

## Memorandum

**Date:** June 9, 2021

**To:** The Honorable Board of Supervisors

**From:** Carol J. Huchingson, County Administrative Officer

**Subject:** (a) Analysis of and Recommendation for Contribution to the Lake County Tourism Improvement District and (b) Review of and Recommendation for Transient Occupancy Tax Usage & Expenditure Policy

### Executive Summary:

#### Analysis of Contributions to the Lake County Tourism Improvement District

On March 23, 2021, the Lake County Tourism Improvement District (LCTID) presented an overview of all the steps they have taken towards promoting tourism in Lake County, especially in terms of developing an online marketing presence. During this presentation, the LCTID identified various contracts it has entered into and expenses it is incurring as it begins these efforts. There was then discussion and a commitment to look into the long-term funding structure for the LCTID and the nature of the County's financial commitment going forward.

The jurisdictions neighboring Lake County with a Tourism Improvement District (TID) each have a different approach to how they provide financial support their respective TID. There are various allocation formulas used in each jurisdiction, so for ease of comparison they are detailed below as a percentage of total Transient Occupancy Tax (TOT) collected.

County	TID%	TOT %	TOT Amount	Contribution Amount	Contribution as % TOT
Lake	1.5%	9.0%	\$ 716,771.00	\$ 78,000.00	10.9%
Mendocino	1.0%	10.0%	\$ 5,668,666.00	\$ 485,202.00	8.6%
Sonoma	2.0%	12.0%	\$ 48,700,000.00	\$ 2,300,000.00	4.7%
Napa	1.5%	13.0%	\$ 13,713,091.00	\$ 514,240.91	3.8%

Generally, Lake County's contribution for FY 20-21, and with the same amount to be recommended for FY 21-22, is significantly higher than surrounding counties in terms of percentage of total TOT. It may be valuable to consider the dramatically higher TOT values for these other jurisdictions, both in terms of the rate imposed and actual TOT collected. This can offer some perspective on why, given Lake County's large percentage contribution, the actual dollar amount appears low compared to surrounding counties.

The TOT Usage & Expenditure Policy indicates that the TOT revenue received should be allocated as follows: 1/9<sup>th</sup> to aquatic weed removal and programs to benefit Clear Lake; 1/9<sup>th</sup> to support operation of the parks and recreation; \$150,000 to the Sheriff's office; not more than \$95,000 to support County museums; and the balance goes to funding a much broader final category. This category indicates that funds should be allocated to:

“the County Marketing and Economic Development Program to be used for advertising and promoting tourism and commerce in Lake County, including general economic development activities; funding highway and tourist oriented signage projects; funding tourism infrastructure and funding operation of the County's Visitor Information Center(s).”

Resolution No. 95-189 authorizing this was dated 9/5/1995 and later amended 7/22/2004. These allocations are to be reviewed annually during the annual budget hearings to determine whether they should be “revised to reflect the most effective means to promote tourism and economic development in Lake County.”

Total TOT	Aquatic Weed	Parks	Sheriff	Museums	Marketing & Econ Develop.	Marketing & Econ Develop % TOT
\$716,771.00	\$ 66,777.78	\$66,777.78	\$ 150,000.00	\$95,000.00	\$ 312,488.56	43.6%

The above table provides an example of how that policy, in its unaltered form, would apply to the last adopted TOT revenue figure from the Lake County budget. It is within the last category, Marketing & Economic Development, that a funding contribution to the LCTID would be allocated. Again, it is important to note that this policy does predate the establishment of the LCTID so the contribution is not specifically addressed here. There is a wide range of what other counties do in terms of supporting their TID. Many counties with a TID do not contribute because the District relies on its assessments, while others, such as the local examples cited above do provide some level of financial support. The breakdown of revenues detailed below was included in the LCTID annual report for the 2020 calendar year.

LCTID Source of Revenue - 2020	Amount	% of Total Revenue
County Direct Contribution	\$ 56,000.00	19.5%
County TID	\$ 147,256.36	51.2%
Clearlake TID	\$ 42,075.11	14.6%
Lakeport TID	\$ 15,456.03	5.4%
Twin Pine	\$ 20,000.00	7.0%
Robinson	\$ 6,638.73	2.3%

The combined contribution from the County for 2020, reflecting both direct payment and assessments, represents 70.6% of the total. This percentage would appear likely to increase in a typical future year if the current funding methodology would be followed, as only a \$56,000 contribution is reflected in this report as opposed to the \$78,000 allocated for the fiscal year. This would impute a 72.8% total contribution by the County, unless the cities were to make direct contributions to the LCTID as well which is not currently anticipated. Although a considerable amount of local tourism occurs within the cities of Lakeport and Clearlake, as far as we know, the cities do not make a direct contribution to the TID as does the County.

The original budget for the LCTID was projected to be \$340,000 per year with a 3% assessment. Following the reduction of that percentage to 1.5%, the budget was reduced to an anticipated \$170,000. The revenue that has come in is higher than this estimate. A major factor in this is that the County TID assessments and contribution have come in considerably higher than the initial estimates in the Management District Plan (MDP), as well as the addition of contributions by Twin Pine and Robinson.

The continued efforts to bring vacation rentals into compliance, coupled with large new projects such as Konocti Harbor Resort becoming operational, are likely to increase the total TOT collections for the County in the coming years. This in turn will continue to increase the assessments received by the LCTID.

#### Funding recommendation for LCTID

At this time, staff recommends keeping the County's contribution set at \$78,000 to help ensure the LCTID has the necessary funding in its formative years. A contribution set at \$78,000 provides the same approximate amount at this time as the LCTID's suggestion of providing a matching contribution of 50 cents on the TID assessment. This adds a layer of certainty for both the County and LCTID, as it avoids the need for a true-up payment if estimated assessments come in higher or lower than anticipated.

The County will add an additional \$10,000 to this figure by passing the annual contribution made by the Habematolel Pomo of Upper Lake through to the LCTID, for a total of \$88,000. As assessments increase and the TID becomes more self-sufficient, it may become viable to gradually reduce the County's contribution to a level more in line with other counties that choose to contribute to their TID. Staff will continue to analyze and make further recommendations to your Board during the budget cycle.

### Review of Transient Occupancy Tax Usage & Expenditure Policy

Transient Occupancy Tax (TOT) was originally designed to compensate local governments for the increased public service costs incurred by serving tourists. The County's current Transient Occupancy Tax Usage & Expenditure Policy was originally passed in 1995 and later amended in 2004. Since this policy predates the concept of the LCTID, it does not contemplate the State's authorization for the establishment of a dedicated assessment to fund these districts.

As discussed above, pursuant to the TOT policy, your Board has the opportunity to review the allocations each year during budget hearings. Economic development has been designated a high priority for your Board and has led to the creation of the Economic Development Task Force (EDTF). If your Board were to amend the policy fixing the LCTID contribution at \$78,000, that could leave the balance of the funds within the Marketing and Economic Development at approximately \$188,843 based on preliminary revenue estimates. This amendment could designate these funds to be for economic development, providing much needed funding dedicated to support the work of the EDTF and your Board, such as for the housing needs under EDTF consideration at this time.

### TOT Policy Recommendation

The final category of the current TOT policy reads as follows:

- (E) The balance of revenues generated from the nine percent (9%) tax rate shall be allocated to the County Marketing and Economic Development Program to be used for advertising and promoting tourism and commerce in Lake County, including general economic development activities; funding highway and tourist oriented signage projects; funding tourism infrastructure and funding operation of the County's Visitor Information Center(s).

Staff recommends your Board amend the policy to reflect the following change in Section E and the addition of Section F:

- (E) \$78,000 of the annual TOT revenues received shall be allocated to support marketing through a direct contribution to the Lake County Tourism Improvement District (LCTID). The annual \$10,000 contribution made by the Habematolel Pomo of Upper Lake shall be passed through to the LCTID as an additional contribution.
- (F) The balance of revenues generated from the nine percent (9%) tax rate shall be allocated to support general economic development activities.

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**If not budgeted, fill in the blanks below only:**

Estimated Cost: \_\_\_\_\_ Amount Budgeted: \_\_\_\_\_ Additional Requested: \_\_\_\_\_ Future Annual Cost: \_\_\_\_\_

**Consistency with Vision 2028 and/or Fiscal Crisis Management Plan** (check all that apply):

☐ Not applicable

☐ Well-being of Residents

☐ Public Safety

☐ Infrastructure

☐ *Technology Upgrades*

☒ Economic Development

☐ Disaster Recovery

☐ County Workforce

☐ *Revenue Generation*

☒ Community Collaboration

☐ Business Process Efficiency

☒ Clear Lake

☐ *Cost Savings*

**If request for exemption from competitive bid in accordance with County Code Chapter 2 Sec. 2-38, fill in blanks below:**

Which exemption is being requested?

How long has Agreement been in place?

When was purchase last rebid?

Reason for request to waive bid?

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**Recommended Action:** Approve in concept recommended amendment to the Transient Occupancy Tax Usage & Expenditure Policy.