

MEMORANDUM



DATE: April 26, 2023

TO: Assembly Finance Committee

FROM: Adrien Speegle, Budget Manager

THROUGH: Jeff Rogers, Finance Director

SUBJECT: **FY2024 Hotel Bed Tax & Funded Services**

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Introduction

Significant outperformance of the budget forecast in the first quarter of FY2023 gives confidence to a more bullish FY2024 forecast. The Proposed FY2024 Budget forecasts \$3.42 million of hotel bed tax revenue.

A series of resolutions from the 1980's established the disposition of Juneau's hotel bed tax receipts. A 1993 memo from the City Clerk memorializes the historic 4%/3% split of the then 7% bed tax, with 4% funding tourism promotion (via the Juneau Convention and Visitors Bureau, now Travel Juneau) and 3% funding the operations of Centennial Hall. That split remained generally unchanged until January 1, 2020 when the community increased the hotel bed tax from 7% to 9% with the intent for the additional 2% to assist in funding future capital improvements to Centennial Hall.

So, considering the current forecast of hotel bed taxes and the historically agreed-upon distribution of those receipts, funding in FY2024 is available to be distributed as follows.

Purpose	Organization	%	Bed Tax Available
Tourism Promotion	Travel Juneau	4%	\$1,520,000
Centennial Hall Operations	CBJ (via JAHC)	3%	\$1,140,000
Centennial Hall Improvements	CBJ	2%	\$760,000
Total Hotel Bed Tax		9%	\$3,420,000

Discussion – Centennial Hall Operations

Since July 2018, the Juneau Arts and Humanities Council (JAHC) has managed Centennial Hall under a Management Agreement that states the following purpose: "Centennial Hall is owned by the CBJ... The CBJ and JAHC enter into this management agreement of Centennial Hall in order to increase use and facilitate greater coordination of event scheduling between Centennial Hall and the JAHC and to maximize operational efficiencies. These goals are intended to lead to greater utilization of and a stabilization or reduction in public subsidies to Centennial Hall." Renegotiation of the Management Agreement with the JAHC in FY2023 resulted in a 10% one-time increase to the management fee paid to the JAHC in FY2024, followed by scheduled 3% annual increases in future fiscal years. The fee to operate Centennial Hall was also renegotiated to include a 3% annual inflationary increase through FY2025. Expenditures and recommended funding for Centennial Hall Operations are as follows in FY2022, FY2023, and FY2024:

	FY2022	FY2023	FY2024
CBJ Maintenance and Allocated Costs	\$179,800	\$229,100	\$243,400
PERS Indebtedness	\$50,000	\$50,000	\$50,000
Centennial Hall Operations (paid to JAHG)	\$270,000	\$270,000	\$278,100
Management Fee (paid to JAHG)	\$90,000	\$90,000	\$99,000
Necessary Expenditures for Centennial Hall Operations	\$589,800	\$639,100	\$670,500
Hotel Bed Tax Funding Available	\$416,700	\$696,700	\$1,140,000
Surplus Retained by HBT Fund / (Deficit funded by GF)	(\$173,100)	\$57,600	\$469,500

In addition to the amount funded by CBJ for operations and maintenance, Centennial Hall collects revenue for rentals of space and equipment. From those rental revenues and the funds from hotel bed tax, Centennial Hall must pay all of the operational costs of the facility, including personnel and utilities, but excluding building maintenance (which is paid through the portion reserved for allocable CBJ costs). Because the amount of funding for Centennial Hall is determined by the Management Agreement, total funding required may be less than the 3% of 9%, which leaves an amount of funding reserved in the Hotel Bed Tax fund balance for future use. In FY2024, this amount is anticipated to be fairly substantial at \$469,500 as a result of higher forecast hotel bed tax receipts.

Discussion – Travel Juneau

Since the early 1980's, CBJ has funded tourism marketing by granting available hotel bed tax funds to Travel Juneau (formerly the Juneau Convention and Visitors Bureau). CBJ funding is not the sole source of revenue for Travel Juneau, but it is the largest portion of the organization's annual budget (approximately 80%). Various over time CBJ has been a greater or smaller part of Travel Juneau's budget, depending on the amount invested directly by organizational members and the amount of other funds raised.

Travel Juneau's FY2024 funding request is 4% of 9% of the forecast \$3.42 million Hotel Bed Tax, yielding a proposed grant in the amount of \$1,520,000. This is an increase of \$497,800 (49%) over FY2023. This grant amount follows Assembly intent, but the Assembly Finance Committee may wish to consider whether this significant increase in funding is warranted.

Discussion – Centennial Hall Improvements

The public voted affirmatively in October 2019 on a \$7 million general obligation bond to make improvements to Centennial Hall. Additionally, the community voted to increase the hotel bed tax from 7% to 9% effective January 1, 2020 with the intent that the additional receipts would fund planned capital improvements to the facility. Prior to the COVID crisis, it was forecast that this increase would have generated approximately \$400,000 per year.

\$760,000 is expected to be received in FY2024 resulting from the 2% of 9% of Hotel Bed Tax. The FY2024 Manager's Budget proposes to transfer a portion of this funding to the Debt Service Fund to pay the debt service costs associated with the \$7 million general obligation bond sold in 2021 for the improvements to Centennial Hall. Debt service in FY2024 on this \$7 million bond is expected to be \$229,200. The Manager's Budget proposes that the additional \$530,800 of 2% hotel bed tax in excess of the required FY2024 debt service remain in the Hotel Bed Tax fund balance for future use.

Discussion – Short-Term Rental Data Collection

In FY2023, CBJ contracted with Harmari, a third-party consultant that specializes in short-term rental identification, monitoring, and compliance, to collect and analyze short-term rental data in Juneau. The results of this analysis were presented to the Assembly Finance Committee during the March 1, 2023 meeting, at which the Committee directed staff to draft an ordinance establishing a short-term rental registration program. As the

Assembly considers short-term rental regulation, Harmari's services will continue to add valuable insight into understanding Juneau's short-term rental market. \$20,000 is included in the FY2024 proposed budget for this purpose, funded by hotel-bed tax receipts.

Conclusion

FY2024 funding allocation from Hotel Bed Tax is as follows:

Purpose	Organization	%	Expenditure	Revenue	Balance
Tourism Promotion	Travel Juneau	4%	\$1,520,000	\$1,520,000	\$0
Centennial Hall Operations	CBJ (via JAHC)	3%	\$670,500	\$1,140,000	\$469,500
Centennial Hall Improvements	CBJ	2%	\$229,200	\$760,000	\$530,800
Interdepartmental Charges	Sales Tax Office	<i>n/a</i>	\$58,800	\$0	(\$58,800)
Short-Term Rental Data Collection	Sales Tax Office	<i>n/a</i>	\$20,000	\$0	(\$20,000)
Total		9%	\$2,498,500	\$3,420,000	\$921,500