



# Tompkins County Department of Administration

125 East Court Street

Ithaca, NY 14850

COUNTY ADMINISTRATOR

Jason Molino

*"Promoting excellence in County operations while respecting the needs of the people we serve."*

To: Planning, Development and Environmental Quality Committee

From: Jason Molino, County Administrator

Date: May 17, 2018

Subject: Tompkins County Area Development (TCAD) Memorandum of Understanding (MOU) and Funding

**Background:** Since it was founded in 1964, TCAD has supported its operating budget from three primary sources: County Legislature, Fee-Based Income and Employer Investment. However, in 2010 the slowed post-recession pace of Tompkins County Industrial Development Agency (TCIDA) and Tompkins County Development Corporation (TCDC)-eligible projects left TCAD with a budget gap projected to affect 2013 and beyond. To maintain current operations, TCAD reported a need to replace lost fee income with other revenue, including a substantial investment of County funds.

In 2012 the Tompkins County Area Development Funding Task Force (Task Force), after thorough review, recommended to the Planning, Development and Environmental Quality (PDEQ) Committee that the County Legislature provide a more stable funding source to support economic development in Tompkins County through stabilization funding for TCAD operations. This strategy included allocating a reasonable amount of room tax revenue to support TCAD within the parameters of the law. The Task Force concluded that the use of room tax was supported by TCAD activities that furthered the generation of room tax. These activities included, but were not limited to:

- TCAD works to improve preparedness for economic development, such as economic/statistical analysis to support the tourism sector, as well as other sectors of the local economy;
- Visitors attracted to the area solely for business purposes, which generate a meaningful level of room tax revenue;
- TCAD programs and services, such as financial incentives, small business loans, and business planning/technical assistance which are available to the hospitality and tourism industry;
- TCAD's active involvement in the promotion of air service which contributes to tourism activity; and
- TCAD is commitment to strengthening its partnership with the area's hospitality and tourism industry to expand the common mission of generating net wealth for the community.

Furthermore, the Task force identified "a logical connect between the room tax and the business-development goals of TCAD. The 2010 Chmura Economics and Analytic study found that 27% of hotel guests are business travelers and another 13% are traveling for a purpose that includes both leisure and business. TCAD's work in sustaining existing new businesses and cultivating new ones contributes to this significant element of our tourism and hospitality economy."

The Task Force recommended a funding plan that would utilize funding from the room tax revenues in combination with county tax levy support to provide TCAD with approximately 1/3 of its operating

budget. The remaining two-thirds of the budget was to be supported by 1/3 agency fees and revenues generated by the IDA and LDC fees, and 1/3 from the local business community and investors.

It is important to point out that the Task Force specifically noted, “We came to appreciate that the Strategic Tourism Planning Board (STPB) and TCAD share a common, and critical, mission of generating net new wealth for our community – and that each approach their mission with intensity, intelligence and dedication.” This ultimately led the Task Force to approach funding the County’s share of TCAD’s budget from several sources, including room tax and property tax, rather than a single source. The Task Force also recommended that any funding agreement should provide latitude to revisit the agreement during its term if major disruptions occurred in room tax revenues or TCAD’s fee-based income.

The major features of the 2013 funding proposal included five primary elements:

1. A limited five-year term MOU 1/1/14 – 12/31/2018.
2. A phased in approach for allocating room tax. This made use of a one-time \$150,000 contribution from the room tax reserve for the first year, then dropping the room tax contribution in 2015 to \$60,000 while growing the room tax allocation in steps to \$205,000 by 2018.
3. Room tax allocations were a fixed number as opposed to a floating percentage.
4. The concept was created with the understanding that should changes in the markets affecting tourism revenues or TCAD fees occur, the distribution and allocation of funds could be revisited at any time by the County.
5. The funding allocations, using both room tax and county tax revenues, were targeted at creating a stabilized funding source to TCAD and a balanced contribution of both tax revenues. In the aggregate, room tax revenues represented 55% of the support to TCAD and county revenues contributed 45%.

Below is a review of the TCAD funding approach proposed in 2012. The TCAD allocations, room tax and county fund proposals were ultimately adopted.

		County Support for TCAD		
	Projected	Room Tax	Other County	Total County
	Total Room Tax	Funds to	Funds To	Support
Year	Revenue	TCAD	TCAD	To TCAD
2013	2,138,000	-	177,750	177,750
2014	2,244,900	150,000 *	68,111	218,111
2015	2,357,145	60,000	164,654	224,654
2016	2,475,002	125,000	106,394	231,394
2017	2,598,752	200,000	38,335	238,335
2018	2,728,690	205,000	40,485	245,485
Total	14,542,490	740,000	595,729	1,335,729
		55%	45%	100%
Notes:				
	Assumed TCAD Budget Growth			3.0%
	Assumed Rate of Room Tax Growth			5.0%
	(10-year average annual room tax growth = 6.7%)			

It should be noted that the Projected Total Room Tax Revenue referenced above (estimated at the time of this proposal) has come close to expectation, with actual revenues for 2014-2017 exceeding that estimate by just under 1%, or \$67,000.

The current TCAD/County MOU expires December 31, 2018. In reviewing successor MOU options, a review of markets affecting tourism revenues and TCAD fees is in order to understand any changes since conception of the original MOU and any further changes in the future. This type of review was specifically outlined by the Task Force to ensure continued flexibility in the relationship to respond to ever changing markets.

**Tompkins County Area Development (TCAD)**

**Performance Goals:** As part of the original TCAD MOU specific performance goals were established for the 2014 to 2018 cycle. Below are the established 5-year goals and 4-year progress as of December 31, 2017.

	<b>5-year Goal</b>	<b>4-Year Progress</b>	<b>Percent of Goal</b>
<b>New Payroll</b>	<b>\$45M</b>	<b>\$47M</b>	<b>105%</b>
<b>New Capital Investment</b>	<b>\$450M</b>	<b>\$629M</b>	<b>140%</b>
<b>New Jobs</b>	<b>750</b>	<b>603</b>	<b>80%</b>

Also, over the last five years, TCAD/IDA projects have paid \$7.2 million in new property taxes to Tompkins County and \$38 million to other taxing jurisdictions. In addition to assisting specific projects through financing and tax incentive programs, TCAD has also produced an economic development strategy and a workforce strategy for the County. TCAD was tasked by the County with establishing an Energy and Economic Development Task Force and has played a key role in studies such as an industrial park feasibility study near the airport, a regional food processing incubator study, and an advanced manufacturers employee training needs study.

For 2019-2023 TCAD has set new goals and outcome with respect to investment targets. They included the following:

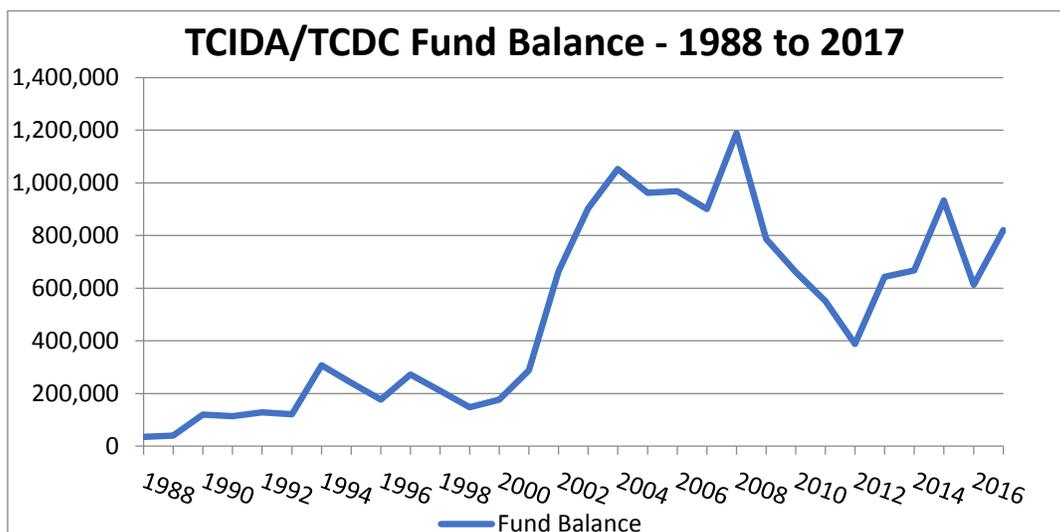
	<b>5-year Goal (2019-2023)</b>
<b>New Payroll</b>	<b>\$47M</b>
<b>New Capital Investment</b>	<b>\$550M</b>
<b>New Jobs</b>	<b>550</b>

**Visitor/Tourism Sector Support:** As identified in the 2012 TCAD Funding Task Force report, TCAD has the capacity to provide the hospitality industry and tourism destinations with programs and services to support their growth. Such programs include small business loans, and specific business planning and technical assistance as well as studies, data analysis, and technical assistance to visitor/tourism industry stakeholders.

Examples of projects supported by TCAD related to the visitor/tourism sector:

- ❖ **Technical Assistance (usually directly by TCAD staff but sometimes by Small Business Development Center counselors located at TCAD):** Finger Lakes Wine Center, Hotel Ithaca/Conference Center, Inn at Taughannock, Reachworks (regional climbing facility), Firelight Camps, The Cherry Arts Center, Discover Cayuga Lake boat tours (aka Floating Classroom), South Hill Cidery.
- ❖ **Consolidated Funding Applications (CFA)/Upstate Revitalization Initiative (URI) – Intensive technical assistance during application process and then project support during review by the Regional Council:** Inn at Taughannock, Paleontological Research Institution, Sciencenter, Wharton Studio Museum/Friends of Stewart Park, History Center/Downtown Heritage Center.
- ❖ **Tompkins County Industrial Development Agency – local tax abatements (\$39 million in new tax base):** Marriott, Hilton Canopy, Hotel Ithaca Phase I renovation and Phase II new construction
- ❖ **Financial Support:** TCAD – Pledged funds for Way Finding signage project and administers the Tourism Capital Grant program on behalf of the County. Tourism Capital Grant applicants or potential applicants receive technical assistance to varying degrees from TCAD staff and committee stakeholders.

**TCIDA/TCDC Fund Balance:** As noted above, since 1964 and prior to 2014, TCAD had supported its operating budget from three primary sources: County Legislature, Fee-Based Income and Employer Investment. While the County had provided some direct out-of-pocket contribution, it remained very low, and for over the past decade had been less than 10% of the overall TCAD budget. The vast majority of TCAD revenues were supported by TCIDA/TCDC fund balance generated by project fees. The of fund balance trends from 1999-2017 below demonstrates the fluctuation and inconsistency from year to year. Due to the downward fund balance trend as well as slow economic recovery in 2010, the current funding model was developed to support TCAD and economic development initiatives in Tompkins County.



TCAD's 2017 fund balance is \$820,430. This was an increase over 2016 due to two very large project closings - City Centre and Harold's Square, as well as two bond refinances. All four projects were not typical annual activities for TCIDA/TCDC. In 2015, there were a number of downtown project closings that increased the fund balance as well. There are no large downtown projects on the horizon, and it is not anticipated that these fees will continue in future years. It should be noted that \$343,000 of fund balance is budgeted to support the 2018 budget, leaving a projected 2018 year-end fund balance of \$477,430 (this assumes no project fees are generated in 2018).

Review of TCIDA/TCDC fund balance levels outlined in the original TCAD MOU are discussed in more depth later in this document.

### **Hotel Room Occupancy Tax (Room Tax)**

Since 2004 the average annual growth in room tax has been 6.8%. Every year, with the exception of 2009, has experienced revenue growth over the prior year. Since 2004 the cumulative growth in room tax has been 147.5%.

While growth in room tax has been steady over the past decade, looking forward into future years as well as the local hotel industry is necessary to consider future commitments of room tax revenue not yet generated.

When reviewing existing trends in hotel and room tax revenue, analysis was pulled from STR Destination Report<sup>1</sup> publications and focused on a series of patterns that differed in 2017 from prior years. For example, there was a 6.1% decrease in occupancy rates in 2017 compared to 2016. Also, revenue per room, (which is determined by the total revenue generated by hotel rentals divided by the total number of available rooms) decreased 4.3% in 2017 when compared to 2016. Combined with an increase in room supply, (which was greater than demand in 2017) as well as an increase in non-traditional room rentals such as Airbnb, (which generates less room tax than traditional hotel beds) projected room tax growth in 2019 is estimated at a 3.5% over projected 2018 revenues. While this is still growth over the prior year, it is nearly half the annual growth of the past 13-year average.

For 2018, first quarter room tax revenues are greater than 2017; however, this is a combination of traditional and non-traditional room tax revenues. When separated, 2018 first quarter traditional hotel room tax revenues were slightly less (1.4%) than 2017 first quarter results. While this decrease was slight, and only over one quarter, when combined with the factors mentioned above, room tax revenue, specifically from traditional hotel room rentals, may experience nominal growth or leveling-off in upcoming quarters.

With uncertainty in the growth in hotel room demand, the combined increase in traditional room supply over the past two years, and the greater presence of non-traditional room rental options, future growth in room tax revenue may not keep pace with prior years.

---

<sup>1</sup> Destination Reports provide hotel performance data on chosen segments to effectively track selected destinations worldwide.

## Recommendations

Based on review of the Task Force’s reasoning behind the existing TCAD funding structure, evaluating the past four years of implementation, and considering future assumptions and unknowns with both room tax revenue and TCIDA/TCDC fees, a series of recommendations follow for a successor MOU. It should be noted that over the past several months County Administration has had multiple discussions with Planning staff, the Chair of the STPB, CVB and TCAD to better understand perceptions regarding how the current TCAD funding solution has worked over the past four years, as well as future concerns for a successor MOU. Meeting with these stakeholders was important as it provided an understanding of the context and challenges each party faces with respect to how room tax and the TCAD MOU impact each constituency.

The following changes are proposed for a successor TCAD MOU:

1. **Term.** Continue with a five-year MOU from 1/1/2019 – 12/23/23.
2. **TCAD Executive Committee.** Considering the County’s sizable contribution to the TCAD budget, it is recommended that the County Legislature select one of the four County representatives on TCAD Board of Directors to also serve on the TCAD Executive Committee, which is tasked with the role of overseeing development of the TCAD annual budget.
3. **An opportunity to adjust for significant changes in circumstances.** As outlined in the Task Force’s original recommendations, there should be an opportunity to revise the MOU if either room tax collections or TCIDA/TCDC fund balances differ significantly from expectations.

A “circuit breaker” is proposed to trigger a revisit of the MOU by the County and TCAD if room tax collections are more than 10% below the corresponding quarter of the prior year for two consecutive quarters, or if TCIDA/TCDC reserves fall below the annual budget contribution target (i.e. 1/3<sup>rd</sup> of TCAD’s operating budget).

Addressing shortfalls between TCAD’s budget needs and the amount of allocated room tax revenue is solely a County responsibility. The County will not seek additional draws from room tax revenue if TCAD’s budget needs exceed the levels currently projected.

(This issue was specifically referenced in the Task Force funding plan recommendations but not included in the existing TCAD MOU. It is now recommended that this language be included in a successor TCAD MOU.)

4. **TCAD Funding Approach (Alternatives).** There are a variety of funding options to consider with respect to a successor MOU. Assuming the County Legislature is interested in continuing to support economic development in Tompkins County by executing a successor MOU with TCAD, the following funding approaches were considered. All approaches assume a five-year MOU, 3% increase in annual room tax revenue and 2% increase in the County’s share to TCAD. (The 2% budget increase is consistent with the 2019 fiscal targets recently adopted by the County

Legislature for supported agencies.) See the attached “Funding Approaches” worksheet for a comparison of the three approaches.

- a. Freeze Room Tax. Freezing the room tax contribution at 2018 levels (\$205,000) for the next five-year MOU would provide all new growth in room tax to be completely dedicated to the STPB and utilized for visitor/tourism initiatives. The growth from year to year in the TCAD MOU would be covered by increased County contributions each year. This option provides a static room tax contribution for the TCAD budget and any financial impact on the County would be manageable over the five-year agreement.
- b. County Pay All. Completely eliminating the room tax contribution as part of the TCAD budget and instead having the County pay the full TCAD MOU costs would provide the greatest increase in room tax funds to the STPB for distribution. This would essentially remove the use of room tax from the discussion regarding supporting TCAD, as well as disregard past Task Force recommendations. This would also create a significant impact on the County’s budget as the County’s annual responsibility would increase by \$210,000 in 2019. This is nearly a 0.43% increase in the tax levy, and based on the 2019 fiscal targets would come close to pushing the County to the projected 2019 tax cap.
- c. 55% - 45% Balance (Recommended). As outlined in the Task Force recommendations, allocations of room tax were intended to help stabilize funding for the TCAD budget; however, significant County resources other than room tax also were required to provide funding equivalent to one-third of the TCAD budget. In total, if projections hold, room tax revenues, over the five-year MOU, will represent 55% of the support for TCAD while other County revenues will contribute to 45%. Continuing this approach through another five-year MOU would allow for a manageable balance of room tax vs. County contribution. If implemented, the 2019 increase in needed County funds (and respective decrease room tax funds) will be approximately \$70,000. In addition, when considering 2019 room tax revenue estimates, this option provides the STPB with a total \$225,000 of “new” funds for distribution for visitor/tourism initiatives and programs in 2019.

The above scenarios provide a variety of extremes with respect to funding options for a successor TCAD agreement. ***It is recommended that the “55% - 45%” funding approach be considered, as it provides increased funding to support tourism, shifts a manageable financial burden to the County and continues to build off the rationale and recommendations made by the Task Force.***

5. **TCIDA/TCDC Fund Balance Review.** TCIDA/TCDC Fund Balance Review. Under the current MOU, when the TCIDA/TCDC fund balance exceeds \$600,000, excess reserves are to be used to support the next year’s TCAD budget and decrease the County’s contribution. This approach was partnered with the consideration that project activity from year to year may vary and that a reasonable fund balance is required to support future TCAD budgets during less active years. It is recommended that a similar approach be continued, however the new MOU would change to require TCAD to report the fund balance without delay to the PDEQ committee (or alternate Legislature committee to which TCAD reports) and discuss potential future uses for the funds.

Such potential uses may include supporting future economic development initiatives, in addition to lowering the County's annual contribution. Regardless, the County would continue to reserve the right to change its allocation to TCAD based on accumulated fund balance.

The above recommendations have been included in the attached TCAD MOU for your consideration and approval. Should you have any questions please don't hesitate to contact me.

Attachments:

1. "Funding Approaches" worksheet
2. 2019 – 2023 Draft Memorandum of Understanding Tompkins County Area Development, Inc. & Tompkins County
3. Draft Resolution to Authorize the County Administrator to Execute a Memorandum of Understanding with Tompkins County Area Development, Inc. for Economic Development Services
4. 2018 TCAD Work Plan
5. 2017 TCAD Accomplishments
6. Draft 2019-2023 TCAD Employer Investment Case Statement
7. Tompkins County Area Development Funding Task Force Final Report and Recommendations – December 31, 2012.
8. 2014 – 2018 Memorandum of Understanding Tompkins County Area Development, Inc. & Tompkins County