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City of Racine, Wisconsin
COMMON COUNCIL

AGENDA BRIEFING MEMORADUM (ABM)

COMMITTEE: Finance & Personnel **LEGISLATION ITEM #:** 0323-18

AGENDA DATE: April 9, 2018 Finance & Personnel Committee

April 16, 2018 Common Council

DEPARTMENT:

Prepared By: James M. (Jim) Palenick, City Administrator

Reviewed By: Cory Mason, Mayor

SUBJECT:

Communication from the City Administrator presenting a new contractual agreement, extending through December 31, 2021, between Real Racine and The City of Racine for the collection and disbursement of room tax revenues.

EXECUTIVE SUMMARY:

On July 26th, 1983, the City entered into a contract with Real Racine to serve as a Convention & Visitors Bureau and tourism promotion and marketing organization on the City's behalf. In exchange, the City agreed to pay over and disburse to Real Racine, 85% of all Room Tax proceeds it receives from the authorized Room Taxes levied against the retail furnishing of short-term lodging within the City. That first contract technically expired effective December 31, 1986, but the City and Real Racine have jointly continued to both honor it and operate under its terms ever since. More recently, however, in association first with the proposed Downtown Hotel & Event Center, and subsequently as discussions have switched to the desire to develop a new, upscale Downtown destination hotel with meeting space, it became apparent that a new, updated agreement was in order.

To that end, following several months of significant discussion, negotiations, and refinement of the proposed provisions and terms, the City of Racine Administration and the Real Racine Executive and Board of Directors, have agreed on a new contract, which will extend through December 31, 2021. In

30 fact, at their regularly scheduled meeting of March 22nd, the Real Racine Board voted unanimously to
31 adopt the contract in its entirety as attached. The contract essentially allows Real Racine to continue
32 to receive 85% of the Room Tax proceeds generated in the City from all existing lodging properties
33 effective as of December 31, 2017; but then creates a new formula for room tax proceed sharing for
34 all new lodging properties which come into existence or become subject to tax after January 1, 2018.
35 The specific provisions of the new formula are detailed in the “Background & Analysis” below.

36

37 **BACKGROUND & ANALYSIS:**

38 The term of the contract shall be from the date of execution through December 31, 2021 and either
39 party can choose to voluntarily terminate upon the advance written notice to the other of six (6)
40 months in advance of the next-occurring December 31st of the agreement term.

41 While Real Racine shall, in effect, be “held-harmless” from losing any of its pre-2018 room tax revenue
42 stream as a result of this contract, for lodging facilities that come on board, or become subject to
43 taxation in the City post-2018 the City shall receive new room tax proceeds equal to the following:

- 44 • 100% of all room tax proceeds from “Voluntary Collection Agreements” with Air B&B or other
45 “home-sharing platforms”
- 46 • 100% of all room tax proceeds from the 1st destination-quality, upscale, select-service hotel
47 containing 140 rooms or more.
- 48 • 50% of all room tax proceeds from the 1st hotel after (or not meeting) the 140-room minimum.
- 49 • 25% of all room tax proceeds from the 2nd hotel after (or not meeting) the 140-room minimum
- 50 • 15% of all room tax proceeds from the 3rd, and subsequent, hotels after (or not meeting) the
51 140-room minimum.

52 The City shall escrow for and exclusively use the room tax proceeds received from the first, 140-room
53 minimum, destination-quality hotel for debt-service repayment (not to include any planning, due
54 diligence activities, or soft costs) on a statutorily-eligible “tangible municipal development” (catalytic,
55 publicly-owned, tourism supporting destination venue designed to induce overnight lodging stays). To
56 the extent the City fails to do so, we will then be obligated to provide 50% of such proceeds to Real
57 Racine for their use. Further, the City must use all room tax proceeds it receives consistent with state
58 statute – meaning in furtherance of tourism promotion and development along with efforts that
59 induce overnight lodging stays.

60 The contract also requires Real Racine to use the proceeds it receives consistent with State statute
61 and with the intent of creating, growing and expanding the positive economic impact achieved by the
62 City of Racine and its business and commercial sector from induced spending on tourism, hospitality,
63 culture, recreation, and arts & entertainment. Real Racine is further required to provide written
64 yearly reports on its efforts and activities and to present such reports to the Common Council.

65

66 **BUDGETARY IMPACT:**

67 In 2017, the City generated \$283,213.83 from the 8% room tax it levied and collected against five (5)
68 existing commercial lodging facilities in the City. That was shared \$240,731.76 (85%) to Real Racine,
69 and \$42,482.07 (15%) to the City of Racine.

70 It is estimated that a 144-room, destination-quality Downtown hotel, at 58% stabilized occupancy will
71 generate approximately \$305,000/yearly in room tax proceeds to help service & repay debt on a
72 catalytic tangible municipal development designed to induce tourism and overnight lodging stays.

73 The addition of another 80-room, limited-service, hotel, at 56% stabilized occupancy will generate
74 approximately \$125,000 a year in new room taxes – with 50% coming to the City: (\$62,500/year).

75 A very speculative estimate for home-sharing room tax revenues (Air B&B) might imagine (during
76 Foxconn construction) 150 hosts, averaging \$60/night for 95 nights/year = \$68,400/year.

77 The City Administrator is putting forward a proposed companion “Policy on the Use of Room Tax
78 Proceeds” which is scheduled to appear before the Finance & Personnel Committee on April 23rd, and
79 Common Council May 1st.

80

81 **OPTIONS/ALTERNATIVES:**

- 82 1.) To Recommend and Adopt the Agreement By and Between the City of Racine and Real Racine
83 for the Collection and Disbursement of Room Tax Revenues, and to Designate the Mayor and
84 City Clerk as Signatories to the Execution thereof.
85 2.) To Recommend the Deferral or Denial of Action on the Agreement By and Between the City of
86 Racine and Real Racine for the Collection and Disbursement of Room Tax Revenues.

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88 **RECOMMENDED ACTION:**

89 To Recommend and Adopt the Agreement By and Between the City of Racine and Real Racine for the
90 Collection and Disbursement of Room Tax Revenues, and to Designate the Mayor and City Clerk as
91 Signatories to the Execution thereof

92

93 **ATTACHMENT(S):**

94 Agreement By and Between the City of Racine and Real Racine for the Collection and Disbursement of
95 Room Tax Revenues. (As formally adopted by the Real Racine Board of Directors).