



**INFORMATIONAL MEMORANDUM**

TO: **Planning and Economic Development**

FROM: **Brandon Miles, Business Relations Manager**

CC: **Mayor Ekberg**

DATE: **August 10, 2020**

SUBJECT: **Lodging Tax Revenue and Ending Fund Balance**

**ISSUE**

Lodging tax revenue and ending fund balance discussion.

**BACKGROUND**

The City collects a 1% charge on eligible stays at hotels, motels, and Airbnbs in the City. Under Washington State law these funds can only be used for tourism promotion activities. With nearly 2,000 hotel rooms, the City is in the top five of lodging tax collection in King County, with just over \$800,000 in funds collected in 2019. This was the best year on record for the City. COVID-19 has drastically impacted the lodging industry due to pullback in people travelling for work and pleasure. Even as travelers return, it could be several years before the City returns to its pre-COVID-19 lodging tax revenue.

The chart below outlines staff’s initial, pre-COVID-19 lodging tax revenue projections and revised projections.

<b>Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
<b>Pre-COVID-19 Revenue Forecast</b>	\$800,000	\$840,000	\$882,000	\$926,000	\$972,405	\$1,021,025	\$1,072,076
<b>Revised Forecast</b>	\$400,000	\$450,000	\$600,000	\$700,000	\$800,000	\$900,000	\$1,000,000

Beginning this year, the City has started to draw down its lodging tax reserves due the pullback in revenue and to respond to the tourist economic impacts associated with COVID-19. A copy of the current six-year financial model, showing forecasted ending fund balance, is attached with this staff report.

**DISCUSSION**

If we maintain current expenditures and there is no increase in revenue the City will begin to run out of funds to support identified tourism programs starting in 2024. As part of the comprehensive review of the City’s tourism program the City will need to identify the elimination and deferral of some programs. No decision is needed at this time. Staff will work with the City Council and the Lodging Tax Advisory Committee on priority programs.

**FINANCIAL IMPACT**

Not applicable.

**RECOMMENDATION**

Discussion only.

**ATTACHMENTS**

- Lodging Tax Six Year Financial Model, Updated July 14, 2020.

# Lodging Tax Six Year Financial Plan

	Year	Actuals		Forecasted					Totals	
		2019	2020 Budget	2020, Updated	2021	2022	2023	2024		
<b>Revenue</b>										
Original Estimated Amount			\$ 800,000	\$ 800,000	\$ 840,000	\$ 882,000	\$ 926,100	\$ 972,405		
Lodging Tax Collection (Revised, 5/7/20)		\$ 819,095	\$ 800,000	\$ 400,000	\$ 450,000	\$ 600,000	\$ 700,000	\$ 800,000	\$ 4,569,095	
<b>Expenses</b>										
<b>Marketing, Sales, Major Sponsorships</b>										
Contracted DMO Services		\$ 202,500	\$ 202,500	\$ 202,500	\$ 202,500	\$ 202,500	\$ 202,500	\$ 202,500	\$ 1,417,500	
SSRTA Emergency Funding			\$ 75,000	\$ 75,000						
Major Sponsorships Funding Request		\$ 150,000	\$ 150,000	\$ 50,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 950,000	
Seattle Seawolvs			\$ -	\$ 10,000						
Seattle Southside Chamber of Commerce			\$ -	\$ 50,000						
Virtual Sports			\$ 30,000	\$ -						
Small Event Development and Support		\$ 10,000	\$ 15,000	\$ 5,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 90,000	
Digital Development and Website (Experience Tukwila)		\$ -	\$ 88,375	\$ 88,375	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 376,750	
SavingLocalKC.com			\$ 154,170	\$ 154,170						
<b>Destination Development</b>										
Wayfinding Plan Development and Installation		\$ -	\$ 50,000	\$ 100,000	\$ 150,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 600,000	
Southcenter Art Investments		\$ 600	\$ 39,400	\$ 39,400	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 379,400	
Tukwila Pond		\$ -	\$ 125,000	\$ 125,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 1,050,000	
World Cup Planning and Activation		\$ -	\$ -	\$ -	\$ 40,000	\$ 40,000	\$ 50,000	\$ 50,000	\$ 180,000	
<b>Administration/Operations</b>										
Salary		\$ 58,040	\$ 56,586	\$ 53,870	\$ 59,674	\$ 60,859	\$ 62,685	\$ 64,565	\$ 416,279	
Benefits		\$ 18,124	\$ 18,411	\$ 18,411	\$ 18,963	\$ 19,532	\$ 20,118	\$ 20,722	\$ 134,281	
City Overhead Charge		\$ 18,741	\$ 19,416	\$ 19,416	\$ 19,998	\$ 20,598	\$ 21,216	\$ 21,853	\$ 141,239	
Administration Expenses		\$ 21,385	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 201,385	
		\$ 116,290								
Total Expenditures:		\$ 479,390	\$ 1,053,858	\$ 1,021,142	\$ 1,011,136	\$ 963,490	\$ 976,519	\$ 979,640	\$ 5,936,835	
Starting Year Balance:		\$ 1,617,625	\$ 1,957,330	\$ 1,957,330	\$ 1,336,188	\$ 775,052	\$ 411,563	\$ 135,043		
Ending Fund Balance:		\$ 1,957,330	\$ 1,703,472	\$ 1,336,188	\$ 775,052	\$ 411,563	\$ 135,043	\$ (44,597)		

**Notes**

Salary for Bus Manager is split 50/50 between general fund and lodging tax. Salary savings reflects credit to lodging tax for 14 furlough days for 2020.

Revenue Increase (2021-2024)

Salary is assumed to rise 3% per year.

Benefits are assumed to rise 3% per year.

Indirect Cost Allocation is assumed to increase 3% per year.

This document does not bind the City to provide funds nor does it authorize any funding. All use of lodging tax funds must be approved by LTAC and the City Council through an application process. Overhead charge is charged to all special accounts and recoups the cost of the general fund to support the lodging tax fund. This include facilities, IT services, legal, and accounting.

Cells in yellow show pending applications.

Cells in green show approved applications.

Cells in red are budgeted items that have not been encumbered.