

## COMMITTEE MEMORANDUM

TO: Members of the Finance & Economic Resiliency Committee

FROM: Jimmy L. Morales, City Manager

DATE: October 23, 2020

SUBJECT: CITY'S DEPENDENCE ON TOURISM REVENUE

### **Background**

This item was referred to the Finance & Economic Resiliency Committee (FERC) and the Budget Advisory Committee (BAC) at the June 24, 2020 City Commission meeting by Commissioner Samuelian. The purpose of the dual referral was to identify ways to lessen the City's dependence on tourism revenue given the recent impacts from COVID-19, hurricanes, Zika, and other economic shocks. Examples provided in the referral included:

- Identifying and growing new revenue streams
- Recruiting new businesses
- Transforming one-time funds into recurring revenue
- Increasing reserves
- Insuring our tourism revenues (e.g. parametric insurance)
- Cost reductions

The Commissioner requested that the item should be heard first by the BAC to inform the FERC discussion.

### **Analysis**

The City of Miami Beach is highly dependent on the tourism and hospitality industry. According to the Beacon Council, about half of the jobs in Miami Beach are in the Accommodation and Food Services industry. In terms of the City's budget, Resort Taxes comprise \$88 million or 13% of the total budget and 10% of revenue in the General Fund. In the Parking Fund, visitors account for 80% of parking demand.

The City is making progress on several initiatives to lessen the City's dependence on tourism revenue. Below is a list of items along with the latest update regarding each effort.

#### **Identifying and growing new revenue streams**

On July 29, 2020 the City Commission approved Spectra Partnerships as the City's new sponsorship and naming rights consultant. The City has historically had a full-time position that sold, fulfilled, and managed all sponsorship, advertising, and other revenue generating opportunities for the City yielding over \$1 million in revenue each year. Under the new structure, the in-house position has been eliminated and Spectra will manage all sponsorships and naming rights for the City and have a dedicated individual to handle the existing work as well as new opportunities. As individual sponsorship or naming rights opportunities are identified, they will be brought to the City Commission for consideration.

The contract term is 5 years with 3 one-year optional renewals. As requested by Commission, in the

## CITY'S DEPENDENCE ON TOURISM REVENUE

### Page 2

event that Spectra fails to negotiate a naming rights deal for the Miami Beach Convention Center, that is approved within 24 months from the effective date of the contract, the contract can be terminated. Spectra will be compensated using a commission structure as follows:

Revenue Generated Under a Naming Rights Agreement	
Annual Revenue	Percentage due to Spectra
\$0 through \$700,000	10.0%
\$700,001, through \$900,000	12.5%
\$900,001 through \$1,500,000	15.0%
\$1,500,001 or more	17.5%
Revenue Generated Under Commercial Rights Agreement	
Annual Revenue	Percentage due to Spectra
\$0 through \$200,000	50%
\$200,001, through \$1,000,000	18%
\$1,000,001 or more	22%
Revenue Generated on Upsell Revenue	
Upsell Revenue	Percentage due to Spectra
All	20%
\$1,000,001 or more	22%
Revenue Generated under Coca-Cola Agreement	
Revenue	Percentage due to Spectra
All	5%

The Property Management Department is working hard to maximize the value of City-owned assets across our real estate portfolio. Various initiatives are being pursued such as developing better standards, CPI adjustments to our lessors, generating additional revenue, and working with Economic Development to evaluate potential real estate deals. To facilitate these efforts, CBRE was recently engaged to conduct an inventory review which should be ready by the end of the calendar year.

#### Recruiting new businesses

Business recruitment and retention has been identified as an area of priority by the City Commission, especially given the current economic challenges from COVID-19. A new Economic Development Director, Rickelle Williams, has recently been hired and came on board in late September. As part of the onboarding process, the functions and activities of the department will likely be reviewed and reorganized to reflect this new priority.

There is currently an item that was heard at the September 22<sup>nd</sup> Land Use and & Sustainability Committee meeting to help incentivize the development of office space, which is traditionally less volatile than hotels or hospitality businesses to economic shocks. The proposal includes height increases in strategic commercial areas to incentivize office uses.

The initial draft ordinance proposed an increase in allowable building height for mixed-use commercial buildings containing a minimum of 10,000 square feet of office area. The ordinance has been updated to set a minimum threshold of 0.30 FAR in order to qualify for increased height. Additionally, a maximum height of 75 feet has been proposed in all of the applicable districts. The following is a summary of the specific commercial areas of the City proposed for the increase in height:

1. Sunset Harbor Area CD-2 District: Increase from 50 feet to 75 feet.
2. Alton Road CD-2 District: Increase from 50 feet and 60 feet to 75 feet
3. Sunset Harbor and Terminal Island I-1 District: Increase from 40 feet to 75 feet.
4. Fifth Street Area CPS-2 District: Increase from 50 feet to 75 feet east of Lenox Avenue and west of Washington Avenue.

The proposed increase in height would allow for the expanded interior floor to ceiling space being

sought by office users and office developers. From a practical standpoint, when parking and mixed-use pedestals are included, the current height limitations in the aforementioned areas limit the interior ceiling heights for all uses. Additionally, the aforementioned areas of the City are along dedicated transit corridors and have access to public parking facilities.

The proposal would apply to limited, strategic areas and would help diversify the City's economy. The proposal is also consistent with the concept of transit-oriented development, which is ideal for the identified areas. This is an important point because the City's long-term mobility plan places considerably more emphasis on transit. In turn, this will likely result in less of a need for onsite vehicular storage in the future, which would equate to a reduction in overall building height.

On September 22<sup>nd</sup> the LUSC discussed the item and moved it to the full City Commission on October 14<sup>th</sup>, in accordance with the following:

1. A recommendation in favor of the proposal for a height increase applying to Terminal Island;
2. No recommendation on the areas fronting the west side of Alton Road from 5<sup>th</sup> Street to Collins Canal;
3. No recommendation on Sunset Harbor.

The LUSC also recommended that the full City Commission consider the following in its discussion on the matter:

1. Requiring visual images and massing studies for the larger areas affected by the proposal, and not just the specific properties seeking the change;
2. Potential quality of life and community/public benefits;
3. Consider a sunset provision for the proposal;
4. Requirements for neighborhood uses and activation at the first level of the building;
5. The inclusion of North Beach in the scope of the ordinance.

On October 14, 2020, the City Commission discussed the referral of an ordinance to the Planning Board pertaining to strategic increases in building height to incentivize office uses (item C4G), and took the following action:

1. Referred the Terminal Island and Alton Road portions of the proposal to the Planning Board.
2. Continued the Sunset Harbor portion of the referral to the November 18, 2020 City Commission meeting for further discussion and consideration.

### Transforming one-time funds into recurring revenue

On November 6, 2018, voters approved a development and ground lease agreement for the construction and operation of a new 800-room Convention Center hotel and related facilities. The agreement included guaranteed rent payments of \$2 million per year and additional rent over and above that amount based on a formula in the agreement. When the hotel is built, the guaranteed rent payments of \$2 million will provide new recurring funding that is dedicated equally between:

- Stormwater projects
- Traffic reduction measures
- Education initiatives

To illustrate the proposed use of these funds, in Year 5, the Hotel's guaranteed rent to the City is fixed at \$2 million. However, in Year 5, the City anticipates it will receive \$2.6 million in total Hotel rent payments, based on the percentage rent due to the City under the Hotel leases. Accordingly, the City would dedicate \$2 million in Year 5 in equal portions of \$666,666.66 for stormwater projects, traffic reduction measures, and education. Any rent payments received in Year 5 in excess of the \$2 million guaranteed rent would be used to support other public programs or projects, as part of the City General

## CITY'S DEPENDENCE ON TOURISM REVENUE

Page 4

Fund.

Given the current uncertain economic conditions in the hospitality industry and the financial markets, however, we do not know as of today when construction of the hotel will commence and, therefore, when the hotel will open for business.

In November 2020, voters will consider the approval of a development agreement for the Marina Park project. The proposed transaction is intended to maximize the performance of the Miami Beach Marina and upgrade its facilities, enhance the neighborhood through neighborhood-oriented commercial and retail spaces, improve resiliency with capital improvements focused on sustainability, provide a park with additional public green space in the city, and generate substantial lease and other revenues for the City.

If approved by the voters, the project will result in the following benefits for the City:

- One-time payment to the City of \$55 million for the sale of the residential parcel for the following purposes:
  - Resiliency and sustainability initiatives
  - Affordable/workforce/teacher housing
  - Programs to benefit the elderly
  - Increasing City's budgetary reserves, impacted due to the COVID-19 pandemic
- Payment schedule of the \$55 million:
  - \$1 million due on August 31, 2020 (deposit)
  - \$4 million due by January 31, 2021
  - \$5 million due by January 1, 2022
  - \$5 million due by September 1, 2022
  - \$40 million balance due upon developer satisfying construction commencement conditions
- Increased recurring minimum annual guaranteed rent to the City of \$1.9 million adjusted each year for inflation and with the City to annually receive the greater of the Minimum Annual Guaranteed Rent or Percentage Rent (except for the 4-year construction rent period).
- Replacement of the existing marina facility at no cost to the City and additional public benefits including a new 1.0 acre park and various resiliency improvements.
- Project restrictions to limit the building height to maximum 385 feet and a maximum of 60 residential units.
- Minimum of \$22.5 million for marina facility improvements

As opportunities arise as part of development agreements or Private Party Partnerships (P3's) the City will continue to look at creating or increase recurring revenue streams.

### Increasing reserves

During 2019, the City Commission approved changes to the reserve policies for the Resort Tax Fund and the General Fund. Both of these changes were endorsed by the Budget Advisory Committee.

The Resort Tax Fund reserve policy was increased from a goal of 3 months (2 month requirement) to a goal of 6 months (required amount would begin with 2 months and increase over time as a moving floor until it reaches 6 months). The Resort Tax Fund reserve at the beginning of FY 2020 was \$15.2 million or 3 months.

The General Fund reserve policy was increased from a goal of 2 months or 17% (11% requirement with additional 6% goal) to a goal of 3 months or 25% (17% requirement with an additional 8% goal). The General Fund reserve at the beginning of FY 2020 was \$80.6 million or 23%.

As part of managing the negative financial impact from COVID-19, the City is planning the following

## CITY'S DEPENDENCE ON TOURISM REVENUE

Page 5

use of reserves:

	General Fund Reserve Amount	Resort Tax Reserve Amount
Current Reserve	\$80.6 million	\$15.2 million
Use of Reserve in FY 2020	(\$2.8 million)	(\$5.0 million)
Use of Reserve in FY 2021	(\$9.6 million)	0
<b>Remaining Reserve</b>	<b>\$68.2 million</b>	<b>\$10.2 million</b>

Note: use of reserves does not include COVID-19 related expenses that are considered reimbursable

These amounts preserve strong reserve levels for hurricane season and next budget cycle. In addition, given the uncertainty regarding the pace of recovery for Resort Tax revenue, it may be necessary to use more of the General Fund reserve than originally planned.

Miami-Dade County has received an allocation from the Coronavirus Relief Fund under the CARES Act and the City has executed an interlocal agreement with the County. As of October 7<sup>th</sup> the City has submitted approximately \$20.9 million of year-to-date expenditures for potential reimbursement. The Administration recommends that any funds that are received would be used to cover any reserve amounts used to balance the budget (General Fund and Resort Tax Fund), currently \$17.4 million, due to shortfalls from the economic impact of COVID-19.

If the Marina Park project is approved by the voters in November 2020, additional one-time funds could be allocated to offset the planned use of reserves and/or allocate additional funds towards the achievement of the General Fund and Resort Tax Fund reserve policies.

### Insuring tourism revenues

As recommended by the Mayor's Blue Ribbon Emergency Response Committee, in 2017 and 2018 the City researched the possibility of purchasing parametric insurance to insure the City's tourism revenues, which has not been done in the U.S. before. After evaluating the cost of a premium based for different parametric triggers, staff found that the potential payouts did not make economic sense based on historical data. The analysis showed that resort taxes were surprisingly resilient in that most shocks only resulted in one year of impact before rebounding to normal levels. As a result, the Administration recommended, with the support of the Budget Advisory Committee, to change the Resort Tax Reserve to increase reserves from a goal of 3 months (2 month requirement) to a goal of 6 months (required amount would begin with 2 months and increase over time as a moving floor until it reaches 6 months). Staff continues to monitor parametric insurance opportunities in case that option becomes more attractive in the future.

### Cost reductions

As part of the FY 2021 budget process, the Parking enforcement function is being right-sized to be more resilient to future shocks. Currently parking enforcement is comprised of 33 full-time positions and 31 part-time positions. The demand for parking enforcement can vary considerably due to high impact events like Art Basel, the Super Bowl, and the NCAA National Football Championship and economic shocks like hurricanes, Zika, and COVID-19. Due to the fixed costs of the current parking enforcement model, it is difficult to reduce costs in a downturn and expensive to increase service for a high impact event. The proposed model would convert 16 full-time positions to part-time positions and eliminate 13 part-time positions for a total of 34. This change is projected to save \$0.5 million annually.

Currently the Sanitation department provides services to the Parking Department. As part of other cost saving measures, the Parking Department will be cutting back on services and transitioning to a private service provider. This change is resulting in a \$1.5 million loss of revenue to the Sanitation Department. To date, the Sanitation Department has identified \$1.2 million of cost savings, but there

## CITY'S DEPENDENCE ON TOURISM REVENUE

Page 6

remains at least a \$300,000 gap. Over the next few months, the Sanitation Department is actively evaluating various cost-saving ideas. The Budget Advisory Committee has expressed interest in helping identify and vet the cost-saving ideas.

In advance of the FY 2022 budget process, the Administration will continue to evaluate cost-saving measures across the organization to help address the continuing financial impacts of COVID-19 and help close the anticipated budget gap next year.

### Budget Advisory Committee (BAC)

This item was referred to the BAC and heard at their September 15<sup>th</sup> meeting. The BAC was generally supportive of the various initiatives and would appreciate the opportunity to weigh-in on specific opportunities identified by Spectra, the City's sponsorship and naming rights consultant, as they move forward for consideration by the City Commission.

### **Conclusion**

The Administration will continue to pursue various initiatives to reduce the City's dependence on tourism revenue and each item will be evaluated through applicable Commission Committees for full consideration by the City Commission.

JLM/JW