MEMORANDUM

TO: Mayor and City Councilors
FROM: Norman McNickle, City Manager
       Melissa Reames, Deputy City Manager
       John Dorman, City Attorney
RE: Report on Visit Stillwater Financial Performance
DATE: January 7, 2019

City of Stillwater Ordinance 2178 (codified at Sec. 39-271 through 39-292, Stillwater City Code), as approved by a vote of the people, imposes a tax on charges for hotel rooms. The ordinance provides that these tax revenues are to be used “exclusively for the purpose of encouraging, promoting and fostering conventions, conferences, and tourism development in the city.” Stillwater City Code Sec. 39-272.

From 1985 through 2011, the City contracted with the Stillwater Chamber of Commerce to perform tourism development and visitor services. The contract(s), paid exclusively from the room tax, provided for a dedicated employee, office space, and clerical services. In 2012, the City and Chamber agreed to end the arrangement, and the City commenced operation of tourism development and visitor services as an economic development department under the direct supervision of the City Manager. The employee responsible for tourism development and visitor services at the Chamber was hired by the City Manager to run the department. The building located at 2617 W. 6th Avenue was leased to house department operations and to serve as a “Visitor Center.”

In late 2014, the City Council decided to outsource tourism development and visitor services as part of a larger cost-saving effort that saw operation of Lake McMurtry, the Multi-Arts Center, and Youth Sports Programs transferred to local not-for-profit entities. Visit Stillwater OK, Inc., (VS) was created in 2014 as a not-for-profit enterprise as part of this process. The City assigned the Visitor Center lease and transferred ownership of furniture, equipment and software to VS in the transition.

The first service contract between the City, through the Stillwater Economic Development Authority (SEDA), a municipal trust, and VS became effective on January 1, 2015. Subsequent contracts were approved by SEDA in 2016 and 2017. The most recent contract (2017-2018) expired on June 30, 2018, but was extended by agreement of the parties through June 30, 2019. As of January 7, 2019 SEDA has paid VS a total of $3,565,865 from the room tax for the tourism development and visitor services.

Each of the service contracts entered into during this period required VS to calculate and report annually “productivity metrics,”-- DMO-level Return on Investment (ROI) Formulas and functional area ROI formulas as set forth in a separate document titled “Standard DMO Performance Reporting – A Handbook for Destination Marketing Organizations (DMO’s).” The service contracts also included a provision reserving to SEDA the right to audit VS financial records.

Last summer, SEDA and VS agreed to engage an outside accounting firm, FSW&B, of Stillwater, to review VS financial performance under the service agreement. SEDA and VS established mutually acceptable review criteria (“agreed upon procedures”--AUP). SEDA Representatives subsequently met with Derrell White, managing partner, and Surekha Sheorey, partner of FSW&B to confirm understanding of the engagement and parties involved.
The AUP field work began in early August. A first iteration of the report was submitted to SEDA Administration on September 11, 2018. After an initial review, SEDA Administration met with FSW&B on September 14, 2018 to discuss concerns about the presentation of report findings. The final report was issued by FSW&B on October 9, 2018.

SEDA reviewed the October 9 Report and found it still to be lacking in certain specifics. As a result, SEDA Administration contacted VS and obtained additional financial records (financial statements, budgets and action plans). SEDA Staff reviewed these items in conjunction with the October 8 Report.

**Findings:** SEDA’s objective with regard to the VS AUP was twofold:

1. A determination of a return on the investment of the hotel tax; and
2. A clear indication of how the funds were spent to achieve visitor development.

The VS AUP Report provided data on revenues generated, travel expenditures, personnel expenditures and program specific expenditures. While not fully addressing SEDA’s objectives, the Report did reveal the existence of a previously undisclosed VS “fund balance” and the payment of employee bonuses last January (2018) from “private funds.”

The subsequently obtained VS financial statements identified payees and the annual disbursement amounts. From this data, SEDA Staff developed a side by side comparison to analyze spending patterns. Using this approach, the following determinations were made:

- SEDA confirmed the existence of a fund balance indicated by the Report. The total VS cash balance on June 30, 2018 was $288,537.20.
- Marketing efforts were focused on print advertising, radio, TV and social media. Across the four fiscal years marketing averaged 30% of total VS expenditures.
- Personnel, overhead and travel ranged from 41% of VS expenditures in fiscal year 2015 (a six month period) to 67% in fiscal year 2018.

The VS AUP and VS Financial Statements provide an indication of how the Hotel Tax funds were spent, but do not give any meaningful information pertaining to ROL. Presently, the only available indicators of enhanced visitor development and spending are changes in sales and hotel tax. These revenue sources have remained consistent over the review period and any variation can be easily attributed to sources other than VS activity. In short, calculation of ROI under the existing VS model and agreement cannot be determined.

**Attachments:**

1. VS Payments, Sales and Room Tax Collections
2. Statement of Cash Flows 01/31/2015 to 09/30/2018
3. Income Statements based on VS provided financial statements for fiscal years ending 06/30/2015, 2016, 2017, 2018
4. Graphs
5. VS April 23, 2018 Memo