



COUNTY OF HUMBOLDT

AGENDA ITEM NO.
I-3

For the meeting of: June 21, 2016

Date: June 1, 2015

To: Board of Supervisors

From: Amy S. Nilsen, County Administrative Officer

Subject: Airline Minimum Revenue Guarantee for Humboldt County Convention and Visitor Bureau and Pass-Through Funding

RECOMMENDATION(S):

That the Board of Supervisors:

1. Provide direction to staff on the three pass through options for funding, found on page two of this agenda item, for gateways organizations; and
2. Provide direction to staff to include or not include additional contract language, found on page three of this agenda item, regarding the county reimbursing Humboldt County Convention and Visitors Bureau (HCCVB) for half of any Minimum Revenue Guarantee (MRG) paid out by HCCVB.

SOURCE OF FUNDING: General Fund - Transient Occupancy Tax

DISCUSSION:

The county receives transient occupancy tax (TOT) based on room night charges for stays in hotels in the unincorporated area of the county. Unlike other taxes which are paid primarily by local residents, TOT is

Prepared by Nicole Morrow CAO Approval Cheryl Dillingham

REVIEW:	Auditor _____	County Counsel _____	Human Resources _____	Other _____
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TYPE OF ITEM:

Consent

Departmental

Public Hearing

Other _____

BOARD OF SUPERVISORS, COUNTY OF HUMBOLDT

Upon motion of Supervisor

Seconded by Supervisor

And unanimously carried by those members present,

The Board hereby adopts the recommended action contained in this report.

SEE ACTION SUMMARY

PREVIOUS ACTION/REFERRAL:

Board Order No. _____

Meeting of: _____

Dated: _____
Kathy Hayes, Clerk of the Board

By: _____

generated mostly from visitors to the area. For this reason, the county has historically devoted a portion of the TOT proceeds to support outside agencies that promote the county and increase TOT receipts. The current contracts for TOT funding with the HCCVB and Redwood Regional Entertainment and Education Liaison, Inc. (RREEL) expire June 30, 2016 and are being negotiated. Staff is seeking direction on priorities for funding.

There are several changes since the current contracts were executed that need to be considered:

- Arcata Chamber of Commerce (ACC) has received a share TOT funding in the past due to its status as a California Welcome Center. The ACC is no longer considered a California Welcome Center and will now be focused specifically on promoting Arcata. With this change comes the opportunity to reevaluate the Arcata share;
- HCCVB has requested the county reimburse half of the potential costs related to the Airline Recruitment MRG; and
- RREEL's request of a two percent increase in their contract amount in the last negotiations was only partially granted with an increase of one percent, and the request has been asked to be considered again. RREEL's current share of the TOT is four percent.

HCCVB Contract's Pass-Through Funding

The chambers of commerce in the gateway communities of Orick, Garberville, Willow Creek and Arcata currently receive a portion of the TOT as they disseminate information of which markets, promotes and advertises all of the Humboldt County. The ACC is no longer operating a California Welcome Center, and the funding associated with this portion of the contract should be reevaluated.

Of the 16 percent of TOT receipts contracted to HCCVB, 40 percent of the HCCVB's allocation is split between the gateways organizations. Based on the current formula the FY 2016-17 allocation to the ACC would be \$12,700.

Your Board could determine that this portion of the funding should return to the General Fund, or continue to allocate the funding to promote the county and redirect funding to:

1. REEL- The request of a two percent increase in 2013 was only partially granted with a one percent increase.
2. MRG Trust Fund- A fund could be created to develop a reserve for future MRG commitments as these agreements can span long time periods.
3. Increase shares to other gateway communities: The other communities included in the HCCVB could benefit from additional funding.

Minimum Revenue Guarantee

As part of the county's Comprehensive Economic Development Strategy (CEDS), airline recruitment and retention is an ongoing effort by a host of community and government agencies. Over the years, Redwood Region Economic Development Corporation (RREDC), as the local economic development Joint Powers Association (JPA), has lead efforts to recruit airline service to the California Redwood Coast- Humboldt County Airport.

In order to recruit airline service in a small rural airport it is necessary to provide a MRG to the airline. Typically a MRG is provided through a clause in the service contract. It determines a threshold of revenue

the airline is guaranteed to receive, based on a defined and specific calculation. If the airline fails to meet this threshold, the airport is required to make up the difference. Historically, the negotiations with airlines have indicated that having cash either on hand, or expressly committed (either by agencies or individuals) helps the county representatives attract airline service.

Your Board most recently authorized a commitment to the current efforts to raise funds for a MRG from the Headwaters Community Investment Fund. This commitment originally begun with a \$125,000 commitment, and eventually grew to a total of \$250,000 with the caveat that match would be raised in order for the full \$250,000 be available in the grant. This commitment was most recently renewed by Headwaters and your Board in December, 2015.

The HCCVB was approached by Supervisors Bass and Lovelace and members of the Eureka City Council about matching the \$250,000 commitment with TOT funds received by the city and county. The proposal was a two year commitment, where HCCVB would put up \$125,000 per year, for two years, with \$62,500 per year coming from TOT received by the county and \$62,500 coming from TOT received by the city. This redirection of TOT dollars was justified by the expectation that increased air service into Humboldt County would result in increased visitors and, thus, increased TOT revenue. Given this, the HCCVB requested that some portion of any increase in TOT revenue resulting from new air service gained through the MRG be returned to the HCCVB to backfill any amount actually expended from the MRG.

This issue has come up in recent conversations related to contract renewal with HCCVB. To capture this agreement, it is proposed that the county agree to backfill HCCVB on an annual basis for any funds actually expended from their contribution to the MRG, up to the total amount dedicated (\$62,500 per year). This backfill would come from any TOT revenue increase realized above the baseline year (the last full year prior to the start of new air service resulting from the MRG). Any increased TOT received would be allocated to HCCVB at a rate of 50 percent (half of every new dollar received going to HCCVB). HCCVB would only be reimbursed for money actually expended out of the MRG fund, up to a maximum of \$62,500 per year, and not to exceed \$125,000 over the entire two year period of the MRG.

This proposal would allow HCCVB to seek reimbursement from the county for half of the funds paid by HCCVB if the MRG is utilized. HCCVB's total commitment to the MRG is \$250,000. The funding structure would potentially require the county to reimburse HCCVB a total of \$125,000.

If your Board chooses to move forward with this proposal, staff is seeking direction regarding the following proposed terms for inclusion in the new HCCVB contract:

The county will reimburse the HCCVB for a portion of actual MRG expenditures paid to an airline under a MRG agreement. Reimbursement will be based on the annual increase in TOT revenue above the base year (base year is the last full year prior to additional destinations being added). Any increased TOT received will be allocated to HCCVB at a rate of 50 percent, up to a maximum of \$62,500 per year, and not to exceed \$125,000 over the entire two year period of the MRG.

FINANCIAL IMPACT:

TOT revenue is a source of discretionary revenue and utilizing revenue growth does impact the General Fund. The adopted FY 2015-16 budget includes \$1.5 million in TOT and the proposed FY 2016-17 budget contains \$1.7 million.

Currently the funding allocated to ACC through the HCCVB contract is invested in marketing of the county in hopes of increased TOT receipts in the future. Returning the funding to the General Fund guarantees an increase of TOT receipts in the General Fund, though in a potentially relative small amount, as the five percent share is approximately \$12,700 in the FY 2016-17 budget.

If your Board approves recommendations for the reimbursement of HCCVB's commitment to the MRG, the maximum amount of TOT to be paid to HCCVB would be \$62,500 per year for two years. If your Board approves the recommended contract terms this will increase the county's committed portion of the MRG from \$250,000 to \$375,000.

Your Board's direction will help staff implement the Board's Strategic Framework and Priorities for new initiative by managing resources to endure sustainability of services.

OTHER AGENCY INVOLVEMENT:

Humboldt County Convention and Visitors Bureau

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board's discretion.

ATTACHMENTS:

None