

Transient Occupancy Tax Fund

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T*o provide funding for Convention Facilities Operations and Maintenance, Cultural Development, and the San José Convention and Visitors Bureau.*

Beginning in 1982, the City Council instituted a 6% Transient Occupancy Tax (TOT) on all hotel/motel rooms in San José. The revenues are collected in the TOT Fund (461) and the increment of growth is distributed by formula to three program categories: Convention Facilities Operations and Maintenance (50% of the TOT increase), Cultural Development (25% of the TOT increase), and the San José Convention and Visitors Bureau (25% of the TOT increase).

Transient Occupancy Tax Fund

Budget Summary

	2013-2014 Adopted	2014-2015 Proposed	Change
Convention Facilities Operations and Maintenance	\$ 8,444,865	\$ 9,219,864	9.2%
Cultural Development	\$ 5,508,458	\$ 4,949,885	(10.1%)
San José Convention & Visitors Bureau	\$ 4,415,750	\$ 4,803,250	8.8%

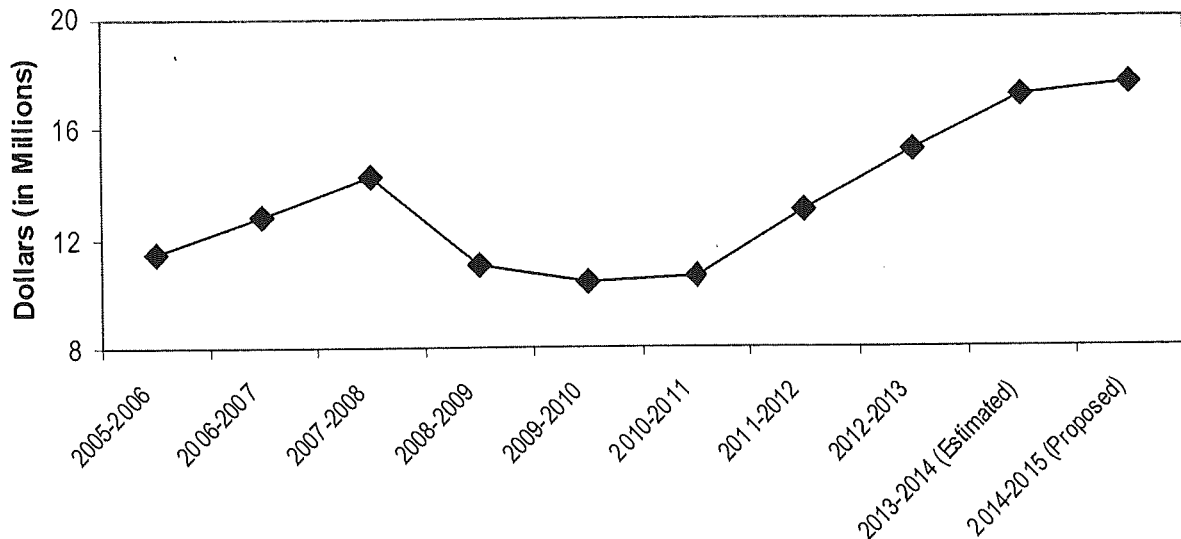
Budget Highlights 2014-2015

□ In 2013-2014, TOT revenues are projected to exceed 2012-2013 revenues by 14%. In 2014-2015, TOT revenues are expected to increase by an additional 5%, excluding one-time compliance and miscellaneous revenues received in the current year.

□ In 2014-2015, the resources allocated to the three recipient organizations are increased consistent with projected increases to TOT collections. Further, an additional \$1.3 million, the amount of TOT revenue anticipated above the 2013-2014 Adopted Budget, is distributed to each recipient organization as part of the 2014-2015 Proposed Budget.

Budget Byte

10-Year View of TOT Collections



Transient Occupancy Tax Fund

Fund Overview

By ordinance, the Transient Occupancy Tax (TOT) Fund (6% of the 10% TOT) is used to provide funding for Convention Facilities Operations and Maintenance, Cultural Development, and the San José Convention and Visitors Bureau (CVB).

The level of TOT collections is directly related to the status of the economy. When the economy is growing, conventions, business travel, and tourism activity increase, which leads to higher occupancy rates in hotels. With increased occupancy, the hotels are able to raise room rates, which positively impacts TOT collections. Conversely, when the economy is declining, TOT revenues tend to decrease.

In 2013-2014, Transient Occupancy Tax receipts have experienced a very healthy increase, with current estimated growth of 14% as compared to the prior year which experienced year-over-year growth of 16%. The increased collections in 2013-2014 are noteworthy, as year-end estimated collections represent the fourth consecutive year of improved collections following two consecutive years of sharp year-over-year declines. In fact, TOT collections in 2013-2014 are estimated at \$17.2 million (collections include compliance and miscellaneous revenues of approximately \$500,000), nearly \$2.1 million higher than the most recent high point of \$15.2 million achieved in 2012-2013.

The upward trend in this revenue category is anticipated to continue in 2014-2015 with projected growth of 5%, excluding the compliance and miscellaneous revenue experienced in 2013-2014. This growth rate reflects the continued overall strength of collections in this category, providing additional valuable resources to each TOT recipient. It is important to note that while TOT is projected to grow by 5% in 2014-2015, the allocations for the three recipient organizations reflect higher than 5% increases when compared to the 2013-2014 Adopted Budget. As mentioned previously, additional TOT revenue is anticipated above the budgeted amount for 2013-2014, in the amount of \$1.3 million. The additional revenue has been allocated to the recipients as follows: \$650,000 to Convention Facilities Operations and Maintenance, \$325,000 to Cultural Development, and \$325,000 to the San José Convention and Visitors Bureau. It should be noted that the 2013-2014 Adopted Budget for the Cultural Development allocation includes one-time carryover funds. Excluding the funds carried over from 2012-2013 to 2013-2014, Cultural Development reflects an overall increase of 8.5%, which is in line with the other TOT recipients.

Transient Occupancy Tax Fund

Fund Summary

	2012-2013 Actual 1	2013-2014 Adopted 2	2013-2014 Estimate 3	2014-2015 Proposed 4	% Change (2 to 4)
Dollars by Sources					
Beginning Fund Balance	\$ 4,415,204	\$ 4,049,871	\$ 4,848,998	\$ 2,925,105	(27.8%)
TOT Revenues	15,180,102	15,900,000	17,225,000	17,625,000	10.8%
Interest/Other	8,095	6,000	15,000	33,000	450.0%
Total	\$ 19,603,401	\$ 19,955,871	\$ 22,088,998	\$ 20,583,105	3.1%
Dollars by Uses					
Convention Facilities Operations and Maintenance	\$ 7,179,956	\$ 8,444,865	\$ 8,459,789	\$ 9,219,864	9.2%
Cultural Development	3,791,197	5,508,458	6,280,892	4,949,885	(10.1%)
SJ Convention/Visitors Bureau	3,783,250	4,415,750	4,423,212	4,803,250	8.8%
Ending Fund Balance and Misc.	4,848,998	1,586,798	2,925,105	1,610,106	1.5%
Total	\$ 19,603,401	\$ 19,955,871	\$ 22,088,998	\$ 20,583,105	3.1%

Transient Occupancy Tax Fund

Budget Category: Convention Facilities Operations and Maintenance

Budget Category Overview

Convention Facilities Operations and Maintenance funding is used to support the City's various convention and cultural facilities. Once TOT revenues are received, the funding is transferred to the Convention and Cultural Affairs Fund and, for the past many years, this funding has been used to primarily support Team San Jose administration, maintenance, and operation costs for the Convention Center and other facilities, as well as City funded capital improvements. Because the total operating expenses are not delineated by funding source, the specific operations supported by TOT funding cannot be isolated.

For 2014-2015, the Proposed Budget for this category totals \$9.2 million and reflects a 9.2%, or \$775,000, increase from the 2013-2014 Adopted Budget level. This change is the combined result of three factors: 1) an adjustment to the ongoing Base Budget level to exclude one-time funding included in the 2013-2014 Adopted Budget of \$750,000; 2) an estimated increase in 2013-2014 TOT revenue collections that are expected to be received by year-end, resulting in an additional \$663,000 that will be distributed to this funding category in 2014-2015 and 3) estimated growth of 5% in 2014-2015 TOT collections applied to the revised ongoing 2013-2014 collection level that will result in an additional \$863,000 in funding next year.

Budget Category Summary

	2012-2013 Actual 1	2013-2014 Adopted 2	2013-2014 Estimate 3	2014-2015 Proposed 4	% Change (2 to 4)
Convention Facilities Operations and Maintenance	\$ 7,179,956	\$ 8,444,865	\$ 8,459,789	\$ 9,219,864	9.2%
Total	\$ 7,179,956	\$ 8,444,865	\$ 8,459,789	\$ 9,219,864	9.2%

Transient Occupancy Tax Fund

Budget Category: Cultural Development

Budget Category Overview

Transient Occupancy Tax revenues allocated for Cultural Development provide funding for the cultural grant program and fine arts division programs, including funding of cultural grants and expenses of the fine arts division, including, but not limited to, personal and non-personal/equipment expenses, fringe benefits, and overhead.

Each year, the Office of Cultural Affairs solicits and evaluates applications for funding under the Cultural Development category using award criteria approved by the City Council. Grant recommendations are presented to the Arts Commission, which in turn submits recommendations for Cultural Grants and Technical Assistance Grants to the City Council through a Manager's Budget Addendum for consideration during the annual budget process. All unexpended Cultural Development funding is traditionally rebudgeted for expenditure in the next fiscal year.

For 2014-2015, the Proposed Budget for this category totals \$4.9 million and reflects a 10.1%, or \$558,573, decrease from the 2013-2014 Adopted Budget level. This change is the combined result of four factors: 1) the removal of one-time 2012-2013 carryover project funds of \$946,000; 2) an adjustment to the ongoing Base Budget level to exclude one-time funding included in the 2013-2014 Adopted Budget of \$375,000; 3) an estimated increase in 2013-2014 TOT revenue collections that are expected to be received by year-end, resulting in an additional \$331,000 that will be distributed to this funding category in 2014-2015 and 4) estimated growth of 5% in 2014-2015 TOT collections applied to the revised ongoing 2013-2014 collection level that will result in an additional \$431,000 in funding next year. Excluding the carryover funds (\$946,000) from 2012-2013, this category will increase in 2014-2015 by 8.5% from the 2013-2014 Adopted Budget level, which is in line with the other TOT recipients.

In 2014-2015, Cultural Development will continue its implementation of the City Council-adopted Cultural Connection: San José's Cultural Plan for 2011-2020. Use of TOT funds will be prioritized to align with these Council-adopted goals and strategies. More detailed information for the 2014-2015 TOT Cultural Development category, which includes the Cultural Grants/Programs and Services (\$3,401,632) will be included in the 2014-2015 Adopted Operating Budget. For Cultural Development Administration (\$1,548,253), please refer to the City Departments: City Manager – Office of Economic Development section of this document.

Budget Category Summary

	2012-2013 Actual 1	2013-2014 Adopted 2	2013-2014 Estimate 3	2014-2015 Proposed 4	% Change (2 to 4)
Cultural Development	\$ 3,791,197	\$ 5,508,458	\$ 6,280,892	\$ 4,949,885	(10.1%)
Total	\$ 3,791,197	\$ 5,508,458	\$ 6,280,892	\$ 4,949,885	(10.1%)

Transient Occupancy Tax Fund

Budget Category: San José Convention and Visitors Bureau

Budget Category Overview

The City contracts with Team San Jose to operate the San José Convention and Visitors Bureau (CVB) to provide long-term booking of events at the Convention Center, market the Convention Center, promote traveling to San José for business and pleasure, and assist visitors.

In 2014-2015, the CVB is also scheduled to receive \$500,000 from the Convention and Cultural Affairs Fund (shown in the Source and Use of Funds section of this document) as well as revenue from other sources such as San José businesses, restaurants, and hotels, to provide similar services, which are not represented here. In 2013-2014, the funding directed toward CVB included the TOT allocation of nearly \$4.4 million and \$500,000 from the Convention and Cultural Affairs Fund, for a total of approximately \$4.9 million. With the TOT allocation improving to \$4.8 million, combined with a programmed transfer of \$500,000 from the Convention and Cultural Affairs Fund, total City funding for this program in 2014-2015 will be \$5.3 million.

For 2014-2015, the Proposed Budget for this category totals \$4.8 million and reflects an 8.8%, or \$388,000, increase from the 2013-2014 Adopted Budget level. This change is the combined result of three factors: 1) an adjustment to the ongoing Base Budget level to exclude one-time funding included in the 2013-2014 Adopted Budget of \$375,000; 2) an estimated increase in 2013-2014 TOT revenue collections that are expected to be received by year-end, resulting in an additional \$331,000 that will be distributed to this funding category in 2014-2015 and 3) estimated growth of 5% in 2014-2015 TOT collections applied to the revised ongoing 2013-2014 collection level that will result in an additional \$431,000 in funding next year.

Budget Category Summary

	2012-2013 Actual 1	2013-2014 Adopted 2	2013-2014 Estimate 3	2014-2015 Proposed 4	% Change (2 to 4)
SJ Convention/Visitors Bureau	\$ 3,783,250	\$ 4,415,750	\$ 4,423,212	\$ 4,803,250	8.8%
Total	\$ 3,783,250	\$ 4,415,750	\$ 4,423,212	\$ 4,803,250	8.8%

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