



A Tradition of Stewardship
A Commitment to Service

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NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

TO: Board of Supervisors
FROM: Florin, Lawrance - Director
Community and Intergovernmental Affairs Division
REPORT BY: Lawrance Florin, COM AND INTERGOV AFFAIRS MGR - 253-4621
SUBJECT: Direction from the Board on how to proceed with new round of Special Projects funding

RECOMMENDATION

Community and Intergovernmental Affairs Manager requests discussion and conceptual approval of Special Projects Fund allocation principles and procedures.

EXECUTIVE SUMMARY

On January 12, 2010 staff requested direction from the Board on whether or not to proceed with another cycle of funding for the Special Projects Fund. The Board directed staff to proceed and decided that the Special Projects Fund should continue to be used for Parks and Open Space, Visitor Management and Arts and Culture programs. The Board directed staff to return with clarification on certain issues related to the next cycle of funding including the percentages allocated for each of the priority program areas, the length of time for the next cycle and the selection process for determining project funding.

To address the above issues, staff is recommending the following:

- | Funding for Special Projects be continued for another three year cycle.
- | In each of the next three years, Special Project Fund revenue should be allocated as follows: 60% to Parks and Open Space programs (including \$200,000 a year for the purchase of Skyline Park, if necessary), 30% to Visitor Management programs and 10% to Arts and Culture programs or services.
- | Establish that the Parks and Open Space District Board of Directors , the County's Tourism Business Improvement District Local Governing Committee, and the Napa County Transportation and Planning Agency's Commission for Arts and Culture will screen applications for funding and make recommendations to the Board of Supervisors on projects that should be funded in their respective areas.
- | Establish that the baseline criteria for funding be consistent with previously adopted master plans in each of these program areas.

- I Continue minimal operational funding for the Parks and Open Space District, from the 60% allocation for Parks and Open Space, with the condition that the District work dilligently to identify and implement its own local funding source.
- I Establish baseline funding for each of the program areas based on the receipt of \$3 million in revenue over three years. If additional funds are generated from TOT over the baseline amount then first establish a contingency fund (\$100,000) and then allocate any remaining funds to Parks and Open Space.

FISCAL IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
What is the revenue source?	General Fund. This item is for the next funding cycle of the Special Project Fund which is to commence on January 1, 2011. In the current funding cycle, revenue has been 12.5% of the TOT revenue the County received from the previous calendar year.
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	TOT revenues are discretionary money and therefore the Board can choose how to utilize that money.
Is the general fund affected?	Yes
Future fiscal impact:	Depending on the decision the Board makes today the future fiscal impact will vary.
Consequences if not approved:	If the Board decides to stop the transfer of 12.5% of the TOT revenue the County receives to the Special Project Fund, there will be no funding available to distribute to the various organizations in the areas of parks and open space, visitor management and the arts and culture.

Additional Information:

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

BACKGROUND

In November of 2004, Napa County voters approved an increase in the Transient Occupancy Tax (TOT) rate charged to visitors renting hotel and motel rooms in the unincorporated area. The increase, from 10.5% to 12%, took effect on January 1, 2005 and was not dedicated to any specific purpose. The additional revenue generated by this increase in the TOT rate provided an opportunity to consider County investments in projects or programs that were a Board priority. To that end, the Board established the Special Projects Fund to finance programs on

projects related to Parks and Open Space, Visitor Management and Arts and Culture and committed an annual contribution of 12.5% of the prior calendar year's transient occupancy tax revenues to the Special Projects Fund, fiscal conditions permitting.

On July 31, 2007 the Board approved the Special Projects Fund "Allocation Principles, Priorities and Process" and an accompanying Request for Proposals and evaluation criteria. Key elements of that document included:

- | Special Projects Fund monies would be invested in projects or services of regional significance that facilitate partnerships with other agencies and use best practices.
- | Special Projects Fund money would not be used to supplant existing funding.
- | In each of the of the three years from 2007-2010 funds were allocated: 60% for Parks and Open Space programs (including setting aside \$200,000 a year for the purchase of Skyline Park), 30% for Visitor Management services, and 10% for Arts and Culture programs or services.
- | The special projects funding cycle would run for three years at which time the Board would reconsider whether or not to continue funding and what programs to fund.

The current three year cycle for funding under the Special Projects Fund is scheduled to expire in December 2010. On January 12, 2010 staff requested direction from the Board on a number of questions including:

1. Whether or not funding for the Special Projects Fund should be continued.
2. Whether or not the Board would like to continue the same priorities that it funded in the previous cycle.

On both of these points the Board gave direction to continue without any changes. The Board directed that staff return for further direction on the amount to be allocated to each priority area, the period of time that the next cycle of funding should be and the process for how funds should be allocated.

RECOMMENDATION

Based upon the information discussed below staff recommends the following for the next cycle of Special Projects Fund funding:

1. Continue funding the three priority areas in the percentages that were allocated in previous cycles: 60% for Parks and Open Space (including funding for the purchase of Skyline Park), 30% for Visitor Management and 10% for Arts and Culture.
2. Continue funding for a three year cycle. This will allow sufficient time to plan and implement projects appropriately in each of these areas, while at the same time enable staff to evaluate the effectiveness of the program and respond to fluctuations in funding and circumstances.
3. Delegate responsibility for managing the solicitation process, screening applications for funding and making recommendations to the Board of Supervisors to: the Park and Open Space District Board of Directors (for Parks projects), the Commission for Arts and Culture (for Arts and Culture projects), and the Napa Valley Destination Council/Local Governing Committee (for Visitor Management projects).
4. Require that each project proposal be screened against the previously adopted Parks & Open Space District Master Plan (for Parks projects), Community Cultural Plan for Napa County (Arts projects) and Napa Valley Tourism Improvement District Management Plan (for Visitor Management projects).
5. Continue to fund the operations of the Park and Open Space District at a minimal level from the 60% allocation for Parks and Open Space, with the condition that the Parks District proceed diligently to identify and implement their own local fundings source for District operations.
6. Any additional funds generated over and above the estimates will be allocated first towards a contingency fund (\$100,000) in recognition of the volatility in the hotel market and thus TOT revenue, and then after that, allocate additional funds towards enhancing the Parks and Open Space funding.

ALLOCATION PROCESS

The current funding allocation process, approved in July of 2007, included specific allocation goals, principles, procedures and criteria. Over the last three years, comprehensive plans have been developed and adopted in each of the three priority program areas: Parks and Open Space, Visitor Management and Arts and Culture. Each of the plans provide a blueprint for making determinations on funding. In addition, each of these three program areas now have established planning and oversight entities. These entities meet regularly to establish specific priorities for funding in each of these areas.

Rather than create a whole new set of funding goals and criteria, staff believes that it makes sense to utilize the existing, approved, master plans as the basis for evaluating funding proposals in each priority program area. In addition, rather than establish a separate funding process, staff believes it makes sense to utilize existing planning and oversight entities to manage the proposal solicitation and allocation process and make funding recommendations to the Board.

Below is some background and discussion on both of these points.

Parks and Open Space

The Parks and Open Space District, which encompasses the entire County, was created by the voters on November 7, 2006 and is governed by an elected Board of Directors. During the last funding cycle the Parks and Open Space District completed a comprehensive Master Plan. The Master Plan was adopted by the District in January 2009. It is structured as a long range plan with a rolling set of targets. These targets are to be updated every two years. The Master Plan describes existing conditions related to parks and open space and relevant County General Plan policies and lays out District goals and policies. The plan also identifies 61 projects which implement the District's goals. It also establishes how the district will prioritize projects based on budget and staffing.

Staff believes that the Parks and Open Space District Master Plan provides a solid basis for making project funding decisions in this area. The Master Plan was developed with significant community input and implements goals that staff believe are reasonable and consistent with the Board's parks and open space concerns, specifically a focus on projects of regional significance.

Staff also believes that, on balance, it would make sense for the Parks and Open Space District Board of Directors to serve as the entity that manages the project funding solicitation process with responsibility for making funding recommendations to the Board of Supervisors. There are legitimate concerns that could be raised about using the Parks District Board for this purpose, given that the District itself will likely be seeking funding for its own projects. However, since the District Board of Directors are elected, represent different areas of the County, and are only making a recommendation to the Board of Supervisors, staff felt that, in this case, the Board of Directors' inherent conflict should not be an impediment to their serving in this role. An alternative would be to use the same process as was used for the current round of funding, which involved use of a committee comprised of five members: the County Executive Officer or her designee, a Community and Intergovernmental Affairs staff person and three citizens who do not have an affiliation with any organization seeking funding.

Arts and Culture

In 2008 the Napa County Transportation and Planning Agency (NCTPA) created the Napa County Commission for Arts and Culture. The Commission was intended to be the primary advisory body for arts and culture planning for the Napa communities. The Commission functions as the liaison between the arts community, government, business and philanthropic leaders, community developers, county and city planners and the public at large. The

Commission consists of eight volunteer commissioners. One commissioner was appointed by each City Council of American Canyon, Yountville, St. Helena, Calistoga and Napa. One commissioner was appointed by the Napa County Board of Supervisors. There are three additional at large seats to be appointed by the NCTPA.

In the last funding cycle, funds from the Special Projects Fund were allocated to the Arts Council Napa Valley to prepare a cultural needs assessment and strategic plan for arts education and experience. The Community Cultural Plan for Napa County was completed by the Arts Council in 2009. The plan established a blueprint for areas in arts and culture that should be the focus of funding. The plan was developed through interviews with community leaders, surveys of artists and arts organizations, the creation of a cultural database and a comprehensive study of arts education in the County and a town hall meeting. Over 800 citizens participated in the creation of the plan.

As with the Parks District Master Plan in the area of Parks and Open Space, staff believes that the Community Cultural Plan provides a solid basis for making funding decisions in the area of Arts and Culture. Here staff believes that the appropriate project funding request review and recommendation body would be the NCTPA's Napa County Commission for Arts and Culture. As noted above, this official advisory board has representatives from throughout the County, but would not itself likely be a competitor for funding, since it does not operate programs or provide direct services. One other possible alternative would be Arts Council Napa Valley. However, this organization is not a public agency - it is a private non-profit organization - and it is potentially a competitor for funding. Another alternative would be to use a committee like the one utilized to review funding requests for the current allocation cycle.

Visitor Management

The Napa Valley Destination Council is a non profit organization incorporated in 1990. The Council's mission is to protect and enhance the Napa Valley's position as North America's legendary wine, food and wellness capital. The Napa Valley Destination Council functions as a collaborative regionally focused "umbrella" destination marketing and tourism management organization. It has also functioned as the County's Convention and Visitors Bureau.

In 2010 the Napa Valley Destination Council presented to the Board of Supervisors a proposal to create a Napa Valley Tourism Improvement District (NVTID). The NVTID is governed by the Board of Supervisors, but contracts with a private non-profit entity, the Napa Valley Tourism Corporation, to oversee District operations. The NVTID established a 2% assessment on visitor stays in Napa County. The NVTID Management Plan was presented along with the establishment of the District. This Management Plan was adopted by the Board of Supervisors in June 2010. The Management Plan provides a blueprint for how funds will be spent on marketing of tourism in the County. There are two components to the Management Plan: valley-wide marketing and individual destination marketing. Approximately \$2.25 million per year is expected to be expended on valley-wide marketing. Among the activities to be funded through the Management Plan for valley-wide marketing are:

- | Lead Generation
- | Trade Shows
- | Sales Blitzes
- | Familiarization Tours
- | Advertising
- | Collateral
- | Marketing Programs
- | Local Property Visit
- | Special Event Sponsorships.

In addition the NVTID creates a fund for individual destination marketing. This fund is to be expended towards individual destination marketing. In the County's case, this fund is used to promote tourism in the unincorporated

area. Approximately \$300,000 per year will be spent towards marketing the unincorporated county. A Local Governing Committee was created, as an official County advisory committee, to make recommendations to the Board of Supervisors on how this \$300,000 was to be spent. The committee consists of four representatives of the unincorporated area lodging industry, one member from the Napa Valley Vintners, a representative of the Board of Supervisors and a representative of the County Executive Office.

Staff believes that the NVTID Management Plan, though less specific than the parks and arts master plans, provides a reasonable framework, if supplemented by some additional criteria, for evaluating requests for Special Projects Fund funding in the area of Visitor Management. Staff believes that the appropriate entity to establish those additional criteria, administer the funding solicitation process and make a recommendation to the Board of Supervisors is the County's NVTID Local Governing Committee. This Committee is an official advisory body to the Board of Supervisors and will not be competing for funding. One argument that could be made against using this entity as the project proposal screening committee is that it only represents hotel interests in the unincorporated County and one of the Special Projects Fund allocation principles has been that funding should be for projects of regional significance. However, there is no other logical existing entity that is not either city-specific (each city will also have a local governing committee), or a private non-profit organization that would potentially be seeking funding (like the Destination Council or the governing board of the NVTID Tourism Corporation). In addition, since County TOT revenue comes only from hotels and motels in the unincorporated area of the County, there is some logic in having representatives of those hotels serve on the review committee. Here again, though, an alternative would be to use the same sort of review committee created for the existing round of funding.

FUNDING

With the current economic downturn TOT is one of the revenue sources that is experiencing a significant decline. Based on actual results for 2009-2010, TOT revenues have decreased from a high of \$9,64,184 in 2007-2008 to \$7,280,000 in 2009-2010. Given wide fluctuations in the number of hotel stays over the last two years, it is difficult to predict with a high degree of certainty what the immediate future of TOT will be.

Based upon County economic data, staff projects that there will likely be modest growth from current levels in hotel stays for the current fiscal year (2010-2011) and that hotel stays will increase as the downturn in the economy stabilizes and the positive effect of increased marketing due to the Tourism Improvement District is felt. For planning purposes, we are assuming that there will be a 2% growth in TOT revenue for calendar year 2010 (FY 2011-2012 revenue to the Special Projects Fund), a 4% growth in calendar year 2011 TOT revenue and a 6% growth in calendar year 2012 TOT revenue, resulting in the following:

2009 - 7,740,000
2010 - 7,894,400
2011 - 8,211,592
2012 - 8,703,227

Assuming that 12.5% of the County's annual TOT revenue will go into the Special Projects Fund, then approximately \$3 million will be generated for this fund over a three year period. Assuming that the Board continues with the same three year funding process and that the same percentages are continued, the following are the amounts that we would expect to have allocated for each of the program areas:

Parks and Open Space - \$1,800,000 (3 years), \$600,000 (per year)
Visitor Management - \$900,000 (3 years), \$300,000 (per year)
Arts and Culture - \$300,000 (3 years), \$100,000 (per year).

Staff is recommending that the current percentages continue to be utilized for the three priority program areas:

Parks and Open Space: 60%
Visitor Management: 30%
Arts and Culture: 10%

At this point, staff does not see a compelling reason to change these percentages. The major change that has occurred since the existing funding cycle was approved was that the Napa Valley Destination Council has identified and received approval from all the cities and the County for the creation of a Tourism Business Improvement District to fund tourism promotion as described above. Given this fact, it might be argued that Special Projects Fund funding for Visitor Management can be reduced or eliminated, and the funding reallocated to other priority areas. Staff believes, however, that this sends the wrong message to the hotel industry in the County that agreed to assess itself with the understanding that the County would continue to assist in tourism promotion at roughly the current level. After the next funding cycle, though, staff believes that the issue should be reconsidered.

In the current cycle, \$200,000 a year out of the Parks and Open Space Budget allocation was set aside for the acquisition of Skyline Park. This year the State Legislature approved legislation declaring Skyline Park surplus and authorizing its sale to the County. Staff is currently awaiting the Governor's determination on whether or not to sign the legislation. If the legislation is approved then county staff will enter into negotiations with the state to establish an acquisition price for the property. Currently there is approximately \$930,000 set aside in Special Projects Fund fund balance for the acquisition of this property, and \$200,000 would be added to the set-aside this year. If the cost of Skyline Park is greater than \$1.1 million, staff would recommend that the General Fund advance the needed money, and then be repaid out of the Special Projects Fund in the future at the rate of \$200,000 per year, to be taken from the Parks and Open Space allocation.

In the current funding cycle, the Board authorized providing operational funding for the Park and Open Space District from the Special Projects Fund at a minimum level until the District implemented its own funding source. As mentioned above, the District has not yet identified a funding source and the Board has indicated a desire to continue this funding. Since the District is a completely separate legal entity with its own elected governing Board, staff would recommend that this commitment be continued for the next three year funding cycle with the condition that the Parks District work diligently to identify and implement its own local funding source. The operational funding for this cycle would come out of the 60% allocation for Parks and Open Space.

Funding Period

When the Board considered how long to initially fund projects in the three program areas funded by the Special Projects Fund three options were considered:

- | Perpetual funding in the percentages that were determined to be appropriate in the program areas determined by the Board
- | Annual funding
- | Multi-year funding.

At the time of the initial allocation process, the Board determined that three years was appropriate for the initial funding cycle. The three year cycle allowed for two things:

1. Sufficient time to allow for groups to plan and implement projects; and
2. A short enough period of time to allow for changes in TOT revenue or other circumstances.

As was previously mentioned, there have been dramatic fluctuations in the amount of TOT revenue the County has received over the past five years. We expect those fluctuations to continue to exist over the next 3-5 years. In

addition, it is likely other circumstances could change. Therefore staff recommends that we continue to fund the projects for another three year cycle and then consider the options at that point.

SUPPORTING DOCUMENTS

None

CEO Recommendation: Approve

Reviewed By: Molly Rattigan