

October, 2008

## CITY OF MADISON TOT STUDY COMMITTEE REPORT

### COMMITTEE MEMBERS:

Mario Mendoza, Mayor's office/City of Madison (Committee Chair)  
Ed Clarke, Economic Development Commission (Committee Vice Chair)  
Deb Archer, GMCVB  
Jim Hess, Monona Terrace  
Michael Schumacher, Alder/Madison Common Council  
George Wiesner, Madison Innkeepers  
Tom Ziarnik, Madison Innkeepers (Committee Alternate)

### INTRODUCTION

The City of Madison's Transient Occupancy Tax (TOT) has been studied three times in the recent past. The future stability of the fund and fund purposes were the primary focus of these studies.

During 2008 City budget deliberations (fall of 2007), the TOT Study Committee was recommended, approved by the Common Council and appointed in early 2008 by Mayor Cieslewicz.

The Committee's purpose is to develop policy recommendations for future investment of the City's TOT fund.

The Study Committee has completed its work. In its meetings, the Committee studied:

- Historical and future projections of the City of Madison's TOT Fund, the fund's purpose, its past and current uses
- Historical and future projections of the Monona Terrace® Community and Convention Center (MTCCC)
- Historical and future projections of the Greater Madison Convention & Visitors Bureau (GMCVB)
- Industry best practices
- Destination market and economic conditions

Following the gathering and review of data, the committee established guiding principles that are the basis for the report and recommendations:

- Our commitment to provide City of Madison officials with sound policies and practices to follow, when determining future investment of the TOT;
- Our vision that the TOT fund, if invested properly and strategically, can sustain a positive fund balance and, grow beyond its current 3% annual projections, regardless of destination market conditions

The result of the Committee's work is reflected in the following report, which focuses on recommendations for future priorities and uses of the City of Madison Transient Occupancy Tax fund. The recommendations are based on the Committee's findings, which include:

- Destination's competitive position (and, therefore the City's TOT fund stability and balance) is vulnerable (based on declining marketing conditions, current hotel product near event venues and, non-competitive destination marketing resources)
- The future stability and growth of the TOT fund should remain a priority for the City
- The first priorities for TOT investment should be in the entities that impact stability and growth of future TOT revenues
- TOT provides direct property tax relief and indirect benefits to Madison taxpayers

## TOT (Transient Occupancy Tax) GUIDING PRINCIPLES

- City of Madison TOT fund is a segregated fund to be used as an economic development investment tool focused specifically on tourism promotion and development; and, for City general-purpose use;
- Investment of room tax in tourism promotion and development, supports “Conventions & Visitors” which was identified as one of the top economic growth sectors in the City’s 2008 Economic Development Plan and reflects the spirit of WI TOT law;
- The TOT fund should be dedicated to continue to market and improve the destination product promoted to and experienced by visitors;
- To grow this non-taxpayer revenue stream, further investment of TOT dollars in tourism-related activities should be a priority for the City now and into the future.

*Important Note: This tax fund differs substantially from other City of Madison revenue streams, as it is generated almost exclusively by out-of-town overnight visitors vs. Madison taxpayers*

## KEY HISTORICAL FACTS OF TOT FUND

For a long-term, historical review of the TOT fund, the Committee recommends referral to a study published by the City’s Comptroller, dated May 30 2002. This report includes references to WI Statutes governing TOT. City Comptroller Dean Brassler presented an overview of this report and the fund to the Committee. In addition, recent changes to the TOT fund were noted:

- Investment in destination marketing (GMCVB) was decreased in 2001 and remained flat thru 2004
- Contributions from room tax to CitiArts and Badger State Games began in 2001
- General Obligation bond debt payments of \$1,091,500 were moved from the General Fund budget to the TOT Fund for property tax relief in 2002
- Contributions from room tax to Rhythm & Booms and Madison Scouts began in 2002
- Contribution to Civic Promotions from room tax began in 2004
- Increases in City funding for CitiArts and Rhythm & Booms occurred in 2004, 2005, 2006
- In 2005, the City began to increase its use of room tax for general purposes/property tax relief. This action reversed a former Council’s decision to phase-out payments of room tax to the General Fund and, Resolution No. 55664, adopted in November 1998, which “formally directed that the City’s room tax be used to fund convention and tourism related activities in future year budgets” (excerpt from Comptroller Study of 2002).
- In 2007, the City increased its Room Tax Fund support for Badger State Games
- In late 2005, during the 2006 City Operating Budget deliberations, a \$30,000 increase for destination marketing was proposed in the budget and decreases in destination marketing were considered by the Council. To stop the Council’s action and voice concern over a minimal increase, the Madison Innkeepers and GMCVB (with support of groups including DMI and the Monona Terrace Board of Directors), voiced their concerns over the results of recent TOT fund use decisions and announced their intention to conduct a competitive analysis of room tax distribution, focusing on investments in destination marketing. The Common Council agreed to delay any further action in change in TOT distribution until the Innkeepers’ study was released.
- In 2006 the Madison Innkeepers conducted a study of competitive TOT distribution and released its findings in July 2006. Based on the study’s primary findings: the City of Madison was under-investing TOT in destination marketing; and, acknowledging the trend of use TOT for general purposes/property tax relief, the Madison Innkeepers volunteered to increase the TOT by 1%. The Innkeepers advanced this proposal, with the understanding that the City would increase its investment in destination marketing to 20% of prior year TOT collections, extend the term of its contract with the GMCVB (for destination marketing), from annually to every 5 years (with renewal language) and, leave the remaining dollars in the TOT fund to allow for fund balance stability and growth.
- As part of the 2007 Operating Budget approval process, the Common Council approved a budget amendment to increase the investment in destination marketing and GMCVB contract.
- An additional 2007 Operating Budget amendment to fund a Downtown Safety Initiative (\$100,000) from room tax was approved by the Council, with support from the Madison Innkeepers
- During final 2007 Operating Budget deliberations, the Council voted to transfer an additional \$350,000 of TOT into the general fund for purpose of applying these dollars toward the City’s operating subsidy of the Overture Center for the Arts. This action was taken after testimony by the Innkeepers that the Overture Center for the Arts had not generated substantial overnight stays for hotels.

Current Distribution of the City of Madison TOT Fund

In the City's 2008 Operating Budget, the following represent all TOT uses (and percentages):

- 33.7% Monona Terrace Operating Subsidy
- 22.4% Monona Terrace debt service
- 19.4% Destination Marketing/GMCVB (represents 20% of prior year collections)
- 14.3% General Fund
- 3.2% Monona Terrace Capital
- 1.5% Monona Terrace Investment in GMCVB
- 1% Event Booking Assistance Fund
- 4.5% Net Annual TOT Fund Change (annual profit or loss)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>Monona Terrace Operating Subsidy</b>	33.7%	33.5%	39.2%	37.6%	40.6%	34.3%	36.6%	35.1%	45.0%	49.1%
<b>Monona Terrace Debt Service</b>	22.4%	22.9%	27.4%	29.6%	31.0%	35.8%	42.4%	20.2%	18.3%	17.1%
<b>Destination Marketing/GMCVB</b>	19.4%	19.1%	14.0%	12.5%	12.1%	12.6%	12.4%	12.8%	13.6%	12.6%
<b>General Fund &amp; Other Uses</b>	14.3%	13.7%	10.2%	4.4%	2.8%	1.9%	12.3%	4.8%	5.7%	6.5%
<b>Monona Terrace Capital Purchases</b>	3.2%	8.1%	5.3%	2.5%	34.7%	8.7%	5.1%	14.9%	27.2%	1.8%
<b>Monona Terrace Investment in GMCVB</b>	1.5%	1.5%	1.7%	1.8%	1.7%	1.8%	1.8%	1.8%	1.8%	1.6%
<b>Event Booking Assistance Fund</b>	1.0%	1.4%	1.3%	4.3%	1.2%	0.3%	1.4%	0.6%	0.0%	0.0%
<b>Net Annual TOT Fund Change (profit or loss)</b>	4.5%	-0.2%	1.1%	7.2%	-24.0%	5.0%	-11.4%	11.3%	-10.2%	13.4%

## RESULTS AND BENEFITS FROM CITY TOT INVESTMENT

The TOT Fund is considered an economic development and investment tool. The Committee believes it is important for the City to track the return received from its investments. Following is an overview of the return on investment of the City's TOT investments.

### Results from TOT Investments in Monona Terrace

Monona Terrace continues to achieve nearly 100% satisfaction ratings from its clients, and hosts nearly 700 events annually, of which about 10% are destination conferences or conventions. These conferences and conventions booked by GMCVB and Monona Terrace sales staffs contribute approximately 50% of the annual revenues for the building. To maintain the excellent operations, sales, service and maintenance standards of this building, investment of TOT dollars are needed to cover both operations and capital expenditures.

The July 18, 2006 Monona Terrace Community and Economic Impact Study completed by Virchow Krause & Company, a Madison-based certified public accounting and consulting firm, determined that Monona Terrace is directly responsible for the creation of 1,100 jobs in the Madison area, and generated \$52.7 million in economic benefits from the conventions and conferences held at the facility in 2005. Since the publication of this report, Virchow Krause has updated the economic benefits of Monona Terrace for 2006 and 2007, now totaling \$123.1 million. This means in the last three years, Monona Terrace has nearly doubled the initial construction cost of \$67.1 million from the economic impact from conventions and conferences. This study also concluded that "There is clear evidence to support the belief that Monona Terrace was an important catalyst that brought the community together to take a bold step in the revitalization of Madison's center city." This conclusion was based on extensive economic data collected on the downtown area from 1996 through 2005, and on interviews with civic and business leaders.

The Virchow Krause study also looked at the important impact that Monona Terrace has had on the community. Each year there is an average of 200 events held at Monona Terrace that are open to the public, most of which are free. Included in this number are the free community programming events produced by Monona Terrace funded through sponsorships. In 2007, 218,400 people attended 691 events at Monona Terrace, and approximately 160,000 people visited the facility in order to take a guided tour, enjoy the rooftop gardens, or tour the facility in a less formal fashion.

### Results from TOT Investments in GMCVB/Destination Marketing

The GMCVB exists as an economic development entity and serves as the region's official destination management organization. Its mission is to increase visitor volume and spending for Madison and Dane County. Due to the nature of Destination Marketing, the GMCVB's staff and annual work initiatives are focused on securing event and visitor business for the future and, delivering support and service commitments to current leisure and event visitors.

As a result of the increase in the City's investment in Destination Marketing in 2007, the GMCVB was able to recruit additional sales staff and ramp up its convention sales programs. In spite of tightening economic conditions and having to rebuild after declining resource years, in 2007, the GMCVB confirmed its highest level of future event contract revenue for Monona Terrace in seven years. In securing \$730,361 in contract revenues, the GMCVB generated nearly \$300,000 more in Monona Terrace contract revenue than in the prior year and exceeded this performance contract goal. The GMCVB's 2007 future event confirmations for the destination are estimated to generate \$38.2 million in direct spending for Madison and fill over 90,000 hotel room nights.

Since 1995, the GMCVB, has been responsible for securing over 1,400 future events for Madison. These events will have an estimated \$332,000,000 in direct spending impact on this destination, will generate over \$6.5 million in revenues for Monona Terrace and, will fill over 1,000,000 room nights in area hotels. (*Note: These numbers do not include dozens of established events such as World Dairy Expo and WIAA tournaments, for which the GMCVB provides extensive support and services.*)

The results generated by the GMCVB were leveraged with investments from the City's TOT fund, Monona Terrace, Dane County, area municipalities, grants and direct private sector contributions into Destination Marketing efforts.

Prior to 2007, the City's investment of TOT into Destination Marketing had no direct tie to TOT fund growth, competitive environment or performance. As a result, Destination Marketing investments were subject to fluctuating and arbitrary investment decisions, creating challenges for the GMCVB to project program and personnel planning.

Between 2000 and 2004, the City's TOT investment in destination marketing declined or remained flat. As a result, the GMCVB was forced to lay off sales personnel and reduce its sales programs, recruitment and tools. The impact of these actions included declines in future hotel room nights, decreases in future convention and conference contract revenues and sales for Monona Terrace, the Alliant Energy Center and, a decline in promotional exposure for the destination.

#### Results from TOT Investments for Madison Taxpayers

Presently, Madison taxpayers enjoy direct property tax relief of \$1.14 million from room tax contributions to the City's General Fund. These dollars provide direct property tax relief and currently support miscellaneous activities and programs. Madison taxpayers also enjoy tremendous benefits from:

- Extensive community programming and access to Monona Terrace
- Positive economic impact and related jobs that are supported by overall destination visitor spending
- Positive increases in services, business and retail options supported by visitors generated from destination marketing investments as well as exposure and access to popular events such as Ironman
- Increases in property values as a result of increased visitor volume and spending

## CHANGING MARKET CONDITIONS

### A. Situational Analysis: Market Conditions

Studying changing market conditions was critical for the Committee to understand how Madison's competitive position has changed since 2006. To provide relevant background, the GMCVB presented the Committee its TAP (Trends Analysis Projections) report on room sales capacity and booking pace, Destination 2020, and updates on market conditions. Monona Terrace and Innkeeper representatives also provided input on current product and market conditions.

In addition to the impact of declining economic conditions, the following information and descriptions of market challenges were presented to the Committee:

- Destination competition for convention and event business has grown substantially
- Economic conditions have had an impact on association and corporate event planning decisions, including shortening of event booking timeframes, delays in event contract signing and declining attendance at events
- Hotel capacity near Monona Terrace and Alliant Energy Center has not changed in seven years
- Within our competitive set, regional and national destinations have added substantial hotel, convention and sports event products, including the Kalahari and Chula Vista in Wisconsin Dells, a large private convention complex in Stevens Point, public investment of sports complexes in Rockford, expansion of or new facilities in Minneapolis, St. Paul and, Omaha;
- Large convention hotels have come on line in Austin, Grand Rapids and Indianapolis
- Hotel inventory in Madison/Dane County has expanded substantially over past three years, creating highly competitive environment for hotel rates and business and, created a decline in overall market occupancy
- Majority of competitive convention/event cities have established substantial event incentive funds of \$2-\$300,000, which are used to "buy down" facility rental charges or other charges associated with securing event business for a destination (TOT Investment in Madison's Event Assistance Fund is \$100,000 annually)
- Customers have indicated a desire for more downtown Madison hotel options
- The results of changing economic conditions, gas prices, competitive product development and, competitive incentive funds are creating challenges for future destination marketing efforts
- The question of capacity for future business was discussed. Based on Monona Terrace data and data from TAP (Trends Analysis Projections; a firm serving CVBs to determine event booking pace and destination capacity), both event and hotel capacity remains to be filled in the market.

The committee acknowledged concern over future TOT fund growth and stability as a result of the information presented.

## COMMITTEE RECOMMENDATIONS

The TOT Study Committee has prioritized its recommendations based on its findings. The Committee's distribution policy recommendations and other TOT fund-related recommendations are as follows:

### 1. Fund Investment Priority: TOT Fund Growth Generators:

The Committee Recommends that the key priority and investment of TOT funds should be into those entities that are the fund growth generators: Monona Terrace and GMCVB/Destination Marketing.

#### A. Monona Terrace Operating and Capital Subsidies

To maintain the excellent reputation and operational and infrastructure standards of this facility, continued investment in the operating and capital expenditures of Monona Terrace is essential.

More than ever, the success of Monona Terrace is based on the marketability and competitiveness of the destination and the facility, regionally and nationally. With the rapid growth of convention centers across the country, the convention industry is maturing, and characterized by aggressive competition. Facilities are competing for a limited amount of business, and only those convention centers with the best competitive positions will succeed. Therefore, Monona Terrace must continue to maintain and enhance the physical building, fixtures, and services in order to continue to meet the expectations of clients, and maintain its competitive advantage

As Monona Terrace revenue streams improve, remaining subsidy dollars should be moved into the increased investment needed for destination marketing.

#### B. GMCVB/Destination Marketing

The GMCVB's role in marketing the destination is essential to future stability and growth of the TOT fund; for generating optimum convention and conference revenues for Monona Terrace; for confirmation of events into other facilities that contribute to City of Madison TOT (Alliant Energy Center, sports venues, hotels, etc.); and, future hotel room night sales. Conventions and conferences hosted by Monona Terrace are the primary drivers of the economic impact benefit created by the facility. The GMCVB books the larger events that contribute the majority of the economic impact to the community. For example, in 2007 65% of the economic impact that Monona Terrace delivered to the community (as calculated by Virchow Krause) was through the conventions business booked by the GMCVB.

Based on past GMCVB and competitive performance data, increased TOT investment in the GMCVB/Destination Marketing, will lead to:

- Increase in high-yield, convention and conference business (increased revenues) for Monona Terrace
- Increase in destination events (events that will fill hotel rooms, and take place at Monona Terrace, Alliant Energy Center, sports venues, etc.)
- Increase in individual overnight/hotel room sales.
- Increase in room tax collections, helping stabilize and grow the TOT fund
- Higher direct economic impact/benefits for Madison
- Growth in fund balance (see below)

## 2. Destination Sales and Marketing Investment:

Based on following factors, the Committee recommends that the City approve to increase the investment into the GMCVB/Destination Marketing to the national competitive peer set level of 35%\* of TOT collections as quickly as possible.

- Recent, significant changes in economic and competitive market conditions could impact future event sales for the destination and Monona Terrace
- Hotel capacity near Monona Terrace and Alliant Energy Center has not been enhanced since 2001
- Lower-than-competitive level of destination marketing investment impedes current and future destination marketing sales performance and productivity
- Positive increase in results of the CVB's performance in 2007 (following increased TOT investment)
- An increase in destination marketing will result in increased room night sales, providing positive impact and growth potential for the TOT fund balance and availability of TOT funds for new and future uses
- The GMCVB has presented a compelling need for increased investment including increases in:
  - Event Booking Assistance
  - Creation of a sports promotion program
  - Increase in sales and marketing staff

The Committee also encourages the GMCVB to continue its commitment to securing other public and private investments, which they have successfully leveraged into destination marketing efforts on behalf of the City of Madison, Dane County and industry partners.

\*National competitive peer set based on Innkeepers 2006 Transient Occupancy Tax Study. Reaching a national competitive peer set level of investment will allow Madison to compete with like destinations for business.

## 3. TOT Fund Balance

It is recommended that the City establish a target savings of 10% of collections, which will remain in the TOT fund, (i.e. approximately \$850,000 to remain in the Cumulative Fund Balance based on approximately \$8.5 million projected 2008 collections). Achieving this target will help assure the health and stability of the TOT fund balance and provide necessary contingency funds in the event of catastrophic or uncontrollable situations (e.g. recent catastrophic business loss in Wisconsin Dells due to flooding) It is further recommended this balance can be accessed only for emergency, tourism-related initiatives through authorized recommendations of the TOT Study Committee (see "Other Policy Recommendations" section).

## 4. TOT Fund: Continued Investments

The Committee recommends sustaining the following investments from TOT fund:

### A. Monona Terrace Debt Service

Debt service payments related to the construction of Monona Terrace are financial obligations of the City's. Payment of these bonds will continue as a primary TOT fund responsibility until they are "retired".

### B. Event Booking Assistance Fund

This sales tool, used by the GMCVB to secure destination event business for Monona Terrace is essential for future sales. Since its inception in 1997, this tool has provided financial support to confirm over 60 future events for Monona Terrace, which are estimated to contribute over \$36 million in direct spending to Madison.

As noted in the market analysis, incentive funding by other destinations has eclipsed the City's annual commitment of \$100,000. This level of funding is no longer adequate in the current, competitive environment. The Committee recommends increasing the fund to \$200,000 to be used as Monona Terrace Event Booking Assistance. This fund will continue to be overseen by the Event Booking Assistance Fund Committee.



## 5. General Fund and Other Fund Uses of TOT

The TOT Committee is concerned about the City's use of TOT for general fund purpose and the depleting of the fund balance prior to the other priorities being met. The Committee recommends that the City annually transfer an amount not to exceed the 2008 proportion of room tax dollars, into the general fund for general-purpose/other uses, which provide direct property tax relief to Madison taxpayers. This proportion should remain constant until the TOT fund priorities are achieved.

## 6. TOT Fund Investment Post-2014

The first City bond issued to construct Monona Terrace will be paid off in 2014, eliminating an annual TOT fund expense of \$705,000. It is recommended that the TOT Study Committee make recommendations, either in 2010 or 2012 in order to help assure the guiding principles are incorporated in future investment decisions consistent with the market conditions of the tourism economy of that time in order to further the growth of TOT Fund revenues. It is further recommended that these funds be invested in initiatives aimed at increasing economic development associated with the tourism industry.

## 7. Future TOT Study Committee Activity

The TOT Committee recommends that every 2 years, beginning in 2010, the City re-appoint a TOT Committee, whose purpose will be to:

- Address any changes in the marketplace
- Monitor fund growth and projections
- Discuss topics relevant to the sunset of Monona Terrace bonds
- Based on above items, review and make recommendations to any alterations to the TOT investment priorities and fund distribution
- Other relevant topics

All future TOT Committees' composition should reflect the 2007-8 TOT Study Committee composition, including representatives from the following:

- City of Madison Mayor's office
- Alder, Madison Common Council
- Director of Monona Terrace
- Member, City of Madison Economic Development Commission
- Chair, Madison Innkeepers
- CEO, Greater Madison Convention & Visitors Bureau
- Alternate Committee member: Member of Madison Innkeepers

## CONCLUSION

As stated in the report, the TOT fund is generated via hotel stays and paid primarily by out-of-town, overnight visitors to Madison. The fund's purpose is to generate economic development opportunities for Madison through tourism promotion and development. If invested strategically, this fund has the potential to increase and provide long-lasting, tangible and intangible benefits to all Madisonians via a healthy, vibrant and stimulating tourism-based economy.

The Committee predicts if not managed or invested properly and strategically, the TOT fund will become vulnerable. This vulnerability would create potentially negative scenarios for the City of Madison, including:

- Inability to meet its financial obligations of the fund (Monona Terrace debt service),
- Inability to support the fund priorities (TOT fund generators: Monona Terrace and GMCVB)
- Inability to continue to provide direct benefit to City of Madison taxpayers via property tax relief

The TOT Committee hereby recommends the aforementioned priorities and guidelines for future TOT fund investment and distribution, based on the committee's purpose and principles:

- Our commitment to provide City of Madison officials with sound policies and practices to follow, when determining future investment of the room tax;
- Our vision that the TOT fund, if invested properly and strategically, can sustain a positive fund balance and grow beyond its current 3% annual projection.