 66 and the railroad tracks. Prior to this work, this space consisted of unmaintained open grass fields and commercial billboards. The work was performed in seven initial phases, acquiring and removing the billboards, and installing FUTS trails, berms, landscaping and irrigation.

The last phase of this effort was completed in 2012 and consisted of preserving a 700-foot stretch of historic Route 66, converting it to a FUTS trail, and constructing a Route 66 themed pocket park / FUTS rest stop. The cost to the Beautification Fund for this phase was approximately \$100,000. However, investments were enhanced with several public and private partnerships that brought another \$50,000 worth of work to the project.

**City Gateway Signs:**

Since 2004, BBB Beautification funds have been used to construct stone, log and steel city gateway signs along US89, I-17 and US 180. These have become one of the more photographed objects in town and are frequently sought for service club, university and business association signage. They have become a major branding element for the City itself but images of these investments are also frequently used by a variety of businesses and non-profits. A fourth city gateway sign is soon to be constructed along US89A near Lake Mary Road. These signs cost approximately \$40,000 each.

**Southside Redevelopment:**

In 2011, Beaver Street and San Francisco Street in the Southside area were re-built from building face to building face. This work included new wider sidewalks, street trees and furniture, bicycle racks and public art. As a result, a number of Southside properties have been revitalized and the district as a whole has seen tremendous growth in vitality without losing the valued funk of the area. Tourists and locals alike now spend more time, and more money in the district. This project utilized \$1.2M BBB Beautification funds, additional funds from Utilities and a grant for a total expenditure of nearly \$2.8M.

**Fourth Street Gateway:**

The corner of Fourth Street and Route 66, including a parcel owned by the City, served as an ADOT service yard for many years. In 2013, nearly \$230,000 of BBB Beautification funds were used to redevelop the City parcel into a neighborhood gateway. This included creating a plaza space, and installing landscaping and a neighborhood sign. The plaza provides a space for public art and this year a grand lighted holiday sculpture was installed for the season. The sculpture cost \$40,000.

### **Other Beautification Projects:**

A few Beautification projects are highlighted above. However, the work of the program includes many other works of different scales, locations, and notoriety. Some of the medium-scale works include landscaping along US89 from Fanning to Smokerise (\$900,000, done in two phases), along Woodlands Blvd. (\$500,000) and along Butler Avenue (\$350,000). Last year, \$250,000 was used to re-paint everything green in downtown. Currently, \$250,000 of landscaping and parking lot improvements are being installed at Joel Montalvo Park. Smaller works have included landscaping at the Plaza Vieja gateway, improvements at the Sante Fe and Route 66 triangle median (\$75,000), as well as capital maintenance at some of the older Beautification projects (\$50,000). An enhancement of the sidewalk and landscaping at the intersection of Steves Blvd. and Route 66 (\$75,000) is underway.

Some “very small” projects have included painting Two-spot with special preserving paint (\$25,000), fencing at the Country Club detention basin (\$30,000), the development of three community gardens (\$10,000 each), and a community thermometer in downtown (\$25,000). In the same “small uses” category, these funds are used to provide grants owners of historic properties to use for preservation projects (\$10,000 max.) and they are used for small grants for groups and neighborhoods to perform very small beautification projects (\$2,500 max.). For example, the Flagstaff Rotary Club used this grant to help fund the restoration of the Buffalo Park entrance building.

### **ARTS & SCIENCES:**

#### **Arts, Science and Culture Grants:**

The primary use of Arts & Science Funds is providing grants to Arts, Science and Culture agencies and projects. Each year, \$275,000 to \$360,000 is given to approximately forty grantees including agencies like the Museum of Northern Arizona, the Flagstaff Symphony, the Grand Canyon Guitar Society, and the Ballet Folklorico. Some of the funded projects include the Science Festival, the Celtic Festival, the Center for Indigenous Music and Culture, the Flagstaff Mountain Film Festival, the State of Black Arts Initiative, and the Celebration of the Night (Dark Skies Coalition). These grants are administered on behalf of the Flagstaff City Council by the Flagstaff Arts Council. For this, and for additional services as the area lead arts agency, the Flagstaff Arts Council receives an annual fee of approximately \$70,000.

#### **Public Art:**

Understanding the impact of this fund on public art is best demonstrated by the Public Art Map, which depicts an extensive inventory of the City’s public art holdings. The award-winning map, prepared with Arts & Science funding (\$7,500), does include some private pieces, and can be seen here: [https://www.flagstaffarizona.org/wp-content/uploads/Art-Map.Flagstaff.LORES\\_.pdf](https://www.flagstaffarizona.org/wp-content/uploads/Art-Map.Flagstaff.LORES_.pdf)

Some of the better known recent public art projects have included the large format photographs at the Pulliam Airport (\$85,000), the Kings House inn mural (\$25,000), the Lumberyard Mural (\$25,000), mosaics on the Thorpe Bridge (\$2,500), and the Sound of Flight Mural (\$2,500). Current projects include the Children’s Garden Sculpture (\$45,000), additional mosaics on the Thorpe Bridge (\$40,000), and more.

#### **Return on Investment (ROI):**

Measuring the return on investment for Arts & Sciences Funds and for Beautification Funds is challenging in that these funds aren’t used for things that are counted (like hotel occupancy or

visitors). These funds are used to create a sense of place for residents, employees, employers, and tourists that are attracted to Flagstaff by the other BBB Funds.

Thanks to the Arts and Economic Prosperity Study, partially funded with Arts & Science Funds, we do know that the arts are a \$90M industry in Flagstaff, generating \$4.6M in local tax revenue, and supporting 3,000 FTE jobs. This is the most measurable aspect of the Arts & Sciences Funds and Beautification Funds return on investment.

We also know that employees, and thus employers, are changing to place-based jobs instead of going to places for jobs. This means that people select where they wish to live, in the mountains, in cultural centers, in historic downtowns, and then they seek jobs that allow them to live there. Employers, seeing this trend, have in turn increased how much “place” factors into their location decisions.

And of course, attracting tourism requires having a “place” to promote. How many towns have lots of tourists and little sense of character, history, or beauty? Arts & Sciences Funds and Beautification Funds are place making funds that provide a destination with character, history, and beauty. The return on investment is comingled with that of promoting tourism and business attraction and retention.

#### **MEDIA MENTIONS:**

The most notable ROI Flagstaff is receiving is in way of media accolades. This past year we were recognized in the following ways:

- January 2017: “best college towns” came out yesterday, this time by the American Institute of Economic Research, and Flagstaff was ranked #3;
- April 2017: Car Rentals.com, The Best Biggest Little Cities in America ranked #4;
- April 2017: Channel 12, Reported on New Milligan House Public Art Preserves Flagstaff History in Paint;
- May 2017: Flagstaff is one of our 50 Best Smaller College Towns with the Best Music Scenes, and we know a thing or two about live music;
- June 2017: Historic Downtown Flagstaff was selected as one of USA Today’s 10 best Arizona Attractions;
- July 2017: Top Four U.S. Community College Towns;
- August 2017: The 20 Best Towns in America;
- August 2017: Motorhome magazine noted Flagstaff Star Party;
- August 2017 Outside Magazine: The 25 Best Towns of 2017;
- August 2017: Outside Magazine: 6 Breweries on the Edge of National Parks;
- October 2017: Mentioned in the Calvin and Hobbs cartoon – AZ Republic;
- November 2017: Trips to Discover.com - 8 Best Towns to Celebrate Christmas in Arizona;

#### ***Request 2: What percentage of BBB is paid by visitor vs. resident?***

There hasn’t been a study on what portion of the BBB is coming from visitors vs. locals since 2009. At that time, the tax collected figure showed 73% visitors and 27% locals. If we look at the two taxable activities Hotel/Motel and Restaurant/Bar on the BBB chart, it would seem that close to 100% of hotel/motel and 50% of restaurant/bars is paid by our visitors.



**SUMMARY:**

There is so much happening in Flagstaff due to the assistance of BBB funding. All BBB sectors are actively creating annual work plans that are bringing big results to our community year after year.

This is for information only.