



Legislation Text

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TO: Mayor and Town Council

FROM: Jill Keimach, Town Manager
Andrew Miller, Town Attorney
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DATE: June 25, 2020

CONTACT:

AGENDA TITLE:

Consideration of a New 3-year Contract with Two One-Year Extensions with Experience Scottsdale

RECOMMENDATION:

Authorize the Town Manager to execute an agreement with Experience Scottsdale.

The attached draft contract terms were presented to the Town Council during the June 11, 2020 Town Council Study Session. The contract includes terms that have been negotiated and agreed upon by Experience Scottsdale leadership.

BACKGROUND:

The Town approved a five-year contract in June 2010 with the Scottsdale Convention and Visitors Bureau (dba Experience Scottsdale) to "promote the Town's hospitality industry for the purpose of bringing additional business to the Town's hospitality industry." The agreement focused on the annual Destination Marketing Guide to promote Paradise Valley's resorts and also included a set of parameters to be met annually.

The compensation under the June 2010 contract started with \$900,000 in FY10/11; \$925,000 FY12/13 and \$950,000 in FY13/14. Thereafter the compensation increased to a formula "equal to 40.9% of the Town tax collection upon the business activity of any hotel in the Town charging a tax on transient lodging during FY11/12" (two years in arrears). The 40.9% calculation was based on using 100% of the .4% increase in Transient Lodging Tax that was approved in the contract year of 2010 plus a 1/3 of the Town's 3% existing bed tax.

The following represents the actual annual transfer of funds from the Town to Experience Scottsdale during the first contract period.

FY2010-11	\$900,000
FY2011-12	\$925,000
FY2012-13	\$950,000

FY2013-14 \$1,000,000 40.9%* of Town FY2011-12 transient lodging tax (bed tax)
FY2014-15 \$1,115,708 40.9%* of bed tax received FY2012-13

The Town of Paradise Valley and Experience Scottsdale extended the June 2010 contract by signing a 5-year contract renewal covering the period from July 1, 2015 through June 30, 2020 that included several deliverables. During this extension period the annual percentage increase has ranged between 7.3%-18.7% as shown below.

FY2017-18 \$1,311,919
FY2018-19 \$1,514,011
FY2019-20 \$1,797,782
FY2020-21 \$1,927,931 (Not in Contract)

New Contract Discussions

In preparation for contract negotiations with Experience Scottsdale, the Town issued a Request for Proposals (RFP) to retain a third party independent consultant that specializes in the destination marketing field to analyze the work of Experience Scottsdale against the contract deliverables and against similar resort and luxury destinations across America.

DMOproz was selected through the Town's competitive RFP process. DMOproz initiated its work in February 2020 with a request for pertinent documentation from both the Town and Experience Scottsdale. Key community and elected leaders, resort managers and the Executive Management Team at Experience Scottsdale were interviewed the week of March 2, 2020.

Third Party Analysis

The Study included an analysis of whether the level of investment from Bed Tax collections into the program of work of Experience Scottsdale is currently appropriate.

Looking at communities within the competitive set of Experience Scottsdale, DMOproz found only a handful of examples where it could identify the amount of Bed Tax being invested by a resort community into a regional DMO such as Experience Scottsdale. In the Arizona market for example, the Town of Oro Valley invests 22% of its bed tax collections into Visit Tucson's \$8.6 million budget.

The Town of Bluffton SC invests 33.5% (\$250,000) of its annual Bed Tax collections into the work of the Hilton Head Visitors & Convention Bureau. It also invests \$200,000 of its Food & Beverage Tax collections, bringing the total investment to \$450,000, or 6% of the Bureau's budget. For all 9 communities that make up the service area of Discover Newport RI, 45% of the Room Tax collected is invested in a regional DMO.

On a national scale, among all members of Destinations International, the median amount of Room Tax that is invested in American DMOs is 36.7% (this includes budgets from \$200,000 to over \$100 million). For DMOs in Experience Scottsdale's budget category, that number increases to 54%. Thus, both Scottsdale and Paradise Valley are fairly close to national averages.

As far as Executive Compensation, budget, and staff size, Experience Scottsdale falls within the realm for like sized and similar market DMOs.

The five-year contract extension between the Town of Paradise Valley and Experience Scottsdale contains a number of expectations between the two entities. In return for its investment of revenues

into the DMO, the Town set certain performance measures for Experience Scottsdale to meet or exceed, among them:

- Generate at least 195 travel articles annually that mention Paradise Valley or its resorts or hotels.
- Generate at least 80 booked meetings annually into Paradise Valley resorts or hotels.
- Develop a \$1 million annual marketing and advertising program to benefit Experience Scottsdale members, including Paradise Valley resorts and hotels.
- Assist Paradise Valley resorts and hotels in generating at least \$40 million in Paradise Valley bed tax and sales tax during the term of the contract.

In all cases, Experience Scottsdale has exceeded these performance measures, even in FY 19/20 when the data only included the first two quarters of the fiscal year, as shown in the attached analysis.

The primary reason for the Town of Paradise Valley to contract with Experience Scottsdale as stated in the June 2010 Contract (and extension) was to promote and bring additional business to the Town's hospitality industry. Two forms of data collection were used to analyze the success of this contract goal.

First, Interviews with all resort General Managers resulted in significant and meaningful praise for Experience Scottsdale. (See pages 18-19 in attached DMOproz analysis for quotes directly from the resorts.)

Second, with the Town's \$5.7 million investment over the past five years, the Town has received over \$41.7 million in bed and sales tax revenue through December of 2019. This net return of \$36 million of revenue to the Town indicates a significant return on this investment that Experience Scottsdale had a collaborative hand in generating, along with the Paradise Valley hotels and resorts.

Consequently, with the performance measures exceeded; strong support from Paradise Valley resorts; and quantifiable data that indicates the Town's previous investment has increased revenue for PV resorts and the Town; the Town Council directed and supported a contract renewal with Experience Scottsdale.

Potential Terms in Contract Renewal

After very productive meetings with Experience Scottsdale, the following statements outline the Town Council's and Experience Scottsdale's mutual respect and understanding and are therefore included in the contract renewal introductory statements:

- ES will work to support the Town's vision to enhance the Town's unique character for its residents and to support the success of the Town's resorts.
- ES and the Town support common values of professionalism, high quality customer service, teamwork, respect, accountability, and transparency.
- Through the tourism industry, ES can help to elevate the unique lifestyle and character of the Town while ensuring a strong return on the Town's investment.
- ES's efforts to elevate the tourism industry support the Town and its desire to preserve the Town's special character, provide high quality service, invest in infrastructure projects, manage the Town's financial resources, and identify opportunities to create and promote a more sustainable community.

As a result of these statements and stated goals, the Town and Experience Scottsdale management have tentatively agreed to the following amendments to the current contract terms, subject to Town Council's consideration:

1. Contract Term: 3 years with 2 1-year extensions
2. Compensation: 45%/35%/25% sliding scale every \$2M of Transient Lodging Tax revenue collected from estimated resort revenue during current year with mid-yr review, and Oct adjustment.
3. Scope of Services/Parameters: Flexible process for input with Council and Resort General Managers with Experience Scottsdale (ES) observation
4. Discuss financial responsibilities and best practices with independent contractor review once in first 3 year term; once if extended contract.
5. Board representation. The Town's voting liaison to the ES Board of Directors also shall be provided a seat on the ES public policy committee. Other Town representatives may be invited to participate at the discretion of ES and approval of the Committee Chair.
6. Input on Annual Program of Work. Annual meeting with Town resort general managers, Town Council and ES to allow the group to share input on priorities, trends and insights related to the coming year's program of work.

NEXT STEPS

The Experience Scottsdale contract was not finalized by the posting of this agenda. Staff will forward the contract to Council and update the agenda by Tuesday, or pull the item from the June 25th agenda.

ATTACHMENTS:

Presentation Experience Scottsdale Action Report June 25, 2020

An Analysis of the Efficacy of Experience Scottsdale from a Paradise Valley Perspective, DMOproz

Redline comparison of proposed draft contract with current 2010 contract

Clean version of proposed Experience Scottsdale 2020 contract