

# COUNCIL COPY

COMMITTEE OF THE WHOLE

11-0443R

RESOLUTION OF SUPPORT FOR THE TOURISM TAX TASK FORCE  
REPORT AND RECOMMENDATIONS.

BY PRESIDENT GARDNER:

RESOLVED, that the city council hereby supports the findings and recommendations of the tourism tax task force contained in their report presented to the council on August 15, 2011;

RESOLVED FURTHER, that the council requests that city administration consider the task force recommendations and findings in future tourism tax distributions and related agreements;

RESOLVED FURTHER, that the council hereby thanks the task force industry and citizen representatives for their time and attention on this issue.

Approved as to form:

  
\_\_\_\_\_  
Attorney

CCREQ/ATTY GBJ:cjk 8/17/2011

STATEMENT OF PURPOSE: This resolution is an expression of support for the findings and recommendations of the tourism tax task force. This resolution additionally expresses thanks to those industry and citizen representatives who served on the task force.

# Tourism Tax Task Force

August 15, 2011



**CITY OF DULUTH HOSPITALITY TAXES:**

**A TASK FORCE REPORT**

**8/15/2011**

**Task Force Members:**

**Councilor Jeff Anderson**  
**Councilor Jackie Halberg**  
**Councilor Dan Hartman**  
**Councilor Sharla Gardner (alternate)**  
**Industry Representative Jack LaVoy**  
**Industry Representative Karen Hayes Pionk**  
**Industry Representative Todd Torvinen**  
**Citizen Representative Doug Britton**  
**Citizen Representative Debbie Isabell-Nelson**  
**Citizen Representative Linda Krug**

## **CITY OF DULUTH HOSPITALITY TAXES: A TASK FORCE REPORT**

### **Overview**

In March 2011, the Duluth City Council established a Tourism Tax Task Force (TTTF) to identify and define the current status of tourism tax dollar allocations for Duluth. Specifically, the Council charged the TTTF with (1) reviewing industry standards in regard to tourism tax collections and their uses; (2) reviewing current state statutes and city ordinances; (3) reviewing allocation policies and procedures; and (4) recommending annual allocations of tourism tax dollars (see Appendix 1). Three City Councilors, Jeff Anderson, Jackie Halberg, and Dan Hartman (Sharla Gardner, alternate); three hospitality industry representatives, Jack LaVoy, Karen Pionk, and Todd Torvinen; and three citizens, Doug Britton, Debbie Isabell-Nelson, and Linda Krug, served as members of the TTTF.

Over the course of four months, the TTTF met with recipients of 2011 hospitality tax dollars, surveyed convention and visitor bureaus (CVBs) in regional cities, reviewed the tax legislation and its history, created recommended categories of use for future tourism tax dollars, and reviewed findings with City Administration (see Appendices 2-4).

This report (1) briefly describes the rise of the hospitality industry and hospitality taxes in Duluth, (2) establishes a perspective within which to view hospitality taxes; (3) describes six types of hospitality tax uses; and (4) provides seven broad recommendations regarding Duluth's hospitality taxes.

### **Duluth's Hospitality Industry & Taxes**

Duluth's modern hospitality industry started in 1965 with the development of what was then called the "Arena Auditorium." Over the next 50 years, Duluth added hotels and restaurants in Downtown, Canal Park, and most recently, the Miller Hill corridor. The hospitality industry employed thousands of people during its initial construction, and now these businesses employ an estimated 12,000 plus employees.

It is projected that hospitality's commercial property tax base decreases the property tax burden for a typical \$150,000 home by \$200 annually. Moreover, due to the hospitality taxes collected from these businesses, Duluth has been able to build and support high quality amenities like the DECC, Spirit Mountain, the Great Lakes Aquarium, the Lakewalk, the Depot, the Zoo, and many other attractions seldom found in a city with a population of 86,500. These amenities and attractions, which we all enjoy and sometimes take for granted, are supported by our hospitality industry.

In 1968, at the City's request, the Minnesota State legislature enacted a 3% tax on hotel/motel rooms. The first five percent (5%) of these hotel/motel hospitality tax revenues collected were distributed to the City. Of the remaining ninety-five percent

(95%), sixty-five percent (65%) was to be used to subsidize the newly opened Duluth Arena Auditorium (now DECC), and the remaining thirty-five percent (35%) was to be used to advertise and promote Duluth as a tourist and convention center.

Over time, as Spirit Mountain and other tourist-related attractions were built, and as the DECC underwent various expansions, the Minnesota legislature, again at the City's request, enacted additional taxes. These add-on taxes are applied to base Duluth hotel/motel room bills and/or to meals and beverages purchased at all eateries, restaurants and bars located within the Duluth city limits. These taxes were – and still are – designed to service new debt and to help subsidize attractions.

Duluth's hospitality taxes are several and vary slightly as to their use, as described in Appendix X. We mention one specific "add-on" tax first legislated in 1998 because of its importance to our recommendations. Commonly referred to as the "half-and-half tax," this tax supported the financing of the DECC's Harbor-side Ballroom. A one-half percent (.05%) tax was added to the two percent (2%) hotel/motel tax and another one-half percent (.05%) tax was added to the one percent (1%) food & beverage tax. Both of these one half percent taxes are scheduled to sunset in 2012, when their corresponding bonds are paid in full and retired.

In 2011, Duluth's hospitality taxes are budgeted (projected) to generate up to \$7.45 million in total revenue, \$3.42 million from hotel/motel tax receipts and \$4.03 million from food & beverage tax receipts. The City of Duluth is responsible for collecting, directing, allocating and overseeing the hospitality taxes in fulfillment of their legislative intent.

### **Hospitality Taxes Defined**

Over the course of this study, the TTF adopted the term "hospitality taxes" in place of the current "tourism taxes." "Hospitality taxes" is a more universally accepted descriptor than is "tourism taxes," and as such better represents the two types of tax generators: visitors and residents.

A visitor is anyone who stays overnight one to 29 nights<sup>1</sup>, or who is on a day trip at least 50 miles from their primary residence. Visitors may be motivated to travel by pleasure, personal or business reasons, or some combination of reasons. Residents are primarily food and beverage tax generators who patronize Duluth's many wonderful dining experiences from within a 20-mile radius of their home. Visitors and residents alike pay hospitality taxes.

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<sup>1</sup> A visitor staying 30 consecutive or more days may be exempt from paying hotel-motel taxes.

With this in mind, the TTTF then adopted the following working definition of hospitality taxes:

“Hospitality taxes exist to (1) expand, enhance and/or sustain visitor attractions in the City; (2) encourage visitors through promotion and sales efforts; and (3) generate a measurable return on investment (ROI) in general sales taxes and/or hospitality taxes (hotel/motel and food & beverage) taxes.”

Using this definition as a guide, and after reviewing legislative language and intent as well as the City ordinances, the TTTF subsequently identified **six** distinct “Categories of Use” for hospitality taxes:

1. Destination Promotion
2. Operational Support
3. Reimbursement for Visitor-Related City Support Services
4. Visitor-Related Public Improvements
5. Cultural/Visitor Projects or Events
6. Debt Service on Visitor-Related Improvements or Expansions

What follows is a detailed outline of each category of use, including its legislative history, current allocation, and TTTF recommendation.

### **Hospitality Taxes: Categories of Use Explained**

#### **1. Destination Promotion**

##### **A. Background:**

1. Taxes Utilized (2011)
  - 3% Hotel/Motel Tax
  - 1% Hotel/Motel Tax
  - 2.5% Additional Hotel/Motel Tax
  - 2.25% Food/Beverage Tax
2. What law says:
  - To pay for advertising and promotion of the City of Duluth as a tourist and convention center.
3. How used (2011):
  - Pays Visit Duluth for contracted service
  - Contract term is 1/1/09 – 12/31/11
4. Amount allocated (2011) - \$1,480,800

##### **B. Recommendation**

###### **1. Definition:**

- **Pays for activities that bring visitors (overnight and day) to our communities: convention sales and support, destination marketing, and technology/social media promotions**

###### **2. Administrative Process:**

- **Professionally designed RFP**

- **For 2012, a one year contract and completion of independent organizational review conducted by a qualified external consultant selected by the City (see Appendix 5)**
  - **Pending appropriate changes, for 2013 and beyond, a 3-year contractual commitment**
  - **Quarterly performance and financial reporting to City**
- 3. Measure of Success:**
- **Growth in hospitality tax collections**
  - **Positive comparison of growth in the Duluth Smith Travel Research (STR) report in relation to Minnesota and National STR reports.**
  - **Performance based activity report – Marketing or advertising schedule, and number of conventions booked each year**
- 4. Funding:**
- **Thirty-three percent (33%) of actual hospitality taxes collected in the prior year, less DECC debt service.**

## **2. Operational Support**

### **A. Background:**

1. Taxes Utilized (2011)
  - 3% Hotel/Motel Tax
  - 1% Hotel/Motel Tax
  - 2.5% Additional Hotel/Motel Tax
  - 2.25% Food/Beverage Tax
2. What law(s) say:
  - To subsidize DECC and Spirit Mountain Authority
  - To provide revenue for facilities or agencies that are run by the City or by a board which is appointed by the City, and for entities for which the City has a contractual obligation for financial support.
3. How Used (2011):
  - Provides operating fund support to major city attractions:
    - DECC - \$1,000,400
    - Spirit Mountain - \$125,000
    - Lake Superior Zoo - \$520,000
    - Lake Superior Center Great Lakes Aquarium (GLA) - \$300,000
    - St. Louis County Heritage and Arts Center (SLCHAC or “Depot”) - \$151,800
  - Amount allocated (2011) - \$1,945,400

### **B. Recommendations:**

1. **Definition:**
  - **Provide operating fund support, including capital improvement, to visitor-related attractions that are tied legally and/or financially to city operations**
2. **Administrative Process:**
  - **3 year contract(s) with annual audited financial statements reported to the City**

- Quarterly activity reporting of new projects or updated projects, marketing, fundraising, and/or events
3. **Measure of Success:**
- **DECC: Event/Convention Attendees**
  - **DECC: Increased Events or self-contracted conventions each year**
  - **Spirit Mountain/GLA/Depot/Zoo: Paid Visitor/Membership volume/growth each year**
  - **Spirit Mountain/GLA/Depot/Zoo: Events/Exhibits Activities**
4. **Funding:**
- **For each entity receiving operational support, a static percentage based on actual hospitality taxes collected in the prior year, less DECC debt service, subject to review and reconsideration every three years**

### 3. **Reimbursement for Visitor-Related City Support Services**

#### A. **Background:**

1. **Taxes Utilized:**
  - 3% Hotel/Motel Tax
  - 1% Hotel/Motel Tax
  - 2/25% Food and Beverage Tax
  - 2.5% Additional Hotel/Motel Tax
2. **What law says:**
  - First 5% of 3% Hotel/Motel Tax or \$5000 to be allocated to General Operating Fund (of city)
3. **How used (2011):**
  - City Services that support tourism
    - Lift/pedestrian bridge operations
    - Streets and visitor-related park maintenance
    - Facilities Maintenance
    - Police support for tourism related activities
    - Bayfront contracting process
    - Special Events (Grandma's, Beargrease, air shows, etc)
    - Amount allocated 2011 - \$737,980
  - Business Improvement District (BID)
    - Clean and Safe Project
    - Amount allocated 2011 - \$200,000
4. **Total amount allocated (2011) - \$937,980**

#### B. **Recommendation:**

1. **Definition:**
  - **To reimburse city general fund for visitor-related expenses (public safety & public works) and to partially fund taxpayer initiated district services that beautify the downtown area and provide assistance to visitors**
2. **Administrative Process:**
  - **A static percentage of hospitality taxes collected will be deposited in the City's general fund**

- **For the Business Improvement District, a grant application following completion of 2014 contract, with a subsequent 3-year contract**

**3. Measure of Success:**

- **City to report to City Council tourism related spending**
- **Business Improvement District: Annual Reporting of special events, marketing activities, and visitor interaction count report**

**4. Funding:**

- **A static percentage based on actual hospitality taxes collected in the prior year, less DECC debt service**

**4. Visitor-Related Public Improvements**

**A. Background:**

1. Tax Utilized:
  - 2.5% Additional Hotel/Motel Tax
2. What law says:
  - To be used for visitor-related public improvements
3. How used (2011):
  - Enger Tower Repair - \$100,000
  - Reserve for capital projects - \$14,000
4. Amount allocated (2011) - \$114,000

**B. Recommendation**

**1. Definition:**

- **To provide for fixed infrastructure improvements to visitor-related attractions that are tied legally and/or financially to city operations**

**2. Administrative Process:**

- **City Administration will develop and implement an application process**
- **May require matching of funds with other monies raised by organization or facility**

**3. Measure of Success:**

- **Recap of project – with photos if applicable**

**4. Funding:**

- **With legislative and industry approval, extend 1998 “half and half” tax on hotel/motel (in perpetuity) and food & beverage (for one additional year), and use the receipts to establish an Infrastructure Fund for making substantial repairs to city visitor-related attractions**

**5. Cultural or Visitor Projects/Events**

**A. Background:**

1. Taxes utilized:
  - 1% Hotel/Motel Tax
  - 2.25% Food/Beverage Tax
  - 2.5% Additional Hotel/Motel Tax
2. What law says:
  - An account for cultural or visitor projects

3. How used (2011):
  - Rail Alliance - \$40,000
  - Arts Commission - \$30,000
  - Sister Cities - \$20,000
  - Amount Allocated 2011 - \$90,000

**B. Recommendation:**

**1. Definition:**

- **To provide a mechanism for city funding of new or existing cultural or visitor-related projects/special events that attract visitors and generate a Return on Investment (ROI) in sales and/or hospitality taxes.**

**2. Administrative Process:**

- **Annual grant application to City and approved by Council**
- **Annual allocation via contract**

**3. Measure of Success:**

- **Annual Activity Report & Financial**

**4. Funding:**

- **With legislative and industry approval, extend 1998 “half and half” tax on hotel/motel (in perpetuity) and food & beverage (for one additional year) and use the receipts to establish a Special Projects fund to provide support for new projects**

**6. Debt Service on Visitor-Related Improvements or Expansions**

**A. Background:**

**1. Taxes Utilized:**

- 2.5% Additional Hotel/Motel Tax
- 2.25% Food/Beverage Tax

**2. What law says:**

- **To pay for DECC improvements and expansion, and debt service on City supported entities/facilities.**

**3. How used (2011):**

- Pays for DECC improvements and expansion - \$2,064,700
- Lake Superior Center (GLA) - \$201,200
- Spirit Mountain improvements - \$225,000
- Reserve Fund – (\$226,600)

**4. Amount allocated (2011) - \$2,717,500**

**B. Recommendation:**

**1. Definition:**

- **To pay for debt related to major expansion or improvement of visitor-related attractions that are tied legally and/or financially to city operations.**

**2. Administrative Process:**

- **Not applicable**

**3. Funding:**

- **Legislated**

## **Seven (7) General Recommendations**

Based on review of the history of hospitality tax use in Duluth, meetings with recipient organizations, and consideration of information collected, the TTTF makes the following general recommendations:

### **Recommendation #1: Clarify the Definition of Hospitality Taxes**

The TTTF recommends that the City adopt this definition of hospitality taxes:

“Hospitality taxes exist to (1) expand, enhance and/or sustain visitor attractions in the City; (2) encourage visitors through promotion and sales efforts; and (3) generate a measurable return on investment (ROI) in general sales taxes and/or hospitality taxes (hotel/motel and food/beverage) taxes.”

### **Recommendation #2: Create Six Categories of Hospitality Tax Use**

Based on a review of legislative intent and on related ordinance, and using the above guiding definition, the TTTF recommends that the City categorize hospitality taxes using the following six categories:

1. Destination Promotion
2. Operational Support
3. Reimbursement for Visitor-Related City Support Services
4. Visitor-Related Public Improvements
5. Cultural/Visitor Projects or Events
6. Debt Service on Visitor-Related Improvements or Expansions

### **Recommendation #3: Use Static Percentages**

Based on best industry practices, where appropriate within each hospitality tax category of use, the TTTF recommends recipients receive a static percentage of the taxes collected based on the previous year's collections. We apply this static percentage against a base discretionary amount of the total taxes collected, less those specific amounts dedicated to the DECC debt expansions. We further recommend that these static percentages be applied for an entity's entire contract period, and then reviewed and, if need be, modified by City Administration for future contracts on the basis of such things as performance, changing needs, and operating environment.

### **Recommendation #4: Assess Visit Duluth**

Due to some concerns with Visit Duluth, the TTTF recommends the City of Duluth enter into a one-year contract with Visit Duluth for 2012. This one-year contract, funded with thirty-three percent (33%) of actual hospitality taxes collected in 2011 less DECC debt service, should be contingent on Visit Duluth agreeing to an independent organizational

review conducted by a qualified external consultant selected by the City. Pending appropriate changes based on this external evaluation, for subsequent years the TTTF recommends a three-year contractual commitment, funded by thirty-three percent (33%) of actual hospitality taxes collected in the prior year, less DECC debt service.

**Recommendation #5: Develop and Apply Consistent and Robust Application/Reporting Processes**

There is currently no standard across visitor-related entities as to how they apply for and/or receive hospitality tax funding, nor any standard for reporting successes and/or failures. The TTTF therefore recommends that the City create and apply consistent and robust application and reporting processes for all entities receiving hospitality tax funding.

**Recommendation #6: Extend Sun-Setting Taxes to Create Two Support Funds**

For the purpose of funding an Infrastructure Fund for making substantial repairs to city visitor-related attractions, and a Special Projects Fund to provide support for new visitor-related projects, the TTTF recommends the City pursue industry agreement and legislative authorization to extend the 1998 “half and half” tax slated to sunset in 2012. Specifically, we recommend that the one-half percent (.05%) food & beverage tax be extended for one additional year and then be allowed to expire, and that the one-half percent (.05%) hotel/motel tax be extended indefinitely.

**Recommendation #7: Modify the Legislated Two Percent (2%) Hotel/Motel Tax Definition of Use**

A two percent (2%) tax levied on city hotels and motels in 1980 and 1989 requires that half, or one percent (1%) be spent on “tourist-related public improvements.” Historically this phrase has been interpreted quite narrowly, literally meaning funds spent on “capital improvements or debt service.” Upon review, the TTTF believes that a modified interpretation would allow this portion to be more easily allocated to recipients by the City, and would also allow recipients to use this allocation on operations and/or capital as needed. Therefore, the TTTF recommends that either the language of the law be legislatively modified or that the City broaden its interpretation of the law’s intent.

**APPENDIX 1:**

**RESOLUTION ESTABLISHING A TOURISM TAX TASK FORCE**

INTERGOVERNMENTAL RELATIONS COMMITTEE

11-0087R

RESOLUTION ESTABLISHING A TOURISM TAX TASK FORCE.

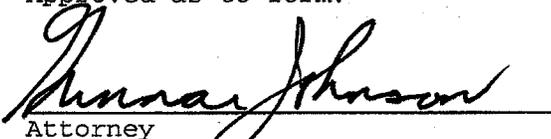
BY COUNCILORS ANDERSON AND HARTMAN:

RESOLVED, that the city council shall establish a tourism tax task force for the purpose of identifying and defining the current status of tourism tax dollar allocation for Duluth. The task force shall examine industry standards in regard to tourism tax collections and uses; review current state statutes, city ordinances, and allocation policies and procedures, and recommend annual allocation of tourism tax dollars.

FURTHER RESOLVED, that the task force shall consist of nine members, with up to three of the members being city councilors, a minimum of three members of the tourism, restaurant or hospitality industry in Duluth, and a minimum of one citizen member with no professional connection to the tourism, restaurant, or hospitality industry. All nine members shall be appointed by the Duluth city council president.

FURTHER RESOLVED, that the task force shall produce a report containing its findings and recommendations to the Duluth city council no later than 60 days after the task force members are appointed. The report shall be delivered to the council by way of the clerk. The members shall serve without compensation. Reasonable expenses, approved by the Duluth city council president and finance director, within the existing budget, shall be paid.

Approved as to form:

  
Attorney

CCREQ/ATTY GBJ:dma 02/08/2011

STATEMENT OF PURPOSE: For years tourism tax dollar allocations have been a point of controversy for the city of Duluth, Visit Duluth, and other entities. The statutes, contracts, allocation policies, etc. have not been reviewed by the council or other industry professionals in many years. This task force will allow the city council to receive information from city administration, Visit Duluth, industry professionals and others involved in tourism tax dollar allocation.

**APPENDIX 2:**

**HOSPITALITY TAX RECIPIENTS  
Interviewees & Interview Questions**

## **Visitor-Related Entities/Organizations Interviewed**

The following entities/organizations presented information to the Tourism Tax Task Force:

Airport Authority  
Duluth Entertainment and Convention Center (DECC)  
Greater Downtown Council (GDC)  
Lake Superior Center – Great Lakes Aquarium LSC – GLA)  
Saint Louis County Heritage & Arts Center – Depot  
Spirit Mountain  
The Zoo  
Visit Duluth (VISD)

The following entities/organizations provided information to the Tourism Tax Task Force:

Duluth Public Art Commission (DPAC)  
Duluth Sister Cities International

## **Questions for Tourist-Related Entities**

1. Please provide a brief statement of your organization's mission and purpose.
2. Please provide a brief overview of your financial operations, including but not limited to:
  - Revenue
  - Employees (FT/PT/Volunteers)
  - Sources of funds
  - Expenditures
  - Fiscal Year parameters
  - Primary competitors
3. Please provide an overview of your organization's governance structure, including but not limited to:
  - Your relationship to the City of Duluth
  - How your organization is legally organized
  - Your Board Members
  - Your Board Member selection process?
  - Your Board Member terms?
  - Your organization's contract
4. In the last three years, 2009, 2010, and 2011, how much tourism tax funding has your organization received?
5. Did your organization apply for this tourism tax funding? If yes, please tell us what process for applying was used and how, in your opinion, the process could be improved.
6. How has your organization used the tourism tax funding?
7. Has your organization been asked to provide a report to the City (or anyone else) regarding tourism tax funding? What reports have you provided?
8. How does your organization handle capital requests?
9. Do you see any future capital requests relative to tourism tax allocations?
10. What metric(s) does your organization use to determine success (or failure)?
11. How does your organization demonstrate that provides a good return on investment (ROI) for the tourism tax funding?
12. Can you provide a snapshot of your organization's performance record for 2008, 2009, and 2010?

13. Looking into the future, where does your organization hope to be by the end of 2011? By 2012? 2013?
14. Would a 5-year allocation of tourism tax funding be helpful to your organization? If yes, why?
15. Finally, is there anything else you would like to tell the Tourism Tax Task Force?

**APPENDIX 3:**  
**COMPARISON CONVENTION BUREAU INFORMATION**

## Lodging Tax and CVB Questions

City:

Population general:

Number of hotel rooms:

### Questions for City Finance Directors:

1. Type of and amounts collected of hospitality taxes
  - a. Lodging- how many 1%, 2%, 3%,?
  - b. F & B – what percent?/Annual amount
  - c. Any of this dedicated for specific bond repayments?
2. How are the Hospitality Taxes divided up?
  - a. City General Fund: % / amount
  - b. Dedicated bond repayment funds: % / amount
  - c. Promotion;% / amount
  - d. Other authorities: % / amount
  - e. Other attractions: % / amount
3. How is City promotion handled in the City
  - a. City itself
  - b. Chamber
  - c. CVB
  - d. Other contract
4. Other

### Questions for CVB

1. How governed- DMO? Members appointed by what method?
2. Total amount of budget?
  - a. Amount / % funded by hospitality taxes
  - b. Amount / % funded by dues/subs
  - c. Amount / % funded by web activities
  - d. Amount / % funded by other
3. Number of FTEs?
4. Total amount of salaries and benefits?
5. Amount of total overhead: total payroll/occupancy inc utilities/other?
6. Amount of promotion for direct spending to outside contracts (not including any annual brochure piece) ? Get as detailed a budget breakdown as possible for direct spending-# of billboards, new print ads, etc.
7. Does CVB do any events, if so describe:
8. Ratio of total overhead to total budget:
9. Ratio of total direct spending to total budget:

<b>Duluth</b>	<b>What do they go to?</b>	<b>2010</b>	<b>2010%</b>
	Hotel	3281000	0.455631
	Food & Beverage	3920000	0.544369

**Total** **7201000**

DECC	957000	0.132898209
Visit Duluth	1428000	0.198305791
Greater Downtown Council	200000	0.02777392
Great Lakes Aquarium	250000	0.0347174
Lake Superior Zoo	520000	0.072212193
Depot	151800	0.021080405
Arts Commission	30000	0.004166088
Sister Cities donations	20000	0.002777392
Rail Alliance	50000	0.00694348
transfer to general fund	737900	0.102471879
capital projects	100000	0.01388696
debt service		
decc	2223800	0.30881822
Lake Superior Center	196800	0.027329538
Spirit Mountain	275000	0.03818914
Bayfront		

<b>Minneapolis</b>	<b>What do they go to?</b>	<b>2010</b>	<b>2010%</b>
	Hotel	5790390	0.35564889
	Food & Beverage	10490808	0.64435111

**Total** **16281198**

Meet MPLS	2205863	0.135468576
Convention Center Debt Service	14077345	0.864638155

<b>Rochester</b>	<b>What do they go to?</b>	<b>2010</b>	<b>2010%</b>
	Hotel	3470108	1
	Food & Beverage	0	0

**Total** **3470108**

Convention & Visitors Bureau	1735054	0.5
General Fund	1735054	0.5

<b>Fargo</b>	<b>What do they go to?</b>	<b>2010</b>	<b>2010%</b>
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	Hotel		1800000	1
	Food & Beverage		0	0
<b>Total</b>			<b>1800000</b>	
	Convention & Visitors Bureau		1800000	1
<b>St. Cloud</b>	<b>What do they go to?</b>		<b>2010</b>	<b>2010%</b>
	Hotel		1111445	0.471014539
	Food & Beverage		1248238	0.528985461
<b>Total</b>			<b>2359683</b>	
	Civic Center and Civic Center Debt		1248238	0.528985461
	Convention and Visitors Bureau		583509	0.247282792
	Civic Center		444578	0.188405816
	City Finance Department		11114	0.004709955
	City Festival		16672	0.007065356
	M.A.C.		33343	0.014130288
	Clemens Gardens		22229	0.009420333

## Visitor Bureau Comparisons

### **Bloomington**

Type of organization – Private non-profit

Incentives - \$60,000

Sales team – 6 people (soon 7) (1 sports marketing)

RFP – NO

Contract renewal process – 5 years

7% lodging tax (5% goes to Bloomington – 2% goes to CVB)

Tax revenue is based on a percentage – very happy with that

Annual report sent to city

### **Fargo**

Type of organization – private non-profit

Incentives - \$80,000 (60,000 for Event assistance and 20,000 for Event Hospitality)

Sales Team – 5 people (1 sports marketing)

RFP – No

Contract renewal process – no renewal, automatically reoccurs

Lodging tax – 100% goes to CVB

### **St. Paul**

Type of Organization – CVB combined with Convention Center (2005)  
- Convention center privately managed

Incentives - \$70,000

Sales Team – NA

RFP- NO

Contact – 3 years (referred to it as a formality)

Need to report annual financial statements to city

**Rochester**

Type of organization – private non-profit

Incentives - \$100,000

Sales team - 5

RFP - NO

Contract Renewal - 3 years

50% of lodging tax (highly advise static %)

**APPENDIX 4:**

**DULUTH HOSPITALITY TAXES**  
**Historical – Current Use**

## TOURISM TAX BREAKDOWN

TAX	YEAR ENACTED	REVENUE COLLECTED 2010	USE/RESTRICTIONS	AMOUNT ALLOCATED 2010
3% Hotel/Motel Excise Tax	1969	\$1,700,440	First 5% --- General Fund Balance: 65% ----- 35% ----- Arena/Auditorium Advertising & Promotion	\$85,022  \$1,050,022 \$565,396
1% Hotel/Motel Sales Tax	1977	\$566,813	to pay for activities which promote tourism and; to subsidize the Arena/Auditorium and Spirit Mountain Authority	\$566,813
2% Additional Hotel/Motel Tax	1980 1989	\$1,064,193	1/2 to promote tourism and to subsidize the DECC and Spirit Mountain Authority	\$532,097
.5% Additional Hotel/Motel Tax	1998	\$266,048	1/2 to be used for tourist related public improvements  to pay debt service related to 1999 DECC improvements	\$266,048
1% Food & Beverage Tax	1977 1999	\$1,843,260	to pay for activities which promote tourism and; to subsidize the DECC and Spirit Mountain Authority	\$1,843,260
.5% Additional Food & Beverage Tax	1998	\$963,522	to pay debt service related to 1999 DECC expansion	\$963,522
.75% Additional Food & Beverage Tax	2007	\$1,382,445	to pay debt service related to Amsoil Arena	\$1,382,445

\$7,786,721

\$7,786,720

**City of Duluth  
Tourism Tax**

<b>Type</b>	<b>Rate</b>	<b>Use -- Per Statute/Ordinance</b>	<b>Current Beneficiaries</b>	<b>Comments</b>
Hotel-Motel	3.0%	5.00% - General Fund 61.75% - DECC 33.25% - Advertising & Publicity	GF DECC Visit Duluth	By contract this goes to Vis-D
Hotel-Motel	1.0%	Unrestricted tourism	Vis-D, Heritage Arts Ctr, GLA, General Fund	Written in the same spirit as the 3% tax above
Hotel-Motel	2.0%	50% Tourism related capital improvements 50% Promote tourism	Spirit Mtn, Enger, etc. Vis-D, GLA, BID, Zoo, Rail, Sister Cities, Arts Comm, Heritage Arts, etc.	
Hotel-Motel	0.5%	DECC & GLA debt (issued 1999)	DECC & GLA	Tax sunsets when reserves are sufficient to pay off the debt (likely 2012)
Food & Beverage	0.5%	DECC & GLA debt (issued 1999)	DECC & GLA	Tax sunsets when reserves are sufficient to pay off the debt likely 2012)
Food & Beverage	0.75%	DECC debt (issued 2008)	DECC	Tax sunsets when reserves are sufficient to pay off the debt (bonds paid in full 2034)

Tax	Amount	Enacted	Authority	Restriction
City Hotel Motel Tax	3%	Ord. 7692 Mar. 17, 1969	Duluth City Charter, Ch. VIII § 54(d)	First 5% or \$5000 to General Fund for Administration. 65% of remaining "support and maintenance of the arena-auditorium of Duluth 35% "shall be used for advertising and promotion the city of Duluth as a tourist and convention center
City Hotel Motel Tax	1%	Ord. 8302 Jan. 17, 1977	Laws of MN for 1980 Ch. 511	Shall be used to pay for activities conducted by the city or other organizations which promote tourism in the city of Duluth, and to subsidize the Duluth Arena-Auditorium and the Spirit Mountain recreation authority.
City Hotel Motel Tax	2.5%	Ord. 8963 Nov. 20, 1989	Duluth City Code Chapter 42A, Article II, § 42A-49 through 50	The revenues received from one percent of the tax imposed by this Article shall be used to pay for activities conducted by the city or by other organizations which promote tourism in the city of Duluth and to subsidize the Duluth Entertainment Convention Center and the Spirit Mountain recreation area, and the revenues received from another one percent of such tax shall be used for tourist related public improvements... (b) The revenues received from 1/2 percent of the tax imposed by this Article shall be used to pay the debt service
City food-beverage tax	1%	Ord. 8332 Jun. 20, 1977	Law of MN for 1977, Chapter 438	Revenues from this additional tax shall be used to provide revenue only for facilities or agencies which are run by the governing body of the city or by a board which appointed by the governing body of the city.
City food-beverage tax	.5%	Ord. 9372 May 26, 1998	Duluth City Code § 42A-2(b) & § 42A-44(c)	Revenue received from the 1/2 percent of the tax authorized by said section 42A-2(b) shall be used to pay the debt service on bonds issued to finance the expansion of the Duluth Entertainment Convention Center.

FINANCE COMMITTEE

10-0590R

RESOLUTION DISTRIBUTING THE ESTIMATED 2011 TOURISM TAXES OF HOTEL-MOTEL AND FOOD AND BEVERAGE.

CITY PROPOSAL:

RESOLVED, that the 2011 tourism taxes of hotel-motel and food and beverages, as estimated, be distributed in the following manner:

	3% Hotel-Motel	1% Hotel-Motel	2.25% Food & Beverage	Add'l 2.5% Hotel-Motel	Total
Visit Duluth	538,600	178,600	596,000	167,600	\$ 1,480,800
DECC Amsoil Arena Debt Service			1,344,300		\$ 1,344,300
DECC	1,000,400				\$ 1,000,400
Transfer to General Fund	81,000	260,100	300,600	96,800	\$ 737,900
DECC Expansion Debt Service			720,400		\$ 720,400
Lake Superior Zoo Fund			413,800	106,200	\$ 520,000
Spirit Mountain Debt/Capital				350,000	\$ 350,000
Great Lakes Aquarium		16,800	184,000	99,200	\$ 300,000
Reserve for Debt Service			175,800	50,800	\$ 226,600
Lake Superior Center Debt Service				201,200	\$ 201,200
Business Improvement District			200,600		\$ 200,000
Heritage and Arts Center		81,500	86,100	14,200	\$ 151,800
Capital Projects - Enger Tower				100,000	\$ 100,000
Rail Alliance				40,000	\$ 40,000

**APPENDIX 5:**  
**VISIT DULUTH FINDINGS**

## Visit Duluth Findings

The TTF was given the responsibility of recommending a more permanent and less political method for allocating tax revenues produced by tourism. In order to appropriately recommend how this hospitality tax revenue should be distributed, the TTF asked questions about how visitor-related entities were spending the tax money.

During the course of this review the TTF became concerned that Visit Duluth was not being held to the same standards as other agencies receiving public monies. Thus the TTF makes the following observations and suggests that they be addressed:

1. Visit Duluth is a City Grantee Agency performing contract services for the City of Duluth. The City Contract represents public funds and Visit Duluth must operate as if a public authority in terms of transparency and accountability. As a result, *the TTF suggests that all City contracts based primarily on hospitality taxes need to include a 16C, Sub 5 Subject to Audit Clause by State/Legislative Auditor and that future audits be done by the Office of the State Auditor.*
2. Board Governance Concerns - There were several examples of violation of the Visit Duluth Board of Directors By-laws and Board of Directors Policy Manual that could jeopardize their State of Minnesota Incorporation status and IRS 501C6 status:
  - Conflict of Interest Requirements – the Board of Directors Policy Manual (page 2) requires its members to disclose their conflict publicly and states that such action be recorded in the minutes;
  - Authorized Board Size – the Visit Duluth Bylaws (page 2) allows for 18 Board of Director members. Visit Duluth currently has 23 and recently nominated another member;
  - Check Signing Requirement – the Board of Directors Policy Manual (page 19) requires a bona fide second signature of Board Chair or Board designee in addition to the CEO's, but this does not seem to be followed. The 2010 Audit Management comment cited a lack of appropriate segregation of duties in a small operation. Not following this violates a basic standard of strong non-profit internal controls;
  - Budget Approval- Board of Directors Policy Manual (page 18) states that the budget approval is required 30 days prior to the start of its fiscal year.

*As a result, the TTF suggests that a smaller, stronger, and more independent stakeholder Board of Directors be developed that has a more direct role in the oversight of the organization (see, for one example, the Rochester model).*

3. Large Event Funding and Production and New Event Development - The Visit Duluth Board of Directors and City Stakeholders should discuss the

appropriateness of having Visit Duluth act as the producer of large events such as Tall Ships that contain financial risk and large staffing resource commitments. Many large events such as Grandma's Marathon, the Blues Festival, the In-line Marathon, Bentleyville and Beargrease Sled Dog Race were started with initial minor help from Visit Duluth, and have become successful independently-produced events. There does not appear to be any process that allows people to 'pitch' a new event and apply for funding.

*As a result, the TTTF suggests that an RFP process, which includes published standards for application form as well as criteria for selection and funding levels, be developed for event funding. This RFP process should include scheduled requests for RFP's and a Board of Directors' chaired subcommittee for RFP approval.*

4. Stakeholder Collaboration on Events - Visit Duluth's incorporation statement is "to promote the City of Duluth as a convention center and as a tourist attraction site at which special events may be held." The DECC is Visit Duluth's primary stakeholder and the Bayfront Task Force recently recommended the DECC as the best organization to operate Bayfront Park. Visit Duluth has avoided working with the DECC for large events despite DECC repeated attempts to partner.

*As a result, the TTTF suggests that Visit Duluth partner with the DECC in all future events as a way to leverage expertise, lower event expenses, staff time and reduce the substantial amount of financial risk it assumes which jeopardizes its primary mission to promote Duluth.*

5. Visitor's Guide

*The TTTF suggests that the Board of Directors direct the CEO to produce a plan to make the Visitor's Guide more cost effective immediately perhaps by performing an RFP to an outside Advertising Agency and keep any costs outside of the City Contract.*

6. Marketing Strategic Plan

*The TTTF suggests that a regular outside agency review process (annual or perhaps every 2 or 3 years) be developed for the purpose of producing broad goals and strategies/tactics for the annual marketing action plan as well as criteria for measuring success and return on investment (ROI).*

The TTTF was surprised to discover some of the practices outlined above. Visit Duluth has done many things well in promoting Duluth as a destination. We are concerned, however, that a lack accountability (criteria and measurement of ROI) and transparency (RFP's for services bought and RFP's for event funding) is limiting what Visit Duluth can do to promote Duluth.

**For the above reasons, the TTTF recommends that for 2012, the City of Duluth enter into a one-year contract with Visit Duluth. This one year contract, funded with thirty-three percent (33%) of actual hospitality taxes collected in 2011 less DECC debt service, should be contingent on Visit Duluth agreeing to an independent organizational review conducted by a qualified external consultant selected by the City.**

**Pending appropriate changes to Visit Duluth based on this external evaluation, for subsequent years the TTTF recommends a three-year contractual commitment, funded by thirty-three percent (33%) of actual hospitality taxes collected in the prior year, less DECC debt service.**