

**JEFFERSON COUNTY
BOARD OF COUNTY COMMISSIONERS**

REGULAR AGENDA REQUEST

TO: Board of County Commissioners

FROM: Greg Brotherton, Commissioner District No. 3

DATE: June 10, 2024

SUBJECT: MEMO: LTAC Recommendations

STATEMENT OF ISSUE:

BoCC should consider direction to LTAC regarding base budget recommendations, and zero-based budgeting exercise.

ANALYSIS:

Please refer to the attached memo for analysis about legal review of base budget recommendations form LTAC, and rationale behind re-addressing LTAC priorities.

FISCAL IMPACT:

None

RECOMMENDATION:

Read and discuss memo. Consider recommendations for LTAC.

REVIEWED BY:

Monte Reinders

Digitally signed by Monte Reinders
DN: C=US,
E=mreinders@co.jefferson.wa.us,
O=Jefferson County Public Works,
CN=Monte Reinders
Date: 2024.06.06 17:27:14-07'00'

Mark McCauley, County Administrator

Date

TO: Jefferson County Board of County Commissioners

FROM: Greg Brotherton – Chair, Lodging Tax Advisory Committee (LTAC)

DATE: June 6, 2024

RE: **Recommendation to reject LTAC recommended budget and direct a Zero-Based Budget exercise to evaluate use of lodging tax**

The LTAC's proposed budget will soon be before the Board of County Commissioners (BoCC). For the reasons discussed below, I recommend that the BoCC reject the recommendations for a budget and instead direct the LTAC to explore the best uses for the Jefferson County lodging tax revenue and evaluate and make recommendations about possible allocation of lodging tax revenue under Chapter [3.25](#) JCC.

Background

Jefferson County gets 4% special sales tax revenue from short term lodging stays. (Heads in beds for less than 30 days.) RCW [67.28.180](#) controls how the county may use these funds and directs them to spend it on "tourism promotion, acquisition of tourism-related facilities, or operation of tourism-related facilities." RCW [67.28.1815-1816](#). Chapter [3.25](#) JCC is consistent with these requirements but also must be considered. Details of the requirements in Chapter [3.25](#) JCC are discussed in detail below.

Jefferson County traditionally has relied on a Request for Proposal (RFP) process for qualifying non-profits to apply for these funds for the state approved uses. Several keystone applicants stood out and have been funded reliably year in and year out. Examples include the Jefferson Historical Society, the four Visitor Information Centers (VICs), and the Tourism Coordinating Council (TCC), which is Jefferson County's destination marketing organization.

During the flux of the COVID-19 pandemic, many revenue streams had wild variances, with a huge increase in lodging tax revenue in 2023 during the first year after the pandemic, based, perhaps, on revenge tourism built on short term economic stimulus during the pandemic. Distributed funds ranged from \$445,000 allocated in 2017, to \$608,761 granted in 2021, to \$968,357 in 2023. In 2024, the regression began and there was only \$749,904 awarded, despite a record \$1,159,011 in requests.

The LTAC struggled with the cutback budgeting required during the 2024 RFP process. They ultimately used a decremental approach and funded the normal keystones at roughly 80% of 2023 funding levels. No one was satisfied with this approach. New qualifying applicants were frustrated by the lack of opportunity and the keystone institutions were challenged to provide the same level of service with fewer funds. But, this approach leveled the impact of the decrease and was politically palatable.

For 2025, the LTAC recommended budgeted items for 2025 for the keystone institutions to create a known baseline for those keystone institutions for more predictable budgets and also to create

a more realistic pool of available funds for the new or event-based applicants in the RFP process. This recommendation will be in front of the BoCC after legal review.

A fundamental challenge to our lodging tax revenue is housing both short and long term. Outside of Port Townsend, there are only two accommodations with 40 or more rooms, Fort Flagler campground, and Kalaloch Lodge on the West End. One of the reasons why the THING festival is not returning is because the county does not have enough rooms for a festival. The lack of infrastructure for rooms and workers fundamentally limits how much the county can increase lodging tax revenue. Also, the dearth of affordable workforce housing¹ has restaurants and stores challenged to stay open appropriately for the tourist season. Even if there were more short-term rooms, the county lacks housing for the necessary workforce, and larger amenities that bring not just tourists, but also that workforce.

Legal Requirements

Revenues received from lodging taxes are restricted to the following uses:

- Tourism marketing;
- Marketing and operations of special events and festivals designed to attract tourists;
- Operations and capital expenditures of tourism-related facilities owned or operated by a municipality or public facilities district; and,
- Operations of tourism-related facilities owned or operated by nonprofit organizations.

RCW [67.28.1816\(2\)\(b\)\(ii\)](#) says that the legislative body “may choose only recipients from the list of candidates and recommended amounts provided by the local lodging tax advisory committee.”

According to MRSC, “[t]he legislative body is not required to fund the full list of recommended recipients and may choose to make awards to only some or even none of the recommended recipients, but the legislative body may not award funds to any recipient that was not recommended by LTAC.” MRSC, Lodging Tax (Hotel-Motel Tax), <https://mrsc.org/explore-topics/finance/revenues/lodging-tax>, Accessed June 2, 2024.

However, an informal opinion from the Attorney General’s Office in 2016 states that a municipality reviewing the list of candidates and recommended amounts from the lodging tax advisory committee is free under RCW [67.28.1816\(2\)\(b\)\(ii\)](#) to award an amount that is different from the amount recommended by the advisory committee, but only if the municipality first seeks further input from the advisory committee by following the procedural requirements of RCW [67.28.1817\(2\)](#). Informal Attorney General Opinion (August 17, 2016), <https://mrsc.org/getmedia/0562599b-d073-4b55-8817-daa1b9cf39a3/w3ag081616.pdf>,

¹ “‘Affordable workforce housing’ means housing for a single person, family, or unrelated persons living together whose income is at or below 80 percent of the median income, adjusted for household size, for the county where the housing is located.” RCW [67.28.180\(3\)\(h\)\(i\)](#).

Accessed June 2, 2024. Any proposal to impose a new lodging tax, raise the rate of an existing tax, repeal an exemption from the lodging tax, or change the use of the tax proceeds, must be submitted to the lodging tax advisory committee for review and comment at least 45 days before final action will be taken on the proposal by the legislative body. RCW [67.28.1817\(2\)](#).

Chapter [3.25](#) JCC, along with the lodging tax sections of Chapter [67.28](#) RCW, control what lodging tax revenue can be used for. JCC [3.25.030](#) says:

(1) The use of the lodging tax shall only be authorized for those activities and facilities which clearly demonstrate the following:

(a) Pay all or a portion of the cost of tourism promotion;

(b) Acquire tourism-related facilities owned or operated by a municipality or a public facilities district created under Chapters [35.57](#) and [36.100](#) RCW; and/or

(c) Operate tourism-related facilities.

(2) The intent for the use of this tax is to generate or support the generation of additional overnight visitor stays and bolster the tourism economy in Jefferson County. These monies are not appropriate for the sponsorship of a specific event, even though said event may encourage the use of overnight accommodations.

(Underlining added.) “Tourism promotion” is defined in JCC [3.25.010\(5\)](#) as:

activities, operations, and expenditures designed to increase tourism, including but not limited to advertising, publicizing, or otherwise distributing information for the purpose of attracting and welcoming tourists; developing strategies to expand tourism; operating tourism promotion agencies; and funding the marketing of or the operation of special events and festivals designed to attract tourists.

“Tourism-related facilities” are defined in JCC [3.25.010\(6\)](#) as:

real or tangible personal property with a usable life of three or more years, or constructed with volunteer labor that is: (a)(i) owned by a public entity; (ii) owned by a nonprofit organization described under Section 501(c)(3) of the federal Internal Revenue Code of 1986, as amended; or (iii) owned by a nonprofit organization described under Section 501(c)(6) of the federal Internal Revenue Code of 1986, as amended, a business organization, destination marketing organization, main street organization, lodging association, or chamber of commerce; and (b) used to support tourism, performing arts, or to accommodate tourist activities.

JCC [3.25.040](#) limits the distribution of lodging tax revenues:

The Jefferson County lodging tax advisory committee shall recommend to the board of county commissioners and the board of county commissioners shall adopt a budget for the expenditure of lodging tax not to exceed the following percentages of categorical distribution:

- (1) Not more than 50 percent for the operation of tourist-related facilities, including but not limited to Jefferson County Historical Society, Tourism Coordinating Council and Olympic Peninsula Gateway Visitor Center.
- (2) Not more than 25 percent for the acquisition and development of tourism-related facilities owned or operated by a municipality or a public facilities district created under Chapters [35.57](#) and [36.100](#) RCW, including but not limited to the McCurdy Pavilion and Olympic Peninsula Gateway Visitor Center.
- (3) Not less than 25 percent for tourism promotion.

Options

The OPTMP had three strategic directives: Improve destination marketing, develop tourist infrastructure, and more public-private partnerships to identify and act on a shared vision for tomorrow:

1. Enhance targeted marketing efforts to increase awareness of spring, fall and winter travel seasons.
2. Develop diversified year-round tourism product and visitor experiences to engage a wider variety of consumer lifestyles.
3. Increase government, community and industry alignment around sustainable tourism development.

The three goals are discussed in detail on pdf pages 32-46 of the OPTMP. It will be hard to make iterative decisions that really swing the impact of our lodging tax funds toward these three strategies. Avoiding conflict, as Bordeaux argues, is how most cutback budgeting ends up happening, without much benefit. (Bordeaux, n.d.) If we guide LTAC through an exercise of discarding all assumptions about how these lodging tax Funds are to be spent, we can address the OPTMP and Jefferson County goals with a blank slate.

The new Olympic Peninsula Tourism Master Plan 2024-2029 (OPTMP)² had twelve engagement takeaways. I will focus on three here and expand on them. Next, I will walk through some of the

² Olympic Peninsula Tourism Master Plan 2024-2029 (Feb 25, 2024), <https://olympicpeninsula.org/wp-content/uploads/2024/03/Olympic-Peninsula-Tourism-Master-Plan-2024-Feb-25-2024.pdf>.

other options about uses of the lodging tax revenue by using 3 of the twelve takeaways³ in the OPTMP. These options are not intended to be mutually exclusive.

1. Consider folding TCC into Clallam County's Olympic Peninsula Tourism Commission (OPTC).

Takeaway 5: "Make one destination brand." Both Jefferson County and Clallam county each have their own Destination Marketing Organizations. Consistent with this Takeaway, I would propose that we consider folding TCC into Clallam County's Olympic Peninsula Tourism Commission (OPTC).

2. Use the ongoing Public Facilities District (PFD) process to make the Tri-Area an appealing place with things to do for our residents and tourists alike.

Takeaway 6: "Locals Support Tourism Big Time." Another focus of the OPTMP is making locals tourists in their own backyard to help stretch the shoulder seasons of Fall and Winter. A parallel effort is ongoing to determine the potential of creating a Public Facilities District (PFD) to build an aquatic facility. While that conversation is ongoing, creating central management for VICs that are built for today's tourists seems to be a critical need. The Independent Financial Feasibility Review that Susan Musselman prepared for the Department of Commerce indicated the need for ongoing administrative revenue to maintain and operate a PFD. This revenue could be used for placemaking in the Port Hadlock UGA with community input. As the first development in anticipation of the sewer coming online is a Dollar General, it is incumbent on the county to do what we can to make the Tri-Area an appealing place with things to do for our residents and tourists alike.

3. Figure out a way to use lodging tax revenue to help create affordable workforce housing by providing these funds to a Housing Authority or non-profit to create affordable workforce housing near transit service.

Takeaway 9: "Infrastructure & Amenity Upgrades." "Developing infrastructure and amenities is listed as Takeaway 9 and repeated throughout—especially in concert with the need for public and private partnerships. Creating a PFD would create a community driven authority to develop our public spaces for our residents and for our tourists, using existing funds.

4. Use Lodging Tax Revenue to help create affordable workforce housing.

Another option with lodging tax revenue is to use it to help create affordable workforce housing. Jefferson County can provide these funds to a Housing Authority or non-profit to create affordable workforce housing near transit service. RCW [67.28.180\(3\)](#) makes clear that affordable workforce housing is a legitimate use for lodging tax revenue, even though RCW [67.28.180\(3\)](#) applies only to counties that have a population of one million five hundred thousand or more. Again, RCW [67.28.180\(3\)\(h\)\(i\)](#) defines affordable workforce housing as "housing for a single

³ The twelve takeaways are listed and discussed in the OPTMP in pdf pages 28-31.

person, family, or unrelated persons living together whose income is at or below 80 percent of the median income, adjusted for household size, for the county where the housing is located.” But lodging tax revenue would be subject to the limitations in JCC [3.25.040](#) for using lodging tax revenue for operation (50 percent) or acquisition and development (25 percent) of a “tourism-related facility.” For funding acquisition of a “tourism-related facility,” the “tourism-related facilities must be owned or operated by a municipality or a public facilities district created under Chapters [35.57](#) and [36.100](#) RCW.”

According to MRSC, the State Auditor’s Office believes that all users of lodging tax funds, including municipalities, are considered applicants and must follow the relevant application procedures. So, if the county wants to use the funds directly, they should submit applications for their own projects to the legislative body or LTAC. See MRSC, Lodging Tax (Hotel-Motel Tax), <https://mrsc.org/explore-topics/finance/revenues/lodging-tax>, Accessed June 2, 2024.

To avoid any concerns regarding gifting of public funds, the county awarding the funds should enter into a contract with any recipient organization, which spell out the tourism-related services to be provided in exchange for the funding, as well as the required reports that must be filed by the recipient quantifying the services in terms of the number of tourists generated as a result of the funding. MRSC, Lodging Tax (Hotel-Motel Tax), <https://mrsc.org/explore-topics/finance/revenues/lodging-tax>, Accessed June 2, 2024.

Conclusion and Recommendation

This is a challenging conversation. These new options for using lodging tax revenue are difficult to reconcile with our conventions for distributing funds. Our budgeting process is fairly incremental and it is often easy to keep doing what we’ve been doing, automatically. If we want to be leaders in Jefferson County, sometimes that means breaking existing systems down to see if that is the best course. According to Behn it is challenging to get out of decremental budgeting. “Someone must define the overarching issue, focus public attention upon it, and build political support behind it.” (Behn, 1985). As lodging tax revenue continues to have a soft floor and a hard ceiling, Jefferson County should use this difficult choice as an opportunity to plan the best uses for these funds from the ground up.

I recommend that the BoCC reject the recommendations for a budget (which I asked for, and helped LTAC to walk through), and instead direct the LTAC to explore the best uses for the Jefferson County lodging tax revenue and evaluate and make recommendations about possible adjustments to the allocation of lodging tax revenue under Chapter [3.25](#) JCC.

References

Behn, R. D. (1985). Cutback budgeting. *Journal of Policy Analysis and Management*, 4(2), 155–177. <https://doi.org/10.2307/3324622>.

Bourdeaux, D. C. (n.d.). *Loss Aversion, Time Discounting and Strategic Choices in Cutting Budgets*. https://csf.gsu.edu/files/2016/05/Bourdeaux_2016-Public-Finance-Conference-

[Paper.pdf](#)

Olympic Peninsula Tourism Master Plan 2024-2029 (Feb 25, 2024).

<https://olympicpeninsula.org/wp-content/uploads/2024/03/Olympic-Peninsula-Tourism-Master-Plan-2024-Feb-25-2024.pdf>.