

Transient Occupancy Tax Fund

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T*o provide funding for Convention Facilities Operations and Maintenance, Cultural Grants, and the San José Convention and Visitors Bureau*

Beginning in 1982, the City Council initiated a 6% Transient Occupancy Tax (TOT) on all hotel/motel rooms in San José. The revenues are collected in the TOT Fund (461) and the increment of growth is distributed by formula to three program categories: Convention Facilities Operations and Maintenance, (50% of the TOT increase), Cultural Grants (25% of the TOT increase) and the San José Convention and Visitors Bureau (25% of the TOT increase).

Transient Occupancy Tax Fund

Budget Summary

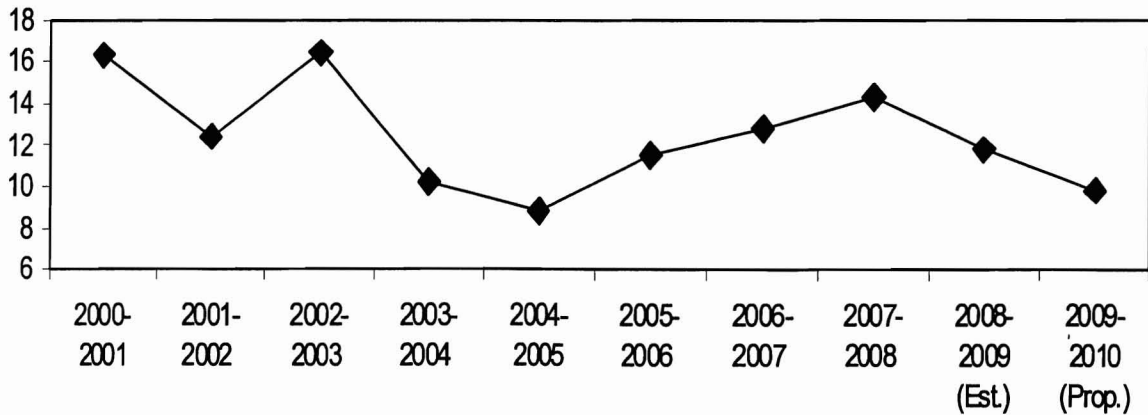
	2008-2009 Adopted	2009-2010 Proposed	Change
Convention Facilities Operations and Maintenance	\$ 7,199,585	\$ 4,062,900	(43.6%)
Cultural Grants/Administration	\$ 5,656,746	\$ 2,438,503	(56.9%)
San José Convention & Visitors Bureau	\$ 3,793,110	\$ 2,224,768	(41.3%)

Budget Highlights 2009-2010

- In 2009-2010, significant decreases in room rates and occupancy rates are anticipated due to the severe economic recession.
- In 2009-2010, TOT revenues, as well as allocations for the three recipient organizations, are expected to decrease by approximately 16.8% from the 2008-2009 estimated collection level.

Budget Byte

10 Year View of TOT Collections (\$ In Millions)



Fiscal Year

Transient Occupancy Tax Fund

Fund Overview

By ordinance, the Transient Occupancy Tax (TOT) Fund (6% of the 10% TOT) is used to provide funding for Convention Facilities Operations and Maintenance, Cultural Grants, and the San José Convention and Visitors Bureau (CVB).

The 2008-2009 Adopted Budget estimate for TOT collections (\$14,909,440) was based on an assumed 4% growth rate. As a result of the severe economic recession, TOT revenues have instead declined at an accelerating rate. As part of the 2008-2009 Mid-Year Budget Review in February, a decline in Transient Occupancy Tax collections of approximately 6.7% was reported to the City Council. The projection made at that time would have resulted in a reduction in the level of TOT funding available for the three recipient organizations by \$1.5 million. It was decided at that time to delay reducing the allocations for the recipient groups until 2009-2010 to give the recipients more time to plan for the reduction.

Since that time, however, TOT revenues have steadily declined, and revised projections now indicate that the amount of funding available for the recipients would be \$3.1 million less than the Adopted Budget level (a total decrease of 21%). In order to keep the Transient Occupancy Tax Fund Ending Fund Balance from going negative, a portion of the \$3.1 million (\$1.9 million) shortfall will need to be recouped in 2008-2009 in the form of reduced transfers to the Convention and Cultural Affairs Fund (\$950,000), Convention and Visitors Bureau (\$475,000), and a

reduction to the allocation for Cultural Grants (\$475,000). The recovery of the remaining undercollection of \$1.2 million has been built into the 2009-2010 base allocations for the three recipients.

The 2009-2010 Proposed Budget for the City's Transient Occupancy Tax (TOT) Fund assumes another 16.8% decrease from the 2008-2009 estimate. It should be noted that the steep decline anticipated in 2009-2010 is due in part to the fact that the sudden downturn in the economy didn't occur until the fourth quarter of 2008-2009. It is therefore anticipated that there will be sharp declines in the first quarter of 2009-2010 when collections are compared against the prior year.

The performance in this economically sensitive fund has, in past years, mirrored the overall performance of the economy. Prior to 2004-2005 the fund experienced three years of declining collections as a result of the recession in the early part of the decade. After four years of growing collections, declines are again anticipated in 2008-2009 and 2009-2010 as a result of the current recession.

The projection for declines of 16.8% will need to be closely monitored. If the economy deteriorates to a greater extent than currently anticipated, this assumption factor may need to be adjusted downwards. To the extent that there are adjustments to the growth assumptions during the upcoming year, the allocations to the recipient organizations will also need to be revised.

Transient Occupancy Tax Fund

Fund Summary

	2007-2008 Actual 1	2008-2009 Adopted 2	2008-2009 Estimate 3	2009-2010 Proposed 4	% Change (2 to 4)
Dollars by Sources					
Beginning Fund Balance	\$ 4,302,824	\$ 4,185,055	\$ 4,518,333	\$ 691,844	(83.5%)
TOT Revenues	14,340,001	14,909,440	11,817,000	9,829,000	(34.1%)
Interest	126,090	75,000	75,000	15,000	(80.0%)
Total	\$ 18,768,915	\$ 19,169,495	\$ 16,410,333	\$ 10,535,844	(45.0%)
Dollars by Uses					
Convention Facilities Operations and Maintenance	\$ 7,213,565	\$ 7,199,585	\$ 6,732,085	\$ 4,062,900	(43.6%)
Cultural Grants/Administration	3,235,925	5,656,746	5,046,922	2,438,503	(56.9%)
SJ Convention/Visitors Bureau	3,800,100	3,793,110	3,559,360	2,224,768	(41.3%)
Ending Fund Balance and Misc.	4,519,325	2,520,054	1,071,966	1,809,673	(28.2%)
Total	\$ 18,768,915	\$ 19,169,495	\$ 16,410,333	\$ 10,535,844	(45.0%)

Transient Occupancy Tax Fund

Budget Category: Convention Facilities Operations and Maintenance

Budget Category Overview

Convention Facilities Operations and Maintenance supports a portion of the administration, maintenance, and operations costs at the Convention Facilities operated by Team San José, which includes the Convention Center, Center for Performing Arts, California Theater, Montgomery Theater, Civic Auditorium, Parkside Hall, and McCabe Hall. The remaining operating costs are funded by operating revenues from these facilities, which are captured in the Convention and Cultural Affairs Fund. Because the total operating expenses are not delineated by funding source, the specific operations supported by TOT funding cannot be isolated. Personal services and non-personal/equipment expenses, which are partially funded by the increment of growth in the TOT, appear in the Convention Facilities Department section of this document.

As previously discussed, the 2008-2009 estimate for Convention Facilities includes a reduction to the transfer in the amount of \$950,000 due to projected current year declines in TOT revenue. While this reduction may prove to have significant impacts on Convention Facilities operations and maintenance over the next several years, it is not anticipated to have significant impacts in 2008-2009 as the fund has sufficient reserves to withstand this reduction. An analysis is currently underway to determine if this reduction, and the 2009-2010 will impact the proposed Convention Center expansion project. It is anticipated that a revised plan of finance for this project will be brought forward for City Council consideration during the 2009-2010 budget process.

Budget Category Summary

	2007-2008 Actual 1	2008-2009 Adopted 2	2008-2009 Estimate 3	2009-2010 Proposed 4	% Change (2 to 4)
Convention Facilities Operations and Maintenance	\$ 7,213,565	\$ 7,199,585	\$ 6,732,085	\$ 4,062,900	(43.6%)
Total	\$ 7,213,565	\$ 7,199,585	\$ 6,732,085	\$ 4,062,900	(43.6%)

Transient Occupancy Tax Fund

Budget Category: Cultural Grants

Budget Category Overview

Each year, the Arts Commission solicits and evaluates applications for funding under the Cultural Grants category (using criteria approved by the City Council). The Arts Commission then submits recommendations for Cultural Grants and Technical Assistance Grants to the City Council for consideration during the annual budget process. All unexpended Cultural Grant funding is traditionally rebudgeted for expenditure in the next fiscal year. It should be noted that while the 2009-2010 allocation for Cultural Grants reflects a decrease of 56.9%

from the 2008-2009 Adopted Budget, this is mostly because the 2008-2009 allocation includes a one-time rebudget of unexpended funds from prior years. Once the one-time rebudget and the one-time reduction to account for the 2008-2009 undercollection are considered, the 2009-2010 base allocation reflects a decrease of approximately 32%.

Detailed information for the 2009-2010 TOT Cultural Grants program awards will be available at a later time to provide a picture of the City's Cultural Grants Program.

Budget Category Summary

	2007-2008 Actual 1	2008-2009 Adopted 2	2008-2009 Estimate 3	2009-2010 Proposed 4	% Change (2 to 4)
Cultural Grants/Administration	\$ 3,235,925	\$ 5,656,746	\$ 5,046,922	\$ 2,438,503	(56.9%)
Total	\$ 3,235,925	\$ 5,656,746	\$ 5,046,922	\$ 2,438,503	(56.9%)

Transient Occupancy Tax Fund

Budget Category: San José Convention and Visitors Bureau

Budget Category Overview

Approximately 25.7% of the 2009-2010 estimated TOT revenue recommended for disbursement in this fund is allocated to the San José Convention and Visitors Bureau (CVB). The City contracts with the CVB to provide long-term booking of events at the Convention Center, market the Convention Center, promote traveling to San José for business and pleasure, and assist visitors.

CVB also receives funding from the General Fund (shown in the City-Wide Expenses section of this document), Airport, and other sources such as San José businesses, restaurants, and hotels to provide similar services, which are not represented here.

Budget Category Summary

	2007-2008 Actual 1	2008-2009 Adopted 2	2008-2009 Estimate 3	2009-2010 Proposed 4	% Change (2 to 4)
SJ Convention/Visitors Bureau	\$ 3,800,100	\$ 3,793,110	\$ 3,559,360	\$ 2,224,768	(41.3%)
Total	\$ 3,800,100	\$ 3,793,110	\$ 3,559,360	\$ 2,224,768	(41.3%)

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