

**COUNTY OF SONOMA
AGENDA ITEM
SUMMARY REPORT**

Clerk of the Board Use Only
Meeting Date **Held Until**
 / / / /
Agenda Item No: **Agenda Item No:**
 _____ _____

Department: County Administrator

() **4/5 Vote Required**

Contact:
Christina Rivera

Phone:
(707) 565-3779

Board Date:
4/14/2009

Deadline for Board Action:

AGENDA SHORT TITLE:

Policy Direction and Fiscal Projections for the Advertising Program/Fund

REQUESTED BOARD ACTION:

1. Accept status report on Transient Occupancy Tax (TOT) collections and Advertising Fund multi-year projections
2. Provide policy direction on funding and administering the FY 2009-10 Advertising Program

CURRENT FISCAL YEAR FINANCIAL IMPACT

EXPENDITURES

ADD'L FUNDS REQUIRING BOARD

Estimated Cost \$

Contingencies \$
(Fund Name:)

Amount Budgeted \$

Unanticipated Revenue \$
(Source:)

Other Avail Approp \$
(Explain below)

Other Transfer(s) \$
(Source:)

Additional Requested: \$

Add'l Funds Requested: \$

Explanation (if required):

Prior Board Action(s):

August 20, 2008 - Public Hearing for the FY 08-09 Advertising Budget.

March 18, 2008 - Policy direction for FY 08-09 Advertising Program/Fund, which accepted the status report on TOT collections and multi-year projections, and provided direction on funding and administration of the Advertising program.

Alternatives - Results of Non-Approval:

FY 2009-10 funds available for the Advertising Program will be administered without policy direction changes. The Board's alternative is to direct staff to study a different set of recommendations.

Background:

This report presents the Board with current Transient Occupancy Tax (TOT) collections and fiscal projections, including suggested funding changes for the FY 2009-10 Advertising Program.

The Advertising Program is funded by TOT charged at a rate of 9% by all lodging facilities in the unincorporated areas of Sonoma County. Established Board policy directs 75% of these discretionary revenues be used for the Advertising Program. Consistent with the Advertising and Promotions Policy, the goal of the program is to promote community, cultural, and promotional activities that encourage community spirit, promote local art and culture, and market our county’s agriculture and industry, which contribute to Sonoma County being a destination of choice for tourists.

Staff recommends FY 2009-10 funding designations as follows: \$643,500 in grants to various non-profit organizations, Chambers of Commerce, and county departments’ activities to support arts, community events, and agriculture (amounts are at the same FY 2008-09 levels, not including one-time or re-budgeted unused allocations); \$2 million towards the cost of operating and maintaining existing facilities managed by Regional Parks; \$1.2 million for Economic Development Department support; \$1.5 million contribution to the Sonoma County Tourism Bureau (SCTB); \$50,000 for contingencies; and \$280,000 for various county departments to cover program costs for TOT collections, audit, and program administration.

Status Report on Current Year TOT Collections

FY 2008-09 TOT revenues were budgeted anticipating a 4% increase over last year’s 2007-08 estimated collections. Actual collections for the first three quarters of FY 2008-09 are 4% lower than collections for the same three quarters of the prior year (see attachment A). Because this year’s quarter-to-quarter collection growth shows an increasing downward trend (-1% to -9%), estimates are that current year fourth quarter collections will be 15% lower than the same quarter last year. Consequently, the overall total collection change (including delinquencies) in FY 2008-09 is projected to be 6.7% less by fiscal year-end compared to revenues of the prior fiscal year or 9% (\$750,000) less than the budgeted amount.

Multi-Year Projections

Staff fiscal projections assume no significant program changes (see Attachment B). The following assumptions are included in the estimates:

1) Expense and Revenue Adjustments

- Advertisers’ grants funded at FY 2008-09 levels
- No funding changes for Regional Parks, Economic Development Board, and various county departments’ promotional activities

Attachments: Attachment A - Comparison of TOT Collections
Attachment B - Multi-Year Advertising Fund projection

On File With Clerk: Advertising & Promotions Policy

CLERK OF THE BOARD USE ONLY

Board Action (If other than "Requested")

Vote:

Background: (Continued)

- On-going annual contribution to the SCTB adjusted downward by 6% or \$90,000 based on industry's declining activity forecasts. Although sufficient enough to maintain funding ratio parity for the county to maintain seating allocation on the SCTB Board
- 5% decline in FY 2009-10 revenue based on FY 2008-09 already reflecting at a 6.7% contracted revenue base; but anticipated to grow by 4% annually from 2010 thru 2013 assuming room rates will adjust up
- New revenues in FY 2010-11 and FY 2011-12 from four new hotel projects and one expansion project at an existing hotel

2) Board FY 2008-09 Program Policy Direction

- Except for the new Sonoma Valley applicants, continue to fund only existing advertisers as first priority at existing funding levels
- Use General Fund interest earnings (GFIE) up to \$550,000 and available TOT funds to fund operations and maintenance (O&M) cost for park facilities added since 2002
- Set aside 50% of the revenues from facilities established or expanded since 2002 (after baseline obligations are met) for Affordable Housing related expenses. No amount recommended for FY 2009-10 due to declined resources.
- Continue county's annual contribution to the SCTB to maintain parity funding ratio
- Continue to set aside \$149,975 reserve for Regional Park's O&M costs
- Maintain reserves: \$50,000 for contingency and 5% of total sources for economic uncertainty

Recommendations

The Board's Advertising liaisons and staff reviewed the assumptions included in the projections, and agreed to present the following funding and program administration recommendations:

- Use up to \$172,400 in new TOT allocation for Regional Parks, in excess of GFIE usually assigned to fund O&M costs for park facilities opening in the new budget year, to maintain at risk baseline services of existing park facilities due to decreases in General Fund support. But, only where re-assigning of such funds would not jeopardize external grant funding for planned park development in FY 09-10
- Supply \$100,000 to the Permit and Resources Management Department from the current year accumulated unspent Affordable Housing set-aside to cover 1.0 FTE staff costs to complete work associated with efforts identified in the last annual review of the county's Housing Element Plan
- Retain the remaining projected FY 2009-10 end discretionary fund balance of approximately \$1.2 million. This allows the county flexibility to maintain baseline needs in TOT supported programs, if funding resources decline and avoid relying too heavily on approximately \$1 million in new TOT collections from new hotels projects over the next two years
- Direct staff to notify existing program participants that Advertising funds may be reduced or eliminated unless the economy experiences a significant improvement in FY 2010-11 and beyond
- Streamline funding requests by eliminating the submission of full applications in-lieu of an e-mail or regular mail communication to the county's Advertising Program Coordinator (Advertiz@sonoma-county.org) from the authorized requestor stating the FY 2009-10 amount request, confirming the organization's IRS non-profit status, and identifying changes (if any) of how funds would be spent. If the organization plans to use the funds differently, then staff may request a full application in order to complete a thorough evaluation before recommending approval for funding.

Background: (Continued)

Board Liaisons' Suggestion

Finally, given the current status of the economy and because maintaining a \$1.2 million positive fund balance in the next four years relies on new hotels being completed, staff recommends deferring any additional funding increases (with the exception Regional Parks and PRMD designations).

In addition, it cannot yet be determined whether new hotel rooms will generate additional TOT funds or simply shift guests from existing hotels to new ones. Avoiding funding increases to the program will provide the Board with maximum flexibility to manage the county's on-going discretionary revenues especially in connection with the county's overall prioritized needs.

Note: this year's policy direction does not include changes to the Advertising and Promotions Policy, but it is on file with the clerk for reference.