



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Councilmember Torres

SUBJECT: Mayor June Budget Message FY 23-24

DATE: June 13, 2023

Approved

Date: 6/13/23

RECOMMENDATION

1. Direct City Manager to develop an agenda and facilitate a Study Session with the objectives and goals to explore different funding mechanisms that can be used to add more funds to the arts community, as outlined in Manager's Budget Addendum #58.
2. Direct City Clerk to set a City Council Study Session in Fall/Winter 2023
3. Direct the City Manager to include the feasibility of new arts funding when surveying voters for possible future revenue measures.

DISCUSSION

The economic harm from the pandemic and subsequent fundamental shifts to business travel/conventions and return-to-office work is disproportionately hurting the livelihoods of working-class San Jose families and mom-and-pop businesses. San José's Downtown, the nucleus of our region's hospitality, visitor, arts, and entertainment industries, continues to rank nationally near the bottom of numerous metrics of Downtown vibrancy such as return-to-office rates, retail leasing rates, and cell phone usage.

The arts are a critical asset for ensuring San José and Downtown San Jose become the thriving City and place we all deserve. The funding for the arts, cultural tourism, and hospitality sector is largely provided by the Transit Occupancy Tax (TOT). The TOT is a combined 10% tax on the rent charged for lodging to a transient for occupancy. Currently, 40% of the tax is dedicated to the General Fund, 30% to the Convention and Cultural Facilities Fund (CCFF), 15% to Convention and Visitors Bureau marketing programs, and 15% to the Office of Cultural Affairs of which about half (or 7.5% of the total TOT tax) goes to support cultural and entertainment program grants.

Prior to the pandemic, Team San Jose (the City's designated destination marketing organization) primarily focused on driving large groups and conventions into the city and its City-managed facilities. Its efforts were successful. In 2019, Team San Jose generated \$64M in revenue

through the Convention Center and managed cultural facilities. **Those efforts kept the tax burden lower for each San Jose household by \$910 that year.**

After one year of hotels being able to be re-opened for non-essential travelers, the city taxes and fees generated by Team San José's destination marketing efforts were four times the initial investment. The results were tracked by unbiased third-party data analytics firm Adara. The results are the following:

- Total Investment: \$1,200,000
 - Total Revenue generated: \$35,487,804
 - Return on Ad Spent: \$30:1
 - City taxes/fees collected on revenue: \$4,037,272
 - \$1,186,873 in TOT
 - \$1,834, 512 in Sales Tax
 - \$1,015,887 in direct revenue to SJC
- . Overall, the City realized nearly a 4:1 return on the investment directly to city coffers – not to mention the \$30:1 return to the San Jose economy at large.

How much tax is gathered is directly related to the health of the economy creating a very volatile funding source for the arts and cultural industries. This study session will allow City Council to understand the different funding mechanisms that are available to ensure that the arts and cultural industries have a steady stream of funds that are coming in, as well as understand the funds the city is putting into the funds of TOT funds and how much the City is getting in return. The Study Session should include the County as a partner in funding the arts and cultural industries. In order to have a healthy city and a thriving downtown includes have thriving arts and cultural industries in Downtown to attract visitors into the city.

The signers of this memorandum have not had, and will not have, any private conversation with any other member of the City Council, or that member's staff, concerning any action discussed in the memorandum, and that each signer's staff members have not had, and have been instructed not to have, any such conversation with any other member of the City Council or that member's staff.