COUNTY OF SONOMA

575 ADMINISTRATION DRIVE, ROOM 102A
SANTA ROSA, CA 95403

APPROVED

APR 1 6 2019

SUMMARY REPORT

THE WITHIN INSTRUMENT IS A CORRECT COPY OF THE ORIGINAL ON FILE IN THIS OFFICE.

ATTEST: APR 1 6 2019

SHERYL B[redacted]ecretary
BY [redacted]
DEPUT[redacted]RETARY

Agenda Date: 4/16/2019 #37 Item #37

To: Board of Supervisors
Department or Agency Name(s): County Administrator's Office
Staff Name and Phone Number: Sheryl Bratton; Jennifer Larocque (707) 565-2431
Vote Requirement: Majority
Supervisorial District(s): All

	AYE	NO
GORIN	ABSENT	
RABBITT	✓	
ZANE		✓
GORE	✓	
HOPKINS	✓	

Title:
Transient Occupancy Tax Program Update

Recommended Actions:

A) Approve the Community Investment Fund Program Policy and four year funding allocations for Transient Occupancy Tax.
B) Direct staff to implement the Community Investment Fund Program Policy in FY 19-20. (Majority Vote Required) (Countywide)

Executive Summary:
Transient Occupancy Tax (TOT) is levied at a rate of 12% in unincorporated Sonoma County. In 2016, voters approved Measure L, which authorized a 3% increase to the tax - from 9% to 12%. TOT is a discretionary source of funding for the County of Sonoma.

On October 3rd, 2017, the Sonoma County Board of Supervisors (Board) adopted the Community Investment Fund Policy, directing one-third of the first 9% of revenues to the General Fund, and allocating the remaining two-thirds of the first 9%, and the 3% Measure L portion according to the Community Investment Fund Policy.

On June 5th, 2018, the Board approved the FY 18-19 grants and other funding uses according to the Community Investment Fund Policy. At this time, staff was directed to return with alternative program options for the Board to consider a new range of approaches and strategies. On November 13th, 2018, the Board provided further direction to staff regarding the development of a new program.

The updated program presented in this item reflects the County Administrator's recommendation for re-directing more TOT towards priority projects to help the County recover and develop resiliency after the 2017 Sonoma Complex Fires, the 2019 Flood Disaster, and current fiscal forecasts.

Discussion:
Considering Transient Occupancy Tax Use
Historically, the Board of Supervisors has invested a significant portion of transient occupancy taxes into tourism promotion and community grants. With the adoption of Measure L by the voters in 2016, the Board developed a strategic funding policy for the Measure L funds that aligned the funding towards significant policy priorities of the Board, including investments in roads, public safety, housing, and mitigating tourism impacts. Most public agency jurisdictions use transient occupancy taxes as general fund within their budgets

to directly support agency services. See Attachment B for information regarding other TOT programs in other jurisdictions.

In the early morning hours of October 9, 2017, the County of Sonoma responded to the Sonoma Complex Fires, which burned 173 square miles and destroyed over 7,000 structures, including 5,143 homes. It will take years to recover fully from the devastating fires.

Additionally, on February 26, 2019, the County experienced the worst flood event since 1995, causing significant damage in its wake.

Besides the recent disasters this County has experienced, there is a $12 million budget gap currently projected for FY 19-20. On December 11th, 2018, the County Administrator's Office provided an update to the Board of Supervisors regarding the General Fund Forecast for the next four fiscal years. Based on the projected deficits (table below), the Board of Supervisors adopted an immediate budget balancing strategy in the form of a hiring freeze for all positions which are not currently under recruitment and have been vacant for longer than nine months.

GENERAL FUND ONLY FORECAST	FY 18-19 Budget	FY 19-20 Projected	FY 20-21 Projected	FY 21-22 Projected	FY 22-23 Projected
Total Sources	459,988,545	469,310,609	478,265,327	486,078,278	496,312,230
Total Uses	459,988,545	482,103,753	500,653,857	511,266,662	524,675,820
Surplus (Deficit)	0	(12,793,144)	(22,388,530)	(25,188,384)	(28,363,590)

Given the budget challenges facing the County, as well as the significant recovery needs in our community, and the importance of building greater resiliency to withstand future disasters, the recommendation includes a four-year funding plan to maintain consistent funding for critical services that support the community's recovery efforts.

A major component of the recommendation is to create a funding source to invest in a Fuels Reduction/Vegetation Management program. On December 11th, 2018, the Board of Supervisors (Board) adopted the Recovery and Resiliency Framework. One of the Board's top ten priority projects within the Recovery and Resiliency Framework is the Fuels Reduction and Landscape Resiliency Campaign. The recommendations below align spending to the Recovery and Resiliency priorities where possible. The four-year funding plan is designed to maintain consistent funding to maximize the result of investments.

The recommended program results in reductions for community grants, departments, and the Sonoma County Tourism Bureau. Historically, the Board has funded numerous community grants over the years through the TOT policy. If the Board approves the recommended policy, the following categories of community grants would be eliminated: Chambers of Commerce, Visitor Centers, Signage, Workforce Development and Scholarships, Agricultural Promotion, Historical Commissions, Major County Events and Organizations, and Seasonal and Off Peak Programs. Existing three-year contracts for the Chambers of Commerce, Visitor Centers, and Workforce Development categories would be funded for the remainder of the contracts. As an offset to the impacts of the elimination of the above community grants, the proposed recommendation increases the Local Events, Organizations, and District Priorities from $50,000 to $100,000 per supervisorial district. Community partners may apply to individual districts for funding.

Recommended Program

Funding Allocation

Allocate one-third of the first 9% of TOT funds to the General Fund. Allocate the remaining two-thirds, and the 3% of Measure L, according to the Community Investment Fund Policy, summarized below. The full Community Investment Fund Policy is available in Attachment A. The four-year funding plan can be viewed in Attachment C.

Community Investment

A. Economic Development

1. Economic Development Board and Creative Sonoma Grants - $3,225,000
2. Sonoma County Tourism Bureau- 1.25 percentage points of the first 9%

B. Community Grants

1. Local Events, Organizations, District Priorities - $500,000

C. Community Services

1. Fire Dispatch Fees - $900,000
2. Fuels Reduction and Landscape Resiliency Campaign - $900,000
3. District Formation Funds - $175,000
4. Regional Parks - $2,650,000
5. Office of Recovery and Resiliency - $300,000

D. Program Administration and Integrity

1. Collections/Audit/Legal - $550,000

E. Community Investment Fund Balance

1. Allocate any fund balance of the first 9% to General Fund priorities determined annually by the Board of Supervisors during Budget Hearings.

MEASURE L

F. Fire Services, 40%

Funding will support enhanced fire protection services as determined by the Board.

G. Road Repair and Improvement, 20%

Funding will support projects included in the Transportation and Public Works Roads Plan adopted by the Board.

H. Affordable Housing, 13%

Funding will support affordable housing projects. The Community Development Commission will recommend funding priorities to the Board during the annual budget process.

I. Tourism Impact Fund, 10%

Funding will be distributed through grants or to County departments to meet the unique and urgent needs of areas within unincorporated Sonoma County that are impacted by tourism.

J. Event Facilities Improvements, 9%

Funding will support operations, maintenance, and improvements of County owned facilities that enhance recreational activities, including, but not limited to Veterans Halls.

K. Code Enforcement and Compliance, 8%

Funding will support services including tax collection, grantee audits, and code enforcement and operator compliance activities.

Sonoma County Tourism Bureau

Consistent with recommendations from the Measure L Ad Hoc, in FY 18-19 the Sonoma County Tourism Bureau is allocated 1.25 percentage points of the first nine percent of Transient Occupancy Tax, which translates to $2,107,840. Continuing this formula in FY 19-20 with a 2.2% reduction (consistent with many departments who receive discretionary General Fund money), Sonoma County Tourism Bureau would receive $2,271,209.

The County Administrator recommends that the Sonoma County Tourism Bureau fund the remaining two-years of the Visitor Center contracts for $347,400 each year, to be administered by the Economic Development Board. With other minor adjustments to the Sonoma County Tourism Bureau contract, the net decrease from FY 18-19 to FY 19-20 would be approximately $84,000.

Prior Board Actions:

11/13/2018: Transient Occupancy Tax Program Options
06/05/2018: Community Investment Fund Program Awards and Policy Update
10/03/2017: Measure L Ad Hoc Recommendations

FISCAL SUMMARY

Expenditures	**FY 18-19 Adopted**	**FY19-20 Projected**	**FY 20-21 Projected**
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
Contingencies			
Total Sources			

Narrative Explanation of Fiscal Impacts:

If program recommendations are approved, staff will make the necessary adjustments in the FY 19-20 budget.

Transient Occupancy Tax Forecast Methodology
In the first quarter of FY 18-19 (from July-September), the County collected 2.5% less TOT than in the first quarter of FY 17-18. Therefore, the County can assume that collections will be 2.5% less in FY 18-19 than in FY 17-18. Using this methodology, and factoring in average prior year collections, the County anticipates collecting $21,561,000 in FY 18-19. The County forecasts 3.4% growth in FY 19-20, followed by 3% growth in the following three fiscal years, based on data-driven analysis provided by the Sonoma County Tourism Bureau.

Use of Fund Balance
The Community Investment Fund Program is recommended based on projected collections, and typically uses prior year fund balance. In years one and two existing fund balance will be used to finance the program, while years three and four will generate fund balance which may be allocated at the discretion of the Board of Supervisors. This transition creates a structurally balanced budget, which is consistent with the 17-18 Financial Policy, and utilizes ongoing revenue for ongoing expenses.

Staffing Impacts:			
Position Title (Payro	**Monthly Salary Range (A - I Step)**	**Additions (number)**	**Deletions (number)**

Narrative Explanation of Staffing Impacts (If Required):
NA

Attachments:
Attachment A: Draft Community Investment Fund Policy
Attachment B: Transient Occupancy Tax Use in Comparative Jurisdictions
Attachment C: Transient Occupancy Tax Four Year Funding Plan

Related Items "On File" with the Clerk of the Board:
NA