

# Hotel Fund Financial Sustainability Discussion

The logo for ADDISON, featuring the word "ADDISON" in a bold, blue, sans-serif font centered within a white circle. The circle is set against a blue background that is part of a larger graphic design on the right side of the slide, which includes a grey triangle in the top right corner and a grey triangle in the bottom right corner.

# Tonight's Agenda Item

Because of the continuing economic effects of COVID-19, Staff conducted a financial analysis of the Hotel Fund and made projections through FY2025.

The analysis revealed the Hotel Fund is financially sustainable through FY2021.

We are bringing this discussion forward proactively so that recommendations can be developed that maintain the minimum 25% reserve requirement in the fund after FY2021.

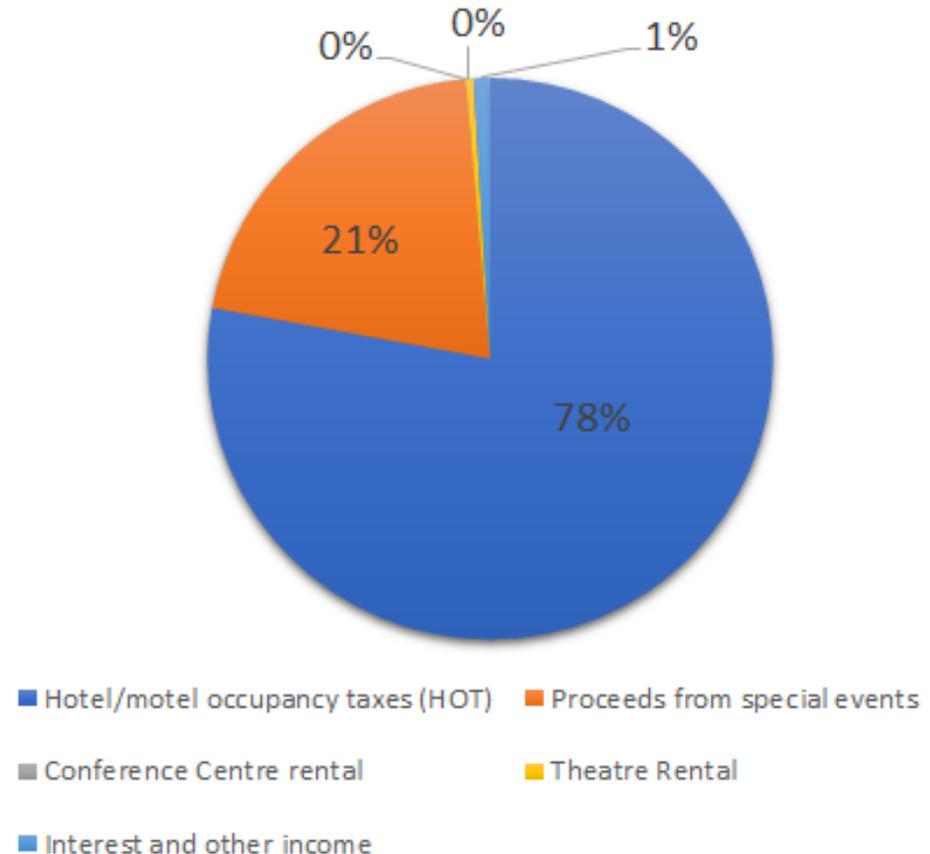
Staff will present a financial analysis of the Hotel Fund, discuss Hotel Fund's major events and activities, and seek Council direction on the development of recommendations to help insure the long-term financial sustainability of the fund.

The Hotel Fund accounts for the use of hotel occupancy tax revenue generated by Addison's hotels which is restricted by State legislation to directly enhancing and promoting tourism and the convention and hotel industry.

Hotel Fund revenue comes from:

- Hotel Occupancy Tax
- Special Events Revenue
- Conference Centre Rentals
- Theatre Centre Rentals
- Other Earnings

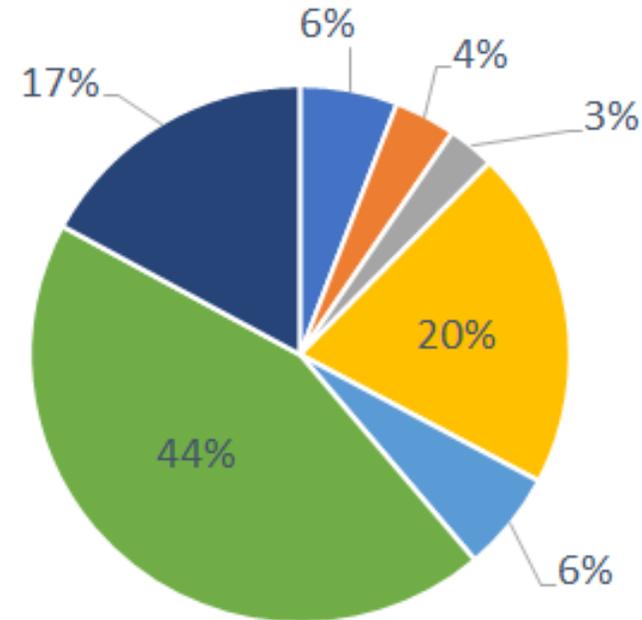
## Hotel Fund FY 2021 Revenue



Major expenditures in this fund are:

- Special Events (44%)
- Marketing (20%)
- Special Events Operations (17%)
- Performing Arts (6%)
- Addison Theatre Centre (6%)
- Addison Conference Centre (4%)
- General Hotel Operations (3%)

## Hotel Fund FY 2021 Expenditures



- Addison Theatre Centre
- Conference Centre
- General Hotel Operations
- Marketing
- Performing Arts
- Special Events
- Special Events Operations

# Hotel Occupancy Tax Allowed Uses

The Hotel Occupancy Tax (HOT) in Texas is 13% of the price paid for a room with the state receiving 6% and the Town receiving 7%.

The Texas Municipal Hotel Occupancy Tax is defined in Texas Tax Code Chapter 351.

HOT revenue expenditures must meet a two-part test under the law:

1. Does the expense promote tourism AND the convention and hotel industry? If yes, move to #2.
2. The expense must meet one of the following categories:
  - 1) Construction, operation, and/or maintenance of convention center and/or visitor information center facilities.
  - 2) Convention registration.
  - 3) Advertising the city.
  - 4) Promotion of the arts. (15% maximum of HOT revenue with 'arts' defined by law)
  - 5) Historical restoration and preservation.
  - 6) Sporting events in a county under one million in population.
  - 7) Enhancing or upgrading existing sports facilities or sports fields (only in certain cities).
  - 8) Tourist transportation systems.
  - 9) Signage directing the public to sights and attractions that are visited frequently by hotel guests.

TOWN OF ADDISON								
HOTEL SPECIAL REVENUE FUND LONG-TERM FINANCIAL PLAN								
City Council Adopted FY2021 Annual Budget								
					Year 1	Year 2	Year 3	Year 4
	Actual	Estimated	Budget		Projected	Projected	Projected	Projected
	2018-19	2019-20	2020-21		2021-22	2022-23	2023-24	2024-25
<b>BEGINNING BALANCE</b>	\$ 4,122,535	\$ 3,468,059	\$ 2,285,310		\$ 1,780,156	\$ 885,321	\$ 52,751	\$ (793,357)
<b>REVENUES:</b>								
Hotel/motel occupancy taxes (HOT)	5,427,585	3,000,000	4,155,000		4,570,500	4,799,025	4,942,996	5,091,286
Proceeds from special events	1,206,764	109,172	1,104,500		1,115,545	1,126,700	1,137,967	1,149,347
Conference Centre rental	523,710	256,007	-		550,000	566,500	583,495	601,000
Theatre Rental	78,316	60,000	23,810		24,048	24,289	24,531	24,777
Interest and other income	118,410	86,315	50,100		50,601	51,107	51,618	52,134
<b>TOTAL REVENUES</b>	<b>\$7,354,785</b>	<b>\$3,511,494</b>	<b>\$5,333,410</b>		<b>\$6,310,694</b>	<b>\$6,567,621</b>	<b>\$6,740,608</b>	<b>\$6,918,544</b>
<b>EXPENDITURES:</b>								
Addison Theatre Centre	291,298	348,036	318,877		328,443	338,297	348,446	358,899
Conference Centre	956,507	938,776	200,977		1,000,000	1,030,000	1,060,900	1,092,727
General Hotel Operations	142,763	85,527	154,125		159,464	164,516	169,737	175,132
Marketing	962,526	1,013,214	1,113,915		1,169,929	1,202,009	1,234,986	1,268,888
Performing Arts	437,900	500,000	329,089		357,132	381,557	393,004	404,794
Special Events	2,579,212	543,817	2,405,808		2,469,788	2,535,474	2,602,912	2,672,149
Special Events Operations	903,337	846,912	931,773		952,773	980,339	1,008,732	1,037,978
<b>TOTAL OPERATING EXPENDITURES</b>	<b>6,273,544</b>	<b>4,276,282</b>	<b>5,454,564</b>		<b>6,437,529</b>	<b>6,632,191</b>	<b>6,818,716</b>	<b>7,010,567</b>
Fund transfer out	\$ 715,000	\$ 384,000	\$ 384,000		\$ 768,000	\$ 768,000	\$ 768,000	\$ 768,000
Capital Projects (Cash Funded)	1,020,717	33,960	-		-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>8,009,261</b>	<b>4,694,242</b>	<b>5,838,564</b>		<b>7,205,529</b>	<b>7,400,191</b>	<b>7,586,716</b>	<b>7,778,567</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 3,468,059</b>	<b>\$ 2,285,310</b>	<b>\$ 1,780,156</b>		<b>\$ 885,321</b>	<b>\$ 52,751</b>	<b>\$ (793,357)</b>	<b>\$ (1,653,381)</b>
<b>Ending balance as a % of expenditures</b>	<b>55.3%</b>	<b>53.4%</b>	<b>32.6%</b>		<b>13.8%</b>	<b>0.8%</b>	<b>-11.6%</b>	<b>-23.6%</b>
<b>Required ending fund balance</b>	<b>\$ 1,568,386</b>	<b>\$ 1,069,071</b>	<b>\$ 1,363,641</b>		<b>\$ 1,609,382</b>	<b>\$ 1,658,048</b>	<b>\$ 1,704,679</b>	<b>\$ 1,752,642</b>
<b>Positive (Negative) fund balance variance</b>	<b>\$ 1,899,672</b>	<b>\$ 1,216,240</b>	<b>\$ 416,515</b>		<b>\$ (724,061)</b>	<b>\$ (1,605,297)</b>	<b>\$ (2,498,036)</b>	<b>\$ (3,406,023)</b>

# Hotel Fund Sustainability Project

A team comprised of Staff from Special Events, Marketing and Communications, Economic Development and Tourism, Finance, and the City Manager's Office analyzed the Hotel Fund.

## Program-Based Approach

- The team looked at the Hotel Fund as a collection of individual programs (events and activities) such as Taste Addison, Conference Centre, and Hotelier Support.
- A description of each program was created. The revenue, costs and non-financial benefits of each program were documented.
- Each program was evaluated based on its:
  - Hotel Occupancy Tax legislation alignment (promotes tourism and hotel/convention industry)
  - Contribution to the Strategic Planning Pillar of Optimizing the Addison Brand
  - Local economic impact
  - % of cost offset by program revenue



# Program Summary Slide Format

**Program Description:** A brief description of each program will be provided.

**Program Rating:**

1. How well does the program support tourism AND the convention and hotel industry?
2. Under which of the Hotel Occupancy Tax categories does this program fall?
3. How well does the program support Council’s Strategic Pillar of Optimizing the Addison Brand?
4. How well does the program impact the Addison economy?
5. Percentage of program costs offset by program revenue.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
4 of 5	3	4 of 5	4 of 5	32%

Programs were rated on a 1 to 5 scale. Programs scores of 0 or 1 are highlighted in red. Programs scoring 2 or 3 are in yellow. Programs scoring 4 or 5 are in green.

**Program Financials for FY2021:**

Revenue	Expenses	Hotel Fund’s Cost
\$333,000	\$1,036,333	\$703,333

# Staff Seeks Council Direction

After presenting each program summary, Staff will seek Council direction on the development of recommendations for that program.

Staff will ask Council if they would like recommendations developed for:

- Program modifications such as increasing revenue, decreasing costs, and/or program modifications.
- Program suspension while the Hotel Fund recovers financially.
- Program elimination.
- Transferring a program out of the Hotel Fund.
- Other options.

Staff will utilize this direction to develop specific recommendations that will be presented for Council consideration at a future meeting.

# Taste Addison

Multi-day festival featuring national music artists, Addison restaurants, and alcohol sampling.

In 2019, this festival generated 155 room nights (tracked via hotel packages) and over 420 million impressions/views valued at \$437,005 (measured by PR firm and media sources). Total attendance was 14,420.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
4 of 5	3	4 of 5	4 of 5	32%

Revenue	Expenses	Hotel Fund's Cost
\$333,000	\$1,036,333	\$703,333



# Addison Kaboom Town

Independence Day celebration featuring airshow at Addison Airport, festival at Addison Circle Park, and fireworks display that generates watch parties across the town and beyond.

In 2019, this festival generated 735 room nights (tracked via hotel packages) and over 522 million impressions/views valued at \$3.2 million (measured by PR firm and media sources). Total attendance was 25,015.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
5 of 5	3	5 of 5	5 of 5	19%

Revenue	Expenses	Hotel Fund's Cost
\$115,500	\$624,022	\$508,522



# Addison Oktoberfest

Multi-day German-themed festival featuring multiple stages with German music and dance, German food and beer, and interactive games.

In 2019, this festival generated 474 room nights (tracked via hotel packages) and over 1.04 billion impressions/views valued at \$2.3 million (measured by PR firm and media sources). Total attendance was 43,308.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
5 of 5	3	5 of 5	5 of 5	62%

Revenue	Expenses	Hotel Fund's Cost
\$619,000	\$1,006,410	\$387,410



# Addison After Dark

Monthly event series featuring live music, themed activities, and attractions. Occurs April - November at Addison Circle Park.

In 2019, this festival generated 0 room nights (tracked via hotel packages), over 445 million impressions/views valued at \$80,416 (measured by PR firm and media sources), and total attendance of 2,642.

In 2020, the replacement event series Addison Weekend Drive-In generated 16 room nights (tracked via hotel packages) and total attendance of 2,490; final impressions/views have not been calculated.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
3 of 5	3	4 of 5	2 of 5	12%

Revenue	Expenses	Hotel Fund's Cost
\$17,000	\$137,153	\$120,153



# Addison Circle Park Maintenance and Operations



Maintenance of Addison Circle Park, including mowing and trimming, infrastructure, and utilities.

Addison Circle Park is defined in the Parks Master Plan as a *Destination Park* that supports large group gatherings and events. The park also operates as a community park space the majority of the year.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
0 of 5	None	4 of 5	2 of 5	0%

Revenue	Expenses	Hotel Fund's Cost
\$0	\$232,176	\$232,176



# Special Event Permitting

Management and execution of the special event permit program, which allows runs, festivals, and other programs to operate in the Town of Addison that attract visitors and support community businesses.

In 2019, permitted events operated by third party planners brought over 42,000 people to Addison. The number of hotel room nights generated is unknown. Expenses for this program are due to the sponsorship of the events at Vitruvian Park produced by UDR.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
3 of 5	3	3 of 5	3 of 5	11%

Revenue	Expenses	Hotel Fund's Cost
\$20,000	\$185,000	\$165,000



# Special Events Operations and Administration

Operational expenses such as office maintenance, technology, utilities and furnishings, as well as administrative expenses such as training, uniforms, memberships, awards and oversight of the Belt Line banner program.

Maintaining an office, staff and associated administrative costs are necessary for the execution of the other programs.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
	3			

Revenue	Expenses	Hotel Fund's Cost
\$0	\$613,221	\$613,221



# Addison Theatre Centre

Services provided to support internally and externally produced public shows, exhibitions, and private functions, including technical services and equipment, planning assistance and oversight. Also, the purchase, upkeep, and maintenance of equipment and facilities, and staffing/administrative costs.

In 2019, the Main Stage and Studio Theatre spaces were in use 72% of the time. There are 9 organizations using the facility regularly, and approximately a dozen more who use it occasionally. Because these groups do not currently report on hotel stays generated by their performances, impact on the hotel industry is unknown.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
2 of 5	4	3 of 5	2 of 5	7%

Revenue	Expenses	Hotel Fund's Cost
\$23,810	\$320,996	\$297,186



# Performing Arts Grants

Grant funding awarded to select performing arts organizations that utilize the Addison Theatre Centre. Organizations and funding levels are determined by Council.

In 2019, the group receiving grant funds gave 137 live, public performances. In 2020, the two groups receiving grant funds gave 84 live, public performances (reduced due to COVID-19). Because these groups do not currently report on hotel stays generated by their performances, impact on the hotel industry is unknown.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
2 of 5	4	3 of 5	2 of 5	0%

Revenue	Expenses	Hotel Fund's Cost
\$0	\$377,500	\$377,500



# Addison Conference Centre



Services provided to support facility rentals for private events, meetings, expos, and conferences, including technical services and equipment, planning assistance, event set-up and break-down, and oversight. Also, the purchase, upkeep, and maintenance of equipment and facilities, marketing, and staffing/administrative costs.

In 2019, the Addison Conference Centre and/or Stone Cottage were booked by clients 67% of the time. Because these groups do not report on hotel stays generated by their bookings, impact on the hotel industry is unknown.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
4 of 5	1	3 of 5	2 of 5	0% in FY2021 53% in FY2019

	Revenue	Expenses	Hotel Fund's Cost
FY2021	\$0	\$234,978	\$234,978
FY2019	\$523,710	\$991,507	\$467,797



# Conference and Meeting Incentives

Funds used to incentivize groups to book their meetings, conferences, or events in Addison hotels and meeting venues.

In 2019, groups that received incentives actualized 26,388 room nights and \$7M in revenue for Addison hotels. In 2020, funds were unexpended as groups and organizations canceled their events due to the pandemic. The funds will be critical in the upcoming year to attract conferences and meetings to Addison that will create room nights. Sponsorships help attract events that generate room nights but may not qualify for the Hotel Support Program.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
5 of 5	3	5	5 of 5	0%

Revenue	Expenses	Hotel Fund's Cost
\$0	\$282,892	\$282,892



# Hotelier Support

Informative meetings and appreciation events hosted by Addison staff for hoteliers, as well as membership for all Addison hotels to the state organization, Texas Hotel & Lodging Association.

Meetings with hoteliers help to keep open communication with the Town which benefits all involved. The Hotel & Lodging Association membership give hotel access to legal professionals, legislative updates and industry best practices.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
4 of 5	3	3 of 5	3 of 5	0%

Revenue	Expenses	Hotel Fund's Cost
\$0	\$24,272	\$24,272



# World Affairs Council

World Affairs Council is a non-profit corporation established under the laws of the State of Texas with a mission to promote international awareness, understanding, and connections through its multifaceted programs. The Council works to enhance the region’s global stature and to prepare North Texans to thrive in our complex world.

Among other things, these efforts provide an opportunity to attract tourists and businesses to the City and educate the public on the many cultures that make up the North Texas region.

Since most events are hosted in other communities, these efforts do not directly promote the hotel and convention industry within Addison.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
1 of 5	None	2 of 5	1 of 5	0%



Revenue	Expenses	Hotel Fund's Cost
\$0	\$60,000	\$60,000

# Tourism Administration

The tourism efforts are part of the Economic Development and Tourism Department. The Tourism Coordinator is the sole employee. Funding comes from a transfer from the Hotel Fund to the Economic Development Fund.

The tourism division of the Economic Development & Tourism Department helps manage the programs and activities that help attract tourists and visitors to Addison.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
	3			

Revenue	Expenses	Hotel Fund's Cost
\$0	\$126,842	\$126,842



Print and digital advertising, visitor guides, influencer programs, content creation, website design and promotional items, and other related marketing materials to promote Addison to visitors.

The Barber Shop Advertising Agency started with the Town last October and has been able to help target marketing efforts more effectively by expanding Addison’s digital, targeted efforts. In 2020, the advertising program generated near 18 million impressions and more than 407,000 engagements and clicks.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
5 of 5	3	5 of 5	4 of 5	0%

Revenue	Expenses	Hotel Fund’s Cost
\$0	\$515,365	\$515,365



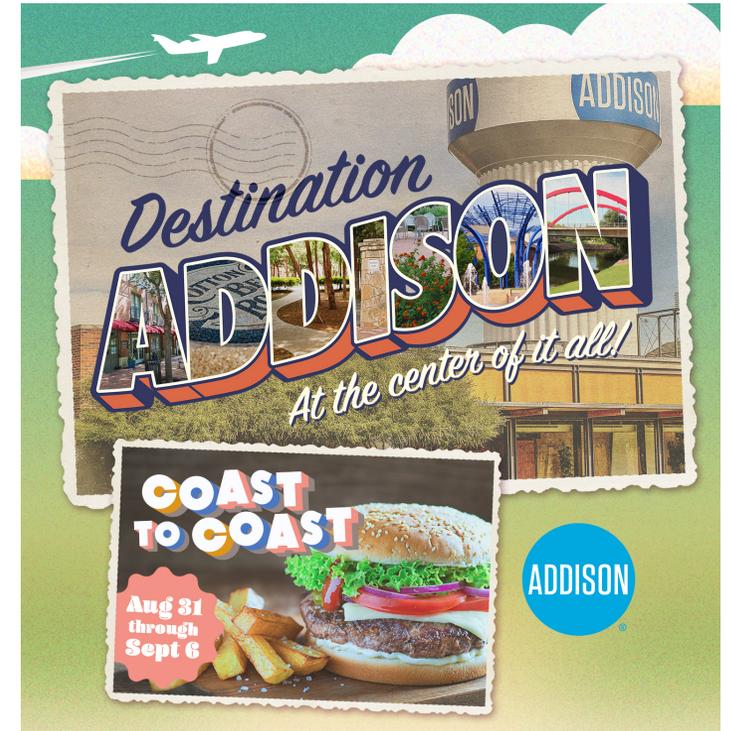
# Marketing Administration

There are two people in the Marketing Department. In addition to providing support for tourism-related activities, the department also creates the weekly Town newsletter, maintains the Town’s website and social media channels, manages crisis communications, and markets a variety of city programs to the community.

Maintaining an office, staff and associated administrative costs are necessary for the execution of the other programs.

Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
	3			

Revenue	Expenses	Hotel Fund’s Cost
\$0	\$330,635	\$330,635



# Summary of Program Evaluations

	Tourism & Hotels	H.O.T. Category	Addison Brand	Local Economic Impact	Cost % Offset by Revenue
Taste Addison	4 of 5	3	4 of 5	4 of 5	32%
Addison Kaboom Town	5 of 5	3	5 of 5	5 of 5	19%
Addison Oktoberfest	5 of 5	3	5 of 5	5 of 5	62%
Addison After Dark	3 of 5	3	4 of 5	2 of 5	12%
Addison Circle Park M&O	0 of 5	None	4 of 5	2 of 5	0%
Special Event Permitting	3 of 5	3	3 of 5	3 of 5	11%
Special Events Operations & Administration		3			
Addison Theatre Centre	2 of 5	4	3 of 5	2 of 5	7%
Performing Arts Grant	2 of 5	4	3 of 5	2 of 5	0%
Addison Conference Centre	4 of 5	1	3 of 5	2 of 5	0% in FY21 53% in FY19
Conference and Meeting Incentives	5 of 5	3	5	5 of 5	0%
Hotelier Support	4 of 5	3	3 of 5	3 of 5	0%
World Affairs Council	1 of 5	None	2 of 5	1 of 5	0%
Tourism Administration		3			
Marketing	5 of 5	3	5 of 5	4 of 5	0%
Marketing Administration		3			

# Discussion Continued at Future Meeting

A second Work Session discussion is tentatively scheduled for November during which the requested recommendations will be presented.

Council's direction to Staff on the recommendations presented will be requested at that meeting.