



City of Bandon

555 Hwy 101, PO Box 67
Bandon, OR 97411
(541) 347-2437

Bandon by the Sea

AGENDA REPORT

TO: Honorable Mayor and Members of the City Council

FROM: Torrey Contreras, City Manager

DATE: June 17, 2024

SUBJECT: **Item Number 2.1: REQUEST FOR DIRECTION FROM THE BANDON CITY COUNCIL REGARDING THE ALLOCATION OF REMAINING TRANSIENT OCCUPANCY TAX FUNDS**

BACKGROUND:

Transient Occupancy Tax (TOT) revenue, which is restricted for tourism promotion and tourism-related facilities, is recorded and managed in the City's Tourism Development Fund (240). City staff provided recommendations for allocating a portion of the FY 2024-25 TOT revenue to the Budget Committee and City Council during the budget development process. The City Council adopted the FY 2024-25 Budget at their regular meeting held on June 3, 2024, with the balance of the unallocated TOT revenue totaling \$293,025.

The City Council conducted a work session to review the annual funding allocation assigned by the City to the Bandon Chamber of Commerce ("Chamber") for the promotion of local tourism, and other qualifying expenditures that could be shifted to the Tourism Development Fund (240).

ANALYSIS OF THE ISSUES:

The City continues to maintain one of the lowest permanent property tax rates in the State of Oregon at \$0.458 per thousand dollars of property value. The City's property tax rate generates approximately \$237,516 in general fund revenue annually, which accounts for only six-tenths of a percent (0.6%) of the City's FY 2024-25 Budget of \$39.2 million. The lack of City Council rate setting authority for the City's Electric, Water, and Wastewater utilities has resulted in a deficit of \$191,212 in FY 2024-25. This structural deficit is expected to increase over time, thereby necessitating a larger General Fund subsidy to cover the ongoing funding gap created by increasing operating expenses.

Due to the City's limited ability to generate revenue through property tax and utility user fees, the City will increasingly depend on unrestricted TOT revenue to fund the provision of essential City services and programs in the future. TOT revenue (generated from taxes levied on hotels, motels, RV parks, resorts, and short-term rentals) is the City's primary revenue source, with the potential for exponential growth in the future. The City's TOT rate is currently 9.5% and is projected to generate approximately \$1.45 million in FY 2024-25. As a tourism-based economy benefiting from the growing popularity of golf and the success

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of Bandon Dunes, the City should expect to receive additional TOT revenue in the future when new hotel developments come online.

SURVEY OF LOCAL MUNICIPALITIES:

City staff concluded that Bandon assigns the greatest amount of annual TOT revenue to its respective Chamber for the promotion of local tourism. The City's contribution of \$170,000 last fiscal year to the Chamber exceeded the City of Newport's annual average allocation by \$128,333. Also, four out of the six cities surveyed have chambers of commerce, but only two of them allocate funding to their respective chambers of commerce on a recurring annual basis. Lastly, two out of the six cities established chamber oversight committees to manage the funding allocated by the cities; however, both committees have since been disbanded. The City of Brookings disbanded its respective chamber oversight committee because the City no longer allocates funding to support the chamber.

OPTIONS FOR CONSIDERATION:

The following options are presented to the City Council for review and consideration:

- o Eliminate the City's annual allocation of TOT revenue to the Chamber for promoting local tourism; or
- o Restrict the City's annual appropriation of TOT revenue allocated to the Chamber for promoting local tourism.

Additionally, it is the City's intent to preserve the General Fund and unrestricted revenue for the purpose of funding essential City services and accruing reserves. Accordingly, City staff conducted a review of recurring expenditures and recommends moving \$97,610 in qualifying expenditures to TOT, resulting in \$195,415 available for programming. The qualifying expenditures are as follows:

- Landscaping Services \$68,000
- Old Town/Jetty Cleaning and Services \$29,610

FISCAL IMPACT:

Restricting the annual allocation of TOT revenue designated for the Chamber for contract services to promote local tourism and transferring eligible expenses to TOT is fiscally prudent and responsible. Outsourcing the promotion of local tourism to the Chamber is more cost-effective than retaining additional City staff for this purpose. TOT revenue is expected to increase over time with the construction of new hotel uses supporting the growth of local tourism. As a tourism-based economy, the City will become increasingly dependent on unrestricted TOT revenue to fund essential City services and programs in the future.

RECOMMENDATION:

The following is recommended to the City Council for consideration:

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1. Direct the Finance Director/City Treasurer to allocate restricted TOT revenue to the Chamber for FY 2024-25 to promote local tourism in an amount deemed appropriate by the City Council;
2. Direct the City Manager to commence the termination of the existing Agreement between the City and Chamber by issuing a Notice of Termination; and,
3. Direct the City Manager to prepare an informational report for future City Council consideration, regarding the potential formation of an ad-hoc Committee to serve as an advisory body of the City Council for determining how best to utilize TOT revenue for the promotion of local tourism.