

2023 Hospitality Tax Review Primer and Revenue Update

*Wake County Stakeholders
February 15, 2023*



Raleigh



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Today's Agenda

- Overview of hospitality taxes
- Revenues
- Review proposed changes to the Operating Principles
- Stakeholder review schedule

Wake County Hospitality Taxes

- State legislation approved in 1991 and amended in 1995 levies 6% on occupancy stays and 1% on prepared food and beverage countywide
- Wake County and City of Raleigh are responsible for oversight and approval for uses of revenues
- Revenues must be used for projects supporting arts, cultural, sports or convention
- Revenues in FY1995 = ~ \$12 million
- Revenues in FY2022 = ~ \$66 million

Financial Planning Models

- County serves as fiscal agent
- Financial models jointly maintained
 - Major Facilities Cash Flow Model – Wake County
 - Convention Center Complex Financing Plan - City of Raleigh
- Consider long-term expenditure commitments within a model sensitivity analysis to minimize project and financing risk with debt repayment the highest priority
- Maintain fund balance targets that provide adequate margin of error to minimize financing risk should revenue estimates fall short of projections



Euquay Varina
Fleming Loop Park



Wake Forest
Renaissance Center



Morrisville Cricket
Field Lights



Marbles Kids
Museum



Knightdale
Wake Stone
Athletic Park



Raleigh Convention Center



PNC Arena



Apex
Pleasant Park



Dinosaur Lab
NC Museum
of Nat
Science



Cary Tennis Park



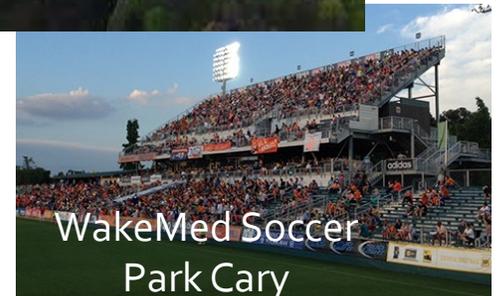
5 County Stadium



NC Museum
of Art



Triangle Aquatic
Center



WakeMed Soccer
Park Cary

Governed by Interlocal Agreements

- An interlocal agreement between the City of Raleigh and Wake County along with 22 amendments articulate the oversight and uses of the revenues
- 22nd Amendment calls for a public review
 - Review Financial Models
 - Inclusive of stakeholders
 - Led by Raleigh City Manager and Wake County Manager
 - Complete by June 30, 2023

Recent Amendments - Highlights

	21 st Amendment (June 2019)	22 nd Amendment (June 2020)
PNC Arena Enhancements	\$9M annually	No change to amount; Funding through FY2029 committed, future funding dependent on future plan
Raleigh Convention Center Complex	\$14M for purchase of land	No impact - Land purchase completed
	\$5M RCC optimization	Funding removed from model
	\$2.2M parking/infrastructure needs annual commitment begin FY 2023	Funding delayed until FY2025
	\$2.575M capacity for music venue relocation begin FY2025	Funding removed from model
	\$15M capacity for convention center expansion begin FY2028	Funding delayed until FY20230
Indoor Sports Facility	\$2.36M commitment competitive process begin FY2021	Funding delayed until FY2022
Medium Projects	\$42.1M commitment competitive process	Funding removed from model
Small Projects	\$2M annually	Funding for FY2021 removed from model
Deadline for next review	June 30, 2022	June 30, 2023

Stakeholder Engagement

- Operating Principles
 - Stakeholders created Operating Principles to articulate the values of the community and stakeholders as it relates to the uses and governance of hospitality taxes in Wake County.
- Staff Review Team
 - Operating Principles established a staff review team to assist City and County managers to help plan, review model scenarios and advise on the distribution of tax revenues
 - Centennial Authority
 - Greater Raleigh Convention and Visitors Bureau
 - Town of Morrisville
 - Wake County
 - City of Raleigh
 - Town of Cary
 - Town of Wendell
 - Wake County Hospitality Alliance
- Stakeholder Review
 - A process is created to include stakeholders in the review of revenues, planned expenditures and future opportunities every few years as defined in the approved interlocal agreement
 - The next full review is to be complete by June 30, 2023

Since Our Last Review

- February 2020: Town of Cary selected to develop Indoor Sports Facility
- March 2020: COVID impacts felt locally
- April 2020: Medium Projects competitive process discontinued due to COVID impacts on revenues
- June 2020: 22nd Amendment to ILA approved
- October 2020: Tri-Party Agreement approved with Centennial Authority
- Current: Raleigh conducting RFI for hotel developer
- Current: Raleigh conducting visioning process for Convention Center
- Current: Centennial Authority conducting long-term planning for arena
- Current: Small projects competitive process - \$8M to be awarded

2023 Interlocal Review with Stakeholders

- Review operating principles
- Update revenue forecasts
- Update from Centennial Authority on PNC Plans
- Update from City of Raleigh on Convention Center Complex Plans
- Update from Town of Cary on Indoor Sports Center Plans
- Discuss countywide long-term planning for quality of life/quality of place
- Review recommendation from Raleigh and Wake Managers

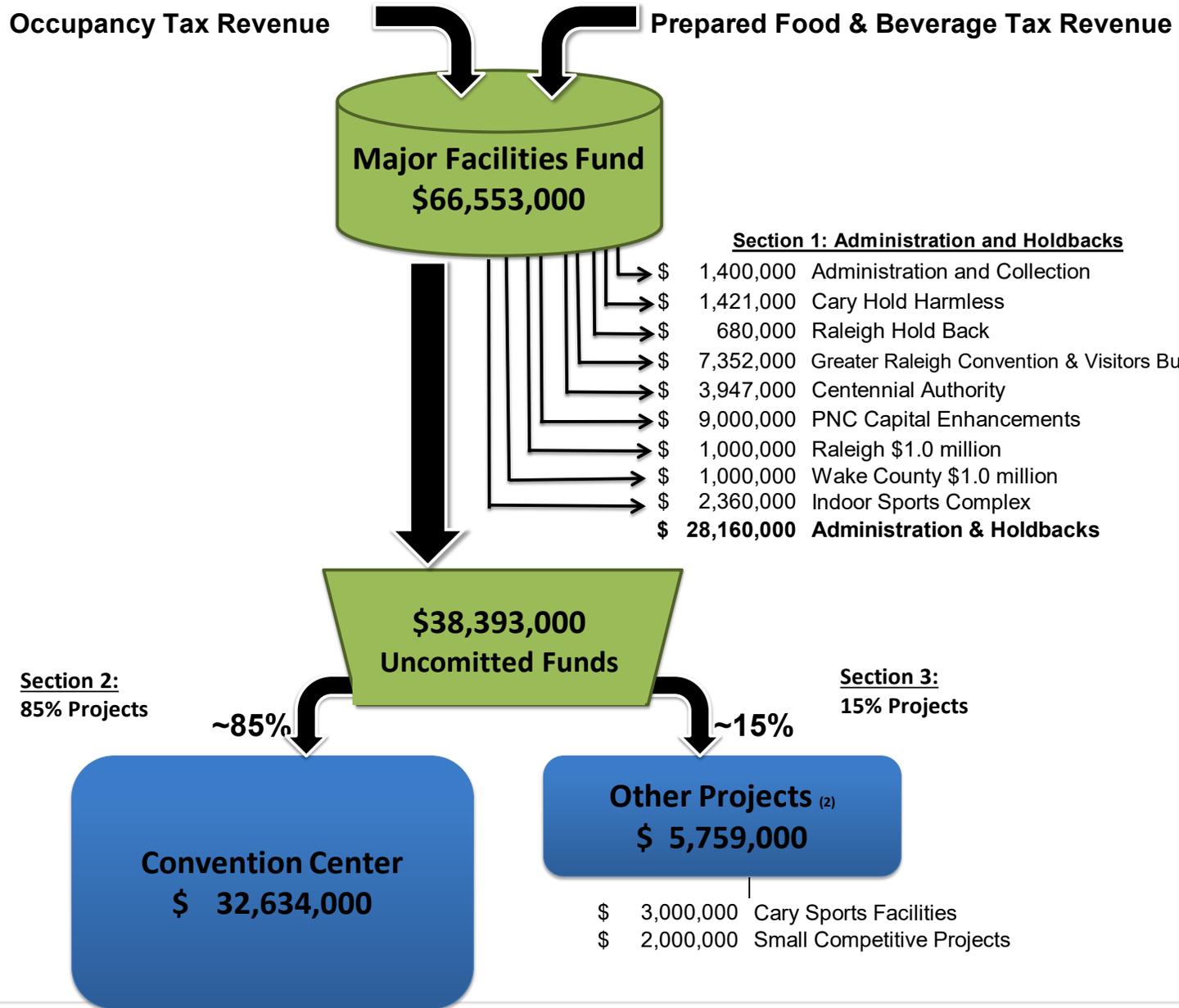
Staff Review Team

- Operating Principles established in 2016 created a staff review team to assist City and County managers to help plan, review model scenarios and advise on the distribution of tax revenues
- Review Team:
 - Centennial Authority
 - City of Raleigh
 - Greater Raleigh Convention and Visitors Bureau
 - Town of Cary
 - Town of Morrisville
 - Town of Wendell
 - Wake County
 - Wake County Hospitality Alliance

2023 Hospitality Tax Review Schedule

- January: Brief Wake County Commissioners and Raleigh City Council
- February – March 2023 – Stakeholders meet to review financial models, results of facility planning for PNC Arena, Raleigh Convention Center Complex and Cary’s indoor sports facility and overview of countywide planning
- March 2023 – Develop recommended modifications to financial models and funding commitments
- April 2023 – Present recommendations for consideration to Wake County Commissioners and Raleigh City Council
- April/May 2023 – Decisions by Wake County Commissioners and Raleigh City Council

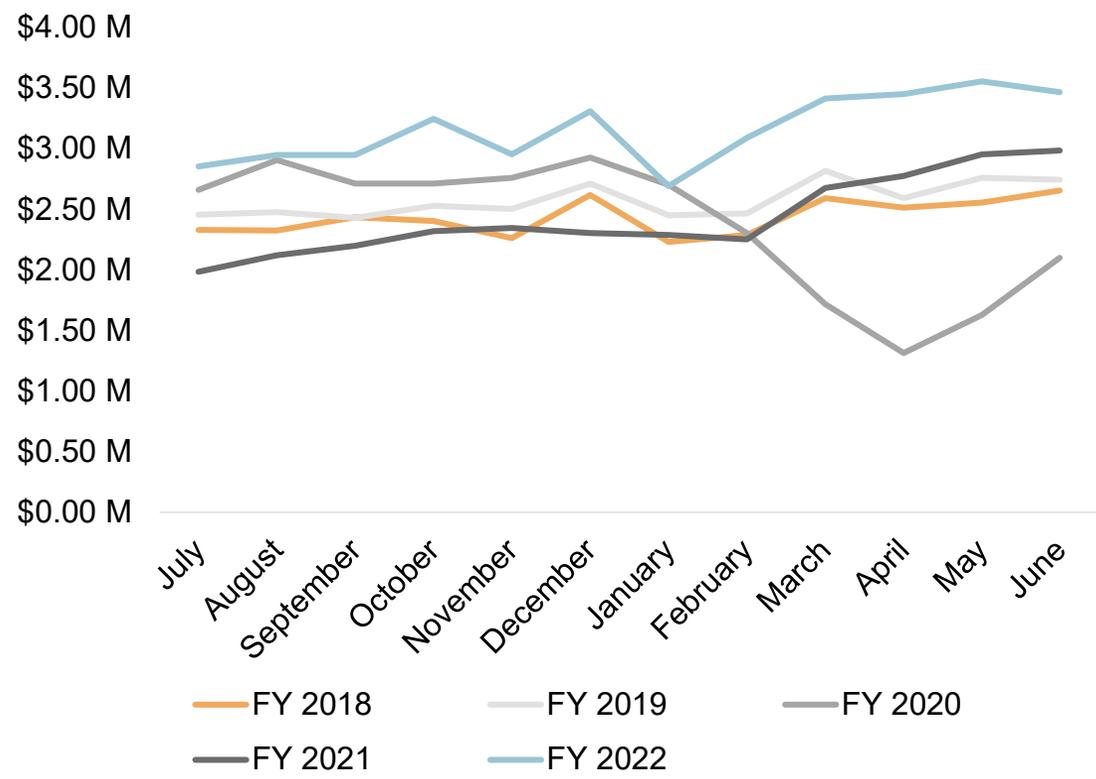
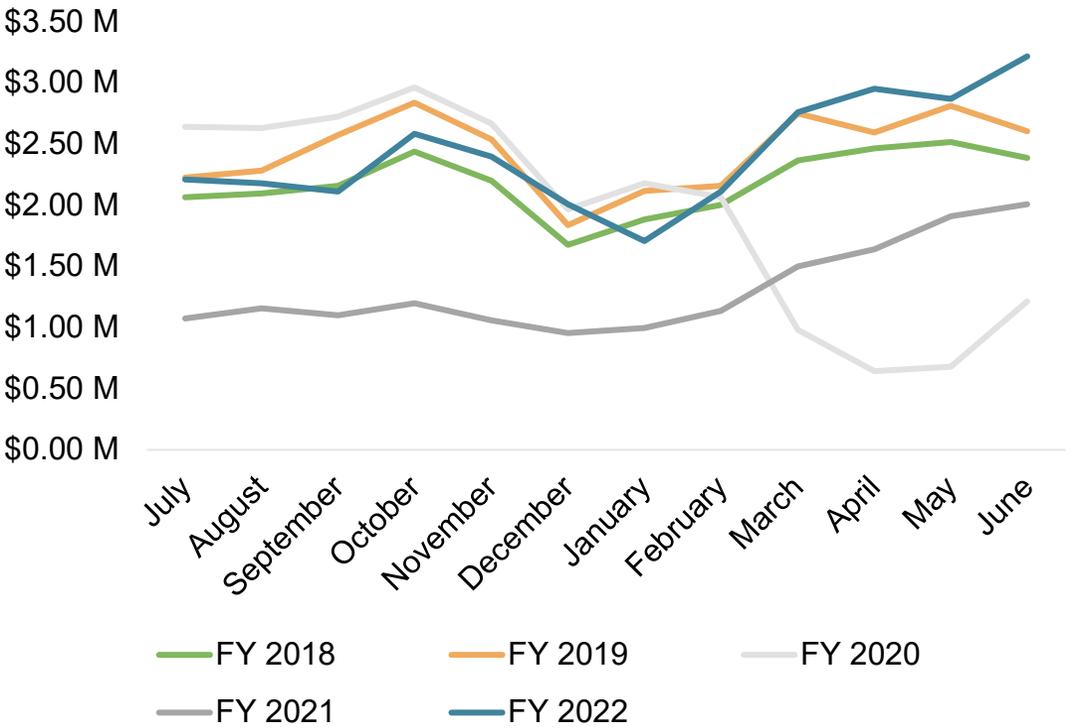
FY 2023 ADOPTED MAJOR FACILITIES FUND



Revenues have seen a strong recovery compared to FY 2019

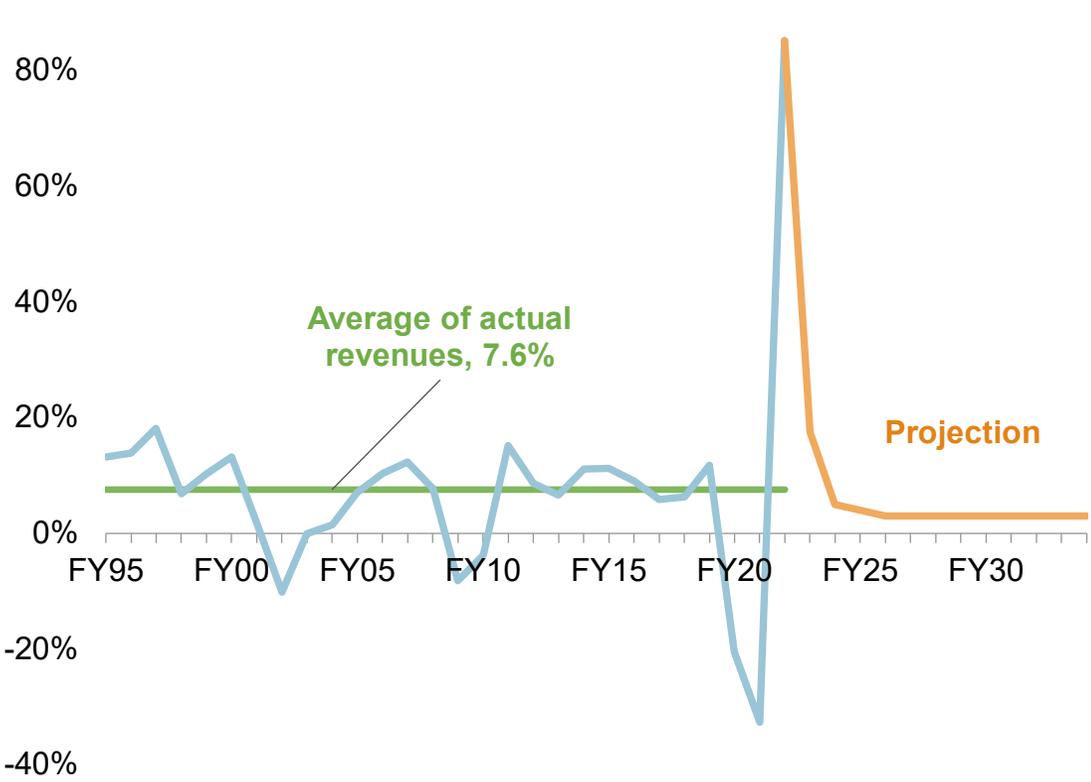
FY 2022 Occupancy Tax revenues recovered to 99% of FY 2019

FY 2022 Prepared Food and Beverage revenues 23% higher than FY 2019

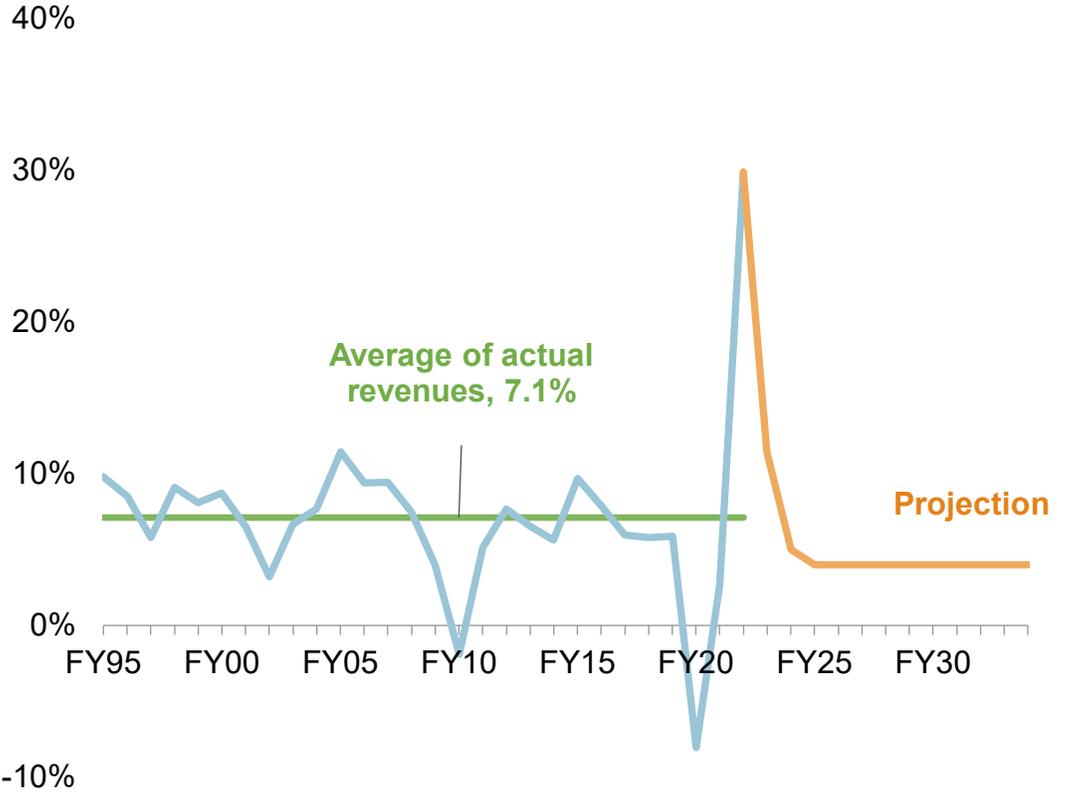


Percent Change Year to Year

Occupancy Tax Percent Change



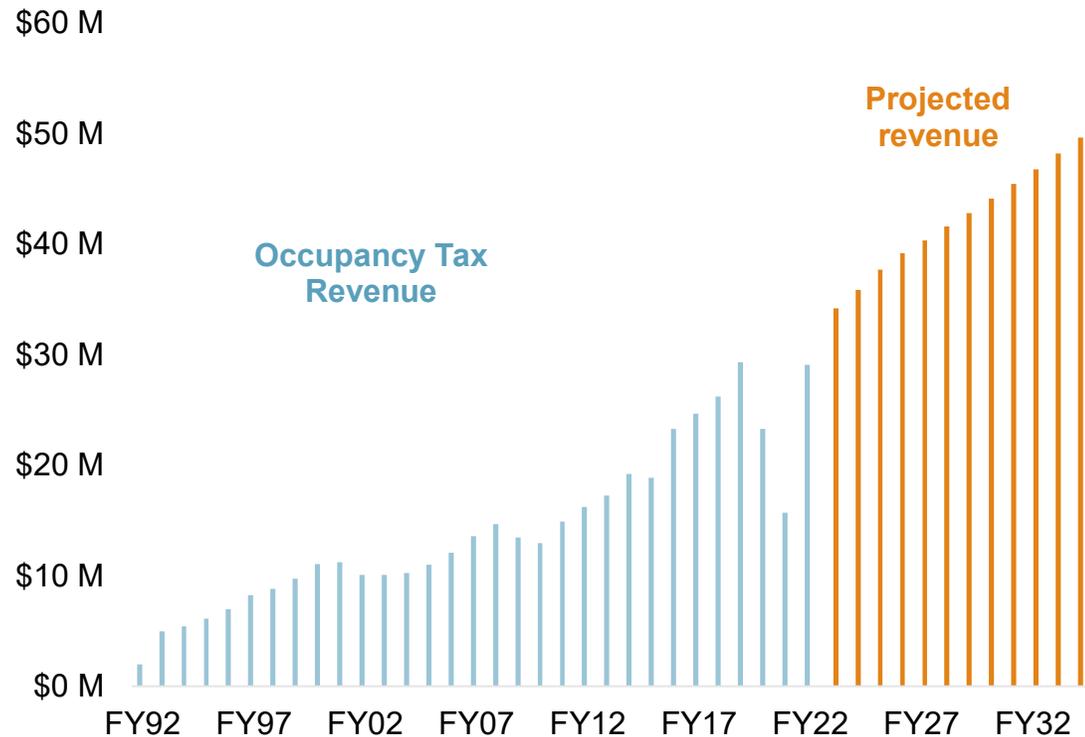
Prepared Food and Beverage Percent Change



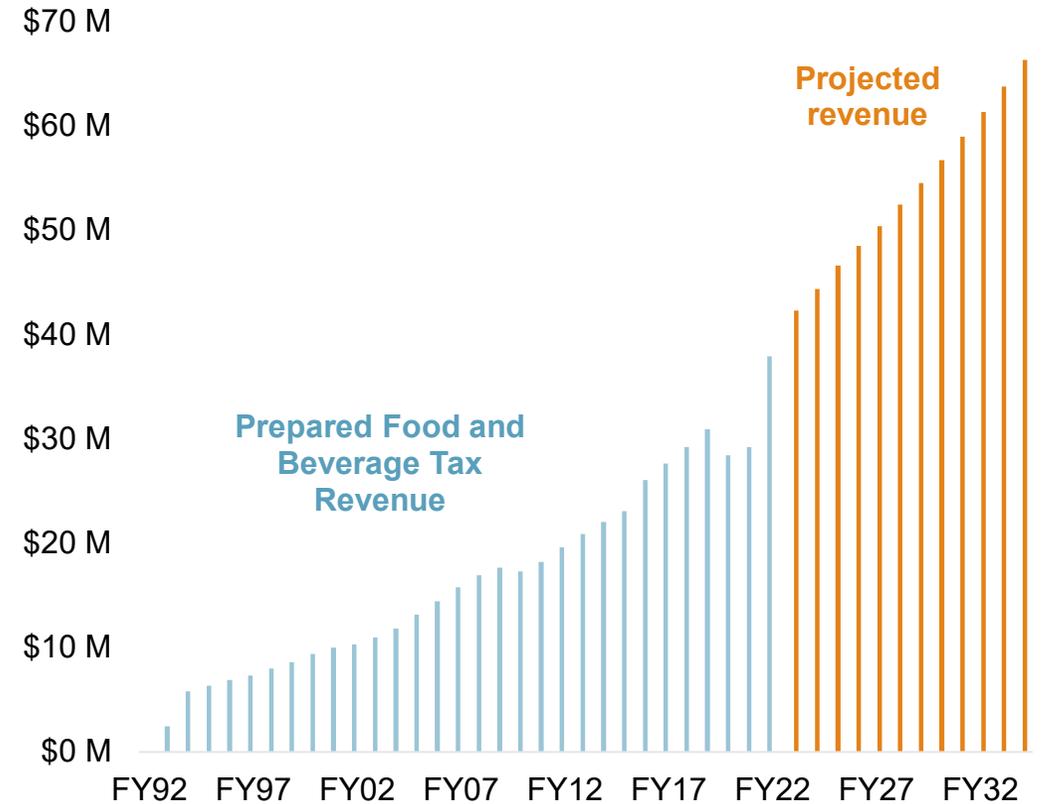
Actual and Projected Revenues

FY 1992 – FY 2022

Occupancy Tax



Prepared Food and Beverage



Occupancy Tax Revenues

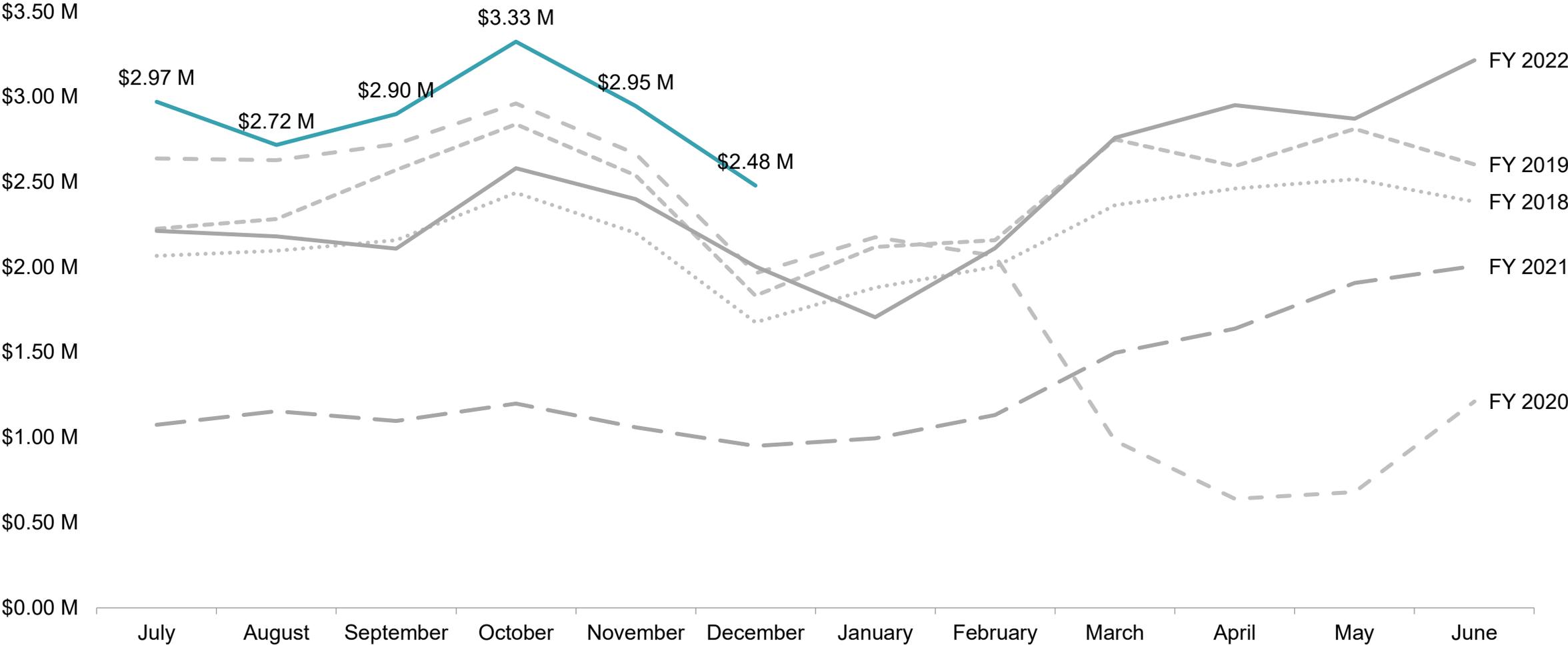
FY 2023 end-of-year projection
Future year growth rates

FY 2023 revenues outpacing budget expectations

- Revenues continue to surpass the typical collections by this point in the year

Month	FY 2022 Actuals	FY 2023 Budget	FY 2023 Actuals
Jul	2,212,035	2,395,592	2,970,762
Aug	2,180,396	2,434,795	2,717,418
Sept	2,109,262	2,493,706	2,898,600
Oct	2,581,296	2,799,613	3,325,409
Nov	2,398,507	2,525,969	2,945,842
Dec	2,005,338	1,976,298	2,479,099
Jan	1,705,255	2,087,838	
Feb	2,112,040	2,227,319	
Mar	2,759,307	2,418,368	
Apr	2,951,454	2,415,228	
May	2,871,304	2,562,851	
Jun	3,215,257	2,730,423	
Total	29,101,451	29,068,000	17,337,130

FY 2023 Occupancy revenues 29% higher than the same period in FY 2022

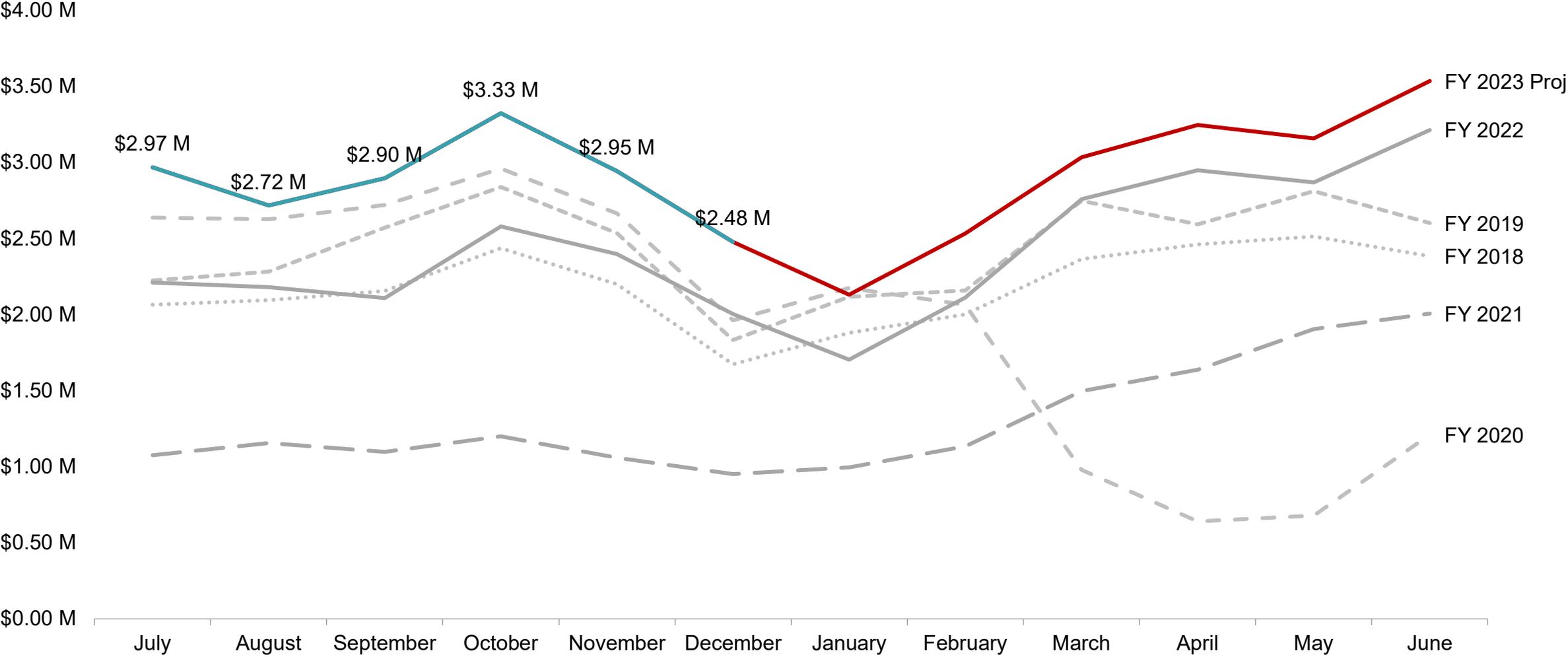


FY 2023 Occupancy Projections

Review Team Considered 3 Scenarios

1. Cumulative % projection based on a 5-year average
2. Cumulative % projection based on a 3-year average (FY18, FY19 and FY22)
3. Custom considerations
 1. Estimated monthly growth rates from FY22 collections
 2. 25% in Jan; 20% in Feb; 10% Mar – Jun
 3. Projected rebound continues through February, then levels out in March based on FY22 trend

Projection 3 – Custom Projection



Recommended Occupancy Revenue Projection

Occupancy Scenario	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
FY 2023 Adopted Budget Growth Rate	5.00%	5.00%	4.00%	3.00%	3.00%	3.00%
Adopted Budget Total	29,068,000	30,521,000	31,742,000	32,694,000	33,675,000	34,685,000
<i>Scenario Growth Rate</i>	20.20%	4.00%	4.00%	3.00%	3.00%	3.00%
Updated Projection	34,980,000	36,379,000	37,835,000	38,970,000	40,139,000	41,343,000

Prepared Food and Beverage Revenues

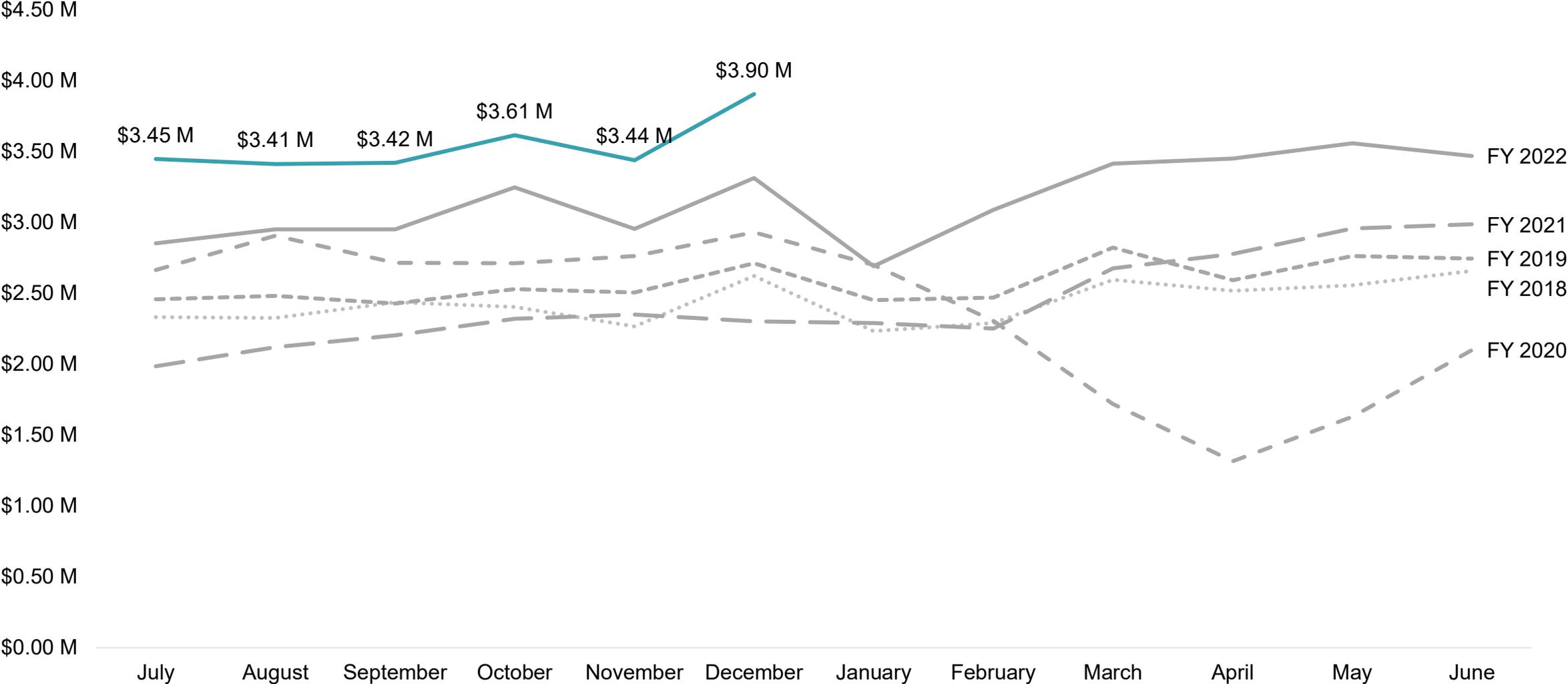
FY 2023 end-of-year projection
Future year growth rates

FY 2023 revenues exceeding FY22 by 16% per month on average

- Revenues are exceeding the prior year by an average of \$495,000 (16%) per month

Month	FY 2022 Actuals	FY 2023 Budget	FY 2023 Actuals
Jul	2,854,300	2,968,241	3,447,271
Aug	2,950,544	3,090,510	3,412,422
Sept	2,951,322	3,075,856	3,420,208
Oct	3,247,397	3,180,441	3,614,565
Nov	2,954,460	3,101,522	3,440,201
Dec	3,313,908	3,346,623	3,904,892
Jan	2,692,540	2,997,608	
Feb	3,089,512	2,980,263	
Mar	3,414,498	3,162,474	
Apr	3,452,354	3,014,778	
May	3,559,178	3,215,871	
Jun	3,470,151	3,350,813	
Total	37,950,164	37,485,000	21,239,559

FY 2023 revenues 16% higher than the same period in FY 2022

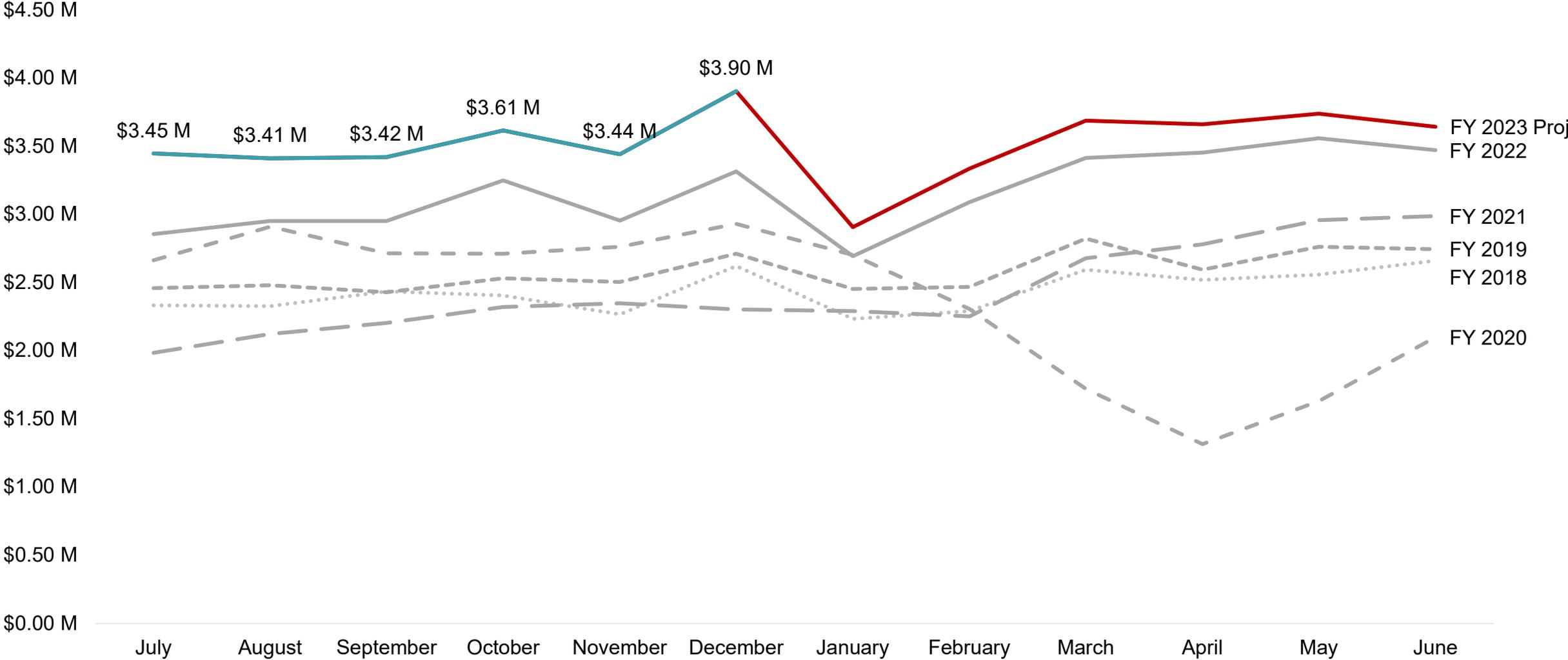


FY 2023 Prepare Food & Beverage Projections

Review Team Considered 3 Scenarios

1. Cumulative % projection based on a 5-year average
2. Cumulative % projection based on a 3-year average (FY18, FY19 and FY22)
3. Custom considerations
 1. Estimated monthly growth rates from FY22 collections
 2. 8% growth Jan – Mar; 6% growth Apr; 5% growth May – Jun
 3. Rebound occurred more quickly than occupancy revenues, so smaller growth rates apply to a higher base

Projection 3 – Custom Projection



Projection 3: Custom projection

PFB Scenario	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
FY 23 Adopted Growth Rate	5.00%	5.00%	4.00%	4.00%	4.00%	4.00%
Adopted Budget Total	37,485,000	39,359,000	40,934,000	42,571,000	44,274,000	46,045,000
<i>Projected Scenario Growth Rate</i>	<i>11.23%</i>	<i>5.00%</i>	<i>4.00%</i>	<i>4.00%</i>	<i>4.00%</i>	<i>4.00%</i>
Projection	42,212,000	44,323,000	46,096,000	47,939,000	49,857,000	51,851,000

Guiding Principles Review

Guiding Principles

Purpose of Principles:

The Operating Principles are established to articulate the values of the community and stakeholders related to use of Wake County Room Occupancy and Prepared Food and Beverage Revenues. These Principles were developed by community stakeholders in March 2017. The stakeholders identified all of the listed Principles as important and therefore, the Principles are not listed in any rank or order.

Guiding Principles

Updated with changes
proposed by review team

- A. Prioritize use of funds for projects that drive measurable, regular overnight visitation or positive return on investment (ROI)
- B. Support and promote the on-going capital expenditure program and expansion of existing investments in major facilities to keep them current, relevant and competitive in market
- C. Comply with all requirements of the existing enabling legislation
- D. Ensure project investments are secured by solid long-term plans, both operational and financial, that demonstrate viability and sustainability

Guiding Principles

- E. Utilize high standards of fiscal accountability in planning and managing the use of tax revenues:
 - A. Fulfill existing obligations before entering into significant new financial commitments
 - B. Maintain long-term, conservative financial forecasting
- F. Support investments that complement *equitable* economic development efforts and enhance quality of life experiences for visitors, newcomers and long-time residents
- G. Create sports, arts and cultural opportunities, through leveraging community investments and partnerships, that benefit residents and enhance tourism offerings
- H. Support a project investment mix that considers location, *contribution to quality of place, and equitable, sustainable* types of uses (sports, cultural, arts, convention, etc.)

Guiding Principles

- I. Engage stakeholders representing varying entities, jurisdictions and uses
- J. Ensure that investments support *a welcoming and inclusive* long-term vision of Wake County and its cities and towns as a tourism destination
- K. Provide a regular funding source for eligible projects that require a smaller scale investment
- L. Support investments that consider emerging arts, sports and cultural experiences and unmet needs

2023 Hospitality Tax Review Schedule

March 1, 2023

8:30 am – 10:00 am
PNC Arena – Arena Club

Presentations on Arena
Enhancement Plans and
Cary Indoor Sports Facility

March 15, 2023

8:30 am – 10:00 am
Kennedy Theatre
Raleigh Performing Arts Ctr

Presentations on Raleigh
downtown hotel project
and visioning for future of
Raleigh Convention
Center and Countywide
Quality of Place planning

March 29, 2023

8:30 am – 10:00 am
Wake County Commons
4011 Cary Drive, Raleigh

Recommendations from
Raleigh City Manager and
Wake County Manager