

Transient Occupancy Tax Fund

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To 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

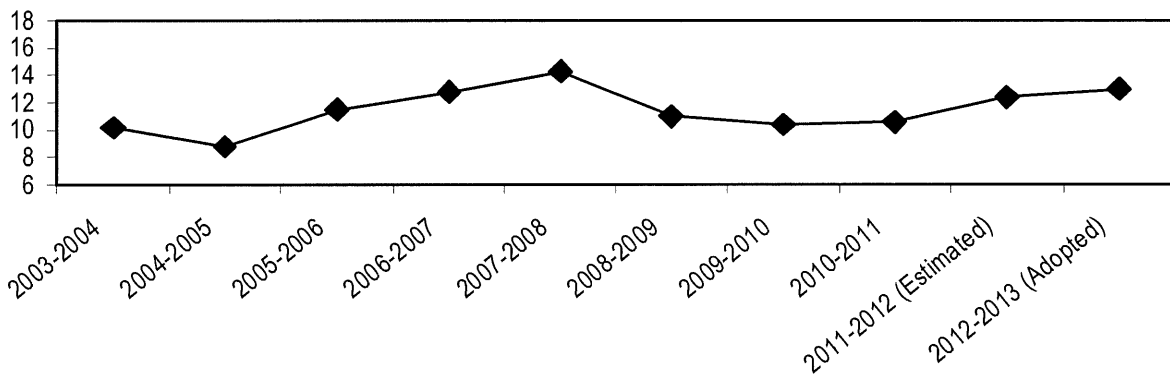
	2011-2012 Adopted	2012-2013 Adopted	Change
Convention Facilities Operations and Maintenance	\$ 5,146,365	\$ 6,281,864	22.1%
Cultural Development	\$ 4,240,136	\$ 4,207,886	(0.8%)
San José Convention & Visitors Bureau	\$ 2,766,500	\$ 3,334,250	20.5%

Budget Highlights 2012-2013

- 2011-2012 TOT revenues are projected to exceed 2010-2011 revenues by 14.3%. In 2012-2013, TOT revenues are expected to increase by an additional 5.0%.
- In 2012-2013, the resources allocated to the three recipient organizations have been increased consistent with projected increases to Transient Occupancy Tax collections. It should be noted that the Cultural Development allocation includes one-time rebudgeted funds in each year. After excluding these rebudgeted funds, the growth in this category is commensurate with the other categories.



10 Year View of TOT Collections (\$ in Millions)



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, convention, business travel, and tourism activity increase, which leads to higher occupancy rates in the 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 2011-2012, Transient Occupancy Tax receipts have steadily increased as compared to the prior year. The 2011-2012 Adopted Budget allowed for a decline of 0.9%. Due to better than anticipated TOT activity through December 2011, however, the budgeted revenue estimate and the corresponding allocations to the three recipient organizations were increased as part of the 2011-2012 Mid-Year Budget Review. The increased collections in 2011-2012 are noteworthy, as year-end estimated collections will represent the second consecutive year of improved collections following two consecutive years of sharp year-over-year declines (down 20% in 2008-2009 and 9.7% in 2009-2010). Collections began to improve in 2010-2011, with year-end receipts increasing by 5.3%, and the 2011-2012 Modified Budget estimate assumes that collections will grow by an additional 14.3%.

The upward trend in this revenue category is anticipated to continue in 2012-2013 with growth of 5% projected. This growth rate

reflects the continued overall health of collections in this category, partially offset by temporary negative impacts associated with the Convention Center Expansion/Renovation project. The Convention Center Expansion/Renovation project, scheduled to be complete in fall 2013, is anticipated to negatively impact TOT collections through the construction period due to reduced building capacity and potential customer disruption. Once complete, however, the expanded Convention Center's competitiveness, marketability, and revenue-generating capabilities will be enhanced, which should drive additional TOT growth. While the 2012-2013 Adopted Budget estimate of \$13.1 million represents significant improvement as compared to recent years, additional growth is still required to achieve the peak levels experienced in 2007-2008 (\$14.3 million).

It should be noted that while TOT is projected to grow by 5% in 2012-2013, the allocations for the three recipient organizations reflect higher than 5% increases when compared to the 2011-2012 Adopted Budget. As mentioned previously, the 2011-2012 budgeted revenue estimate and allocations to the recipients were increased after the adoption of the budget based on positive revenue growth. The allocation for Cultural Development shows a decline of 0.8%, however this is due to one-time carryover funds from the prior year which were larger in the 2011-2012 Adopted Budget. Excluding these one-time carryover funds in each year, the allocation for Cultural Development reflects an increase of 19.6%, which is in line with the other TOT recipients.

Transient Occupancy Tax Fund

Fund Summary

	2010-2011 Actual 1	2011-2012 Adopted 2	2011-2012 Estimate 3	2012-2013 Adopted 4	% Change (2 to 4)
Dollars by Sources					
Beginning Fund Balance	\$ 3,563,493	\$ 3,572,181	\$ 4,015,362	\$ 2,381,659	(33.3%)
TOT Revenues	10,896,691	10,803,000	12,451,000	13,074,000	21.0%
Interest/Other	17,691	4,000	7,000	7,000	75.0%
Total	\$ 14,477,875	\$ 14,379,181	\$ 16,473,362	\$ 15,462,659	7.5%
Dollars by Uses					
Convention Facilities Operations and Maintenance	\$ 5,017,865	\$ 5,146,365	\$ 6,406,211	\$ 6,281,864	22.1%
Cultural Development	2,742,398	4,240,136	4,278,623	4,207,886	(0.8%)
SJ Convention/Visitors Bureau	2,702,250	2,766,500	3,396,423	3,334,250	20.5%
Ending Fund Balance and Misc.	4,015,362	2,226,180	2,392,105	1,638,659	(26.4%)
Total	\$ 14,477,875	\$ 14,379,181	\$ 16,473,362	\$ 15,462,659	7.5%

Transient Occupancy Tax Fund

Budget Category: Convention Facilities Operations and Maintenance

Budget Category Overview

Convention Facilities Operations and Maintenance supports a portion of the administration, maintenance, and operations costs at the Convention Facilities operated by Team San José, which include the Convention Center, Center for Performing Arts, California Theater, Montgomery Theater, Civic Auditorium, Parkside Hall, and South Hall. The remaining operating costs are

funded by operating revenues from these facilities, which are captured in the Convention and Cultural Affairs Fund. Because the total operating expenses are not delineated by funding source, the specific operations supported by TOT funding cannot be isolated.

Budget Category Summary

	2010-2011 Actual 1	2011-2012 Adopted 2	2011-2012 Estimate 3	2012-2013 Adopted 4	% Change (2 to 4)
Convention Facilities Operations and Maintenance	\$ 5,017,865	\$ 5,146,365	\$ 6,406,211	\$ 6,281,864	22.1%
Total	\$ 5,017,865	\$ 5,146,365	\$ 6,406,211	\$ 6,281,864	22.1%

Transient Occupancy Tax Fund

Budget Category: Cultural Development

Budget Category Overview

Each year, the Arts Commission solicits and evaluates applications for funding under the Cultural Development category using award criteria approved by the City Council. The Arts Commission then submits recommendations for Cultural Grants and Technical Assistance Grants to the City Council for consideration during the annual budget process. All unexpended Cultural Development funding is traditionally rebudgeted for expenditure in the next fiscal year. It should be noted that both the 2011-2012 and 2012-2013 Adopted Budgets include carryover funds from the prior year. Excluding these carryover funds, this category increased by 19.6% from the 2011-2012 Adopted Budget level. Beginning in 2012-2013, a portion of this additional funding will be used to support Office of Economic Development Non-Personal/Equipment expenses related to Arts and Cultural Development, which were previously budgeted in the General Fund. Even after this shift, funding available for cultural development awards is approximately \$300,000 higher than the 2011-2012 Adopted Budget level, with one-time funding also available in the amount of \$412,000 due to increased 2011-2012 TOT collections recognized in the 2011-2012 Mid-Year Budget Review.

As part of the multi-year transition plan for the Christmas in the Park event, the City has entered into an agreement with the Christmas in the Park, Inc. (CITP), a non-profit organization. CITP's production

responsibilities have increasingly grown while the City's production responsibilities have decreased. In February 2012, the City Marketing and Events Manager position responsible for the transition and management of the event was eliminated. In March 2012 CITP hired a full-time executive director. While the new director expands CITP's fundraising efforts, a 2012-2013 transition grant totaling \$75,000 will be made to support up to 50% of the new costs of the CITP position, and new independent operating costs. Other City funding to support this effort includes an Office of Cultural Affairs Festivals, Parades, and Celebrations grant of \$24,000 and a \$30,000 marketing sponsorship from the Environmental Services Department, resulting in total City funding of \$129,000 committed to this event.

Detailed information for the 2012-2013 TOT Cultural Development category, which includes Cultural Grants/Programs and Services (\$3,015,016) and Cultural Development Administration (\$1,192,870) is included in this section to provide a picture of the City's Cultural Development Program. It should be noted that the allocations included in the attachment may not represent the entire amount of funding allocated for a particular use, as TOT allocations are sometimes augmented by other revenue sources, such as the aforementioned Environmental Services Grant program.

Transient Occupancy Tax Fund

Budget Category: Cultural Development

Budget Category Summary

	2010-2011 Actual 1	2011-2012 Adopted 2	2011-2012 Estimate 3	2012-2013 Adopted 4	% Change (2 to 4)
Cultural Development	\$ 2,742,398	\$ 4,240,136	\$ 4,278,623	\$ 4,207,886	(0.8%)
Total	\$ 2,742,398	\$ 4,240,136	\$ 4,278,623	\$ 4,207,886	(0.8%)

Transient Occupancy Tax Fund

Budget Category: San José Convention and Visitors Bureau

Budget Category Overview

Approximately 25.5% of the 2012-2013 estimated TOT revenue in this fund is allocated to the San José Convention and Visitors Bureau (CVB). The City contracts with the 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.

The CVB also receives funding from the Convention and Cultural Affairs Fund (shown in the Source and Use of Funds section of this document), Airport, and other sources such as San José businesses, restaurants, and hotels, to

provide similar services, which are not represented here. It should be noted that in prior years, the CVB received funding from the General Fund. In 2011-2012, the Base Budget General Fund allocation of \$554,000 in addition to the Transient Occupancy Tax (TOT) allocation of \$2.8 million totaled \$3.3 million. With an increase in TOT funding to \$3.3 million and the addition of \$500,000 in Convention and Cultural Affairs funding, total funding for this program in 2012-2013 will be \$3.8 million (\$513,000 higher) without General Fund support.

Budget Category Summary

	2010-2011 Actual 1	2011-2012 Adopted 2	2011-2012 Estimate 3	2012-2013 Adopted 4	% Change (2 to 4)
SJ Convention/Visitors Bureau	\$ 2,702,250	\$ 2,766,500	\$ 3,396,423	\$ 3,334,250	20.5%
Total	\$ 2,702,250	\$ 2,766,500	\$ 3,396,423	\$ 3,334,250	20.5%