

CITY COUNCIL REPORT

PUBLIC

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TO: Mayor, Vice Mayor, and Councilmembers

FROM: Heidi Hansen, Economic Vitality Director
Rick Tadder, Management Services Director
Rebecca Sayers, Public Works Section Director

CC: Greg Clifton, City Manager
Sterling Solomon, City Attorney
Shane Dille, Deputy City Manager
Shannon Anderson, Deputy City Manager

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

This report is to provide current information on the Bed, Board, and Beverage/Booze (BBB) tax history, allocations, revenues and budget. Our last update on this topic was provided in a May 31, 2017 Council Communication Report (CCR).

HISTORY:

The BBB tax is a 2% local transaction privilege tax (TPT) levy on the gross revenues generated from hotels, motels, campgrounds, bars, and restaurants. The BBB tax is in addition to the base local TPT rate of 2.281%, plus the state and county TPT rates. Flagstaff voters approve all local TPT rates, including the BBB tax, per the Flagstaff City Charter.

Flagstaff voters originally approved the BBB tax in 1988, for a 10-year period. At that time, BBB tax revenues were allocated to fund Tourism, Beautification, Economic Development, and Administration.

In 1995 the City Council adopted an ordinance to reallocate revenues from BBB Tax, to also include funding for Parks and Recreation.

BBB tax revenues are allocated for the uses as specified in the Flagstaff City Code, Chapter 3-06, *Hospitality Industry Revenues*. The table below represents the original and current allocations that have been in place for many years:

Allocations	Original	Current	Change
Administration	3.0%	0.0%	- 3.0%
Arts and Science	0.0%	7.5%	+ 7.5%
Beautification	32.0%	20.0%	- 12.0%
Economic Development	16.5%	9.5%	- 7.0%
Parks and Recreation	0.0%	33.0%	+ 33.0%
Tourism	48.5%	30.0%	- 18.5%

At the March 5, 1996 General Election, a ballot measure was brought forth, Proposition 401, to request a continuance of the 2% BBB Tax rate for an additional 15-years. While the official ballot measure did not include specific allocation of revenues, the publicity pamphlet provided a Fact Sheet that shared the change in allocations.

At the May 18, 2010 General Election, a ballot measure was brought forth, Proposition 401, to request a continuance of the 2% BBB Tax rate for an additional 15-years. While the official ballot measure did not include specific percentage allocation of revenues, the information pamphlet provided information on the current allocations and purposes. The official title of the ballot measure was as follows:

OFFICIAL TITLE: A Measure Referred to the People by the City Council of the City of Flagstaff, Arizona: "Shall the City Council have the authority to continue the City Lodging, Restaurant and Lounge ("BBB") Tax at the present rate of two percent (2%) for an additional fifteen (15) year period beyond March 31, 2013?"

City staff is often asked whether our Flagstaff election materials require a specific allocation of BBB tax revenues? The election materials do not require the allocation percentages described above; however, the election materials reflect the Flagstaff community's understanding of how revenues will be spent. The ballot language that is approved by the voters provides the legal requirements the City must follow.

CURRENT PROGRAMS RECEIVING BBB ALLOCATIONS:

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

Beautification primarily funds capital streetscape projects and then subsequently funds the maintenance for these when completed. Some examples of these streetscape projects are murals for areas like the Boys and Girls Club, Route 66 sign monuments recognizing the iconic Mother Road, landscape and gateway signage throughout our community, and much more. This program creates a true sense of place for both our residents and visitors.

Economic Development is considered an 'operational fund' where the primary activity is dedicated to the administration of programs. While this fund may have capital expenditures, it is not its chief function. This fund focuses on business retention, expansion, and attraction as well as workforce development. In addition, the City funds the Business Incubator and Accelerator programs, structured to allow local entrepreneurs to work in a supportive environment to develop ideas into commercial business models. These programs are housed on Innovation Mesa at our Northern Arizona Center for Entrepreneurship and Technology (NACET) campus and managed through our City's Community Investment section in partnership with Moonshot.

Parks and Recreation has shifted from capital programming for new parks, improvements in existing parks, and new construction of the Flagstaff Urban Trail System (FUTS), to operations and maintenance. Funding is now primarily directed to the ongoing maintenance of improvements originally funded with BBB dollars, such as

Foxglenn Park, the Thorpe Softball Complex, and FUTS. BBB funds also pay for a portion of recreation programming, including Community Events, Athletics, and the recreation centers. The Parks Section also maintains BBB-Beautification improved streetscapes and rights-of-way; this maintenance is funded from the Beautification portion of the BBB tax.

Tourism is considered an ‘operational fund’ where the primary activity is dedicated to the administration of programs. These programs are marketing and advertising, media relations, sales (meetings, events, conferences, and international travel trade), creative services (tourism and City of Flagstaff creative), and visitor center operations. Included in the budget for Tourism is a marketing plan that guides staff in determining markets and promotion directed at these markets that are inward and outward facing, as well as measurement tools that show our growth and overall economic impact. The Visitor Center programs include the Visitor Center (including the gift shop) and Train Station Operations that work as ambassadors by welcoming our visitors to Flagstaff, AZ.

BBB ALLOCATIONS:

Arts and Sciences

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

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

- Developing and transmitting to Council an annual plan outlining their program recommendations in line with the annual budget process,
- Making recommendations to Council on budgetary allocations including but not limited to:
 - Developing and supporting the Flagstaff arts, scientific and cultural activities, events and organizations to provide direct and indirect citizen participation, and opportunities for enhancement of the overall quality of life and community image,

- Developing, acquiring and distributing material to promote arts and science,
- Developing financial assistance programs to stimulate artistic and scientific activities in Flagstaff, and
- Retaining appropriate staff to implement approved programs.

Currently, we have a seven-person commission.

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

Beautification

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

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

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

Currently, we have a seven-person commission.

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

Economic Development

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

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

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

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

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

Parks and Recreation

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

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

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

Currently, we have a seven-person commission.

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

Tourism

Tourism is the guidance, management, marketing, accommodation, promotion and encouragement of visitors from around the globe.

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

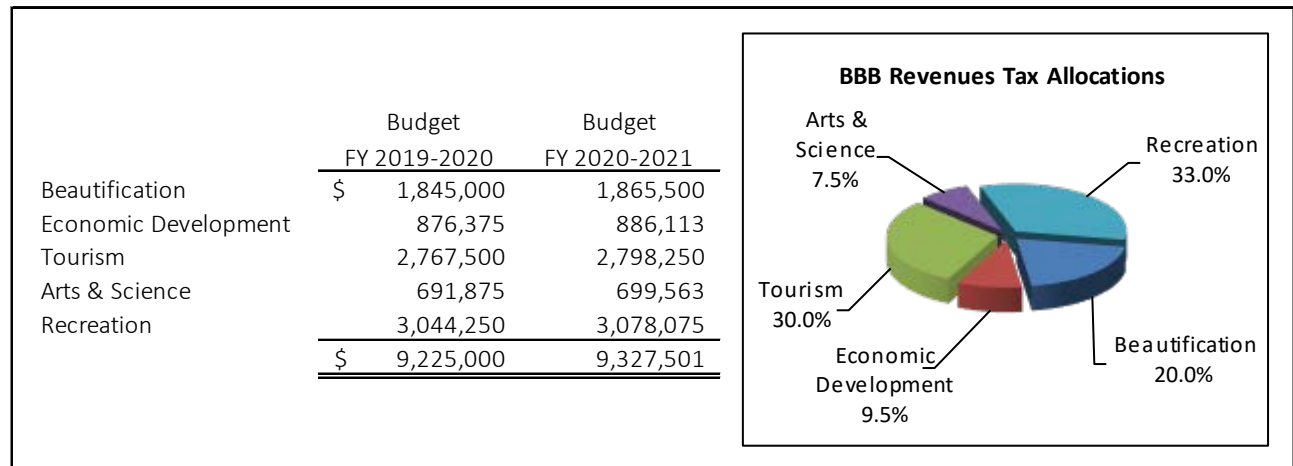
- Developing and transmitting to Council an annual plan outlining their program recommendations for the coming year,
- Making recommendations to council on budgetary and marketing plans,
- Maintaining the discoverflagstaff.com website,
- Management and maintenance of a visitor center,
- Establishment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

Currently, we have a seven-person commission.

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

BBB REVENUES:

The adopted budget for FY 2020-2021 continued to show an increase in projected revenue and demonstrates the strength of tourism in Northern Arizona. The growth demonstrated in year-over-year receipts indicates the funds used toward targeted tourism is paying off. These projections were based on February estimates.



Since February, the economic conditions changed due to the COVID-19 pandemic. Staff has been monitoring tax revenues monthly in addition to building a four-scenario forecasting model. The scenarios are developed based on how the economy recovers, is weak or slumps further. Scenario 4 provides an average of these forecast and it what we are using for fund planning. Our hotel, motel, short-term rentals, restaurants and bars industries have seen the biggest negative impact during the current economic conditions. Ranges in revenue declines are currently projected between 12% and 23% with an average of 17%.

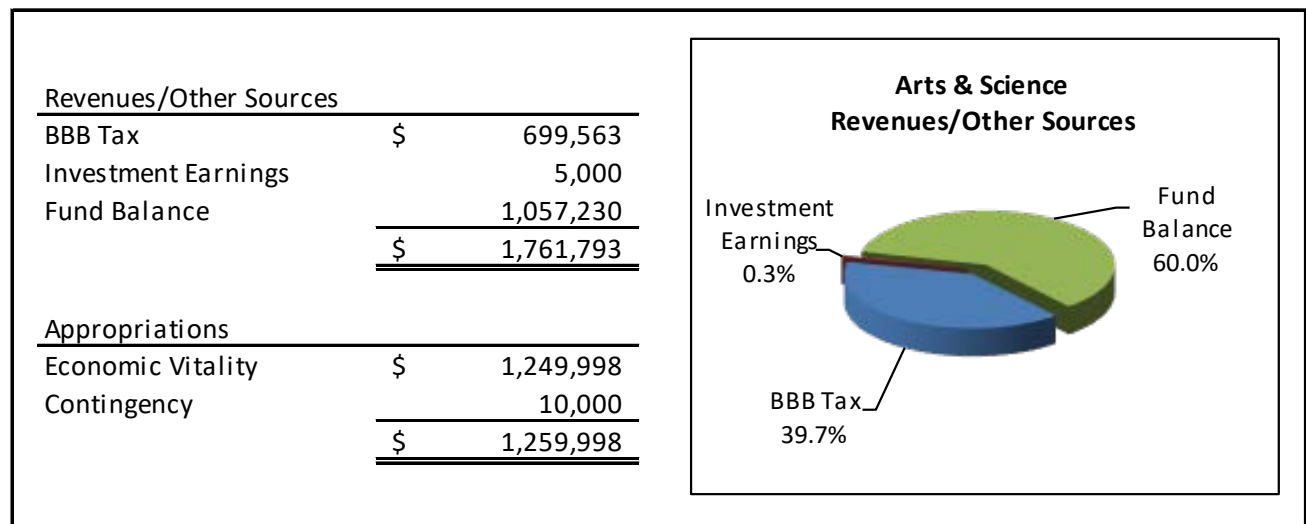
	FY 2020-21 Budget	Scenario 1 FY 2020-21	Scenario 2 FY 2020-21	Scenario 3 FY 2020-21	Scenario 4 FY 2020-21
BBB Funds					
Beautification	\$ 1,865,500	\$ 1,428,800	\$ 1,643,600	\$ 1,562,200	\$ 1,544,800
Economic Development	886,113	678,700	780,700	742,000	733,800
Tourism	2,798,250	2,143,100	2,465,300	2,343,300	2,317,300
Arts and Sciences	699,563	535,800	616,300	585,800	579,300
Recreation	3,078,075	2,357,500	2,711,900	2,577,600	2,549,000
BBB Funds Total	\$ 9,327,501	\$ 7,143,900	\$ 8,217,800	\$ 7,810,900	\$ 7,724,200
Change vs Prior Estimate		\$ (2,183,601)	\$ (1,109,701)	\$ (1,516,601)	\$ (1,603,301)
% Change vs Prior Estimate		-23.4%	-11.9%	-16.3%	-17.2%

FISCAL YEAR 2020-2021 BUDGET:

The following information was pulled directly from the FY 2020-2021 Budget Book and does not reflect any changes due to the current economic environment and COVID-19 pandemic impacts. The City has adopted a Recession Plan to implement budget spending reductions in a flexible manner. The City is not and will not be spending all the funds budgeted for FY2020-2021.

Arts and Science Fund

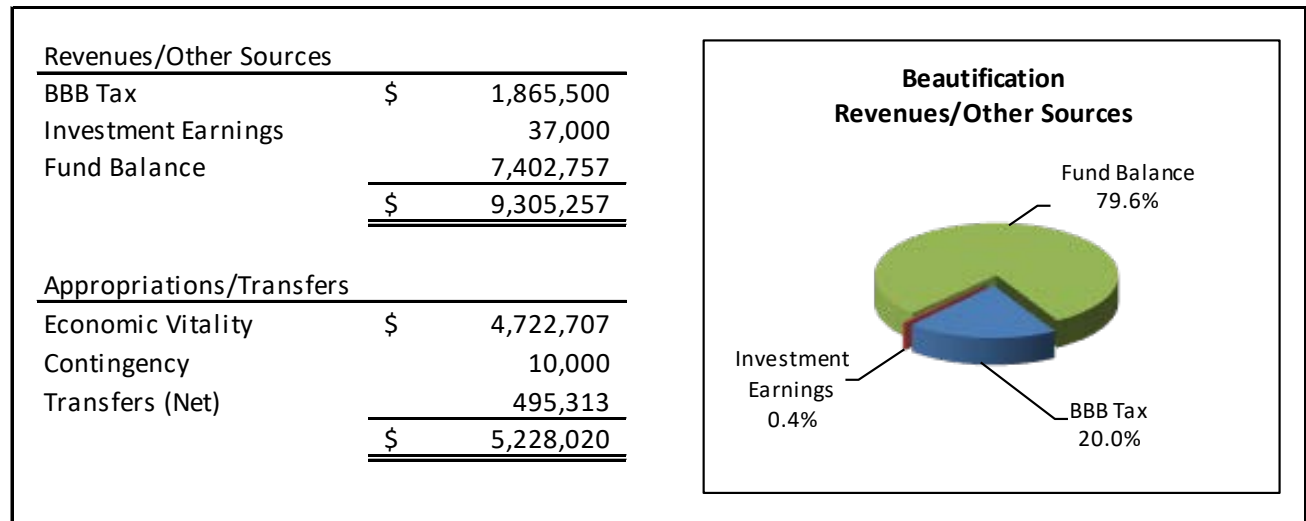
Total revenues and other sources available for Arts and Science activities are approximately \$1.8 million, including estimated revenues from the BBB tax of \$699,563. Expenditures include public art projects for \$690,623 and service partner contracts for \$496,590.



Beautification Fund

Total revenues and other sources available for the Beautification Fund activities amount to \$9.3 million. Expenditures from this fund are primarily for beautification operations and capital improvements in streetscape projects. Some of the major projects include the Buffalo Park parking enhancements, Airport parking lot improvements, playground beautification, City Hall lawn enhancements and eastside neighborhood beautification. A full project listing is available in the CIP Section. The \$495,313 transfer includes a transfer to the General Fund of \$465,313 which is used

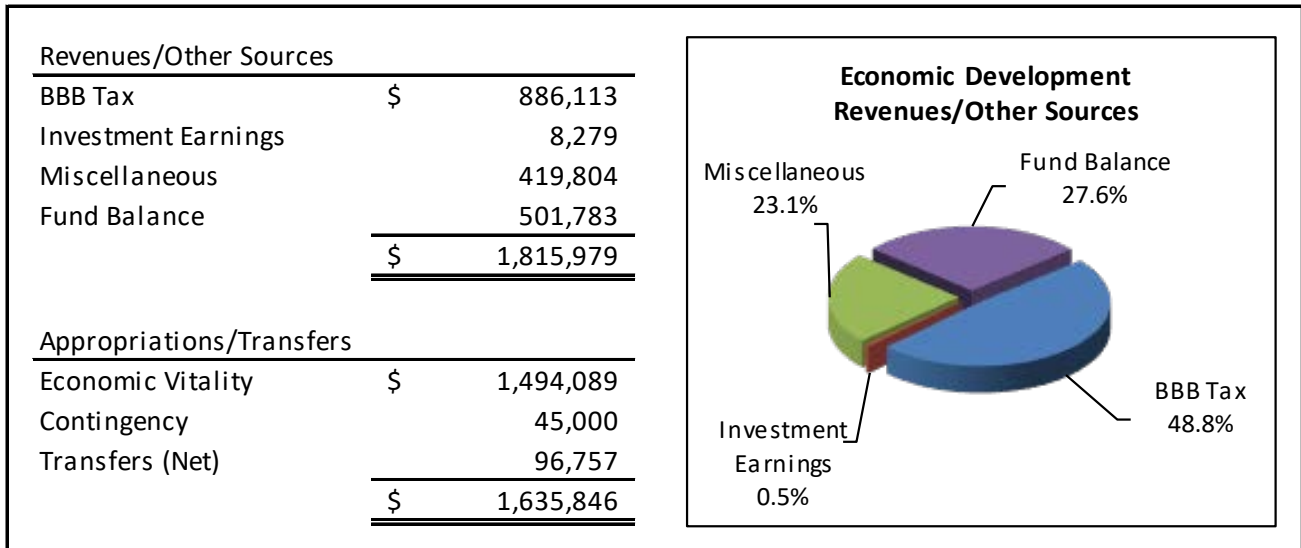
primarily for the maintenance of streetscapes and a \$30,000 transfer to SEMS to contribute to litter control efforts.



Economic Development Fund

This fund focuses on business retention and attraction as well as workforce development. In addition, the City funds the Business Incubation Program and the Innovation Mesa Business Accelerator program, structured to allow university professors and local entrepreneurs to work in a supportive environment to develop ideas into commercial business models.

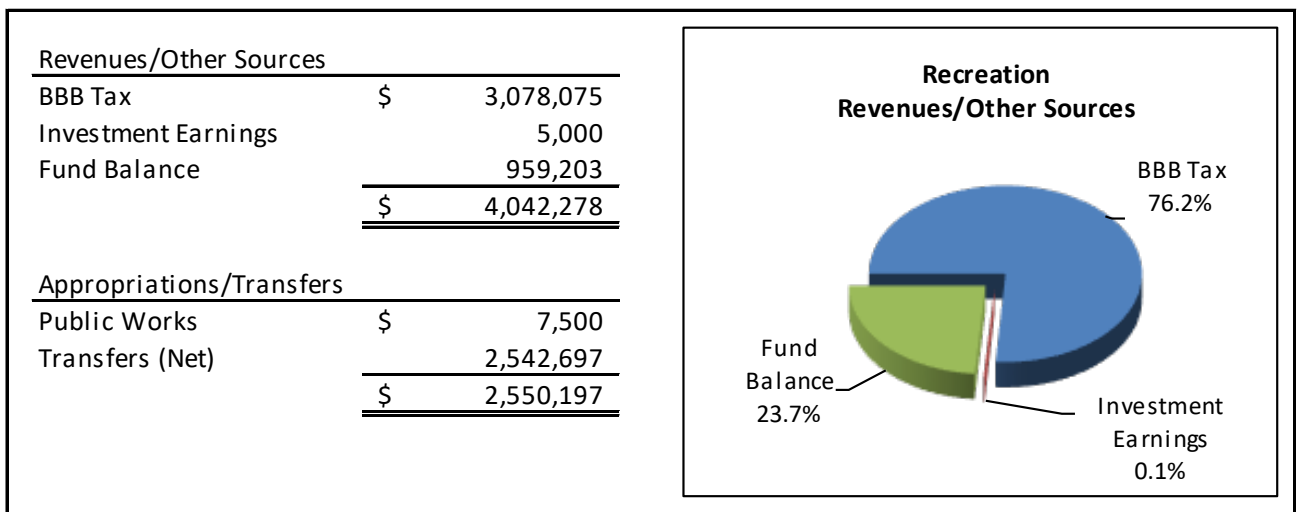
The City will continue to seek targeted industries to relocate to the community. Those industries will be complementary to existing businesses or will be supportive of community goals. Total revenues and other sources available are approximately \$1.8 million, of which \$886,113 is from the BBB dedicated tax for economic development, lease revenue of \$419,804 and fund balance of \$501,783.



BBB Recreation Fund

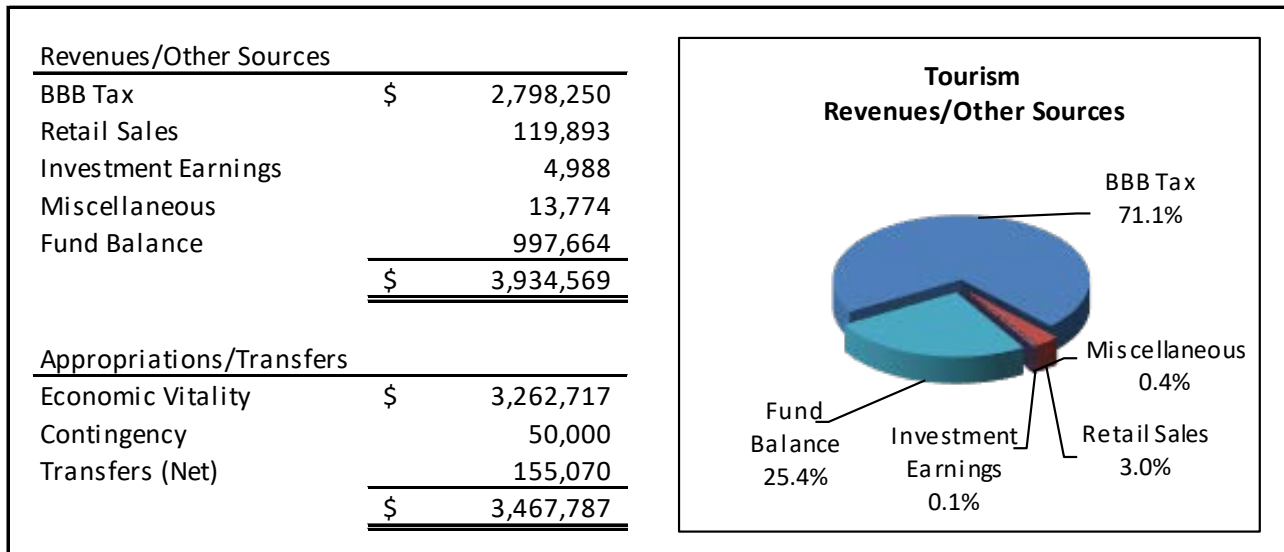
Total revenues and other sources available for recreation activities are approximately \$4.0 million, including estimated revenues from the BBB tax of \$3.1 million.

There are total appropriations and transfers in the amount of \$2.5 million in FY 2020-2021 for Recreation Fund activities and projects. Per discussion with City Council in the spring 1996 retreat, Council concluded this funding should support the expansion of existing facilities and the associated maintenance. Over the past several years, the City Council has re-examined the use of these funds and in FY 2019-2020 directed approximately \$1.0 million to fund recreational programming, \$1.6 million to fund FUTS maintenance and recreation fields operation and maintenance. These are funded via a transfer to the General Fund.



Tourism Fund

Total revenues and other sources available are approximately \$3.9 million, of which an estimated \$2.8 million is from the BBB tax. The total appropriations are approximately \$3.5 million, which includes \$2.7 million for Tourism. Tourism includes General Administration, Marketing, Sales, Public Relations and the Film Office. The Visitors Center programs account for \$477,928 of the total. The Visitor Center programs include the Visitor Center (including the gift shop) and Train Station Operations.



RECOMMENDATION / CONCLUSION

This report is primarily for information only.

As the current BBB Tax is set to expire May 31, 2028, City staff recommends bringing a ballot measure to request an extension of the tax to the voters for the November 2024 General Elections with an additional opportunity two years later if the measure does not pass.