



SEDONA LODGING COUNCIL

**Show Your Support of the Sedona
Chamber of Commerce & Tourism
Bureau During the City Council
Work Session
Tomorrow 1/11, 3-5pm
City Council Chambers**

Sedona Lodging Council-

The City of Sedona will be holding a work session to discuss and give possible direction on the development of a process to consider a contract for destination marketing and tourism promotion services for fiscal year 2017/2018 and beyond. The work session will be held on Wednesday, January 11 from 3:00 pm- 5:00pm at the City Council Chambers. This is a very important meeting that will decide the future direction of tourism in Sedona.

The purpose of this agenda item is for Council to develop the process by which to consider a contract for destination marketing and tourism promotion services for fiscal year 2017/2018 and beyond. City staff will seek direction from Council on how best to move forward with one of the

options below:

OPTION 1. Move forward with the negotiation of a new contract with the SCoC&TB.

OPTION 2. Issue an RFP for tourism promotion services.

OPTION 3. Create a stand-alone DMO without ties to the Chamber of Commerce

OPTION 4. Create a City department to handle tourism promotion.

OPTION 5. Issue a Request for Qualifications (RFQ) for a travel industry consultancy to assess the current structure, funding relationships, etc. and provide recommendations to the City.

Apparently the city councilors are receiving many emails regarding the public investment in our efforts and encouraging them to decrease and/or pull all funding to the Sedona Chamber of Commerce & Tourism Bureau and halt efforts to support tourism. Unfortunately, city council is only hearing from the naysayers about the negative impacts of tourism and it would be helpful to have a full house at the meeting tomorrow. The agenda bill is attached so that you can review the pros and cons of each option along with some other information that may be helpful.

We'll also need some speakers to speak during the public comment. Can we count on you to attend and/or speak?

Please let me know if you will be able to join us to support the investment of the bed tax to Sedona's #1 industry and support our organization and the great work we do.

**Best Regards,
Michelle**

Michelle Conway
Director of Marketing
Sedona Chamber of Commerce &
Tourism Bureau
45 Sunset Drive, Sedona, AZ 86336
Phone (928) 204-1123 ext. 115

SedonaChamber.com VisitSedona.com

History of Sedona Bed Tax Increase and City-

Chamber-Lodging Council Connection

This is a presentation on Tuesday, January 10 to the Sedona Lodging Council on the historic relationship of the Chamber and the City including explanation of the evolution of the bed tax and funding of Chamber marketing efforts.

Four years ago the Lodging Council hired a professional tourism consultant, Nichols Tourism Group to study Sedona as a destination and recommend and design tourism plans which would enhance Sedona's revenue stream through sales tax and bed tax payments. This study and recommendation brought about an awareness of Sedona's challenges in competing with other destinations which have a similar demographic appeal. The study exposed deficiency in the amount of marketing funds dedicated to the process and showed Sedona was behind a competitive curve in developing a modern, hip image and illustrated that funding for integrated sales, marketing and management plan, which would influence a higher demographic, were vastly inadequate. Additional funds were needed to contend with competitive destinations and to capture Sedona's fair market share.

The Beginning

The Lodging Council and the Chamber jointly approached the city to find additional funds to allocate towards destination marketing and management in order to increase the city's revenues and improve Sedona's tourism economy, which is a \$600 million industry generating 10,000 jobs.

- Out of this came a half percent increase in Bed Tax (from 3% to 3.5%) with 55% being allocated to the contracted DMO. Along with this contractual agreement came additional requirements such as a financial audit, written quarterly reports, two in-person reports, dedicated focus to product development and an annual approval of the marketing plan, performance standards, program of work and budget.
- Since its creation, more than 65 years ago, the Sedona Chamber has operated as the official Destination Marketing Organization (DMO). It is valuable to note that Sedona Chamber of Commerce & Tourism Bureau is an accredited DMO, one of only 200 in the world. It made and continues to make sense that the city takes advantage of the expertise and experience of the chamber to provide services which helps the city financially as well as help manage the presence

and impact of visitors in our community.

- The 3% bed tax has been in existence since the city was incorporated and has been historically used as a source of funds for operating the city. Over the year's funds were allocated for the visitor center operation and chamber marketing projects of around \$500,000-\$600,000 per year.

Bed Tax Revenues

In FY-14, which is considered the benchmark year, the year prior to the 3-year, formulized contract with the city and chamber, the amount of funds generated by the bed tax was \$2,097,290 million, with approximately \$500,000 invested in the chamber. The goal of formula funding as outlined by the Nichols Tourism Group was to allocate 60% of the bed tax to tourism promotion and management (the average across the USA).

Also, that according to Roger Brooks International, 41 of the 50 states in America require that 100% of the bed tax be used for the needs of tourism development and management.

In FY16, the city collected \$3,010,334 in bed taxes, which was a 13% increase over FY-15 and a 44% increase since from the benchmark year FY-14. In FY16, of the \$3 million in bed tax dollars collected, 45% will go to the city - \$1,354,650 – which is almost equal to the city's share in FY13, which was \$1,356,955 (when the city received 73% of the bed tax, and the chamber received 27%).

In FY17, the Chamber's Tourism Bureau will received 55% of the collected bed tax or an estimated \$2,009,828.

Breaking out the \$2,009,828 expenditure:

- \$150,000 or 7% is used for administration
- \$389,828 or 19% is for Product Development
- \$410,000 or 20% is for Visitor Services (Visitor Center)
- \$565,650 or 28% is used for traditional and internet advertising
 - o \$223,000 or 40% is used to advertise in the Valley for summer & winter business (or 11% of total public funding)
- \$81,406 or 4% is used to help off-set the costs of the following marketing/sales personnel: President/CEO, Director of Marketing, PR Manager, Travel Industry Sales, Group Sales Manager, Digital Marketing Manager

The city's revenue has not changed with this new arrangement, but it generated \$1.5 million additional funds for the chamber to use in an

agreed-upon expanded role in destination marketing and management services. Interestingly enough, sales tax revenue increased during this same period to about \$15 million, and increase to \$2.5 million per year in less than 3 years. All of that goes to the city for its needs.

ADR & Occupancy Increases

- As we all know the ADR has increased by 18% to over \$200 as the affluence of Sedona's visitors has increased and the brand image has been elevated. This overall increase in ADR coupled with occupancy rate increases represents a substantial growth in overall revenue to the lodging industry which flows back to the economy of Sedona in so many ways. This illustrates the DMO's focus on quality over quantity.
 - o And we can't forget that sales tax is charged on room rental which means the city's sales tax income has benefited from higher ADR and occupancy. In order for occupancy rate to increase as it has required Sedona's popularity in traditional slow summer and winter seasons to grow, which has been the bulk of the Chamber's focus in advertising.

How did we get to this point where it looks like everyone is winning except for the increase in traffic which has become an irritation, nuisance and frustration many citizens have to cope with?

Is this increase in traffic connected to the city's increased investment in funding of the chamber advertising efforts? Well, evidence shows that there is a connection to increased visitor traffic in the summer and winter from successful marketing campaigns by the chamber which targets those periods. These efforts have successfully upped the ante on the Sedona's public image through an ingenious branding campaign which has made Sedona more popular with a higher demographic.

But something else besides clever marketing is going on. Such as:

- o A substantially improved economy has allowed more to travel and seek adventure. Families from the valley and throughout America are coming to Sedona in recorded numbers as awareness of destinations in Northern AZ has increased. This includes Jerome, Flagstaff, Grand Canyon as well as Sedona.
- o Gas prices have fallen by 50% and has made the cost of travel much less expensive and has created more competition in the travel market place.
- o The 100 Year Anniversary of the National Parks creating overwhelming traffic issues in many of the country's parks, including the Grand Canyon, Zion, and Bryce.
- ♣ The Grand Canyon National Park received 2 million more visitors (from 4

million to 6 million) in the last two years.

- ♣ Sedona inherits travelers to the Grand Canyon, even if they don't stop in Sedona, but just pass through. Sedona is not a National Park, but its appeal is like one. For sure, Sedona is not alone in coping with increased visitor traffic.

- o Casual use of Oak Creek Canyon by families from the valley looking for an inexpensive place to have fun has substantially increased.

- ♣ Some of this is the unintended consequence of requiring permits to visit Fossil Creek which had become too popular to be managed openly.

Demand for Fossil Creek is now outpacing supply with this new system by more than 50,000 people per year.

- Oak Creek Canyon on a nice summer day can see in excess of a 1000 cars and thousands of people playing in the creek thought out the day. Most enter via Hwy 179 and exit through Uptown creating backups on many weekends and some weekdays.

- This influx of additional funds to the chamber's DMO activities was not just used for traditional advertising. Hundreds of thousands are invested in Global Sustainable Tourism, and projects such as National Geographic Geotourism Online Map Guide, Sedona's Secret 7, Nine EZ Hikes, Sedona Trail Keepers, Red Rock Fantasy, WalkSedona.com and Gallery Walk, and additional product development projects. And keep in mind, only \$162,500 of the Bed Tax funds are dedicated to administrative overhead and supplies.

Visitor Enhancements and Product Development

- And as of this fiscal year, the chamber has allocated almost \$400,000 towards product development and looks for opportunities to enhance the visitor experience. The goal is to also help mitigate some visitor frustration, such as finding parking in the uptown area and the anticipated increase need for free parking once the parking meters are installed in Uptown this summer.

- In other cases, the chamber has programs to educate visitors on less known trails in an attempt to reduce the load on the more popular trails. The chamber is also working with the Forest Service on programs to generate funds to augment current funding for trail development and maintenance.

- To this end, the chamber is proposing to the city to purchase 401 Jordan Rd which is an old bank property to increase parking and help create a new staging area for tour companies to encourage their customers to use

available free parking.

o In addition, the property has a 5,000 sq. ft. building which can be used for a variety of things, from micro-offices for incubating new business, a new art museum, or an expansion of the cities Heritage Museum, a transit hub, etc.

o After paying \$1+ million dollars for the property over five years using some of its Product Development funds, the chamber is offering to give the property to the city. In the meantime, the chamber will take responsibility to develop this tourism asset for the good of all visitors and the businesses in Uptown.

- In other words, the chamber recognizes the need to be a partner with the city and all businesses in tourism management and enhancement, not just "destination marketing."

O The challenges Sedona has in developing traffic management plans which will actually work will require the chamber to work side by side with the city on many levels and provide the expert skills, talents, knowledge, and programs to keep Sedona moving forward. The quality of life in Sedona must be protected with traffic issues being the highest priority to address. This is a real partnership relationship.

City Discussion about Future City-Chamber Relationship

The current status of the city's effort to look forward to the future and decide whether or not to issue another DMO contract with the chamber similar to the current contract is now under discussion. The city is also looking at some alternative approaches.

- These alternatives include bringing all tourism marketing services and programs in-house as a city department, hiring a consultant to guide them and help make decisions on destination marketing needs, changing the formula used in fund allocation, or issuing a RFP with the idea some other company located outside of Sedona can do a "better" or "different" job than our chamber is doing.

The board of directors of the Lodging council believes we should strongly encourage the city to keep the winning team and work with the chamber to cooperatively develop ideas and solutions to help mitigate traffic issues. This is known as option 1 being considered.

- The city will start the process tomorrow, January 11, at a city council study session starting at 3:00 p.m. Your presence would be

appreciated.

- Please note, from the Lodging Council's point of view, if the city wants to explore alternative ideas, it's free to do so. And if the city wants to spend the time, money, and effort to develop a RFP, we are confident the chamber would be the chosen group to continue the city's DMO programs.
- The Lodging Council should be pro-active in assisting the city to come to the right conclusions and decisions. The unintended consequences of making the wrong decision could have a serious effect on Sedona's lodging and tourism industry.
- The Lodging Council also understands the need to help "educate" our citizenry and the press on the realities of tourism as an industry in 2017. We feel it has morphed into a very complex, sophisticated and competitive process that requires an equally sophisticated process to be successful. Our chamber, functioning full-tilt as a professional Destination Marketing Organization has demonstrated its ability to elevate Sedona to its enviable position in the world of higher-end destinations.
- The Lodging Council also understands that the time to curtail Phoenix targeted marketing has probably arrived and the need to step up the game to focus on the "Fly in Visitor" and longer drive destinations such as Las Vegas, Tucson, and Los Angeles, all who have to stay overnight.
- And finally, the Lodging Council should use its unified voice to demonstrate its respect for the skills and abilities of the Chamber's staff and contractors to be part of the solution of our challenges and help propel the city to a future where traffic issues are not our number one issue.

Sedona Chamber of Commerce & Tourism Bureau Co-Op Programs Available

The Sedona Chamber of Commerce & Tourism Bureau offers a plethora of Partner Programs to engage in for marketing efforts. Be sure to check out all the programs by clicking [here for a comprehensive listing](#).

