



Hospital Revenue Capital Investment Policy

Date Effective: Upon Council approval

Responsible Department: Department of Finance

POLICY STATEMENT

The hospitality industry is a vital part of Charlotte's economy and represents one of the region's largest employment sectors. This industry creates employment opportunities for thousands through large employers, as well as supporting small and independent entrepreneurs in creating opportunities for themselves. Revenues generated from hospitality (Hospitality Revenues) are used by the City of Charlotte (the City) for the maintenance, operations, and further development of the hospitality industry.

The Hospitality Revenue Capital Investment Policy provides criteria to assist City Council in their consideration and evaluation of capital investments funded by Hospitality Revenues to ensure funding resources are maximized, to maintain long-term stability of hospitality funds and to promote transparency. Through the strategic and intentional allocation of Hospitality Revenues to capital improvement projects, the City will be able to grow Charlotte's market share of both the regional and national hospitality and visitor market economy.

The Hospitality Revenue Capital Investment Policy, in conjunction with the City Financial Policies and Practices prescribed in the annual budget, provide a general framework for evaluating the allocation of Hospitality Revenues to capital improvement projects.

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POLICY

I. Guiding Principles

To ensure the most impactful use, Hospitality Revenue-supported capital investments will be evaluated based on the following principles:

- a. Demonstratable economic growth
- b. Financial viability including self-sustaining operations without need for additional funds or support from the general credit of the City
- c. Ability to provide ongoing maintenance to ensure competitive condition (i.e. current, relevant and competitive in the market)
- d. Adherence to City Council policies and priorities and compliance with applicable legislation
- e. Supports mixed capital investment portfolio that considers the arts, sports, and cultural experiences to address community needs
- f. Leverages outside investment from the private sector and/or community partners such as non-profit organizations when applicable

II. Authority

City financings for Hospitality Revenue capital investments will be conducted and maintained in accordance with applicable Federal and State laws, City Ordinances and other regulatory requirements, including the U.S. Internal Revenue Service (IRS), Rule 15c2-12 of the Securities and Exchange Commission and the North Carolina Local Government Finance Act. The Local Government Commission (LGC), under the State Treasurer, oversees and regulates debt issuance.

The City will follow the allowable uses for the original 3% Occupancy Tax in S.L. 1983-908 (1983) and amended by SB 647 and S.L. 2001-402; the additional 3% Occupancy Tax in SB 647 (1989) and amended by S.L. 2001-042 and 2013-26; the 2% NASCAR Hall of Fame Occupancy Tax in S.L. 2005-68 (2005); the Prepared Food and Beverage in SB 647 (1989) and amended by S.L. 2001-42 and S.L. 2011-160; the 1.5% Rental Car Tax in SB 635 (2001); and the 5% U-Drive-It Rental Car Tax in S.L. 1997-417(1997) and amended by S.L. 2006—162.

The City maintains three hospitality funds (Hospitality Funds) that are appropriated through the annual budget. The Hospitality Funds, their hospitality revenues and the permitted uses include:

○ Convention Center Fund

- Supported by the additional 3% Occupancy Tax and the 1% Prepared Food and Beverage Tax.
- Uses include the Convention Center Facility, convention and visitor promotion, hospitality/tourism marketing, amateur sports facilities and stadiums over 60,000 seats.

○ Tourism Fund:

- Supported by the original 3% Occupancy and the 1.5% Rental Car Tax and by a transfer from PAYGO for an equivalent amount of 4% of the U-Drive-It Rental Car Tax and City and County Synthetic Incremental Tax Grants.

- Uses include marketing and visitor promotion, program and events that will generate visitors, and the construction and maintenance of facilities such as convention centers, civic centers, auditoriums and museums.
- NASCAR Hall of Fame Fund
 - Supported by the 2% NASCAR Hall of Fame Occupancy Tax.
 - Uses include constructing and maintenance of the NASCAR Hall of Fame, the NASCAR Hall of Fame/Convention Center Crown Ballroom, and parking facilities.

a. Operating and Capital Funding Requests

Hospitality Funds investment opportunities will be evaluated to confirm alignment with City Council priorities and provide transparency when committing current or future debt affordability. Requests for operating and capital funding from hospitality funds must be documented and vetted by the City (i.e. Finance, Economic Development and Strategy and Budget) before presentation to City Council for consideration. City Council will utilize the guiding principles and parameters outlined in this policy to assist in their evaluation of funding requests.

b. Fund Balance and Debt Parameters

The parameters below will serve as key metrics in evaluating the funding of capital investments within the hospitality funds. These key parameters will ensure the long-term fiscal health of the Hospitality Funds.

- i. The City will maintain a Fund Balance equal to 100% of the following year's budgeted debt service within each Hospitality Fund. Fund balance is defined as the financial resources available, as determined annually from audited financial statements, in each Hospitality Fund.
- ii. The City will maintain a Recession Mitigation Reserve within each Hospitality Fund to an amount equal to 25% of the five-year average of annual revenues recognized in the fund, exclusive of fund balance. This reserve will provide stability during economic recessions.
- iii. The City will target long-term debt to be structured such that 50% or more of the principal is to be repaid within 15 years, or such amortization period if longer, that is supported by the useful life of the asset being financed. However, such amortization period shall not exceed 30 years.
- iv. The City will ensure maintenance and repair of City-owned, Hospitality Revenue supported capital assets by contributing a minimum of \$250,000 annually, or greater amount, if deemed necessary based on the age and value of the assets, to a Maintenance Reserve within each Hospitality Fund.

c. Evaluation Criteria

All capital investment opportunities for use of Hospitality Revenues will be evaluated through specific criteria to confirm alignment with City Council priorities and provide transparency when committing current or future debt affordability. A "Hospitality and Tourism Funds

Capital Funding Request” form will be completed for each request that includes data to support the following evaluation criteria.

i. Economic Development Impact Criteria

1. Job Creation – Expected number of permanent and temporary positions created by the investment, including average salaries of jobs created
2. Investment – Net new property taxes, Hospitality Revenues and any new non-taxable capital investment generated by the investment and the return on investment

ii. Financing Criteria

1. Funding Plan – Detailed plans on project financing, including but not limited to:
 - a. Total project costs including information about investment leveraged from the private sector, and
 - b. Detailed financing assumptions if the investment represents a Public-Private Partnership where the City will not serve as the primary issuer
2. Financial Policy Compliance – Modeled evidence the proposed funding adheres to existing financial policies
3. Affordability Analysis – Total investment and overall Funding Plan is enough to cover annual debt service through the final maturity for any debt issuance and to cover the full life-cycle costs of the capital investment

iii. Socio-Political Criteria

1. Community Partnership – Identification of how the investment benefits the City through intentional commitments and partnerships
2. Maximize Inclusion – Acknowledgement and demonstration of MWSBE participation to promote economic growth
3. City Initiative Alignment – Identification of how the investment aligns with City goals.

d. Allocation of Debt Affordability

Once approved by City Council, Hospitality Revenues-supported capital improvement projects will be implemented in compliance with the City’s adopted Debt Policies and Practices and the City’s internal Debt Management Procedures.

e. Reporting and Evaluation

Regular reporting and evaluation on approved investments and in-process investments will be performed to establish financial accountability, enhance operational effectiveness and promote transparency.

- i. Approved Investments – The Finance and Economic Development departments will provide an investment status overview to City Council annually, at a minimum, on key information for previously approved

investments including:

1. An affordability analysis dashboard providing a long-range forecast of expected remaining life-cycle costs for existing commitments; and
 2. A report comparing expected policy goals to actual outcomes for approved investments.
- ii. Horizon Investments – An investment status overview will also be provided annually, at a minimum, for capital or operational/marketing investments that are reasonably or contractually necessary in the short to intermediate term but have not been approved by City Council. These horizon investments include investments that do not yet have a financial plan and/or sufficiently refined scope, cost, or business case.
- iii. In-Progress Investments – Recipient entities, (e.g. Charlotte Regional Visitor's Authority) will provide quarterly project status updates to City Council's Budget and Effectiveness Committee to confirm projects are within scope and budget.

Quarterly updates will include:

1. Budget to actual comparison, including:
 - Review of expenditures in relation to current budget and life of the project; and
 - Review of encumbrances and estimates of planned expenditure activity;
2. Any material changes to project scope, schedule, and/or funding that have occurred or are expected; and
3. Confirmation of adequate cash flow.