

Office of the City Auditor



TIP/TAP Special Revenue Funds

**Audit of the Tourism Investment Program (TIP)
and Tourism Advertising Program (TAP) Special
Revenue Funds**

Purpose:

The purpose of the audit was to determine whether the Tourism Investment Program (TIP) and Tourism Advertising Program (TAP) Special Revenue Funds were receiving revenue in accordance with specified allocation rates and that the expenditures from those funds were appropriate.

The objectives of the audit were to determine that:

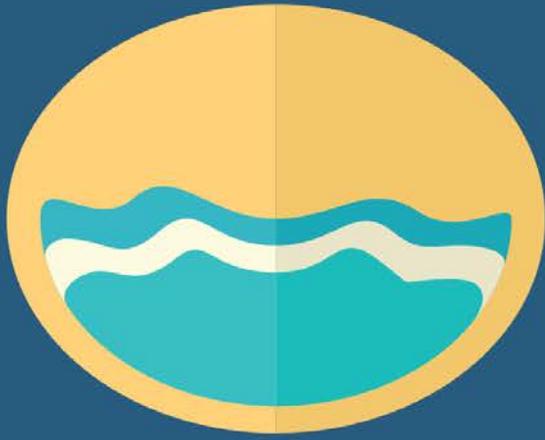
1. Trust fund receipts were properly allocated in accordance with the specified rates.
2. Expenditures made from the TIP/TAP Special Revenue Funds were appropriate.



Scope

- **City Auditor** - Reviewed the period FY 2016 – FY 2019
- **External Auditors** (currently Clifton Larsen Allen) - Audits the TIP/TAP Special Revenue Funds annually as part of the CAFR
 - Revenues
 - Expenditures
 - Fund Balance
- **Finance** - Performs a monthly review to ensure what was allocated is based on the current formulas





TOURISM INVESTMENT PROGRAM

Merging of Two Existing Funds:

1. Tourism Growth Investment Fund (TGIF)
2. Major Projects Fund

TGIF fund provides funding for tourism-related capital projects and initiatives

Major Projects Fund provides funding for the construction and debt costs for major projects i.e. Convention Center, Sandler Center and the Virginia Aquarium parking lot expansion



TOURISM ADVERTISING PROGRAM

Established in 1995 to provide additional funding for the City's advertising and marketing program to foster and stimulate growth of tourism, including the operation of the Visitor Information Center, and to promote and increase tourist visitation to the City.



Where does it all go?

Allocation of Trustee Tax Revenues Collected						
Tax Category	Tax Rate	TIP Fund	TAP Fund	General Fund	Open Space	EDIP
		Used for tourism related projects such as the Sports Center, Convention Center, and improvements made on Atlantic and Pacific Avenue.	Funds tourism advertising and marketing nationally and internationally, including social media and influencers.	General operating fund of the City, which is used to account for all of the financial resources, except those required to be accounted for in another fund.	Funds for areas taken for preservation and open space.	Funds economic development grants for qualifying businesses.
<i>Hotel Tax*</i>	8%	5% + \$1 a night	1% + \$1 a night	2%	N/A	N/A
<i>Restaurant/Meal Tax</i>	5.50%	1.06%	0.50%	3.50%	0.44%	N/A
<i>Amusement Tax</i>	5% or 10%	100% of tax collected	N/A	N/A	N/A	N/A
<i>Cigarette Tax</i>	\$0.75/pack	\$.05 cents a pack	N/A	\$0.54 cents a pack	N/A	\$0.16 cents a pack
<i>Other Fees: Open Air Café Application Fees, Mobile Vendor Fees, Beach Rentals, etc.</i>		Various	N/A	N/A	N/A	N/A

* Note: The Hotel Tax rate within the Sandbridge SSD is 9.5% and is allocated as followed: 2% to the General Fund, 1% to the TAP Fund and 6.5% to the Sandbridge SSD Fund

Allocation of Trustee Tax Revenues Collected - FY 2019

Tax Category	Tax Rate	TIP Fund	TAP Fund	General Fund	Open Space	EDIP	Total
<i>Hotel Tax*</i>	8% + \$2 a night	\$22,665,719	\$6,819,044	\$7,623,425	N/A	N/A	\$37,108,188
<i>Restaurant/Meal Tax</i>	5.50%	\$13,315,991	\$6,281,128	\$43,967,894	\$5,527,392	N/A	\$69,092,405
<i>Amusement Tax</i>	5% or 10%	\$6,891,258	N/A	N/A	N/A	N/A	\$6,891,258
<i>Cigarette Tax</i>	\$0.75/pack	\$752,771	N/A	\$7,407,083	N/A	\$2,408,867	\$10,568,721
	Total	\$43,625,739	\$13,100,172	\$58,998,402	\$5,527,392	\$2,408,867	\$123,660,572

* Note: The Hotel Tax rate within the Sandbridge SSD is 9.5% and is allocated as followed: 2% to the General Fund, 1% to the TAP Fund and 6.5% to the Sandbridge SSD Fund

Example of Tourist Family Spending on Hotels and Meals Contributing to the TIP/TAP Funds

2 Night Stay



\$500

8% + \$2/night

\$27 \$10 \$7



TIP



GF



TAP

Roberts Family



Dining Out



\$300

5.5% Food Tax

\$3.18 \$10.50 \$2.82



TIP



GF



TAP/OS

TIP Fund: \$25 (5%) of the \$500 lodging, plus
\$1 per night (\$2) = \$27

TAP Fund: \$5 (1%) plus \$1 per night (\$2) = \$7

General Fund: Remaining 2%, or \$10

Total Taxes Generated: \$44

Lodging

The Roberts family stayed for 2 nights spending \$500 on lodging.

TIP Fund: \$3.18 (1.06%) of \$300

TAP Fund: \$1.50 (0.50%) Open Space
Program \$1.32 (0.44%) = \$2.82

General Fund: Remaining \$10.50

Total Taxes Generated: \$16.50

Meals

The Roberts family spent \$300 on meals during their stay.



Budgeted vs. Actual Expense totals

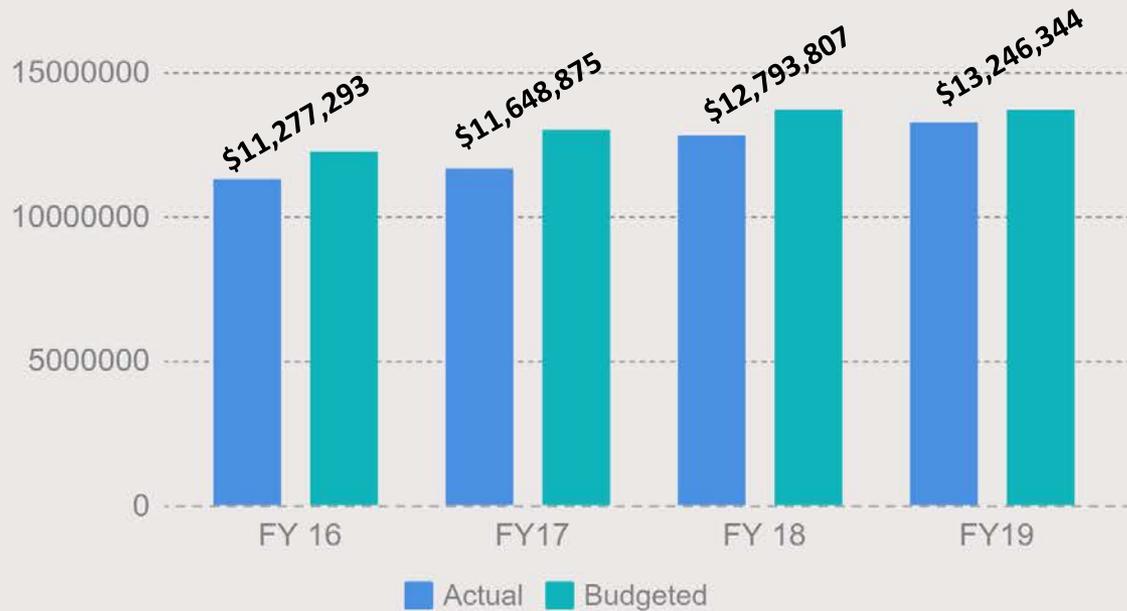
TIP FUND



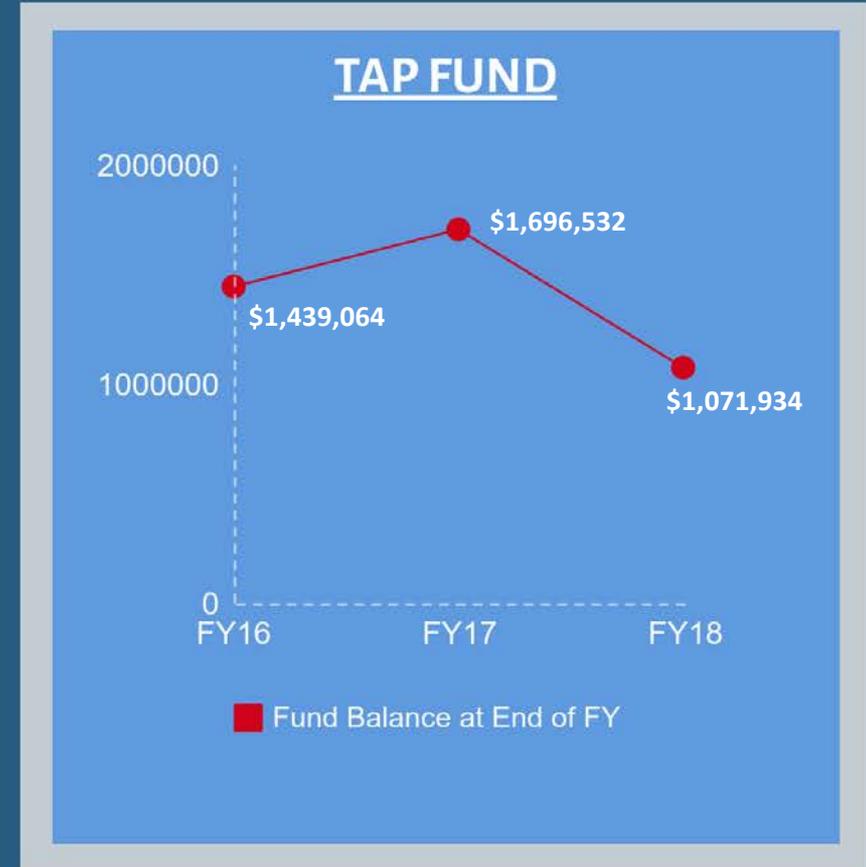
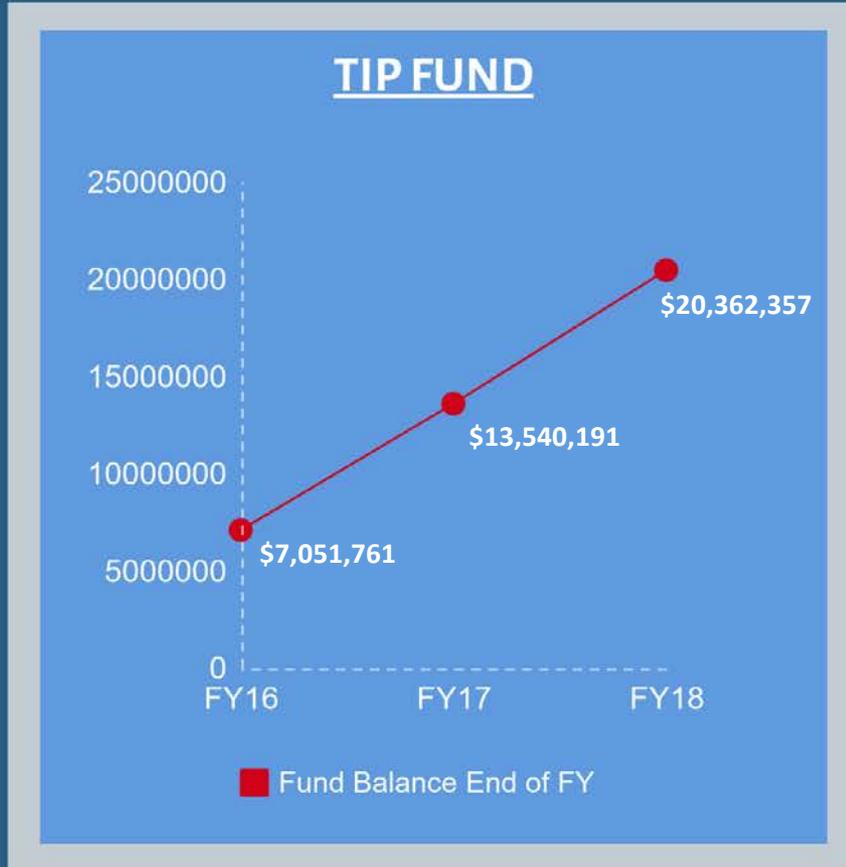


Budgeted vs. Actual Expense totals

TAP FUND



Ending Balance of the TIP & TAP Funds



Projects such as the Sports Center, Central Beach/Convention Center Parking, Pacific Avenue and 19th Street Road improvements have been started and the debt to pay for the majority of expenditures will be issued in FY 2020

Allocation of Trustee Tax Revenues Collected - FY 2019

Tax Category	Tax Rate	TIP Fund	TAP Fund	General Fund	Open Space	EDIP	Total
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	Total	\$43,625,739	\$13,100,172	\$58,998,402	\$5,527,392	\$2,408,867	\$123,660,572

OBJECTIVE 1

RESULTS:

Revenues collected were properly allocated



Objective 2: TIP/TAP Fund Expenditures Were Appropriate

TIP – FY 2019 Top 16 Expenses			
	Vendor	Amount	Description
1	US Bank NA	\$17,834,901	Bond Principal/Interest - CIP Projects
2	Chase Manhattan Bank	\$3,044,327	Bond Principal/Interest - CIP Projects
3	Integrated Management Group LLC (Formerly Beach Events)	\$2,453,821	Oceanfront Entertainment
4	HRT	\$1,200,548	Oceanfront Trolley Service
5	Abacus Corp	\$481,936	Contracted Manpower
6	Virginia Beach Neptune Festival	\$275,000	Sponsorship of Festival
7	Peterbilt of Springfield	\$153,900	Garbage Truck Rear Loader (1) – Beach Operations
8	Blue Bird Bus Sales Of Pittsburgh Inc.	\$135,172	Shuttle Vans (2) for CVB, transportation to and from the Cape Henry Lighthouse
9	Hilton Virginia Beach Oceanfront	\$100,000	Entertainment/Music for 31 st Park (see Note 1 below)
10	Patriotic Festival Inc.	\$100,000	Sponsorship of Festival
11	Virginia Beach Events Unlimited Inc.	\$100,000	Virginia Symphony at the Beach (four performances)
12	25th Street Associates LLC (I Fly)	\$66,000	Reimbursement Admission Taxes for I-Fly (see Note 2 below)
13	Eastern Sports Management LLC	\$60,000	Virginia Beach Sports Center Mgmt. Fees
14	TFC Recycling	\$58,273	Waste Removal/Recycling
15	MOSCA Design Inc.	\$54,919	Holiday Lights Display
16	Virginia Museum Of Contemporary Art	\$50,500	Sponsorship Boardwalk Art Show

Note 1: Hilton Virginia Beach Oceanfront - Per the 31st Street Development Agreement, the developer is entitled to \$100K reimbursement from the City for entertainment produced by the developer at 31st Park. Integrated Management Group LLC (Beach Events) handles all other entertainment at the various oceanfront venues.

Note 2: 25th Street Associates LLC (I Fly) – Per the 25th Street Development Agreement, the developer is entitled to receive reimbursement incentive payment equal to 90% of admission taxes collected at the iFly facility. Incentive payment is capped at \$1.6 million. **15**

TIP/TAP Fund Expenditures Were Appropriate

TAP – FY 2019 Top 16 Expenses			
	Vendor	Amount	Description
1	BCF	\$2,811,212	Advertising, Marketing
2	Townsend Media Inc.	\$921,250	Out of State Advertising
3	Ayzenberg Group Inc.	\$560,612	Online, Influencer Media Campaign
4	Simpleview LLC	\$551,116	Advertising, pay per click
5	Zimmerman Agency LLC	\$423,632	Advertising, Marketing
6	Wilkins Media LLC	\$395,090	New York City, Washington DC and Charlotte, NC area Advertising, Marketing
7	TripAdvisor LLC	\$347,500	Online Advertising, Marketing
8	WFMYNEWS2.COM	\$340,017	Advertising, Promotion Media
9	Cavalier Media Group	\$299,960	Advertising, Marketing, Talent Fee and Mini Episodes
10	Vigilant Creative	\$218,940	Art Services, Winter Campaign Shoot
11	Travel Spike LLC	\$169,991	Advertising, Summer and Winter Marketing
12	Abacus Corp	\$164,187	Contracted Manpower
13	Orange142	\$154,579	Advertising, Streaming TV
14	J & A Racing Inc.	\$151,647	Race Sponsorship - Advertising, Wicked, Shamrock, Surf n Santa
15	Expedia Inc.	\$150,000	Advertising, Marketing
16	Liskey & Sons Printing Inc.	\$143,214	Records Management, Printing, Reproduction & Photo Services



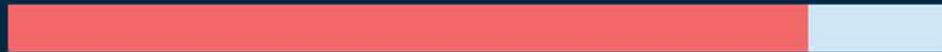
CONCLUSION

Overall, we determined that the TIP and the TAP Funds received revenue in accordance with the specified allocation rates and that the expenditures from those funds were appropriate.



Office of the City Auditor

Review of Longwoods International Estimated Visitor Spending





FINDING

Note: During the audit, an issue related to a TAP expenditure was brought to our attention and this issue was addressed in a separate memo.

Estimated Visitor Spending

- Longwoods International (Longwoods) is a marketing research consulting firm which focuses on the analysis of the travel and tourism industry.
- The City began using Longwoods in 2017 to perform visitor research.
- As part of the research, Longwoods provides estimates of domestic overnight spending to include lodging, transportation, recreation, retail, and restaurant food and beverages.



Estimated Tourism Impact Amounts Overstated by Millions

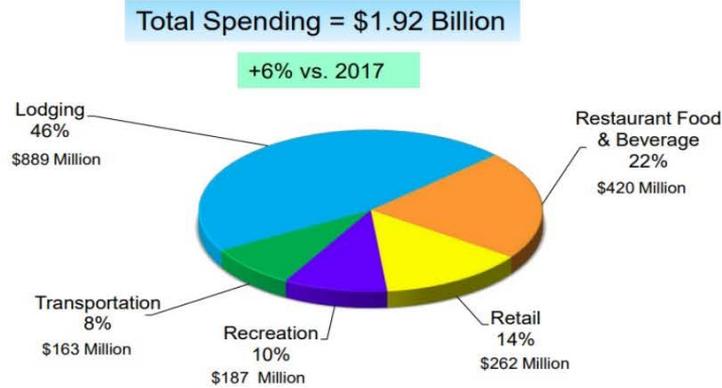
“The travel and tourism industry is a major economic driver for our city. More than 19 million visitors chose Virginia Beach over all other destinations in 2017. Those visitors contributed \$2.45 BILLION in direct spending to local businesses. In turn, this spending generated more than \$136 million in state and local tax revenue.”



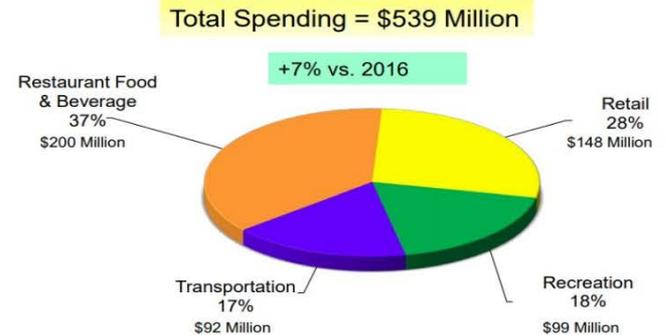


Source of the \$2.4 Billion in Visitor Spending

Domestic Overnight Expenditures — by Sector



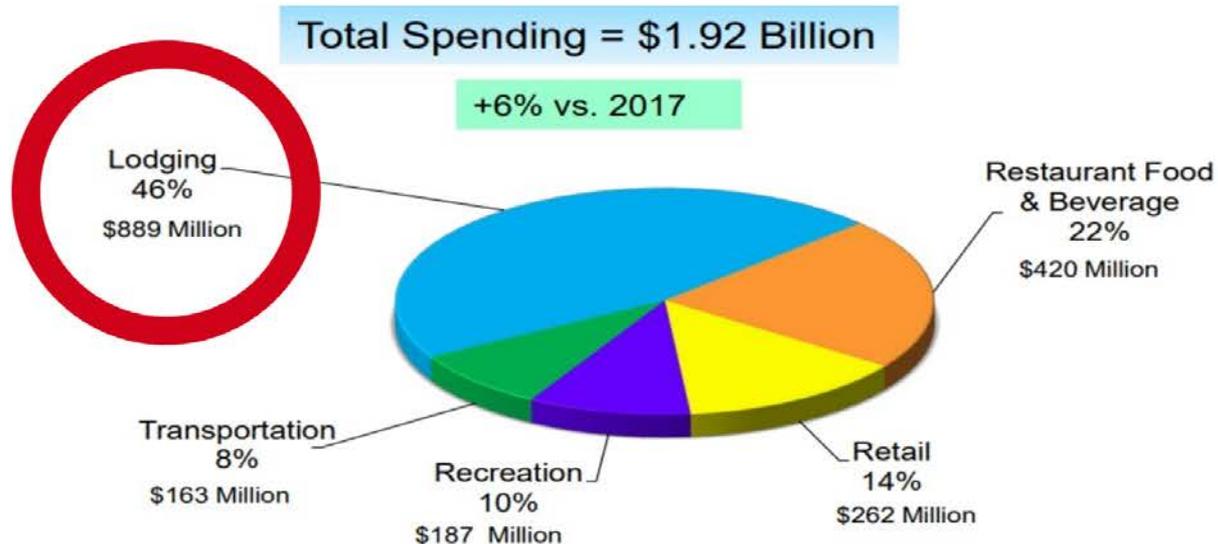
Total Virginia Beach Domestic Day Trip Spending — by Sector





Source of the \$2.4 Billion in Visitor Spending

Domestic Overnight Expenditures — by Sector





Calculated Lodging Revenue versus Longwoods International Report

Domestic Overnight Spending: Lodging	2017	2018
Longwoods Estimate	\$889,000,000	\$944,000,000
Calculated based on Lodging Tax Receipts	\$359,960,500	\$372,548,200
Variance	\$529,039,500	\$571,451,800



Wide spectrum of places the \$2.45 billion is cited

TOURISM WORKS

HOME REVENUE PROJECTS FAQ TESTIMONIALS BOARD BLOG

Frequently Asked Questions

How does tourism benefit the City of Virginia Beach?

The travel and tourism industry is a major economic driver for our city. More than 19 million visitors chose Virginia Beach over all other destinations in 2017. Those visitors contributed **\$2.45 BILLION** in direct spending to local businesses. In turn, this spending generated more than \$156 million in state and local tax revenue.

Tourism impacts our community in other ways. Tourism directly supports more than 13,850 jobs in Virginia Beach and nearly 2200 million in salaries. Those employees use their wages to purchase goods and services, including housing, transportation, food, clothing, healthcare and entertainment.

In 2017 visitors to Virginia Beach spent an average of \$2.7 million every day, which translates into a total of **\$2.45 BILLION** in direct travel-related expenditures. The money invested into our local economy by visitors circulates throughout our economy several times over, providing an ongoing economic impact that would disappear entirely without tourism.

Visitors also pay taxes. Transaction taxes collected from visitors include accommodations tax and fees, hotel tax, and admissions tax. These taxes support vital city services. It is not uncommon for some visitors to decide to relocate here and purchase a home. Other visitors secure investment properties and/or second homes.

How does tourism benefit businesses other than hotels, restaurants and attractions?

What about the added burden visitors place on our local infrastructure and essential services?

What kinds of jobs does tourism generate?

Why should public funds be used to promote tourism?

With all the beautiful parks, great beaches and plenty of fun things to do in our City, why do we have to promote tourism? Wouldn't people come anyway?



TOURISM IMPACT*

- 10.1 million overnight visitors and 8.9 million day visitors
- \$2.45 billion in direct travel-related expenditures
- Regional impact: 48,020 jobs and \$1.07 billion in salaries
- Over 400,000 overseas travelers
- Average overnight visitor spending \$588 per party

*For Virginia Beach



Virginia Beach Welcomed Record-Breaking 19 Million Visitors in 2017

Virginia Beach Convention and Visitors Bureau Announced a Six Percent Increase in Total Visitor Spending of \$2.45 Billion

Monday, July 23, 2018

The Virginia Beach Convention and Visitors Bureau (<http://www.visitvirginia.com/>) announced Virginia Beach set a new tourism milestone for total visitors and visitor spending in 2017, welcoming 19 million domestic visitors who spent **\$2.45 billion**. Visitor arrivals grew for the eighth consecutive year with a 7.34 percent increase from 17.7 million visitors in 2016. Since 2009, visits to Virginia Beach increased by 38 percent, which is 13 percent above the national growth rate, due to strategic marketing efforts and positive visitor experience, according to Longwoods International's Travel USA study.

"Record-breaking arrivals and spending is a testament of the strength of our tourism sector and the values of our city," said Brad Van Dommelen, director of the Virginia Beach Convention and Visitors Bureau. "We are fortunate that Virginia Beach is committed to our tourism product, which will keep us competitive and allow us to continue to grow arrivals and visitor spending, ultimately boosting the city's economy to greater heights."



Tourism visit and spending grew in 2017 in Virginia Beach for the eighth year in a row, according to new data from the city.

19 million people visited Virginia Beach last year, spending a record-setting six.45 billion, Virginia Beach Convention and Visitors Bureau recently announced.

The number of visitors to the city also grew 7.34 percent, 17.7 million people visited in 2016.

Record-breaking arrivals and spending is a testament of the strength of our tourism sector and the values of our city," tourism bureau director Brad Van Dommelen said in a news release. "We are fortunate that Virginia Beach is committed to our tourism product, which will keep us competitive and allow us to continue to grow arrivals and visitor spending, ultimately boosting the city's economy to greater heights."

According to a study by the Longwoods International marketing and research firm, visits to Virginia Beach increased 13 percent over 2016, which is 13 percentage points above the national average. Of the 19 million visitors, 8 million visited during the day and 11 million stayed overnight.

ABOUT THE CVB

We are the official destination marketing organization for Virginia Beach.

The Virginia Beach Convention & Visitors Bureau (CVB) is responsible for promoting year-round leisure, business, meetings and conventions, international and sports travel to Virginia's most populous city. Virginia Beach also is the number one vacation destination in Virginia. Tourism is a \$2.45 billion industry in Virginia Beach, where we welcome nearly 10.1 million overnight visitors each year. As the official destination marketing organization for the coastal city, the Virginia Beach CVB is responsible for ongoing advocacy for the tourism and hospitality industry – which is one of Virginia Beach's largest industries. To drive tourism revenue that powers our local economy, the Virginia Beach CVB also focuses on attracting tourism product development to ensure our destination stays competitive.

In all efforts, the Virginia Beach CVB ensures that we are providing visitors full destination information, regardless of any potential or existing industry partnerships or memberships. To learn more about the Virginia Beach CVB, tourism research, contact information and FAQs about tourism, view our city department [site](#) or visit TourismWorksVB.com.

Virginia Beach Convention & Visitors Bureau

Due to the fact that the \$2.45 billion in direct spending figure is reported widely by the City and is used by many stakeholders including State Legislators, City Council, City management, business and community leaders, as well as residents, the inaccurate spending number could lead to misinformed business decisions.

Recommendations:

1. Refrain from citing Longwoods International tourism impact figures until the methodology for computing direct spending has been modified. Note: Since the City has actual lodging figures, these figures should be utilized in computing direct spending.
2. Review for reasonableness and accuracy any direct spending impacts performed by outside consultants. When numbers do not appear to be reasonable, management should ask questions before widely publicizing the figures.
3. Ensure management understands the soundness of the methodology used by consultants to compute direct spending impacts.

THANK YOU Questions?

A copy of both the Audit Report and Longwoods
International Memo can be found on
www.vbgov.com/cityauditor