County Of Hamilton - *Board Of County Commissioners*

Volume Number: 332

Meeting Agenda

Staff Meeting

Hamilton County, Ohio **October 21, 2013**

Meeting Convenes

Call to Order
11:00 AM

Regular Agenda Items

1 11:00 a.m. Council on Aging of Southwestern Ohio
Suzanne Burke, Chief Executive Officer

2 11:20 a.m. Port of Greater Cincinnati Development Authority
Laura Brunner, President

3 11:40 a.m. Transit Occupancy Tax Residual Revenue Allocation Options
Christian Sigman, Jeff Aluotto

4 12:00 p.m. Executive Session pursuant to RC Section 121.22(G)(4) to conduct or review negotiations or bargaining sessions concerning employee compensation or other terms and conditions of their

employment - Communications Officers and AFSCME
Cheryl Keller, David Helm, Bret Geary, Chris Biersack

5 12:20 p.m. Executive Session pursuant to RC Section 121.22(G)(2) to consider the purchase of real property for public purposes

Item 1

No paperwork provided...

Item 2

No paperwork provided...

3

Hamilton County Administration

Interdepartmental Memo

Date: October 1, 2013

To: Board of County Commissioners

Cc: Christian Sigman, County Administrator

From: Jeff Aluotto, Assistant County Administrator

Subject: Transient Occupancy Tax Residual Revenue Allocation Options

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At the September 16, 2013 staff meeting, the Administration and Board of County Commissioners discussed policy guidelines to consider for distribution of residual Transient Occupancy Tax revenue. At that meeting, the Administration indicated it would provide the Board options based upon the policy guidance received. This memorandum provides some related background on the issue, a framework through which the Board may filter its options and a recommended approach for the Board's consideration.

Background

On September 25, 2002, the Board of County Commissioners acted under ORC Section 5739.09 to levy an additional 3.5% Transient Occupancy Tax (TOT) on lodgings occurring within Hamilton County. That incremental tax provided a revenue stream to allow for a debt issuance to finance the renovation and expansion of the Duke Energy Convention Center (DECC). The Board also created the Convention Facilities Authority (CFA), as authorized under ORC Section 351, to facilitate and oversee the financing for that project. The County and City entered into a Memorandum of Understanding (MOU) which broadly outlined how project financing was to occur and committed the 3.5% TOT to the project. Also, as part of this project, the County, City and CFA entered into a Cooperative Agreement which defined, among other things, how revenues above and beyond those necessary to cover project debt service (hereafter referred to as "residual revenue") would be used by each party. The DECC project was closed out in February of 2007 yet the CFA still exists to oversee the ongoing financing activities related to that project.

DECC Project Funding

As indicated above, the MOU between the County and City defined how the DECC project would be funded. This included the County levying and dedicating the 3.5% TOT to the project in an amount up to $4.985 million. Revenues beyond that cap are automatically considered County residual revenue - in addition to a pro rata share of revenue existing after debt service is paid. The County also made a one-time project contribution of $1.75 million and committed an annual general fund contribution of $250,000. The City of Cincinnati, in turn, dedicated a City Occupancy Tax of 2.5% to the project and committed an additional annual contribution of $1 million.

Current Framework for Residual Fund Distribution

Revenue remaining after TOT revenues have satisfied debt service requirements of the DECC project are referred to as residual revenue. This revenue is split between the County and City, pro rata, based upon the contributions of both entities to the overall funding of the project in that particular year and are available to be used by the County and City as allowable under State law and in accordance with the Cooperative Agreement. Please see attached "Waterfall" for a visual description of how residual revenue is generated through the DECC project financing.

Currently, according to the most recent supplement to the Cooperative Agreement, residual revenues are used as follows:

County

1. $1.3 million payment of debt service relating to the Sharonville Convention Center project.
2. $250,000 to reimburse the County for its general fund contribution to the DECC project.
3. Any remaining funds shall be provided to the Greater Cincinnati Convention and Visitors Bureau for the promotion of the DECC and Sharonville Convention Center.

City

1. Payment of a specified amount toward Operations and Maintenance/Repair and Renovation OM/RR of the DECC.
2. Balance of residual funds can be distributed, as determined by City Administration, toward OM/RR or for the marketing/promotion of the DECC. This balance has traditionally been split 50/50 between the two uses although this has varied year to year.

Board Options for Residual Fund Distribution

With the expiration of the most recent supplement to the Cooperative Agreement, the Board may choose to continue to allocate residual funding in the manner prescribed by the current agreement, or it may alter that framework so long as the new distribution methodology complies with State law. ORC 5739.09 stipulates that funding raised via the TOT must be used: "to pay costs of constructing, expanding, maintaining, operating, or promoting a convention center in the county, including paying bonds, or notes issued in anticipation of bonds, as provided by that chapter".

Given these statutory restrictions, the Administration recommends a basic framework for residual fund distribution as follows.

Recommended Priority Items for Inclusion in Distribution Framework:

- Payment of Sharonville contribution as stipulated in the Cooperative Agreement between the County, Sharonville and CFA.
- Reimbursement of the County's annual general fund contribution of $250,000.

Discretionary Options for Inclusion in Distribution Framework:

- *Marketing and Promotion of DECC and Sharonville Convention Center.* Attracting convention and meeting business to the County's two convention centers is of paramount importance in terms of utilizing those assets to their full extent and generating additional room nights to support the funding structure of the DECC financing. Since 2009, CVB marketing efforts have led to the annual booking of approximately 200,000 future room nights. Proponents of additional funding for marketing and promotion efforts cite the comparatively larger marketing budgets of competing cities as impetus for continuing to adequately fund the CVB for this purpose as well as the return on investment of this allocation. This activity also fits squarely within the statutory definition of allowable uses for the TOT.

- *Capital Needs of Other Facilities in the County's Convention and Visitors Industry.* Investing in the infrastructure serving the local convention and visitors industry, to the degree it may result in additional generation of room night bookings, also could be an appropriate use of TOT revenues by the Board. This could take the form of expansion or renovation of hotel space (to the degree it drives additional bookings) or capital improvements to other meeting/convention facility space – again, so long as it can be credibly argued that such improvements serve to drive an increase in future room night bookings.

- *Early Debt Retirement.* Retirement of debt can always be considered an appropriate use for residual TOT revenues. Not only does debt retirement improve the financial standing of the CFA, but it also serves to reduce debt service expenditures thereby providing additional residual revenues in the future (presuming stable TOT performance).

In reviewing the above options for inclusion in a residual revenue allocation framework, the Administration would recommend that the Board consider the following factors:

1. Funded activities must comply with allowable uses for the TOT as prescribed in the ORC.
2. Capital needs for expansions or renovations of existing primary convention facilities (DECC/Sharonville) should be prioritized.
3. A business case should exist substantiating how a prospective activity drives additional room night bookings and, thus, how it generally strengthens the local convention and visitor infrastructure.

With these factors in mind, the Administration offers the following as a recommendation for residual funding distribution:

Table 1: Potential Residual Fund Distribution Framework	
Activity	**Annual Funding Amount**
Sharonville Convention Center Subsidy	$1.3 million
Hamilton County General Fund Reimbursement	$250,000
Subtotal	**$1.55 million**
Marketing/Promotion through CVB	Incremental residual revenues, if available, up to $1 million
Capital Reserve for Convention/Visitor Projects in Hamilton County	Incremental residual revenues after CVB allocation, if available, up to $250,000
Marketing/Promotion through CVB or Debt Retirement (at BoCC's discretion)	All incremental residual revenues, after capital reserve, if available

Table 1 above represents just one framework which the Board may consider in terms of TOT residual allocation. It is based, in concept, upon annual residual revenue generation to the County of $2.8 million – the approximate amount realized in 2012 and distributed in 2013. It should be recognized, however, that this amount represents the second highest residual revenue generation on record since the DECC project was initiated. While it is hoped that this trend will continue, it is important that any allocation framework be flexible and discretionary in its application as residual TOT revenues have historically been volatile as shown in Table 2 below.

While Residual TOT Revenue has grown historically, 2009 serves as a stark reminder that generation of this revenue is outside of the County's direct control. In recognition of that fact, the above framework contains only the Sharonville payment as a contractual obligation (per the Cooperative Agreement between the CFA, County and Sharonville). All other obligations represent either County reimbursements or allocations of residual revenues if, and only if, they are generated. The Administration would strongly recommend that any alternative allocation framework proposed be consistent with these tenets of flexibility and discretion so as not to create a potential general fund liability.

Table 2: Residual TOT Revenues by Year			
Year	**Residual TOT Revenue**	**Obligations***	**Net Residual TOT Revenues**
2006	$1,767,266		
2007	$2,355,156		
2008	$2,802,682		
2009	$1,566,179	$1,550,000	$16,179
2010	$1,924,496	$1,550,000	$374,496
2011	$2,491,931	$1,550,000	$941,931
2012	$2,787,034	$1,550,000	$1,237,034

*Obligations shown above only relate to those under the 4th Supplement to the Cooperative Agreement and are comprised of $1.3 million for the Sharonville Convention Center and a $250,000 project contribution to the Duke Energy Convention Center.

Term of Agreement

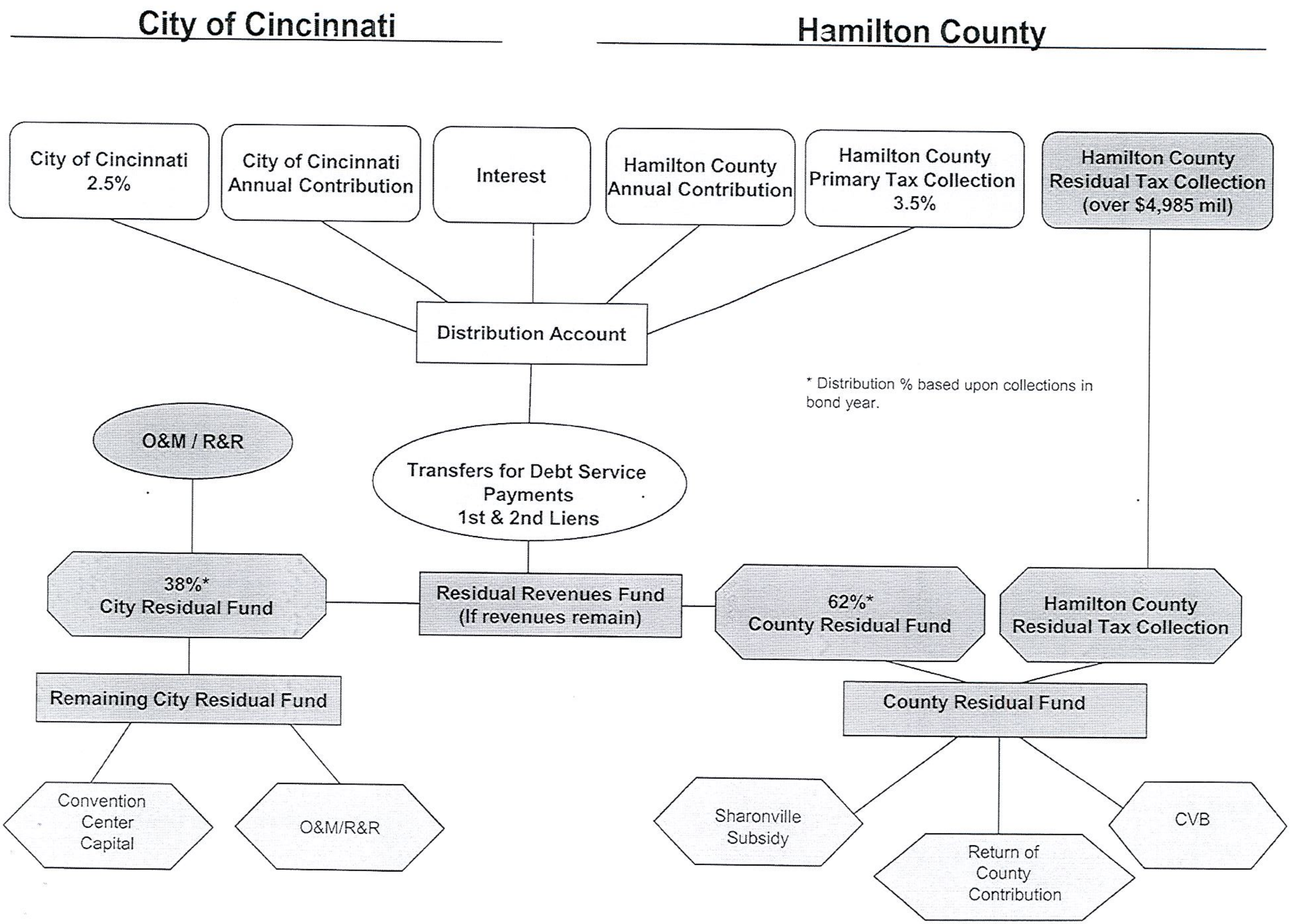
Given the expiration of the current supplement to the Cooperative Agreement in December of 2012, the Administration recommends that the new agreement be of a longer term than previous iterations. As first lien debt on the DECC financing runs through 2033, a ten year agreement is recommended. This would allow for at least one more negotiation of the agreement, before final maturity, in order to consider the future of additional DECC/Sharonville expansions and renovations.

Summary

This memorandum provided the Board with a background on the TOT and associated residual revenue generation as well as a suggested framework for residual revenue allocation. The Administration will reach out to each Board office and stakeholders to discuss this recommendation in more depth.

Attachments:
CFA Waterfall

Hamilton County/City of Cincinnati
Transient Occupancy Tax Cash Flow – Residual Revenue Allocation



Item 4

Executive Session - No paperwork....

Item 5

Executive Session - No paperwork....