



INFORMATIONAL MEMORANDUM

TO: **Planning and Economic Development Committee**

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

CC: **Mayor Ekberg**

DATE: **October 27, 2020**

SUBJECT: **Tourism Funding Allocation Principles**

ISSUE

Discussion of guiding principles for the allocation of tourism funds (lodging tax and Tourism Promotion Area fee).

BACKGROUND

Over the last 20 years the City Council has authorized the collection of two separate revenue sources for tourism funding. These revenue sources include the City's lodging tax and Tourism Promotion Area (TPA) fee. In 2019, in total just over \$1.5 million of combined funds were collected through the lodging tax and TPA fee.

Lodging Tax Fund

Pursuant to Revised Code of Washington (RCW) 67.28 and Tukwila Municipal Code (TMC) 3.40 the City charges a lodging tax¹ of one percent on eligible stays in lodging businesses (hotels, extended stays, motels, bed and breakfasts, and Airbnbs).

Allowable Uses

RCW 67.28.1818 limits the use of lodging tax funds as follows:

"All revenue from taxes imposed under this chapter shall be credited to a special fund in the treasury of the municipality imposing such tax and used solely for the purpose of paying all or any part of the cost of tourism² promotion³, acquisition⁴ of tourism related facilities, or operation of tourism related-facilities."

RCW 67.28.1816 goes into further detail about permitted expenditures of lodging tax funds, specifying:

"Lodging tax revenues under this chapter may be used, directly by any municipality or indirectly through a convention and visitors bureau or destination marketing organization for:

¹ The lodging tax is separate and should not be confused with the Tourism Promotion Area (TPA) Fee. The TPA fee was authorized by the City of Tukwila as a result of an Interlocal Agreement with the Cities of SeaTac and Des Moines. The TPA fee is remitted directly to Seattle Southside Regional Tourism Authority.

² RCW 67.28.080 defines 'Tourism' as "economic activity resulting from tourists, which may include sales of overnight lodging, meals, tours, gifts, or souvenirs."

³ RCW 67.28.080 (6) defines 'Tourism Promotion' as "...activities, operations, and expenditures designed to increase tourism, including but not limited to advertisings, publicizing, or otherwise distributing information for the purpose of attracting and welcoming tourists; developing strategies to expand tourism; operation tourism promotion agencies; and funding the marketing of or the operation of special events and festivals designed to attract tourists."

⁴ RCW 67.28.080 (1) provides the following definition of "Acquisition": "...siting, acquisition, design, construction, refurbishing, expansion, repair, and improvement, including paying or securing the payment of all or any portion of general obligation bonds, leases, revenue bonds, or other obligations issued or incurred for such purposes..."

- (a) *Tourism marketing;*
- (b) *The marketing and operations of special events and festivals designed to attract tourists;*
- (c) *Supporting the operations and capital expenditures of tourism related facilities owned or operated by a municipality or public facilities district created under chapters 35.57 and 36.100 RCW; or*
- (d) *Supporting the operations of tourism related facilities owned or operated by nonprofit organizations described under 26 U.S.C Sec. 501(c)(3) and 26 U.S.C Sec. 501 (c)(6) of the internal revenue code of 1986, as amended.*

It is important to point out that RCW 67.28 provides no definition of “tourist.” Historically, the City of Tukwila has defined as a “tourist” as someone who lives outside of Tukwila and visits the City, either for a day or to spend the night. Additionally, there is a common misconception that lodging tax funds can only be used to support activities that create “heads in beds” or travel more than 50 miles. Again, this is not a requirement of State law. While the City must report metrics, such as hotel stays and visitors, when using lodging tax funds. The funds do not have to be awarded to activities that solely generate hotel room nights.

Under current state law, lodging tax funds cannot be used to support general city operations or activities. Attached is a memo presented to the City Council in 2016, which provides more details on allowable uses of lodging tax funds.

Status of Fund

As of May 7, 2020, there was \$1.985 million in the City’s lodging tax fund. In 2019, annual revenues for lodging tax collection were just over \$800,000. With the sharp drop off in travel, the City is forecasting a significant drop off in lodging tax collection for 2020 and possibly for 2021. The City is contractually obligated through 2020 to provide Seattle Southside Regional Tourism Authority (SSRTA) \$202,500 in lodging tax funds. Additionally, the City has two approved applications to the City’s Parks and Recreation Department of \$40,000 for art along Baker Blvd and \$125,000 to help fund a master plan for Tukwila Pond⁵.

There is no requirement that the lodging tax fund be spent down annually. Unspent funds will remain in the 101 fund and can be used in future years, subject to the use limitations outlined above.

Historical Use of Funds

The largest single recipient of lodging tax funds from the City over the last 18 years has been Seattle Southside Regional Tourism Authority (SSRTA). Until 2015, SSRTA was operated by the City of Tukwila as Seattle Southside Visitor Service (SSVS). The Museum of Flight, City of Tukwila, Starfire Sports, Renton Chamber of Commerce, Seattle Southside Chamber of Commerce, and others have also received funding in the past. Any entity, including for-profit organizations, is eligible to receive lodging tax funds, provided it is engaged in activities eligible to be funded with lodging tax funds.

Tourism Promotion Area

Tourism Promotion Areas (TPA) are authorized under RCW 35.101. Outside King County individual cities, towns, and counties can form their own TPAs. For most municipalities in King County, a TPA must include at least two municipalities (this requirement does not apply to the City of Federal Way).

⁵ The City also had an approved application and contract with the Seattle Seawolves, but this contract was canceled due to the COVID-19 pandemic. Virtual Sports also had an approved application and staff has not yet entered into a contract due to the scope of work being impacted by Stay Home, Stay Healthy Order.
<https://tukwilawa.sharepoint.com/sites/mayorsoffice/cc/CC Docs/Old W/2020 Info Memos/Info Memo, Tourism Funding Allocation Principles, October 27.doc>

In 2014 the Cities of Tukwila, Des Moines, and SeaTac executed an interlocal agreement (“TPA ILA”) to form a TPA to cover the combined boundaries of the three cities. Through the TPA ILA the cities agreed that the City of SeaTac would serve as the legislative authority for the combined city area for purposes of forming the TPA and overseeing the TPA on behalf of the three cities. Any city can terminate its relationship under the TPA ILA Agreement by providing one-year notice to the other city partners. The ILA with the three cities can be updated at any time, subject to the approval of the three cities. SSRTA is not a party to the TPA ILA.

In 2014, after receiving a petition from hoteliers from within the three cities, the City of SeaTac formally adopted a resolution forming the TPA and setting a TPA fee in the three-city area. The fee was \$2 per night per eligible hotel stay in a hotel or motel with at least 90 rooms⁶. The \$2 rate was the maximum permitted under the State law in effect at that time. State law was recently been amended to allow the rate to go up to \$5 per night, if 60% of the businesses that would pay the increase petition for the increase and if it is approved by the legislative authority.

Allowable Uses⁷

RCW 35.101.130 states that the Legislative Authority, “...shall have sole discretion as to how the revenue derived from this charge is to be used to promote tourism promotion that increases the number of tourists to the area.”

‘Tourism Promotion’ is defined as, “...activities and expenditures designed to increase tourism and convention businesses, including but not limited to advertising, publicizing, or otherwise distributing information for the purpose of attracting tourists, and operating tourism designation marketing organizations.”

Unlike the lodging tax RCW, the TPA RCW provides a definition of tourist⁸.

A ‘tourist’ means a person who travels for business or pleasure on a trip:

- (a) Away from the person’s place of residence or business and stays overnight in paid accommodations;
- (b) To a place at least fifty miles away one way by driving distance from the person’s place of residence or business for the day or stays overnight. However, island communities without land access are exempt from the mileage requirement under this subsection (5)(b); or
- (c) To another country or state outside of the person’s place of residence or business.

⁶ The TPA fee is a flat fee, while the lodging tax is a percentage. This allows the TPA to collect higher revenue than the lodging tax when rates are low. For example, a room at a hotel going for \$100 a night would only provide \$1 in lodging tax funds, while the TPA gets the full \$2.

⁷ RCW 35.101 was amended by the last legislative session. These changes went into effect on July 1, 2020.

⁸ This definition went into effect on July 1, 2020.

<https://tukwilawa.sharepoint.com/sites/mayorsoffice/cc/CC Docs/Old W/2020 Info Memos/Info Memo, Tourism Funding Allocation Principles, October 27.doc>

Historical Use of Funds

Per the TPA ILA, the City of Tukwila does not receive the funds and 100% of the funds (less a 1% administration charged by the Department of Revenue) generated for the TPA go directly to SSRTA. SSRTA is a destination marketing organization and uses these funds, as well as the TPA fee generated in the Cities of SeaTac and Des Moines, for tourism promotion activities and administration costs.

Tukwila Tourism Spending in 2019

The use of the City’s tourism funds (lodging and TPA funds) can be categorized into four distinct categories:

Category	Description	Geographical Target	Entity(es) Performing Services	2019 Funding from Tukwila Lodging Tax	2019 Tukwila TPA Funds	2019 Total
Seattle Southside Brand	Specifically focused on tourism marketing and sales under the “Seattle Southside” name.	Outside 50 miles of the City.	<ul style="list-style-type: none"> Seattle Southside Regional Tourism Authority (SSRTA) 	\$202,500	100% of all funds collected, minus 1% administration charge by the Department of Revenue for the collection), estimated at \$1 million.	\$1,202,500
Seattle and other brands	Promoting the City of Tukwila under different brand names, such as “Seattle” in partnership with Visit Seattle or the “Kent Valley WA” aerospace brand with the cities of Kent, Renton, and Auburn.	Outside 50 miles of the City	<ul style="list-style-type: none"> Visit Seattle Kent Valley Wa 	None.	None.	\$0.00
Destination Development	Focused on investments in the City’s tourism infrastructure, events, and festivals. Sponsorships of small and large events falls into this category.	Outside and within 50 miles of the City.	<ul style="list-style-type: none"> Starfire Sports Museum of Flight City of Tukwila (Tukwila Pond) City of Tukwila (Southcenter Art) 	\$180,000 (approximately). Tukwila Pond and Southcenter Art are 2020 and 2021 projects.	None.	\$180,000

Tukwila Brand	Marketing under the "Tukwila" name within the greater Seattle area such as through Experience Tukwila	Within 50 miles of the City	• City of Tukwila	None	None	\$0.00
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Seattle Southside Regional Tourism Authority

SSRTA is the City’s primary destination marketing organization⁹. SSRTA’s mission is to help promote the Seattle Southside region (cities of Des Moines, Tukwila, and SeaTac) for tourism. In 2019, SSRTA had total operating expenditures of \$4.297 million (See below).

SSRTA is the successor to Seattle Southside Visitor Service (SSVS), which until 2015 was run as a division of Tukwila’s Economic Development Office. The Cities of Des Moines and SeaTac were serviced by SSVS via interlocal agreements with the City of Tukwila. At one time the City of Kent was also served by SSVS but left in 2014.

In 2012 the Cities of Tukwila, SeaTac, and Des Moines began to have conversations about forming a TPA, with the goal of providing additional funds for tourism promotion activities. These conversations were the result of requests by area hoteliers for the cities to consider creating a TPA. As discussed above, the cities entered an interlocal agreement in 2014 for the creation of a TPA. A TPA fee began to officially be collected in the spring of 2015.

Through the TPA ILA, the cities of Tukwila, SeaTac, and Des Moines also provided a recommended amount of lodging tax funds each city would provide to SSRTA annually. The lodging tax contribution is a “recommended amount” and no City is contractually obligated to provide the amount listed in the TPA ILA. The table below shows the suggested lodging tax contributions to SSRTA from the three TPA cities.

Year	SeaTac ¹⁰	Tukwila	Des Moines ¹¹
2014	\$835,000	\$712,000	100% of lodging tax funds.
2015	\$460,000	\$405,000	
2016	\$383,333	\$337,500	
2017	\$306,666	\$270,000	
2018 and beyond	\$230,000	\$202,500	

The TPA creation provided addition funds available for tourism promotion activities in the Seattle Southside region. The table below shows the total expenditures for SSVS and SSRTA since 2010. In 2016 the total expenditures for tourism promotion by SSRTA increased over 180% from the prior year. In 2019, through the City’s participation in the TPA ILA, SSRTA received over \$1 million in funds from the City for tourism promotion activities.

¹⁰ The City of SeaTac has chosen to provide more funds to SSRTA than what was outlined in the TPA ILA.

¹¹ The City of Des Moines no longer provides 100% of its lodging tax funds collected to SSRTA.

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INFORMATIONAL MEMO

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Year	Total Expenditures (SSVS and SSRTA)	% Change in SSVS and SSRTA Expenditures from previous year.	Total Lodging Revenue in the Cities of Des Moines, Tukwila, and SeaTac.	% Change in lodging revenue from previous year.
2010	\$1,321,879	N/A	\$190,337,838	N/A
2011	\$1,525,988	15.44%	\$201,068,568	5.64%
2012	\$1,470,058	(3.67%)	\$217,520,038	8.18%
2013	\$1,428,043	(2.86%)	\$230,190,887	5.83%
2014	\$1,462,123	2.39%	\$259,819,652	12.87%
2015 ¹²	\$1,504,207	2.88%	\$292,605,392	12.62%
2016	\$4,248,883	182.47%	\$302,062,920	3.23%
2017	\$4,533,770	6.70%	\$318,864,960	5.56%
2018	\$4,634,628	2.22%	\$330,574,999	3.67%
2019	\$4,297,657	(7.27%)	\$333,565,806	.904%

¹² SSRTA did not take over the functions of SSVS until the end January 1, 2016. The expenditures provided for 2015 are Tukwila's expenditures for SSVS.

<https://tukwilawa.sharepoint.com/sites/mayorsoffice/cc/CC Docs/Old W/2020 Info Memos/Info Memo, Tourism Funding Allocation Principles, October 27.doc>

Seattle Southside Regional Tourism Authority (RTA) Financial Pro Forma
2020 - 2022

	2019 Approved Budget	2019 Year-end Actuals (Unaudited)	2020 Approved Budget	2020 Projection	2021 Projection	2022 Projection
Revenues						
1 TPA Special Assessments	\$ 3,674,825	\$ 3,963,260	\$ 3,900,000	\$ 1,252,474	\$ 3,170,608	\$ 3,368,771
2 LTC-Tukwila	202,500	202,500	202,500	202,500	202,500	202,500
3 LTC-SeaTac	830,000	830,000	830,000	830,000	830,000	830,000
4 LTC-Des Moines	111,000	52,497	55,500	15,000	10,000	25,000
5 Interest Revenue	48,500	71,829	65,000	22,500	6,000	7,500
6 Misc Other Revenue	2,500	10,422	2,500	5,500	5,500	5,500
7 Advertising	75,000	40,480	50,000	7,500	7,500	7,500
Total Revenues	\$ 4,944,325	\$ 5,170,989	\$ 5,105,500	\$ 2,335,474	\$ 4,232,108	\$ 4,446,771
Expenditures						
8 Salaries & Benefits	\$ 1,622,209	\$ 1,451,758	\$ 1,630,500	\$ 1,459,652	\$ 1,465,000	\$ 1,567,550
9 Supplies	31,000	14,197	15,000	10,000	13,500	14,000
10 Small Equipment	20,000	5,755	20,000	11,000	7,000	7,000
11 Professional Services/Ads/Promotions	2,200,000	2,013,177	2,323,000	2,098,250	2,100,000	2,200,000
12 Communications/Postage	81,000	36,088	41,000	30,000	33,000	36,000
13 Travel	115,000	47,357	80,000	13,000	47,500	60,000
14 Operating Leases	120,000	87,512	120,000	110,636	119,000	120,000
15 Insurance	12,000	10,611	12,000	11,000	12,000	13,000
16 Maintenance	6,000	3,654	6,000	3,800	3,900	4,000
17 Miscellaneous/Printing	861,000	589,609	751,000	530,000	600,000	675,000
18 Capital-Digital Images	39,000	11,000	39,000	11,000	15,000	20,000
Total Operating Expenditures	5,107,209	4,270,718	5,037,500	4,288,338	4,415,900	4,716,550
19 Capital Outlay	100,000	26,938	68,000	20,000	25,000	23,000
Total Expenditures and Capital Outlay	5,207,209	4,297,657	5,105,500	4,308,338	4,440,900	4,739,550
20 Excess of Revenues over (under) expenditures	(262,884)	873,333	-	(1,972,864)	(208,792)	(292,779)
Beginning Fund Balance	\$ 2,153,571	\$ 3,582,569	\$ 3,942,503	\$ 4,455,902	\$ 2,483,037	\$ 2,274,246
Ending Fund Balance	\$ 1,890,687	\$ 4,455,902	\$ 3,942,503	\$ 2,483,037	\$ 2,274,246	\$ 1,981,467
Contingency Reserve (2 months)	\$ 868,042	\$ 716,419	\$ 839,751	\$ 714,866	\$ 736,131	\$ 786,249
Economic Downturn/Recession Reserve (11% of SA)	\$ 404,231	\$ 435,959	\$ 429,000	\$ 137,772	\$ 348,767	\$ 370,565
Capital Asset Replacement Reserve	\$ 110,000	\$ 110,076	\$ 183,465	\$ 183,465	\$ 183,465	\$ 183,465
Unassigned Balance	\$ 508,414	\$ 3,193,448	\$ 2,490,286	\$ 1,446,934	\$ 1,005,883	\$ 641,188

This table was provided to PED in the summer is being shown to provide budget context for SSRTA. SSRTA is still working on its 2021 budget and an amendment to its 2020 budget.

DISCUSSION

In a memo dated May 2020 (updated July 27, 2020) staff outlined several issues with the City's tourism funding. A copy of the May 2020 memo is attached with this memo. The issues raised were:

1. Need for strategic focus for lodging tax funds and TPA funds.
2. Lack of marketing efforts for Tukwila in the Greater Seattle Area.
3. Tourism Promotion versus Destination Development.
4. Lack of other organizations doing tourism promotion and tourism development activities, such as downtown associations and neighborhood groups.
5. Leveraging Lodging Tax Funds to Obtain Grants.
6. The Need for More Varied Use of Lodging Tax Funds.
7. Using Lodging Tax Funds for Business Attraction.
8. Lack of Metrics to Track Success.

To address these issues staff is suggesting that the City adopt guiding principles for the City's tourism funds. The overall goal with these principles is to help develop the City's tourism economy, both in the short and long term. More importantly, staff is suggesting the City be

strategic in how tourism funds are used. These principles deal both with the lodging tax fund and the TPA fee.

Draft Tourism Principles

1. The TPA revenues should be used to attract overnight visitors from outside the 50-mile radius using the Seattle Southside brand and focusing on state, national, and global marketing.
2. Lodging tax funds should be used for the following:
 - a. Marketing efforts to attract visitors under other brands (such as Seattle and Kent Valley WA).
 - b. Marketing to attract day visitors from within the greater Seattle region using the “Tukwila” brand.
 - c. Destination Development
 - i. Tourism infrastructure
 - ii. Events and Festivals
 1. Operations
 2. Marketing
 3. Development
3. The City of Tukwila should control how its brand is used within the region.

Applying these guiding principles to 2019 funding allocations would have resulted in approximately \$1 million in TPA funds going to SSRTA for state, national, and global marketing efforts, while approximately \$800,000 in lodging tax would have remained for the other efforts identified above. The difference would have been \$202,500.

The principles do not supersede State law requirements for the use of TPA fees and lodging tax funds. In addition, these principles should be viewed as providing guidance, and flexibility should remain in the event of a good activity or event that would generate significant economic activity, but which does not fall easily into the categories listed above. Furthermore, the principles do not preclude any organization (including the SSRTA) from requesting lodging tax funds; however, how well the application fulfills the guiding principles would be a consideration during the approval process.

City staff supports attracting overnight visitors to our three-city area under the Seattle Southside brand and contracting with the SSRTA for those destination marketing services. That work is very important to supporting and growing our tourism economy, but the City also needs to make investments in other tourism related activities and initiatives, such as festivals and events, better tourist destination experiences (e.g. in Southcenter and Tukwila International Boulevard) and strengthening the Tukwila brand within the region.

FINANCIAL IMPACT

None at this time.

RECOMMENDATION

Forward to November 9 Committee of the Whole for discussion and the consent agenda on the November 23 Special meeting.

ATTACHMENTS

- Informational Memorandum, “Permitted Uses of Lodging Tax Funds,” dated September 23, 2016.
- Informational Memorandum, “Tourism Funding Discussion,” dated May 20, 2020 (Updated July 27, 2020).
- Tourism Funding at a Glance One Pager



INFORMATIONAL MEMORANDUM

TO: **Finance and Safety Committee**

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

CC: **Mayor Ekberg**

DATE: **September 23, 2016**

SUBJECT: **Permitted Uses of Lodging Tax Funds.**

ISSUE

The City charges a 1% special excise tax on the sale of or charge made for overnight lodging stays. State law limits how these funds can be used. This memo outlines the limits on the use of lodging tax and discusses permitted and prohibited use of the funds¹.

BACKGROUND

Revised Code of Washington (RCW) 67.28.1815 limits the use of lodging tax funds as follows:

[A]ll revenue from taxes imposed under this chapter shall be credited to a special fund in the treasury of the municipality imposing such tax and used solely for the purpose of paying all or any part of the cost of tourism² promotion³, acquisition⁴ of tourism-related facilities, or operation of tourism-related facilities.

RCW 67.28.1816 goes into further detail about permitted expenditures of lodging tax funds, specifying:

Lodging tax revenues under this chapter may be used, directly by any municipality or indirectly through a convention and visitors bureau or destination marketing organization for:

(a) Tourism marketing;

¹ RCW 67.28 places strict limits on the type of entities eligible to receive lodging tax funds. Additionally, approving expenditures of lodging tax funds is a two-step process, requiring review by the City's Lodging Tax Advisory Committee and City Council. State Law gives considerable authority to the City's Lodging Tax Advisory Committee in reviewing and approving funding requests. For more information on entities eligible to receive funding and the process for awarding funds, see the memo dated September 22, 2016, entitled, "Lodging Tax Approval Process."

² RCW 67.28.080 defines "Tourism" as "economic activity resulting from tourists, which may include sales of overnight lodging, meals, tours, gifts, or souvenirs."

³ RCW 67.28.080 (6) defines "Tourism promotion" as "...activities, operations, and expenditures designed to increase tourism, including but not limited to advertising, publicizing, or otherwise distributing information for the purpose of attracting and welcoming tourists; developing strategies to expand tourism; operating tourism promotion agencies; and funding the marketing of or the operation of special events and festivals designed to attract tourists."

⁴ RCW 67.28.080 (1) provides the following definition of "Acquisition" "...includes, but is not limited to, siting, acquisition, design, construction, refurbishing, expansion, repair, and improvement, including paying or securing the payment of all or any portion of general obligation bonds, leases, revenue bonds, or other obligations issued or incurred for such purpose or purposes under this chapter."

- (b) *The marketing and operations of special events and festivals designed to attract tourists;*
- (c) *Supporting the operations and capital expenditures of tourism-related facilities⁵ owned or operated by a municipality or a public facilities district created under chapters [35.57](#) and [36.100](#) RCW; or*
- (d) *Supporting the operations of tourism-related facilities owned or operated by nonprofit organizations described under 26 U.S.C. Sec. 501(c)(3) and 26 U.S.C. Sec. 501(c)(6) of the internal revenue code of 1986, as amended.*

DISCUSSION

Several Councilmembers have inquired about permissible uses of lodging tax funds. Based upon the limitations outlined above, staff would like to provide some guidance on the future use of lodging tax funds.

A simple question that can be asked to help determine if lodging tax funds can be used is:

“Is the activity, operation or expenditure designed to increase tourism or welcome tourists to the City?”

If the answer is yes, then lodging tax might be able to be used after further analysis of the specific funding request.

Tourism could include people who travel and stay overnight in the City (overnight visitors) or those who travel to the Tukwila for the day (day visitors). Economic activity from Tukwila residents would not be considered tourism.

The following lists examples of activities, operations and expenditures that would likely be eligible for lodging tax funding. This is not intended to be an exhaustive list.

- Marketing and advertising intended to bring overnight visitors to the City.
- Marketing and advertising intended to bring day visitors to the City.
- Installation of new “way finding” signs for tourists and installation of City identification signs.
- Sponsoring, operating, and marketing of special events or festivals, either by the City or third parties, if designed to bring tourists to the City.
- Installation of banners on street poles or across city streets if either welcoming tourists to the City or promoting upcoming events.
- Capital improvements, such as park improvements or trail improvements, designed to be used primarily by tourists.
- Maintenance of parks primarily used by tourists, such as Fort Dent Park or the Green River trail.

⁵ RCW 67.28.080 (7) defines "Tourism-related facility" as, "...real or tangible personal property with a usable life of three or more years, or constructed with volunteer labor that is: (a)(i) Owned by a public entity; (ii) owned by a nonprofit organization described under section 501(c)(3) of the federal internal revenue code of 1986, as amended; or (iii) owned by a nonprofit organization described under section 501(c)(6) of the federal internal revenue code of 1986, as amended, a business organization, destination marketing organization, main street organization, lodging association, or chamber of commerce and (b) used to support tourism, performing arts, or to accommodate tourist activities."

- Supporting marketing and operations of government entities (City of Tukwila and SSRTA) or nonprofit organizations, when activities performed are designed to attract tourists to the City or welcome tourists to the City.

The following lists examples of activities, operations and expenditures that would likely ***NOT*** be eligible for lodging tax funding. This list is not intended to be exhaustive.

- Funding basic general governmental operations of the City⁶
- Marketing and advertising directed at residents.
- Way finding signs in residential areas intended for residents.
- Sponsoring of special events or festivals intended for residents.
- Capital improvements, such as park improvements, intended for residents (such as at parks used primarily by residents).
- Maintenance of parks primarily used by residents, such as Hazelnut Park.
- Capital expenditures for tourism related facilities owned or operated by a non-profit.

Reporting Requirements

RCW 67.28.1816 requires that entities receiving lodging tax fund report metrics back to the municipality. Per State Law, the following is required to be submitted to the City in the project close out for a specific funding request:

1. Actual number of people traveling for business or pleasure on a trip.
2. Number of people traveling for business and pleasure and staying in paid accommodations in the City.
3. Visitors who traveled more than 50 miles or more from their place of residence of businesses for the day or staying overnight.
4. Visitors who traveled from another county or state.

It is important to note that the City's Lodging Tax Advisory Committee is granted significant authority by RCW 67.28.1816 when reviewing lodging tax requests. The City Council cannot reverse a decision of the Committee if the Committee chooses not to approve a specific funding application. Traditionally, the Committee has considered the metrics outlined above very strongly when considering funding requests.

RECOMMENDATION

Information and discussion only. Forward to the October 10, 2016 Committee of the Whole meeting for discussion by the full Council.

ATTACHMENTS

- None.

⁶ The City is permitted to charge special funds, like the lodging fund, for costs incurred by the general fund to support the special funds.



INFORMATIONAL MEMORANDUM

TO: **Planning and Economic Development**

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

CC: **Mayor Ekberg**

DATE: **May 20, 2020, Updated July 27, 2020**

SUBJECT: **Tourism Funding Discussion**

ISSUE

In light of the COVID-19 pandemic's impact on the economy and role of tourism in business recovery, staff would like to provide an overview and background on how the City's uses the lodging tax and TPA funds.

This item was originally discussed at the June 1, 2020 PED meeting. Staff would like to continue the discussion and has included a new attachment.

BACKGROUND

Over the last 20 years the City Council has authorized the collection of two separate revenue sources for tourism funding. These revenue sources include the City's lodging tax and Tourism Promotion Area (TPA) fee. In 2019, in total just over \$1.5 million of combined funds were collected through the lodging tax and TPA fee. In light of COVID-19 pandemic's impact on the overall economy and role of tourism in business recovery, staff would like to provide an overview and background on how the City's uses the lodging tax and TPA funds. Each of the two revenue sources is authorized under a separate RCW and each have specific limitations on how the funds can be used.

Lodging Tax

Statutory Authority

Lodging tax (City's 101 Fund) is collected pursuant to RCW 67.28 and TMC 3.40. State law allows the City to collect 1% on eligible stays in lodging businesses (hotels, extended stays, motels, bread and breakfasts, and Airbnbs). Certain stays for emergency housing and for any stay in a lodging business that exceeds 30-days are exempt from the tax. Like retail sales tax, the lodging tax is remitted by the lodging businesses to the Department of Revenue and the remitted back to the city two months after collection.

Allowable Uses

RCW 67.28.1818 limits the use of lodging tax funds as follows:

"All revenue from taxes imposed under this chapter shall be credited to a special fund in the treasury of the municipality imposing such tax and used solely for the purpose of paying all or any part of the cost of tourism¹ promotion², acquisition³ of tourism relations facilities, or operation of tourism related-facilities."

¹ RCW 67.28.080 defines 'Tourism' as "economic activity resulting from tourists, which may include sales of overnight lodging, meals, tours, gifts, or souvenirs."

² RCW 67.28.080 (6) defines 'Tourism Promotion' as "...activities, operations, and expenditures designed to increase tourism, including but not limited to advertisements, publicizing, or otherwise distributing information for the

RCW 67.28.1816 goes into further detail about permitted expenditures of lodging tax funds, specifying:

“Lodging tax revenues under this chapter may be used, directly by any municipality or indirectly through a convention and visitors bureau or destination marketing organization for:

- (a) Tourism marketing;*
- (b) The marketing and operations of special events and festivals designed to attract tourists;*
- (c) Supporting the operations and capital expenditures of tourism related facilities owned or operated by a municipality or public facilities district created under chapters 35.57 and 36.100 RCW; or*
- (d) Supporting the operations of tourism related facilities owned or operated by nonprofit organizations described under 26 U.S.C Sec. 501(c)(3) and 26 U.S.C Sec. 501 (c)(6) of the internal revenue code of 1986, as amended.*

It is important to point out that RCW 67.28 provides no definition of “tourist.” Historically, the City of Tukwila has defined as a “tourist” as someone who lives outside of Tukwila and visits the City, either for a day or to spend the night. Additionally, there is a common misconception that lodging tax funds can only be used to support activities that create “heads in beds” or travel more than 50 miles. Again, this is not a requirement of State law. While the City must report metrics, such as hotel stays and visitors, when using lodging tax funds. The funds do not have to be awarded to activities that solely generate hotel room nights.

Under current state law, lodging tax funds cannot be used to support general city operations or activities. Attached is a memo presented to the City Council in 2016, which provides more details on allowable uses of lodging tax funds.

Status of Fund

As of May 7, 2020, there was \$1.985 million in the City’s lodging tax fund. In 2019, annual revenues for lodging tax collection was just over \$800,000. With the sharp drop off in travel, the City is forecasting a significant drop off in lodging tax collection for 2020 and possibly for 2021. The City is contractually obligated through 2020 to provide Seattle Southside Regional Tourism Authority (SSRTA) \$202,500 in lodging tax funds. Additionally, the City has two approved applications to the City’s Parks and Recreation Department of \$40,000 for art along Baker Blvd and \$125,000 to help fund a master plan for Tukwila Pond⁴.

There is no requirement that the lodging tax fund be spent down annually. Unspent funds will remain in the 101 fund and can be used in future years, subject to the use limitations outlined above.

Historical Use of Funds

The largest single recipient of lodging tax funds from the City over the last 18 years has been SSRTA. Until 2015, SSRTA was operated as Seattle Southside Visitor Service (SSVS) by the

purpose of attracting and welcoming tourists; developing strategies to expand tourism; operation tourism promotion agencies; and funding the marketing of or the operation of special events and festivals designed to attract tourist.”

³ RCW 67.28.080 (1) provides the following definition of ‘Acquisition’ “...siting, acquisition, design, construction, refurbishing, expansion, repair, and improvement, including paying or securing the payment of all or any portion of general obligation bonds, leases, revenue bonds, or other obligations issued or incurred for such purposes...”

⁴ The City also had an approved application and contract with the Seattle Seawolves, but this contract was canceled due to the COVID-19 pandemic. Virtual Sports also had an approved application and staff has not yet entered into a contract due to the scope of work being impacted by Stay Home, Stay Healthy Order.

[https://tukwilawa.sharepoint.com/sites/mayoroffice/cc/Council Agenda Items/Mayor’s Office/PED, Nov 2/Tourism Funding Allocation Principles/Info Memo, Tourism Funding Discussion, May 20, 2020 \(Updated July 27\).docx](https://tukwilawa.sharepoint.com/sites/mayoroffice/cc/Council%20Agenda%20Items/Mayor's%20Office/PED_Nov%202020/Tourism%20Funding%20Allocation%20Principles/Info%20Memo%20Tourism%20Funding%20Discussion,%20May%202020%20(Updated%20July%2027).docx)\\Tukdata2k12\City-Common\Communications\InfoMemoRev2016.doc

City of Tukwila, The Museum of Flight, City of Tukwila, Starfire Sports, Renton Chamber of Commerce, and Seattle Southside Chamber of Commerce, and others have also received funding in the past. Any entity, including for-profit organizations, is eligible to receive lodging tax funds, provided it is engaged in activities eligible to be funded with lodging tax funds.

State Law requires that any proposed use of lodging tax funds be review by a Lodging Tax Advisory Committee (LTAC). The City's LTAC comprises four lodging businesses; four entities eligible to receive lodging tax funds; and one City elected official, who serves as the Chair of LTAC. LTAC makes a recommendation to the City Council on whether an application should receive funding. The City Council has final authority in approving a request for lodging tax funds; however, the City Council cannot override a "no" from LTAC. The City Council can choose not to fund an entity that LTAC recommend be provided funding. The City Council can also change the amount of the funding, provided it provides the LTAC 30-days' notice of its intent to modify the amount.

TPA Fee

Statutory Authority

Tourism Promotion Areas (TPA) are authorized under RCW 35.101. There is no corresponding City TMC for TPAs. Outside King County individual cities, towns, and counties can form their own TPAs. For most municipalities in King County, a TPA must include at least two municipalities (this requirement does not apply to the City of Federal Way).

In 2014 the Cities of Tukwila, Des Moines, and SeaTac executed an interlocal agreement ("TPA ILA") to form a TPA to cover the combined boundaries of the three cities. Through the TPA ILA the cities agreed that the City of SeaTac would serve as the legislative authority for the combined city area. The City of SeaTac is responsible for overseeing the TPA on behalf of the three cities. Any city can terminate its relationship under the TPA ILA Agreement by providing one-year notice to the other city partners.

In 2014, after receiving a petition from hoteliers, the City of SeaTac formally adopted a resolution setting out a TPA fee in the three-city area. The total fee was \$2 per night per eligible hotel stay in a hotel or motel with at least 90 rooms⁵. The \$2 rate was the maximum permitted under the current State law. State law was recently amended to allow the rate to go up to \$5 per night, provided 60% of the businesses that would pay the increase petition for the increase and it is approved by the legislative authority.

Allowable Uses⁶

RCW 35.101.130 states that the Legislative Authority, "...shall have sole discretion as to how the revenue derived from this charge is to be used to promote tourism promotion that increases the number of tourists to the area."

'Tourism Promotion' is defined as, "...activities and expenditures designed to increase tourism and convention businesses, including but not limited to advertising, publicizing, or otherwise distributing information for the purpose of attracting tourists, and operating tourism designation marketing organizations."

⁵ The TPA fee is a flat fee, while the lodging tax is a percentage. This allows the TPA to collect higher revenue than the lodging tax when rates are low. For example, a room at a hotel going for \$100 a night would only provide \$1 in lodging tax funds, while the TPA gets the full \$2.

⁶ RCW 35.101 was amended by the last legislative session. These changes go into effect on July 1, 2020. Staff is discussing the RCW as it will be amended in July.

[https://tukwilawa.sharepoint.com/sites/mayoroffice/cc/Council Agenda Items/Mayor's Office/PED, Nov 2/Tourism Funding Allocation Principles/Info Memo, Tourism Funding Discussion, May 20, 2020 \(Updated July 27\).docx](https://tukwilawa.sharepoint.com/sites/mayoroffice/cc/Council%20Agenda%20Items/Mayor's%20Office/PED,%20Nov%20Tourism%20Funding%20Allocation%20Principles/Info%20Memo,%20Tourism%20Funding%20Discussion,%20May%2020,%202020%20(Updated%20July%2027).docx)\\Tukdata2k12\City-Common\Communications\InfoMemoRev2016.doc

Unlike the lodging tax RCW, the TPA RCW provides a definition of tourist⁷.

A ‘tourist’ means a person who travels for business or pleasure on a trip:

- (a) Away from the person’s place of residence or business and stays overnight in paid accommodations;*
- (b) To a place at least fifty miles away one way by driving distance from the person’s place of residence or business for the day or stays overnight. However, island communities without land access are exempt from the mileage requirement under this subsection (5)(b); or*
- (c) To another country or state outside of the person’s place of residence or business.*

Status of Funds

Following provisions in the Interlocal Agreement, all TPA funds remitted for the TPA go directly to SSRTA. In 2019, SSRTA received \$3.96 million in TPA funds. Assuming that the TPA funds are generated proportional to the number of hotel rooms in each of the three TPA cities, Tukwila’s portion of the TPA funds generated for SSRTA was just over \$1.13 million, or 29%.

In early 2020, SSRTA budgeted ending 2019 (unaudited) with an ending fund balance of \$4.45 million. This includes both TPA funds it received, lodging tax funds received from the three cities, and misc. revenue.

Historical Use of Funds

As outlined above, 100% of the funds remitted for the TPA go directly to SSRTA. The City of Tukwila does not receive the funds. SSRTA uses these funds for tourism promotion activities and administration costs.

Seattle Southside Regional Tourism Authority

SSRTA is the City’s primary destination marketing organization⁸. SSRTA mission is to help promote the Seattle Southside region (cities of Des Moines, Tukwila, and SeaTac) for tourism. In 2019, SSRTA had total operating expenditures of \$4.297 million (See below).

SSRTA is the successor to Seattle Southside Visitor Service (SSVS), which until 2015 was run as a division of Tukwila’s Economic Development Office. The Cities of Des Moines and SeaTac were serviced by SSVS via interlocal agreements with the City of Tukwila. At one time the City of Kent was also served by SSVS but left in 2014.

In 2012 the Cities of Tukwila, SeaTac, and Des Moines began to have conversations about forming a TPA, with the goal of providing additional funds for tourism promotion activities. These conversations were the result of requests by area hoteliers for the cities to consider creating a TPA. As discussed above, the cities entered an interlocal agreement in 2014 for the creation of a TPA. A TPA fee began to officially be collected in the spring of 2015.

Through the TPA ILA, the cities of Tukwila, SeaTac, and Des Moines also provided a recommended amount of lodging tax funds each city would provide to SSRTA annually. The lodging tax contribution is a “recommended amount” and no City is contractually obligated to

⁷ This definition goes into effect on July 1, 2020.

provide the amount listed in the TPA ILA. The table below shows the suggested lodging tax contributions to SSRTA from the three TPA cities.

Year	SeaTac ⁹	Tukwila	Des Moines ¹⁰
2014	\$835,000	\$712,000	100% of lodging tax funds.
2015	\$460,000	\$405,000	
2016	\$383,333	\$337,500	
2017	\$306,666	\$270,000	
2018 and beyond	\$230,000	\$202,500	

The TPA creation provided addition funds available for tourism promotion activities in the Seattle Southside region. The table below shows the total expenditures for SSVS and SSRTA since 2010. In 2016 the total expenditures for tourism promotion by SSRTA increased over 180% from the prior year.

Year	Total Expenditures (SSVS and SSRTA)	% Change in SSVS and SSRTA Expenditures from previous year.	Total Lodging Revenue in the Cities of Des Moines, Tukwila, and SeaTac.	% Change in lodging revenue from previous year.
2010	\$1,321,879	N/A	\$190,337,838	N/A
2011	\$1,525,988	15.44%	\$201,068,568	5.64%
2012	\$1,470,058	(3.67%)	\$217,520,038	8.18%
2013	\$1,428,043	(2.86%)	\$230,190,887	5.83%
2014	\$1,462,123	2.39%	\$259,819,652	12.87%
2015 ¹¹	\$1,504,207	2.88%	\$292,605,392	12.62%
2016	\$4,248,883	182.47%	\$302,062,920	3.23%
2017	\$4,533,770	6.70%	\$318,864,960	5.56%
2018	\$4,634,628	2.22%	\$330,574,999	3.67%
2019	\$4,297,657	(7.27%)	Data not yet available.	N/A

In March, SSRTA began projecting a significant revenue reduction of TPA fees because of the COVID-19 pandemic (see below).

⁹ The City of SeaTac has chosen to provide more funds to SSRTA than what was outlined in the TPA ILA.

¹⁰ The City of Des Moines no longer provides 100% of its lodging tax funds collected to SSRTA.

¹¹ SSRTA did not take over the functions of SSVS until the end January 1, 2016. The expenditures provided for 2015 are Tukwila’s expenditures for SSVS.

[https://tukwilawa.sharepoint.com/sites/mayoroffice/cc/Council_Agenda_Items/Mayor's_Office/PED_Nov_2/Tourism_Funding_Allocation_Principles/Info_Memo_Tourism_Funding_Discussion_May_20_2020_\(Updated_July_27\).docx](https://tukwilawa.sharepoint.com/sites/mayoroffice/cc/Council_Agenda_Items/Mayor's_Office/PED_Nov_2/Tourism_Funding_Allocation_Principles/Info_Memo_Tourism_Funding_Discussion_May_20_2020_(Updated_July_27).docx)\\Tukdata2k12\City-Common\Communications\InfoMemoRev2016.doc

Seattle Southside Regional Tourism Authority (RTA) Financial Pro Forma
2020 - 2022

	2019 Approved Budget	2019 Year-end Actuals (Unaudited)	2020 Approved Budget	2020 Projection	2021 Projection	2022 Projection
Revenues						
1 TPA Special Assessments	\$ 3,674,825	\$ 3,963,260	\$ 3,900,000	\$ 1,252,474	\$ 3,170,608	\$ 3,368,771
2 LTC-Tukwila	202,500	202,500	202,500	202,500	202,500	202,500
3 LTC-SeaTac	830,000	830,000	830,000	830,000	830,000	830,000
4 LTC-Des Moines	111,000	52,497	55,500	15,000	10,000	25,000
5 Interest Revenue	48,500	71,829	65,000	22,500	6,000	7,500
6 Misc Other Revenue	2,500	10,422	2,500	5,500	5,500	5,500
7 Advertising	75,000	40,480	50,000	7,500	7,500	7,500
Total Revenues	\$ 4,944,325	\$ 5,170,989	\$ 5,105,500	\$ 2,335,474	\$ 4,232,108	\$ 4,446,771
Expenditures						
8 Salaries & Benefits	\$ 1,622,209	\$ 1,451,758	\$ 1,630,500	\$ 1,459,652	\$ 1,465,000	\$ 1,567,550
9 Supplies	31,000	14,197	15,000	10,000	13,500	14,000
10 Small Equipment	20,000	5,755	20,000	11,000	7,000	7,000
11 Professional Services/Ads/Promotions	2,200,000	2,013,177	2,323,000	2,098,250	2,100,000	2,200,000
12 Communications/Postage	81,000	36,088	41,000	30,000	33,000	36,000
13 Travel	115,000	47,357	80,000	13,000	47,500	60,000
14 Operating Leases	120,000	87,512	120,000	110,636	119,000	120,000
15 Insurance	12,000	10,611	12,000	11,000	12,000	13,000
16 Maintenance	6,000	3,654	6,000	3,800	3,900	4,000
17 Miscellaneous/Printing	861,000	589,609	751,000	530,000	600,000	675,000
18 Capital-Digital Images	39,000	11,000	39,000	11,000	15,000	20,000
Total Operating Expenditures	5,107,209	4,270,718	5,037,500	4,288,338	4,415,900	4,716,550
19 Capital Outlay	100,000	26,938	68,000	20,000	25,000	23,000
Total Expenditures and Capital Outlay	5,207,209	4,297,657	5,105,500	4,308,338	4,440,900	4,739,550
20 Excess of Revenues over (under) expenditures	(262,884)	873,333	-	(1,972,864)	(208,792)	(292,779)
Beginning Fund Balance	\$ 2,153,571	\$ 3,582,569	\$ 3,942,503	\$ 4,455,902	\$ 2,483,037	\$ 2,274,246
Ending Fund Balance	\$ 1,890,687	\$ 4,455,902	\$ 3,942,503	\$ 2,483,037	\$ 2,274,246	\$ 1,981,467
Contingency Reserve (2 months)	\$ 868,042	\$ 716,419	\$ 839,751	\$ 714,866	\$ 736,131	\$ 786,249
Economic Downturn/Recession Reserve (11% of SA)	\$ 404,231	\$ 435,959	\$ 429,000	\$ 137,772	\$ 348,767	\$ 370,565
Capital Asset Replacement Reserve	\$ 110,000	\$ 110,076	\$ 183,465	\$ 183,465	\$ 183,465	\$ 183,465
Unassigned Balance	\$ 508,414	\$ 3,193,448	\$ 2,490,286	\$ 1,446,934	\$ 1,005,883	\$ 641,188

DISCUSSION

Staff would like to start having discussions with the City Council and the hospitality community regarding some policy issues with tourism funding for the City of Tukwila. Staff has identified several issues, which are discussed below. Staff envisions that additional issues/questions could come as we move through this process. The goal is to get direction from the City Council on 2020 expenditure plans and the development of the 2021/2022 City budget.

1. Need for Strategic Focus for Lodging Tax and TPA Funds.

In 2019, the City started to prepare a Six Year Financial Model for lodging tax (See Attached). While non-binding, the Financial Model is the City's first effort to strategically examine how lodging tax could be used to advance overall strategic initiatives. Given the changes due to the COVID-19 pandemic, staff seeks Council's direction on whether any of the potential projects in the Financial Model are no longer of interest or if other projects should be added.

2. Lack of Marketing Efforts for Tukwila in the Greater Seattle Area.

In 2017, the City of Tukwila engaged Bill Baker, a renowned destination brand consultant to guide the City in the development of a City brand¹². Mr. Baker's work also included a significant discussion and survey on how people view the City within the Seattle region. This work included telephone surveys, online surveys, and focus groups. There was considerable discussion on the name the City should use to market itself. Name suggestions included, Southcenter, Tukwila, and Seattle Southside. Through Mr. Baker's work the City determined that the "Tukwila" name had strong brand identification within the Seattle area. Mr. Baker's work completed work including the development of a brand strategy, brand blueprint, and brand style guide. The City Council formally adopted Mr. Baker's brand recommendations in 2018.

Since 2018 staff has been working on efforts to market Tukwila within the Greater Seattle area, generally within 50 miles of the City. These efforts have primarily included sponsoring events, such as the Rave Green Run and Food Truck Rodeo at Westfield Southcenter. As part of the COVID-19 response, the City quickly launched social media channels to help promote businesses open and to help highlight resources available to businesses.

The City should consider other opportunities to promote itself, specifically the City should consider the development of a website focused on visitors and business attraction; limited ad buys; and ongoing public relations outreach.

3. Tourism Promotion versus Destination Development

Historically the City has provided lodging tax funds for initiatives and activities that are focused more on tourism promotion and have not provided lodging tax funds for destination development. Examples of tourism promotion activities include funding for marketing and sales. Destination development includes capital projects and developing/sponsoring festivals and events to be held in the City. In 2019, the City began to take steps to begin to develop the destination by awarding funds complete a master plan for Tukwila Pond and to install art along Baker Blvd. Other possible examples of destination development including the creation of a Riverwalk along the Green River and installation of wayfinding signage. The City also launched the Tukwila International Food Truck Rally last year in partnership with Westfield Southcenter.

Given the differences between the allowable uses between lodging tax funds and TPA funds, the City may want to consider creating distinction between how the funds can be used with regards to tourism promotion and destination development. Tourism promotional activities, such as what SSRTA is providing, generally are for tourism promotion and marketing activities. Given that well over \$3.5 million of funds are being provided for tourism promotion to SSRTA via the TPA funds, the City should consider how lodging tax funds can be used for destination development. As a reminder, lodging tax funds can be used for capital projects and the City can also bond against the future lodging tax funds.

¹² This "brand" is for tourism and economic development use only and is not a City brand.

[https://tukwilawa.sharepoint.com/sites/mayoroffice/cc/Council Agenda Items/Mayor's Office/PED, Nov 2/Tourism Funding Allocation Principles/Info Memo, Tourism Funding Discussion, May 20, 2020 \(Updated July 27\).doc](https://tukwilawa.sharepoint.com/sites/mayoroffice/cc/Council%20Agenda%20Items/Mayor's%20Office/PED_Nov%202/Tourism%20Funding%20Allocation%20Principles/Info%20Memo_Tourism%20Funding%20Discussion_May%202020%20(Updated%20July%2027).doc)\\Tukdata2k12\City-Common\Communications\InfoMemoRev2016.doc

4. Lack of other organizations doing tourism promotion and tourism development activities, such as downtown associations and neighborhood groups.

One of the biggest tourism limitations in the City of Tukwila is the lack of our organizations that are directly or indirectly involved in tourism promotion and destination development in the region. Take for example Pioneer Square, which has Visit Seattle, the Downtown Association, Seattle Chamber, and the Pioneer Square Association all engaged in some tourists related activities. Having a variety of organizations working on tourism development issues would strengthen the City's overall tourism appeal. For example, the Pioneer Square Association works on developing art in the Pioneer Square District (destination development), which Visit Seattle uses as content for its tourism promotion activities.

When other organizations do destination development and tourism promotion they directly and indirectly market the City. For example, Destination Des Moines promotes Des Moines via videos and events as does Discover Burien. The City of Tukwila lacks these types of organizations; thus the City has tried to fill the void.

5. Leveraging Lodging Tax Funds to Obtain Grants.

Another option the City should consider is using lodging tax funds as match to obtain federal and state grants for infrastructure projects that support tourism.

6. The Need for More Varied Use of Lodging Tax Funds.

Many cities award a large number of smaller lodging tax grant applications for activities occurring in their cities. For example, the City of Renton, which historically collects less lodging tax funds than Tukwila, regularly has upwards of 20 applications per year for lodging tax funds. These applications are often for small amounts to support small events, festivals, and activities. Smaller activities help to develop a destination and help to create a distinct and unique visitor experience. Economic Development staff has been working to attract other groups to the City and to help existing groups explore securing lodging tax funds for eligible activities.

7. Using Lodging Tax Funds for Business Attraction

The City's Economic Division is funded primarily from the City's general funds. Starting in 2019, some labor costs in Economic Development were funded by lodging tax funds. Some cities use lodging tax funds to help marketing the City for business attraction. Given that many guests in Tukwila hotels are business travelers there is a strong argument that increased economic activity from business attraction would bring more overnight guests (business travelers) to the City. *Note, staff has not engaged legal on the question of whether lodging tax funds could be used for business attraction.*

Additionally, the City could also provide funds to the Chamber of Commerce in order to help it with its mission of supporting area businesses and attracting businesses to the City.

8. Lack of Metrics to Track Success

The City lacks metrics to follow to track success of the lodging tax program and TPA.

FINANCIAL IMPACT

None.

RECOMMENDATION

This is for discussion only. Staff would like to have ongoing discussions with the Committee and create recommendations to take the full Council for policies on the use of lodging tax and TPA funds.

ATTACHMENTS

- Memo dated September 23, 2016, "Permitted Uses of Lodging Tax Funds."
- [Lodging Tax Six Year Financial Model, updated July 14, 2020.](#)
- [Tourism Funding at a Glance-](#)



Tukwila Tourism Funding at a Glance

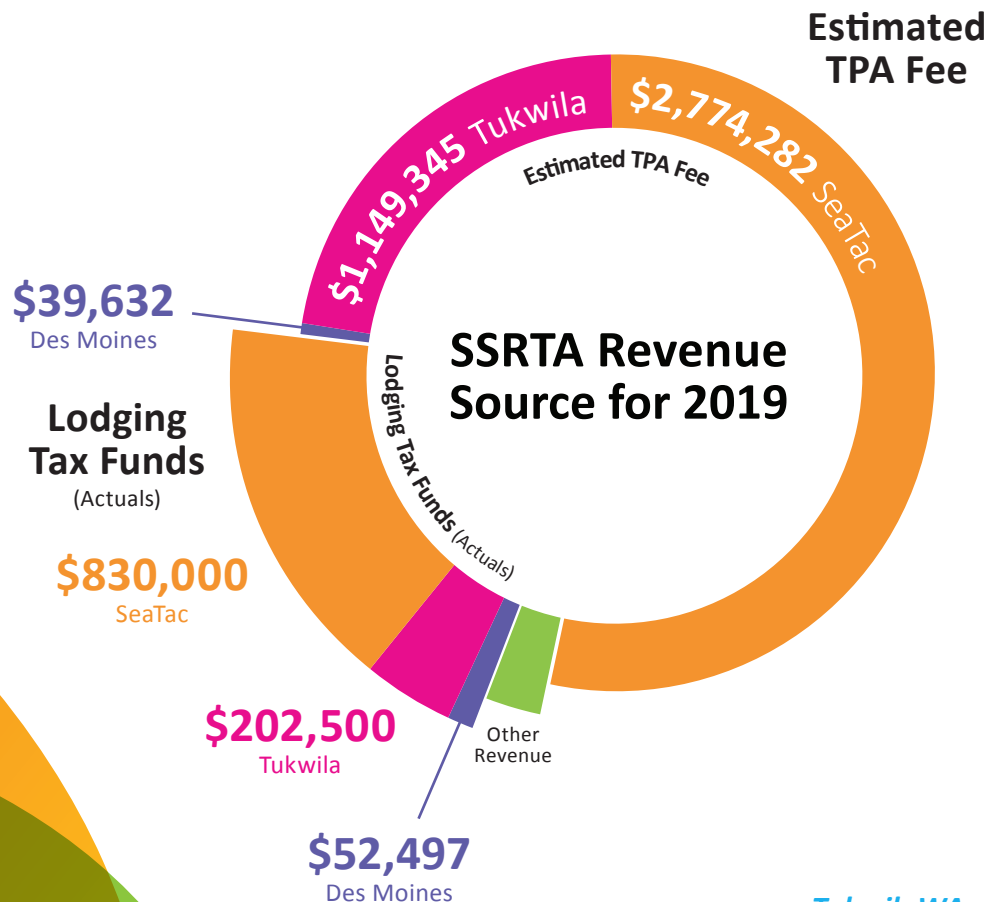
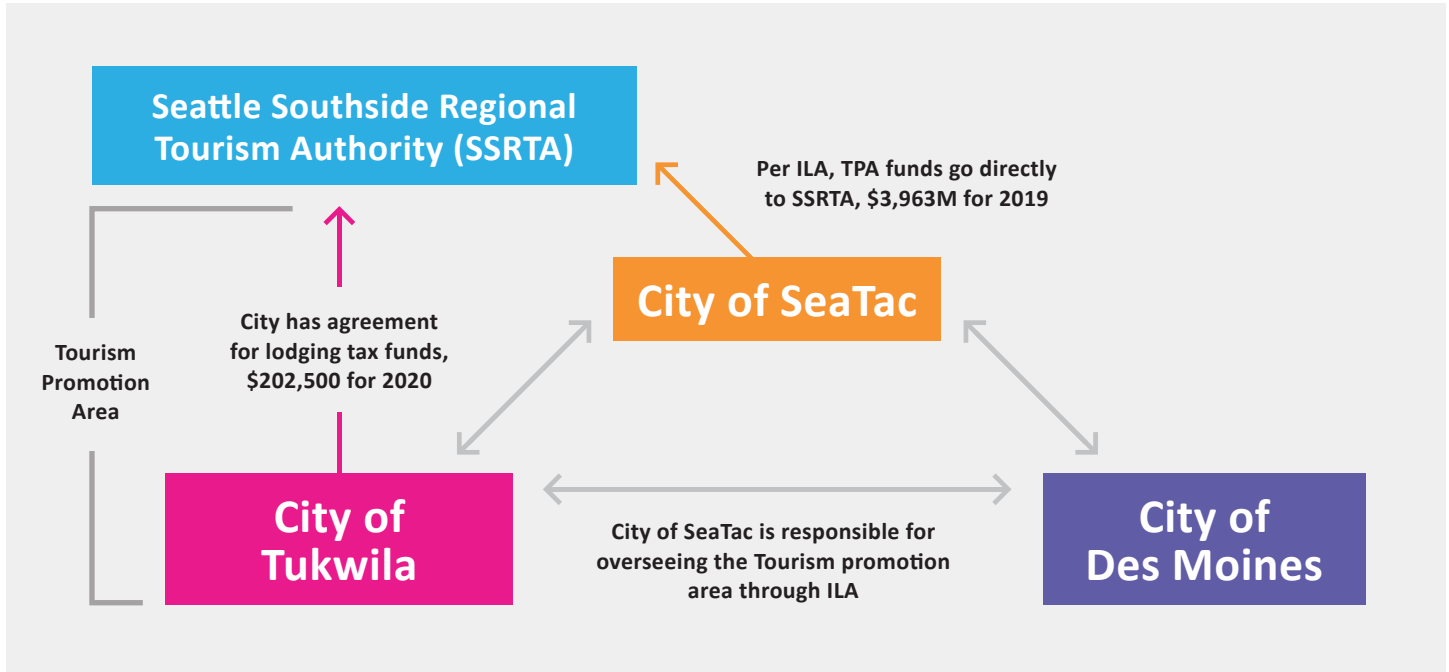
Tukwila’s tourism is funded by two separate revenue sources — the City’s lodging tax and the Tourism Promotion Area (TPA) fee. Jointly, these funds promote our many attractions and help welcome tourists to the City.

Lodging Tax vs. TPA Fee	LODGING TAX	TPA FEE
Statutory Authority:	Tukwila Municipal Code 3.40	Interlocal Agreement (ILA) between Tukwila, SeaTac, and Des Moines
How charges are calculated:	1% of eligible stay in all city hotels, motels, and Airbnb’s Ex. \$100 room rate=\$1 charge	\$2 per night per room of eligible stays only in motels and hotels with 90 or more rooms Ex: \$100 room rate=\$2 charge
Total funds collected from Tukwila properties in 2019:	\$819,000	\$1,149,000 (estimate)
Where do the funds go?	The City’s 101 fund for tourism-related expenditures	The Seattle Southside Regional Tourism Authority (SSRTA) which promotes tourism in Tukwila, Seatac, and Des Moines
Does the City Council control the funds?	Yes (Subject to the City’s Lodging Tax Advisory Committee approval)	No (Modification of Interlocal Agreement (ILA) required)
Can the tax and fee be repealed?	Yes. The standard process for modifying the Tukwila Municipal Code applies	Yes. The City can opt out of the Interlocal Agreement (ILA) with one year’s notice

How Funds Can Be Used	LODGING TAX	TPA FEE
TOURISM PROMOTION AND MARKETING		
Promotion and marketing to bring tourists that live greater than 50 miles away?	Yes	Yes
Promotion and marketing to bring tourists that live within 50 miles of the City?	Yes	No (Effective July 1, 2020)
Marketing special events?	Yes	Yes (provided the funds are used to bring in tourist from greater than 50 miles)
DESTINATION DEVELOPMENT		
Operations and expenditures related to facilities owned or operated by a municipality or public facilities district?	Yes	No
Supporting the operations of tourism-related facilities owned or operated by a nonprofit organization?	Yes	No
Examples of how we use the funds:	SavingLocalKC, Experience Tukwila, Starfire Sports, Museum of Flight, Seattle Southside Regional Tourism Authority, Seattle Seawolves, Tukwila International Food Truck Rally	Support the Seattle Southside Regional Tourism Authority (SSRTA) which promotes tourism in Tukwila, SeaTac, and Des Moines

Tukwila Tourism Funding at a Glance

Tukwila's Relationship with the Tourism Promotion Area (TPA) and Regional Tourism Authority (RTA)





INFORMATIONAL MEMORANDUM

TO: Planning and Economic Development

FROM: Brandon Miles, Business Relations Manager

CC: Mayor Ekberg

DATE: October 26, 2020

SUBJECT: Tourism Funding, Six Year Financial Plan

ISSUE

Follow up to October 5 Planning and Economic Development (PED) Committee meeting regarding tourism funding and the proposed financial plan.

BACKGROUND

On October 5 staff presented a draft six-year financial plan to PED for review and discussion. A copy of staff's September 28 meeting is included as an attachment to this memo. Following the discussion on October 5, PED asked staff to make several changes to the draft model:

- Revise the financial model to show the removal of funding (lodging tax) for contracted destination marketing services (SSRTA);
- Remove parenthetical examples from the "Small Events" category.

These two changes have been made to the revised document, included as an attachment to this memo. PED also asked that staff present draft principles for tourism funding for both lodging tax and the tourism promotion fee. These principles are included as a separate agenda items for the November 2 PED meeting.

In addition, staff has also provided the following updates to the six-year financial plan:

- The model is now called "Tourism Funding, Six Year Financial Model."
- Staff has added all tourist funding, both lodging tax and TPA fee, authorized to be collected by the City Council in the City.
- A row entitled, "TPA DMO Services, SSRTA (100% of TPA Fee Collected) has been added under Tourism expenses.
- Cells shown in green represent approved lodging tax applications.

DISCUSSION

As staff prepared the previous agenda items regarding "Tourism Funding Principles," staff realized that the financial model needed to include all sources of tourism funding authorized to be collected within the City. The City Council has authority over both the lodging tax and TPA fee. Staff believe it was important to show the TPA funding allocation in the six year financial model.

FINANCIAL IMPACT

None. The six year financial plan is a planning document only and does not authorize any expenditures.

RECOMMENDATION

Forward to November 9 Committee of the Whole for discussion and the consent agenda on the November 23 Special meeting.

ATTACHMENTS

- Draft Tourism Funding, Six Year Financial Plan

Tourism Funding, Six Year Financial Plan

DRAFT - Updated October 27, 2020

	Adopted Budget 2020	Estimate						Totals
		2020	2021	2022	2023	2024	2025	
Tourism Revenue								
Lodging Tax	\$ 800,000	\$ 400,000	\$ 400,000	\$ 450,000	\$ 600,000	\$ 700,000	\$ 800,000	\$ 3,350,000
Tourism Promotion Area (TPA) Fee Generated in Tukwila	\$ 1,131,000	\$ 563,632	\$ 574,672	\$ 650,000	\$ 700,000	\$ 800,000	\$ 900,000	\$ 4,188,304
Total Revenues:	\$ 1,931,000	\$ 963,632	\$ 974,672	\$ 1,100,000	\$ 1,300,000	\$ 1,500,000	\$ 1,700,000	\$ 7,538,304
Tourism Expenses								
Marketing, Sales, and Sponsorships								
TPA Funded DMO Services (SSRTA)	\$ 1,131,000	\$ 563,632	\$ 574,672	\$ 650,000	\$ 700,000	\$ 800,000	\$ 900,000	\$ 4,188,304
Lodging Tax Funded DMO Services (SSRTA)	\$ 202,500	\$ 202,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 202,500
Sponsorships	\$ 150,000	\$ 10,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 610,000
Small Events	\$ 15,000	\$ 5,000	\$ 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	\$ 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	\$ -	\$ 20,000	\$ 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	\$ 39,400	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 339,400
Tukwila Pond	\$ 125,000	\$ 25,000	\$ 100,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 725,000
General Administration								
Salary and Benefits	\$ 74,997	\$ 72,281	\$ 78,802	\$ 79,978	\$ 82,377	\$ 84,849	\$ 87,394	\$ 398,287
City Overhead Charge	\$ 19,416	\$ 19,416	\$ 24,008	\$ 25,231	\$ 25,988	\$ 26,768	\$ 27,571	\$ 121,410
Administrative	\$ 30,000	\$ 20,000	\$ 23,350	\$ 28,750	\$ 30,000	\$ 30,000	\$ 30,000	\$ 132,100
Total Expenditures:	\$ 2,079,858	\$ 1,219,774	\$ 1,375,832	\$ 1,493,959	\$ 1,503,365	\$ 1,606,616	\$ 1,709,965	\$ 8,099,546
Beginning Fund Balance:	\$ 1,975,454	\$ 1,975,454	\$ 1,719,312	\$ 1,318,152	\$ 924,193	\$ 720,828	\$ 614,212	
Ending Fund Balance:	\$ 695,596	\$ 1,719,312	\$ 1,318,152	\$ 924,193	\$ 720,828	\$ 614,212	\$ 604,247	

Notes

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. The shaded cells indicate approved applications.

The lodging tax revenues are estimated as of May 7, 2020 and reflect staff's prediction based on COVID-19.

TPA revenue estimate assumes 29% of the fees collected within the three city Tourism Promotion Area were collected by Tukwila hotels. TPA revenue for 2020 and 2021 is based on the SSRTA's revised, adopted budget. After 2021 revenues are staff estimates. Salary/Benefits for Business Relations Manager is split 50/50 between general fund and lodging tax and is estimated to increase 3% annually after 2022.

The City overhead charge is charged to all special funds. It recoups the cost to the general fund to support the lodging tax fund. It includes facilities, technology, legal, accounting, and record keeping services and is estimated to increase 3% annually after 2022. Because 100% (less 1% Department of Revenue Fee) of all TPA revenue is estimated to be passed through to the SSRTA, the Ending Fund Balance is only lodging tax funds.



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.

[https://tukwilawa.sharepoint.com/sites/mayoroffice/cc/Council Agenda Items/Mayor’s Office/PED, Nov 2/Tourism Funding, Six Year Financial Plan/Lodging Tax, Six Year Financial Model, September 28 Memo \(Attachment\).doc](https://tukwilawa.sharepoint.com/sites/mayoroffice/cc/Council%20Agenda%20Items/Mayor's%20Office/PED,%20Nov%202/Tourism%20Funding,%20Six%20Year%20Financial%20Plan/Lodging%20Tax,%20Six%20Year%20Financial%20Model,%20September%2028%20Memo%20(Attachment).doc)

- 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