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**TO: CITY COUNCIL
CITY CLERK
CITY ATTORNEY**

**CC: CITY MANAGER
CITY AUDITOR**

**FROM: DR. EDWARD J. MAHANEY, JR.
MAYOR**

SUBJECT: ESTABLISHMENT OF CITY TOURISM UTILITY

DATE: SEPTEMBER 6, 2011

As the City of Cape May rapidly approaches the budgeting process for the 2012 fiscal year and the grand opening of the new multi-purpose Convention Hall facility on Memorial Day weekend in 2012, I am again recommending (as I have done since October 5, 2009) that the City Council establish a new budgetary and operational utility within City government. This new City Tourism Utility would be responsible for the functions of managing and operating all recreation programs, special events, a public information office, the new multi-purpose Convention Hall, and the marketing and promotion of tourism for the City of Cape May. The new City Tourism Utility would function similar to the existing Water and Sewer Utility and the Beach Utility. Thus, this new utility would not be an autonomous authority, but rather a separate division of City government and function under the direction of City Council and the City Manager.

From a financial standpoint, the City will have the legal and functional capability to designate all cost centers and the subsequent expenses for the marketing, promotion, and operations of recreation and tourism-related programs, activities and initiatives to a centralized and isolated utility. These cost centers and related expenses would be balanced by the various types and amounts of revenue related to these particular recreation and tourism programs, activities, and initiatives. In this manner, the individuals, groups, and organizations that utilize and benefit from these recreation and tourism activities and events would be the users paying the costs for the programs and initiatives. The cost burden would not fall on the non-participating taxpayers through the City's annual current fund budget and related capital improvement budget. In essence, the establishment of this new City Tourism Utility would be a further implementation of City Council's long-range plan to assign expenses of specific programs and services to isolated cost centers that are paired with specified revenue sources and amounts which ensure that the users/participants provide the level of financial support necessary to maintain the solvency of this particular utility.

During the past two years, I have had the opportunity to discuss this recommendation in detail with City Manager Bruce MacLeod and City Auditor Leon Costello as well as having City Bond Counsel Ed McManimon review this recommendation. All are in agreement with the implementation of this concept that should only add an additional two to three pages to our annual City budget document with the inception of a new Tourism Utility.

There are two additional concerns that should be addressed during this process: Debt service for the new Convention Hall facility, and the gradual growth toward the full capacity of the new Tourism Utility. My recommendation is that the particular temporary and permanent debt service for the new Convention Hall facility should remain assigned to the City's Current Fund debt service and not be assigned to the new Tourism Utility. Because of the magnitude of the debt service for the construction of the new Convention Hall facility, it is unlikely that the Tourism Utility would be able to remain solvent in at least its formative years. Similarly, the immediate transfer of the total expenses for the marketing, promotion, and operations of recreation and tourism-related programs, activities and initiatives to the Tourism Utility would be overwhelming for the Tourism Utility. A steady and gradual increase in the amount and percentage of such expenses to be transferred annually to the Tourism Utility would lead to the long-term assurance of a successful and solvent utility. Rather than have the Current Fund transfer the requisite funds necessary to maintain the Tourism Utility's solvency annually, it would be advisable to have the Tourism Utility transfer surplus funds annually to the City's Current Fund to pay a portion of the non-transferred operational expenses and the debt service for Convention Hall and any other related capital improvements. As City Council progresses through the formative years of the Tourism Utility, this methodology can be reviewed periodically and revised as appropriate. In this manner, the Tourism Utility provides fiscal and operational accountability to the City Council and the taxpayers.

Should City Council be inclined to agree to this approach, my suggestion is that City Council and its professional staff pursue a detailed implementation plan for a new Tourism Utility concurrently with the formulations of the budget for the 2012 fiscal year. This would ensure that a viable Tourism Utility would be operational for the 2012 fiscal year when the new Convention Hall facility opens.

Thank you for your consideration of this recommendation. I look forward to your responses.