



INFORMATIONAL MEMORANDUM

TO: **Planning and Economic Development Committee**

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

CC: **Mayor Ekberg**

DATE: **September 28, 2020**

SUBJECT: **Lodging Tax Six Year Financial Model**

ISSUE

Discussion of the lodging tax six-year financial model and possible funding reductions due to COVID-19

BACKGROUND

The City of Tukwila collects a 1% lodging tax on all eligible stays in Tukwila hotels, motels, and Airbnbs. Washington State law limits the use of lodging tax funds to tourism promotion activities. Funds collected can be used by the City or third parties to help bring tourists (both day and night tourists) to the City.

State Law allows the City to use lodging tax funds as follows:

- Tourism marketing;
- Marketing and operations of special events and festivals designed to attract tourists;
- Operations and capital expenditures of tourism-related facilities owned or operated by a municipality or a public facilities district; or
- Operations of tourism-related facilities owned or operated by nonprofit organizations.

Historically, the City has used lodging tax funds for a variety of activities including providing funds to Seattle Southside Regional Tourism Authority, the Museum of Flight, Starfire Sports, Seattle Southside Chamber of Commerce, and the City of Tukwila. Funds have been used for a variety of activities, such as marketing, small festivals, and sponsorship of tourist related events.

In 2019 the City collected \$819,000 in lodging tax. The City ended 2019 with approximately \$1.9 million of funds on hand. For 2020 the City is forecasting a significant drop in lodging tax funds due to COVID-19. Staff is now forecasting that lodging tax fund revenues will only be about \$400,000 in 2020. Unspent will remain in the City's lodging tax funds and can be used in future years. State law does not allow lodging tax funds to be used to support City general operations.

The table below outlines approved lodging tax applications for 2019:

Applicant	Activity Funded	Total Amount	New Activity for 2019?
Seattle Southside Regional Tourism Authority (SSRTA)	Destination Marketing activities, focused on tourists outside 50 miles of the City.	\$202,500	No, the City has provided this amount of funding annually to SSRTA over the last five years.

Starfire Sports	Marketing for soccer events and tournaments.	\$44,500	No, the City has provided lodging tax funds to Starfire Sports for a number of years. The amount varies year to year.
Museum of Flight (MoF)	50 th anniversary exhibit of the Apollo 11 moon landing.	\$100,000	No, the City has had previous agreements with MoF for lodging tax funds. The amounts provided per year have ranged between \$35,000 and \$100,000.
City of Tukwila	2019 Rave Green Run	\$10,000	No, the City also sponsored this event in 2018.
City of Tukwila	General Administration (Funding for staff time, operations associated with the lodging tax program, and indirect fee allocation to the general fund.	\$116,525	No, the City has since 2017 an application for this item.
City of Tukwila	International Food Truck Rally (two separate events).	\$10,402	Yes.
City of Tukwila	International Rugby Promotion	\$15,459	Yes
City of Tukwila	Southcenter 50	\$7,500 (2019 expenditures only).	Yes
City of Tukwila	Southcenter Art	\$40,000	Yes
City of Tukwila	Tukwila Pond Master Plan	\$125,000	Yes

Six Year Financial Model

Starting in 2019 the City began to use a six-year financial model to guide the lodging tax program. The six-year financial model is used as a roadmap and is not a binding document for how the City will award funds. The updated six-year financial model is attached with this memo.

The following are the key highlights of the draft six-year financial model:

Revenue

Projected revenue through 2025 are shown, including the original, pre-COVID-19 anticipated revenue. Staff is forecasting a drastic reduction in lodging tax revenue due to a decrease in traveler spending. Just like after September 11 terror attacks, it will likely take a number of years for traveler spending to resume to its pre-COVID-19 levels.

Expenses

Expenses have been categorized into four major categories, with specific sub-categories under the major categories. A discussion of the specific sub-categories is provided below.

Marketing, Sales, and Sponsorships

- Contracted DMO Services

The City contracts for services from Seattle Southside Regional Tourism Authority (SSRTA) a destination marketing organization (DMO) to market the City to tourists outside of the 50 miles radius¹. SSRTA provides a critical service marketing the City under the “Seattle Southside” name. The City also have a relationship with Visit Seattle, which provides DMO services for the entire county.

In 2019 the City provided \$202,500 to SSRTA to support SSRTA’s activities promoting the City. These funds are combined with TPA funds generated in the cities of SeaTac and Des Moines, as well as lodging tax funds from those two cities. SSRTA has budgeted ending 2021 with just over \$3.7 million of funds on hand.

Total Forecasted Expenditures through 2025: \$1,012,500

- Sponsorships (MoF, Starfire Sports, etc)

Third parties, such as the Museum of Flight and Starfire Sports, are eligible to apply to receive lodging tax funds directly from the City. If awarded by the City, the City will enter a sponsorship agreement with the City to receive the funds and to outline the benefits provided to City from the sponsorship.

Total Forecasted Expenditures through 2025: \$610,000

- Small Events (Tukwila Days, Spice Bridge, Juneteenth, etc.)

A small amount of funds has been allocated to help support and develop events in the City. These events would likely be produced and held by third parties, with financial assistance provided by the City. These small events can provide enormous benefit in helping the City develop a tourist entity.

Total Forecasted Expenditures through 2025: \$65,000

¹ The 50-mile radius is used because its generally believed that people who live more than 50 miles away from the City are more likely to visit the City as overnight guests versus coming just for the day.

- Experience Tukwila, Branding and Marketing, Visitors

In 2020 the City launched digital platforms to promote the City to visitors, prospective businesses, and to help improve the overall image of the City. The digital platforms include Facebook, Twitter, Instagram, LinkedIn, and a dedicated website (currently under development). There will be ongoing costs to maintain these digital assets and to provide up to date images and stories promoting the City.

Total Forecasted Expenditures through 2025: \$388,375

- World Cup Planning and Activation

The United, Canada, and Mexico will host the FIFA World Cup in 2026. Given Seattle's strong soccer fan base it is anticipated that Seattle may host several of the soccer matches. Should this occur tens of thousands of fans from throughout the globe will come to Seattle to watch these games. In addition, it is highly likely that Starfire Sports will be used by teams for training. With its proximity to Sea-Tac Airport and Starfire Sports, Tukwila could see a large influx of tourists for the World Cup. Staff has allocated funds to help with planning and preparation.

Total Forecasted Expenditures through 2025: \$180,000

COVID-19 Response

- SavingLocalKC.com

SavingLocalKC.com is a countywide initiative to help drive sales to businesses impacted by COVID-19 and the associated stay home orders. Staff is not anticipating provided lodging tax funds for SavingLocalKC.com after 2020.

Total Forecasted Expenditures through 2025: \$154,170 (2020 funds)

- SSRTA Emergency Funds

As part of COVID-19 recovery, SSRTA requested funds to help market the region to meetings. The funds provided by the City will go to a rebate program for meetings booked in the City.

Total Forecasted Expenditures through 2025: \$70,000

- Showare Sponsorship

When COVID-19 hit the region the City of Kent enacted a spending freeze which impacted all funds, including its lodging tax program. The City of Tukwila and City of Kent have discussed a partnership program in which events would be held at Showare and their hotel stays would be in Tukwila hotels. Groups that stay in Tukwila would be eligible for a rebate for each night booked in Tukwila.

Total Forecasted Expenditures through 2025: \$20,000

- Seattle Southside Chamber of Commerce

The Seattle Southside Chamber of Commerce launched the “Soundside Promise” initiative to help businesses recover from COVID-19. The City of Tukwila is a supporter and the City Council approved a lodging tax request from the Chamber to support the initiative.

Total Forecasted Expenditures through 2025: \$50,000

Destination Development

- Wayfinding Plan Development and Installation

At the September 21, 2020 PED meeting staff provided an outline of a proposed initiative to develop a wayfinding plan for the tourist areas of the City. PED expressed interest in moving forward with developing a wayfinding plan and future installation of signage. The six-year financial model includes funds to complete the master plan and installation of some signage.

Total Forecasted Expenditures through 2025: \$450,000

- Southcenter Art Investment

In 2020 the LTAC and City Council approved a lodging tax application for the City’s Parks Department to develop an arts plan and to develop initial art along Baker Blvd. Baker Blvd was chosen because it has been identified as an event street and because it is part of the pedestrian spine connecting the commuter rail station to Westfield Southcenter. Additional funds have been allocated to install art throughout Southcenter, which will help create a better tourist destination.

Total Forecasted Expenditures through 2025: \$339,400

- Tukwila Pond

The City has long identified Tukwila Pond as a future amenity for the Southcenter District. The first step in turning the Pond vision into a reality is to complete a master plan. In 2019 LTAC and the City Council approved \$125,000 to the City’s Parks Department to complete the Plan. This work is anticipated to begin in 2020 and conclude in 2021. Staff has allocated funds in 2020 and 2021 to complete the Master Plan. Additional funds are shown in outlying years to be used for additional studies and park improvements. The funds allocated by lodging tax are not sufficient to complete all the anticipated future work needed for the Pond, other funds from the City and/or grants will be needed. Lodging tax funds could be used as a match to help secure additional sources of funds.

Total Forecasted Expenditures through 2025: \$725,000

General Administration

- Salary and Benefits

The lodging tax funds supports .5 FTE in the Economic Development Office. The half time staff member is responsible for overseeing the City’s tourist program, administering the lodging tax funding program, and staffing the LTAC. The salary and benefits shown were provided by the City’s Finance Department.

- City Overhead

State law allows the City to charge special funds, such as the lodging tax, an indirect cost allocation. The indirect cost allocation reimburses the general fund for costs associated for support the lodging tax funds. These costs include legal, facilities, technology services, fleet, and accounts payable. The indirect costs included in the six-year financial model was provided by the City's Finance Department.

- Administrative

The City includes funds for direct administrative costs associated with the City's work on promoting the City and management of the tourism program. These costs include travel, parking, registration for events, training, and educational materials. These funds are provided for any staff or elected official engaged in tourism related activities or events. The funds also include membership to several national and regional organizations which enhance the City's ability to bring tourist to the City.

Total Forecasted Expenditures through 2025: \$130,000

DISCUSSION

COVID-19 will have a severe impact on the City's lodging tax program over the next six years. Staff is not anticipating that lodging tax revenue will return to their pre-COVID-19 levels until 2025. Since 2014 the City has built up a considerable ending fund balance for the lodging tax. There is currently just over \$1.9 million of lodging tax funds available for the City to spend. This ending fund balance can be used to continue the City's investment in its tourist economy, even with the pullback in lodging tax collection. However, by 2024 the City will have used its ending fund balance and will no longer be able to support many of the initiatives identified above. Staff believes it would be prudent now to update the six-year financial model in order to avoid having to make drastic budget modifications in the future.

Next Steps

Staff is requesting input from the Committee on modifications to the six-year financial model in order to address the forecasted budget deficit starting in 2024. Staff will come back to PED at the next meeting to address in more detail the three possible items identified above and any other suggestions from the Committee. This information will ultimately be used by staff and PED in the preparation of the final six-year financial model.

FINANCIAL IMPACT

None. The six-year financial model is a planning document only and does not authorize any expenditure of lodging tax funds.

RECOMMENDATION

Discussion Only.

ATTACHMENTS

- Draft Six Year Financial Plan

Lodging Tax Six Year Financial Plan

DRAFT, DISCUSSION ONLY

	Adopted Budget 2020	Estimate						Totals
		2020	2021	2022	2023	2024	2025	
Revenue								
Estimate as of January 2020	\$ 800,000	\$ 840,000	\$ 882,000	\$ 926,100	\$ 972,405	\$ 1,021,025	\$ 6,241,530	
Estimate as of May 7, 2020	\$ 800,000	\$ 400,000	\$ 450,000	\$ 600,000	\$ 700,000	\$ 800,000	\$ 5,744,095	
Expenses								
Marketing, Sales, and Sponsorships								
Contracted DMO Services	\$ 202,500	\$ 202,500	\$ 202,500	\$ 202,500	\$ 202,500	\$ 202,500	\$ 1,012,500	
Sponsorships (MoF, Starfire Sports, etc)	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 610,000	
Small Events (Tukwila Days, Spice Bridge, Juneteenth, etc)	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 65,000	
Experience Tukwila, Branding and Marketing, Visitors	\$ 88,375	\$ 88,375	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 388,375	
World Cup Planning and Activation	-	\$ 40,000	\$ 40,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 180,000	
COVID-19 Response								
SavingLocalKC.com	\$ 154,170	\$ 154,170					\$ 154,170	
SSRTA Emergency Funding	-	\$ 75,000					\$ 75,000	
Showare Sponsorship		\$ 15,000	\$ 5,000				\$ 20,000	
Seattle Southside Chamber of Commerce	-	\$ 30,000					\$ 50,000	
Destination Development								
Wayfinding Plan Development and Installation	\$ 50,000	\$ 100,000	\$ 150,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 450,000	
Southcenter Art Investments	\$ 39,400	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 339,400	
Tukwila Pond	\$ 125,000	\$ 100,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 725,000	
General Administration								
Salary and Benefits	\$ 74,997	\$ 78,802	\$ 79,978	\$ 82,377	\$ 84,849	\$ 87,394	\$ 398,287	
City Overhead Charge	\$ 19,416	\$ 24,008	\$ 25,231	\$ 25,988	\$ 26,768	\$ 27,571	\$ 121,410	
Administrative	\$ 30,000	\$ 20,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 130,000	
Total Expenditures:	\$ 948,858	\$ 1,000,310	\$ 1,047,709	\$ 1,005,865	\$ 1,009,116	\$ 1,012,465	\$ 7,609,929	
Beginning Fund Balance:	\$ 1,975,454	\$ 1,719,312	\$ 1,119,002	\$ 521,293	\$ 115,428	\$ (193,688)		
Ending Fund Balance:	\$ 1,826,596	\$ 1,119,002	\$ 521,293	\$ 115,428	\$ (193,688)	\$ (406,153)		

Notes

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

After 2022, salary and benefits is assumed to rise 3% per year.

After 2022, City overhead charge is assumed to increase 3% per year.

City overhead charge is charged to all special funds and recoups the cost of the general fund to support the lodging tax fund. This include facilities, IT services, legal, and accounting.

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.

Cells in green show approved applications.

Updated 9/29/2020 by BJM



INFORMATIONAL MEMORANDUM

TO: Planning and Economic Development Committee

FROM: Brandon Miles, Business Relations Manager

CC: Mayor Ekberg

DATE: September 28, 2020

SUBJECT: Lodging Tax New Initiatives

ISSUE

Discussion of possible new initiatives for the lodging tax program.

BACKGROUND

The City of Tukwila collects a 1% lodging tax on all eligible stays in Tukwila hotels, motels, and Airbnbs. Washington State law limits the use of lodging tax funds to tourism promotion activities. Funds collected can be used by the City or third parties to help bring tourists (both day and night tourists) to the City¹.

State Law allows the City to use lodging tax funds as follows:

- Tourism marketing;
- Marketing and operations of special events and festivals designed to attract tourists;
- Operations and capital expenditures of tourism-related facilities owned or operated by a municipality or a public facilities district; or
- Operations of tourism-related facilities owned or operated by nonprofit organizations.

Third parties can request the lodging tax directly or the City can also request the funds on the organization's behalf. Any third-party obtaining lodging tax funds from the City must enter a service contract with the City.

DISCUSSION

Staff is working with PED and the Lodging Tax Advisory Committee (LTAC) to prepare a six-year financial model for the lodging tax program. As part of this model, staff would like to identify possible new initiatives. These new initiatives will be categorized and then placed into the appropriate line item within the six-year financial model.

Based upon previous discussions with the City Council, LTAC, and community members, staff has identified the following new activities:

1. Funding of more art throughout the City.
2. More events within the City, specifically along Tukwila International Blvd.
3. A Tukwila signature event.
4. Marketing and promoting the City better within the region.
5. Exploring opportunities with the cities of Renton and Kent, specifically focused on aerospace and technology groups (KentValleyWa.com)
6. Overall business attraction.

What else should be consider adding to the six-year financial model?

FINANCIAL IMPACT

None. The six-year financial model is a planning document only and does not authorize any expenditure of lodging tax funds.

RECOMMENDATION

Discussion only. Staff would suggest that the Committee Chair report out at the full Council about new initiatives and invite other councilmembers to provide their ideas to staff.

ATTACHMENTS

None.