

**SAN DIEGO
TOURISM MARKETING
DISTRICT
MANAGEMENT PLAN**

September 2007

Developed by a coalition of lodging business owners and managers
representing the San Diego County Hotel Motel Association
and the San Diego Lodging Industry Association.

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OVERVIEW AND EXECUTIVE SUMMARY

Conceived and developed by a coalition of lodging business owners and managers representing the San Diego County Hotel Motel Association and the San Diego Lodging Industry Association, the San Diego Tourism Marketing District (District) is a benefit assessment district proposed to improve tourism activity and hotel room night consumption in the City of San Diego.

History

As a result of diminishing public resources available for effective and competitive destination marketing, local lodging industry leadership began discussing alternative funding sources and available options over 5 years ago. Since that time, a working group comprised of lodging industry representatives has held dozens of meetings with proposed assessed businesses, stakeholder groups and interested parties. On May 8, 2007 the San Diego City Council adopted an enabling Procedural Ordinance that allows for the creation of a Tourism Marketing District. Herein, representatives of the San Diego Lodging Industry have taken steps to formalize a District Management Plan in hopes of gaining industry support to form the proposed District.

Location

The Proposed Tourism Marketing District will be citywide, inclusive of all areas within the city limits of the City of San Diego. There are no benefit zones proposed within the District. A map of the District is included in this Plan as Appendix A.

Assessed Businesses

The assessment is proposed to be levied upon the owner(s), operator(s), or an authorized representative who is noted on City records as the responsible party for the remitting and reporting of Transient Occupancy Tax for each lodging *business* of 70 or more sleeping rooms in the City of San Diego. *Business* means any and all types of hotels where a structure, or any portion of a structure, is held out to the public as being occupied, or designed for occupancy, by *transients* for dwelling, lodging or sleeping purposes. *Transient* has the same meaning as in Municipal Code section 35.0102.

The assessment imposed is levied solely upon the lodging businesses within the district. The business owner is solely responsible for payment of the assessment when due. If the owner chooses to collect any portion of the assessment from a transient, that said portion shall be specifically called out and identified for the transient in any and all communications from the business owner as a "San Diego Tourism Marketing District Assessment."

Method & Basis of Levying Assessment

The annual assessment is based upon 2% of gross room revenue from transient stays for lodging businesses with 70 or more sleeping rooms operating within the City of San Diego. The rate of 2% will remain fixed for the duration of this District. Certain room revenue will be exempt from assessment.

Budget

The District budget for the first six months of collections and disbursements is estimated to be approximately \$14.2 million and \$29.2 million for the first 12 months.

Activities

Revenue generated from the assessment will fund marketing programs to increase tourism and promote the City of San Diego as a tourist, meeting, convention and special event destination.

Formation

District formation requires submittal of petitions in support from lodging businesses representing more than 50% of the total annual assessment. After City staff verifies the petitions the matter goes to the City Council. The City Council will then require that a ballot be mailed to all affected hotels with the returns to be counted by the City Clerk. The City Council will then hold a hearing and be advised of results of the ballot count. The Council shall not establish the District nor shall it impose an assessment if there is a majority protest. A majority protest exists if ballots submitted in opposition to the assessment exceed the ballots submitted in favor of the assessment. In tabulating the ballots, the ballots shall be weighted according to the proportional financial obligation of the affected businesses. In the absence of a majority protest the Council may proceed with establishing the District by resolution.

Management & Oversight

The implementation of this District Management Plan will be the responsibility of the Board of Directors of the San Diego Tourism Promotion Corporation (SDTPC), a private non-profit entity composed exclusively of the assessed lodging businesses. Only business owners or owner's representative paying the tourism district assessment have the right to vote in annual elections of the association. And only business owners or owner's representative paying the tourism district assessment have the right to seek nomination or election to the board of directors of the association. Oversight is provided by the City to ensure that the expenditure of funds is consistent with the District Management Plan.

Proposed Timing and Duration of Activities

The District will begin operations January 1, 2008 or at a later date set by the City Council. Assessed businesses will be responsible for calculating the assessments beginning on the start-up date set by the City Council. Assessed businesses will be required to remit the assessment on a monthly basis beginning 45 days after the effective start date of the District. The District Management Plan is a five (5) year plan and will terminate with the expiration of the District. Each activity of the District will have its own schedule, but none will last longer than the duration of the District. After five years, hotel business owners may petition the City to extend the district for an additional 10 years subject to the requirements of the Tourism Marketing District Procedural Ordinance SDMC Section 61.2501 et seq.

WHAT IS A TOURISM MARKETING DISTRICT (TMD)?

The San Diego Tourism Marketing District follows the model of successful Tourism Business Improvement Districts (BID's) that utilize the efficiencies of private sector operation in the market-based promotion of local and regional tourism. Tourism BID's, such as the proposed SDTMD allow lodging and other tourism-related business owners to organize their efforts to increase tourism. In San Diego, lodging business owners within the district will assess

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themselves in order to fund the District and those funds will be used to provide programs and services that specifically benefit the assessed lodging businesses.

San Diego Tourism Marketing District funded programs and services may include, but are not limited to:

- Marketing of the Area
- Tourism Promotion Activities
- Special Events and Programs

In California, Tourism BID's, such as the TMD, are formed pursuant to the Property and Business Improvement District Law of 1994 (PBID Law), the Parking and Business Improvement District Law of 1989 (BID Law), or by ordinance of a Charter City. The local lodging businesses have chosen to ask the City of San Diego to create an enabling (procedural) ordinance modeled on the 1994 PBID Law. This State statute and the City ordinance allow for the establishment of an assessment district to raise funds within a specific geographic area; in this case the City of San Diego, for the purpose of promoting tourism and hotel room occupancy.

There are many benefits to Tourism BID's:

- Funds must be spent to benefit those who pay;
- Funds cannot be diverted for other government programs or expenditures;
- Tourism BID's are customized to fit the needs of each tourism district;
- Tourism BID's allow for a wide range of services;
- Requires petition support from lodging businesses paying over 50% of the annual proposed assessments (1994 PBID Law);
- Provides a stable funding source for tourism promotion.

The San Diego Tourism Marketing District will NOT fund:

- The acquisition, construction, installation or maintenance of any tangible property, including parking facilities, parks, planting areas, fountains, benches, booths, kiosks, display cases, pedestrian shelters, signs, trash receptacles, public restrooms, ramps, sidewalks, plazas, pedestrian malls, lighting and heating facilities.
- The closing, opening, widening or narrowing of existing or new streets.
- Facilities or equipment, or both, to enhance security and safety of persons and property within the area, unless included in a specific proposal to benefit the assessed businesses.
- Regular public safety and security personnel and programs, maintenance and repair, sanitation, nor other municipal services normally and historically provided by the City to the area.
- Expenditures not consistent with the terms of this District Management Plan.

City's Promotional Responsibilities

As provided in the San Diego Municipal Code section 35.0128 the original 4% Transient Occupancy Tax, which was approved by San Diego voters, will continue to be used to promote the City.

To this end, the City will provide the SDTPC, on an annual basis, a statement detailing actual TOT revenues collected under Code section 35.0103 that are available for promoting the City. This statement will also describe the prescribed use of revenues from the City's TOT to include, but not be limited to:

- The annual debt payment for all existing bond obligations related to the San Diego Convention Center Corporation;
- The annual marketing subsidy as required by the San Diego Convention Center Corporation; and
- The annual debt payment for all existing bond obligations relative to Balboa Park and Mission Bay Park.

TOURISM MARKETING DISTRICT ADMINISTRATION

CITY ADMINISTRATION AND OVERSIGHT

City requires petitions to be submitted to the City in support of establishing the TMD in accordance with SDMC 61.2501 et seq. If sufficient petitions are submitted in support of the proposed district then City Council shall adopt a Resolution of Intention to establish the district and shall cause a ballot to be mailed to all affected businesses and give notice of the required public hearing. If there is no majority protest then the City Council shall adopt a Resolution establishing the district and shall authorize the levying of assessments for a period of five (5) years.

The City of San Diego will oversee the collection of the assessments and will ensure that the expenditure of funds is consistent with the District Management Plan.

Initially, the City proposes to retain no more than \$300,000 of TMD assessments on an annual basis, pro-rated at the establishment of the District and adjusted thereafter at the beginning of each fiscal year, to reflect an automatic annual escalator of 4.5%. These funds will be used to cover the costs of the City's administration of the District, as follows:

- City Planning & Community Investment Department - Economic Development Division Agreement monitoring and reimbursement of expenditures and coordination of annual City Council process.
- Office of the City Treasurer Processing and reporting of assessments remitted and auditing of reported/remitted assessments.

- Office of the City Auditor and Comptroller
Approval of direct payments and issuance of checks and auditing of agreement between City and the "tourism marketing district association".
- Office of the City Attorney
Preparation of resolutions and other documents required for annual City Council process and review and preparation of documents for administration of the District.

Prior to the beginning of each Fiscal year, the City Council shall consider, in an open meeting, the proposed services and activities for the fiscal year as presented in the annual District Management Plan.

SAN DIEGO TOURISM PROMOTION CORPORATION ADMINISTRATION

The enabling Procedural Ordinance provides that the City will contract with a designated nonprofit corporation to implement a plan and carry out specified activities, subject to the terms and conditions enumerated in the contract with that nonprofit. The City proposes to contract with the San Diego Tourism Promotion Corporation (SDTPC), a private, non-profit corporation, to serve as the San Diego Tourism Marketing District Association to manage the District assessments and to contract for implementation of the proposed marketing programs and services as outlined in the District Management Plan.

Purpose

The specific purpose of this private, non-profit corporation is to create a positive economic, fiscal and employment impact on lodging businesses in the City of San Diego through the effective and judicious allocation of its revenue and resources to measurably successful tourism promotion, marketing and advertising programs.

General Powers

Subject to the provisions and limitations of the California Nonprofit Mutual Benefit Corporation Law and any other applicable laws, and subject to any limitations of the articles of incorporation or bylaws, the corporation's activities and affairs shall be managed, and all corporate powers shall be exercised, by or under the direction of the Board of Directors.

Board of Directors

Only business owners or business owner's representatives paying the tourism marketing district assessment have the right to vote in annual elections of the association. And only business owners or business owner's representatives paying the tourism marketing district assessment have the right to seek nomination or election to the board of directors of the association. The Board of Directors shall consist of nine (9) directors unless changed by amendment to the bylaws of the corporation.

Board members, officers and members of the association are intended and understood to represent and further the economic interest of the City's tourism industry. Board members or officers have a fundamental duty to advance the general welfare of the tourism industry in San Diego.

Initial Directors: The initial Board of Directors shall be appointed by the Incorporator of the Corporation, and shall serve for staggered terms of one, two or three years. At the first duly constituted meeting of the Board of Directors, the initial Board members shall draw lots to determine their individual term. It is anticipated that the initial Board of Directors will consist of (In alphabetical order):

Luis Barrios, Hacienda Hotel Old Town
 Richard Bartell, Bartell Hotels
 C. Terry Brown, Atlas Hotels
 Patrick Duffy, Hilton La Jolla Torrey Pines
 Bill Evans, Evans Hotels
 Mohsen Khaleghi, Hyatt Regency Mission Bay Spa & Marina
 Bob Rauch, Homewood Suites
 Joe Terzi, Starwood Hotels
 Ray Warren, Marriott Hotels

Board Nominations & Elections

Elections to the Board of Directors will be held annually beginning at the end of the first full fiscal year of operation for the Corporation. A call for self-nominations will occur annually and all self-nominees will be listed on the ballot for Board elections. In addition to, or in the absence of, self nominations, the Nominations Committee of the Board may put forth a slate of nominees at each election.

The procedure for nominations and elections, including the timing for nominations, and the protocol for the distribution and collection of ballots, will be defined in the Bylaws of the Corporation. SDTPC anticipates retaining a third-party contractor to administer, count and report the results of the balloting for Board elections.

Board Officers

Officers of the Board of Directors shall be elected by a majority vote of the Board at the first regularly scheduled meeting of the Board, following the seating of new Board members.

Board Standards and Conduct

The San Diego Tourism Promotion Corporation will be organized as a 501(c)6, mutual benefit corporation, and will have as its purpose the management of the resources of the San Diego Tourism Marketing District. The primary measure of the success of the Corporation will be the benefit it delivers to the assessed businesses. Because the delivery of a measurable benefit to the assessed businesses is required by law, and is the primary legal purpose of the Corporation, it is recognized that members of the Board of Directors, through their assessed businesses, will receive benefit from the activities of the SDTPC.

In addition, State law provides, and the City's enabling Procedural Ordinance recognizes, that SDTPC is a "private entity and may not be considered a public entity for any purpose, nor may its board members or staff be considered to be public officials for any purpose."

However, SDTPC shall comply with Ralph M. Brown Act, California Government Code section 54950 *et. seq.*, at all times when matters within the subject matter of the District are heard, discussed, or deliberated, and with the California Public Records Act, California Government Code section 6250 *et. seq.*, for all documents relating to activities of the district.

Furthermore, the SDTPC Board of Directors shall comply with the California Corporations Code and shall develop internal policies defining standards, responsibilities and conduct for the Board of Directors.

A Volunteer Board of Directors

The members and officers of the Board of Directors of the San Diego Tourism Promotion Corporation will serve as volunteers. They will receive no monetary compensation or remuneration for their service individually or collectively. They are not entitled to nor may they make a claim for reimbursement of any personal or professional expenses attributed to their service. Other than Directors and Officers Liability Insurance no benefits such as, but not limited to, health insurance, workman's compensation insurance, disability insurance, or paid vacation, will be provided.

Report of Activities

The SDTPC shall cause to be prepared a prospective report for each fiscal year, except the first year, for which assessments are to be levied and collected to pay the costs of the activities described in the report.

The tourism marketing district association's first report shall be due after the first full fiscal year of operation of the district.

The report may propose changes, including, but not limited to, the boundaries of the tourism marketing district or any benefit zones within the district, the basis and method of levying the assessments, and any changes in the classification of categories of business, if a classification is used.

The report shall be filed with the City Clerk prior to the end of each fiscal year, and shall refer to the tourism marketing district by name, specify the fiscal year to which the report applies, and with respect to that fiscal year, shall contain all of the following information:

- Any proposed changes to the boundaries of the tourism marketing district or to any benefit zones or classification of businesses within the district.
- The activities to be provided for that fiscal year.
- An estimate of the cost of providing the activities for that fiscal year.
- The method and basis of levying the assessment in sufficient detail to allow each business owner to estimate the amount of the assessment to be levied against his or her business for that fiscal year.
- The estimated amount of any surplus or deficit revenues to be carried over from the previous fiscal year.
- The estimated amount of any contributions to be made from sources other than assessments levied pursuant to this Division.

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The San Diego City Council [Council] may approve the report as filed by the tourism marketing district association, or may modify any portion of the report and approve it as modified. Such modification shall only be made subject to the noticing provisions of San Diego Municipal Code sections 61.2519 and 61.2520. The Council shall not approve a change in the basis and method of levying assessments that would impair an authorized or executed contract to be paid from the revenues derived from the levy of assessments.

Modifications of District Management Plan

The SDTPC may, at any time, request that the San Diego City Council modify the district management plan. Any modification of the district management plan shall be made pursuant to the following requirements:

- Upon the written request of the tourism marketing district association, the San Diego City Council [Council] may modify the district management plan after conducting one public hearing on the proposed modifications. The Council may modify the activities to be funded with the revenue derived from the levy of the assessments by adopting a resolution to make the modifications after holding a required public hearing. Notice of the public hearing and the proposed modifications shall be published as provided in San Diego Municipal Code section 61.2507. If the modification includes the levy of a new or increased assessment, the Council shall comply with Code section 61.2507.
- The Council shall adopt a resolution of intention which states the proposed modification prior to the public hearing required by this section. The public hearing shall be held not more than 90 days after the adoption of the resolution of intention.

Marketing Support Programs Application Guidelines & Criteria

The Board of Directors will annually allocate a portion of the annual revenue from the District to marketing support programs and services that can deliver a measurable return on investment, and that are in addition to the programs fund by fixed allocations within its budget.

It is anticipated that the San Diego Tourism Promotion Corporation will solicit and/or receive applications for funding from numerous, diverse organizations, and entities. Specific application guidelines will be created and available soon after the SDTPC is appointed by the City to manage the Tourism Marketing District. Those guidelines, criteria and application will be created at the sole discretion of the Board of Directors of the San Diego Tourism Promotion Corporation. Changes to the guidelines, criteria and application can only be made by an action of the Board of Directors of the Corporation. (See Attachment 1, Framework for Application Criteria & Process.)

Limiting Contact Between Applicants and the Board of Directors: It will be vital that the application and allocation process for funding from the SDTPC be open, fair and efficient. To this end, the written submission of the application and supporting materials as well as any public presentation that may be required from applicants will be the foundation for Board discussion and deliberations. Board members are encouraged to limit their contact and communication with applicants regarding their applications or proposed application, and to disclose any such contact or communication prior to participating in the consideration of that applicant's submission.

ACTIVITIES & BUDGETS

A general budget has been developed by lodging industry representatives to serve as a guideline in order that the San Diego Tourism Promotion Corporation (SDTPC) deliver measurable benefit and service levels throughout the District. An annual budget will be developed and approved by the SDTPC Board and included in the Report of Activities submitted to the City Council annually.

SDTPC: A NON-MARKETING ENTITY

The San Diego Tourism Promotion Corporation is not envisioned as a marketing entity, but rather as a funding conduit for the development and implementation of effective marketing programs and services that benefit the assessed businesses within the District. SDTPC will be responsible for the allocation and distribution of the available revenue and will contract with qualified third-party vendors to supply marketing programs and services as required and approved by the Board of Directors.

SDTPC BUDGET GUIDELINES

The San Diego Tourism Promotion Corporation (SDTPC) will contract for marketing programs and services to promote the City of San Diego as a tourism destination and to fund projects, programs, and activities that specifically benefit hotels within the boundaries of the District.

General Guidelines:

- (a) Marketing programs and services will be broadly defined by the Board of the SDTPC in order to remain current with changing consumer demands, tourism products, and marketing and communication technologies.
- (b) Marketing programs and services will take many traditional and/or innovative forms based on the target market and proposed strategy and tactics for implementation. Therefore, marketing programs and services could include, but not be limited to: i) advertising; ii) marketing promotion; iii) direct sales; iv) press and/or public relations; v) new product development; vi) prospective marketing; vii) visitor services; viii) market research; ix) e marketing & web strategies, x) partnership marketing; xi) special events, and more as identified.
- (c) Marketing programs and services will seek to benefit all assessed hotels within the boundaries of the District through a diverse mix of projects, programs and activities. It is recognized that all marketing programs and services will have multi-level benefits to the hotels in the District. Primary benefits will be realized directly by hotels in the target market area or market segment served by a particular contract program or service. Secondary benefits will be realized by all hotels in the District through the successful implementation of marketing programs and services that

increase hotel occupancies, reduce available hotel inventory and create compression within the marketplace.

- (d) Marketing programs will have measurable result. The Board of Directors of the SDTPC will establish and regularly update a clearly defined application process for proposed marketing programs. This application will articulate the required qualifications of applicants, the target return-on-investment, and the measurement of results, among other criteria.

Fixed Allocations:

- (e) At a minimum, the SDTPC shall annually allocate fifty percent (50%) of its District revenue and resources to a single comprehensive entity for the purpose of destination marketing for the City of San Diego, which, for the initial five (5) year term of this District, shall be the San Diego Convention & Visitors Bureau or its successor organization. A draft Memorandum of Understanding between the San Diego Convention & Visitors Bureau and the San Diego Tourism Promotion Corporation is attached (Attachment 2) that outlines the general condition of the measurements for this fixed funding. This draft is provided within for information only and will be the basis for a legally binding contract between these same parties once the District is established.
- (f) The SDTPC shall annually allocate ten percent (10%) of its District revenue and resources to a single comprehensive entity for the purpose of destination marketing for the northern region of the City of San Diego, which, for the initial five (5) year term of this District, shall be the San Diego North Convention & Visitors Bureau or its successor organization. This ten percent (10%) shall represent the annual minimum and maximum allocation available to the San Diego North Convention & Visitors Bureau. A draft Memorandum of Understanding between the San Diego North Convention & Visitors Bureau and the San Diego Tourism Promotion Corporation is attached (Attachment 3) that outlines the general conditions of and measurements for this fixed funding. This draft is provided within for information only and will be the basis for a legally binding contract between these same parties once the District is established.
- (g) The SDTPC shall annually allocate five percent (5%) of its revenue to a marketing opportunity/catastrophe reserve fund for the specific purpose of maximizing unique and unforeseen opportunities or reacting to unforeseen situations to positively impact the tourism economy in the San Diego region. For the initial five (5) year term of the district, the SDTPC marketing opportunity/catastrophe reserve fund shall be capped at a maximum of \$10,000,000 in principal contributions until such time as it is required for use. Interest returned on the holding and investment of the principal shall be re-invested into the SDTPC marketing opportunity/catastrophe reserve fund.

If the District is renewed following the initial five (5) year term, the available balance, including interest, of the SDTPC marketing opportunity/catastrophe reserve

fund shall be made available to the Corporation managing the renewed District. These previously accumulated funds shall be spent consistent with the allocations in this plan. Should the District not be renewed, the previously accumulated funds shall be proportionally refunded and distributed to the assessed businesses.

- (h) Operating Expenses: the SDTPC may annually allocate a maximum of three percent (3%) of its revenue to the operation and management of the SDTPC.

Marketing Support Programs:

- (i) The Board of Directors will annually allocate a portion of the annual revenue from the District to marketing support programs and services, either directly or indirectly through a competitive application process, that can deliver a measurable return on investment, and that are in addition to the programs funded by fixed allocations within the budget.

SDTMD ANTICIPATED 5 YEAR REVENUE INCOME AND DISTRIBUTION

Estimated revenues and expenditures are shown for each fiscal year. Certain assumptions and calculations were utilized in developing the projections and budgets below. Those assumptions are listed separately in this document in Attachment 4.

Due to the anticipated mid-fiscal-year start of the District, the first and last fiscal years reflect approximately 6 months worth of activities.

Adjustments to Budget

Any Annual budget surplus or deficit will be rolled over into the following year's TMD budget. Assessments will be set accordingly, within the constraints of the annual adjustment, to adjust for surpluses or deficits that are carried forward.

Bonds

No Bonds shall be issued in connection with this District.

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Budget Spreadsheet

TMD FIVE YEAR BUDGET						
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
	Approx. 6 months	12 months	12 months	12 months	12 months	Approx 6 months
Estimated TOT Revenue	\$ 79,600,000	\$168,752,000	\$ 178,877,120	\$ 189,609,747	\$ 200,986,332	\$106,477,000
Estimated TMD Revenue	\$14,176,381	\$30,053,928	\$31,857,163	\$33,768,593	\$35,794,709	\$18,971,196
Fixed Allocations	\$9,186,396	\$18,721,548	\$19,114,298	\$20,261,156	\$21,476,825	\$11,382,718
San Diego CVB	\$7,081,000	\$15,026,964	\$15,928,582	\$16,884,297	\$17,897,355	\$9,485,598
San Diego North CVB	\$1,416,200	\$3,005,393	\$3,185,716	\$3,376,859	\$3,579,471	\$1,897,120
San Diego Film Commission *	\$330,909	\$330,908				
San Diego Bowl Game Association *	\$195,569	\$195,568				
SD International Sports Council *	\$72,900	\$72,900				
San Diego Hall of Champions *	\$37,500	\$37,500				
Accessible San Diego *	\$32,520	\$32,519				
Elite Racing/Rock & Roll Marathon *	\$9,760	\$9,759				
California State Games *	\$7,714	\$7,713				
San Diego Crew Classic *	\$2,324	\$2,324				
Opportunity/Catastrophe Reserve @ 5%	\$708,819	\$1,502,696	\$1,592,858	\$1,688,430	\$1,789,735	\$948,560
SDTPC Operating Budget @ 3%	\$425,291	\$901,618	\$955,715	\$1,013,058	\$1,073,841	\$569,136
Admin. Fee Paid to City	\$150,000	\$313,500	\$327,608	\$342,350	\$357,756	\$186,930
Available for Operating Expenses	\$275,291	\$588,118	\$628,107	\$670,708	\$716,085	\$382,206
Personnel						
Executive Director (Salary & Benefits)	\$100,000	\$209,000	\$218,405	\$228,233	\$238,504	\$124,618
Admin. Support (Salary & Benefits)	\$30,000	\$62,700	\$65,522	\$68,470	\$71,551	\$37,385
Contract Services						
Legal & Compliance/Corporate Secretary	\$36,000	\$72,000	\$72,000	\$72,000	\$72,000	\$36,000
Accounting/CPA/Corporate Treasurer	\$36,000	\$72,000	\$72,000	\$72,000	\$72,000	\$36,000
Audits (as required)	\$30,000	\$85,000	\$85,000	\$85,000	\$85,000	\$45,000
Overhead						
See Page 14	\$35,000	\$73,150	\$76,442	\$79,882	\$83,476	\$43,617
Contingency/Carry-over	\$8,291	\$14,268	\$38,739	\$65,123	\$93,554	\$59,585
Total Fixed Distribution	\$10,320,506	\$21,125,862	\$21,662,871	\$22,962,644	\$24,340,401	\$12,900,414
One-time Start-up Costs						
Reimburse Actual District Start-up Costs	\$112,000	\$0	\$0	\$0	\$0	\$0
Estimated City Start-up Costs	\$60,000	\$0	\$0	\$0	\$0	\$0
Total Start-up Costs	\$172,000	\$0	\$0	\$0	\$0	\$0
Total Variable Distribution	\$3,683,875	\$8,928,066	\$10,194,292	\$10,805,949	\$11,454,308	\$6,070,782
Marketing Support Programs	TBD	TBD	TBD	TBD	TBD	TBD
Competitive Application Process	TBD	TBD	TBD	TBD	TBD	TBD
*Groups with fixed funding from TMD for 12 months, shown here over 18 months budget cycle.						

Operating Expenses

The SDTPC may annually allocate a maximum of three percent (3%) of its revenue to the operation and management of the SDTPC. A detailed budget will be submitted and approved annually and shall include:

- Cost of service fees to be paid to the City of San Diego, including:
 - One time actual start-up costs not to exceed \$60,000 for:
 - System development including labor and hardware/software requirements
 - City Management time to establish policies and procedures, bring on additional staff, and implement program
 - An annual amount of no more than \$300,000 of TMD assessments, pro-rated at the establishment of the District and adjusted thereafter at the beginning of each fiscal year, to reflect an automatic annual escalator of 4.5%, for fixed cost increases for the following services:
 - CP&CI Economic Development division - Contract Management and Reimbursements
 - Office of the City Treasurer - Collection Administration, Management and Auditing
 - Office of the City Auditor and Comptroller-Check Disbursements and Program Auditing
 - Office of the City Attorney - Legal Review and Document Preparation
- Estimated operating expenses including wages, benefits, and administrative and overhead costs such as rent, supplies, utilities and travel;
- Estimated cost of directors and officers liability insurance in the amount of \$5,000,000 per director, plus additional insurance as required by the City;
- As required, estimated cost of performance audits of contracted entities receiving funding from SDTPC unless otherwise stipulated;
- As required, estimated cost of an annual financial audit of the SDTPC.

FUNDING PROCESS**Method & Basis of Levying Assessment**

The proposed annual assessment amount is 2% of gross room revenue, which is defined as "total consideration charged to a *transient* as shown on the guest receipt for the occupancy of a room, or portion thereof, in a Hotel."

Gross room revenue will exclude revenue derived from a person who has exercised occupancy or was entitled to occupancy for more than one month where a month is defined as a period of consecutive days from the first calendar day of occupancy in any month to the same calendar day in the next month following, or the last day of the next month following if no corresponding calendar day exists. Gross room revenues will also exclude certain revenues where exempt by treaty or by Federal or State laws or where transients are Federal or State Government officials exercising occupancy on government business as prescribed in the resolution establishing the district.

Transient occupancy taxes should not be included when calculating the assessment.

Total annualized assessments for the first year are estimated to be \$29.2 million. There shall be no increase in the assessment rate for the term of the district. Total collections may change in subsequent years according to the inventory of hotel rooms, the room rates, and the occupancy levels. No other sources of funds are anticipated from the District.

Operators Duties and Accounting Procedures

- (a) The amount of assessment, if passed on to each Transient, shall be separately stated from the amount of Rent charged and any other applicable taxes, and each Transient shall receive a receipt for payment from the business. A duplicate of the receipt given to each Transient shall be kept by the business in accordance with subsection (c) below.
- (b) Each business shall account separately for, and maintain separate monthly summary totals for, taxable and non-taxable Rent and for the assessment.
- (c) Each business shall maintain its financial and accounting records in accordance with established accounting principles acceptable to the City Treasurer. It shall be the duty of every business liable for the payment to the City of any assessment imposed to keep and preserve, for a period of three years within the boundaries of this City, all business records as may be necessary to determine the amount of such assessment for which the business is liable for payment to the City. The City Treasurer and authorized deputies or agents in the exercise of duties imposed shall have the right to inspect such records at all reasonable times and to apply auditing procedures necessary to determine the amount of assessment due.
- (d) The costs of additional goods and services, which are not Rent, but which may be sold as a package, or are complimentary with a room, or portion thereof, in a Hotel shall be accounted for in accordance with any administrative rules and regulations promulgated by the City Treasurer.

Time and Manner for Collecting Assessments

The collection of the assessments levied shall be made at the time and in the manner set forth by the San Diego City Council in the resolution establishing the district. It is proposed that assessments will be remitted on a monthly basis to the City Treasurer by each business using a self-reporting form that identifies the accounting periods for the previous month and the applicable gross room revenue and District assessment for each of those accounting periods.

Assessments levied for the purpose of providing improvements and promoting activities that benefit businesses are not taxes for the general benefit of a city, but are assessments for the activities which confer benefits upon the assessed businesses for which the activities are provided.

Penalties and Appeals

Pursuant to the resolution of establishment for the TMD, penalties may be assessed against those benefited businesses failing to make timely payments. In addition, benefited businesses shall have a right to appeal penalties, as spelled out in the resolution of establishment.

Any benefited business failing to remit the TMD assessment within the time required under the resolution of establishment shall pay a penalty computed at the rate of one percent (1%) for the first day of delinquency, and one-third of one percent (1/3 of 1%) for each day thereafter, including weekends and holidays. Any penalty assessed shall not exceed twenty-five percent (25%) of the amount of the assessment due payable for the entire reporting period. The penalty assessed shall be in addition to the amount of the assessment due during the period for which assessments were not timely paid.

In the event there is a determination by the City Treasurer that non-payment of an assessment is due to fraud, the City Treasurer may assess a penalty of twenty-five percent (25%) of the amount of the assessment for the period in which the fraud occurred. Such a penalty for fraud related to payments shall be assessed over the above any penalties assessed daily, as discussed above. A benefited business may, within fourteen (14) days after the service or mailing of a notice of penalty, make application in writing to the City Treasurer for a hearing of appeal. In exercising its appeal rights, a benefited business shall follow the same procedures articulated in San Diego Municipal Code Sections 35.0117 and 35.0118.

Assessments Based on Estimated Benefits

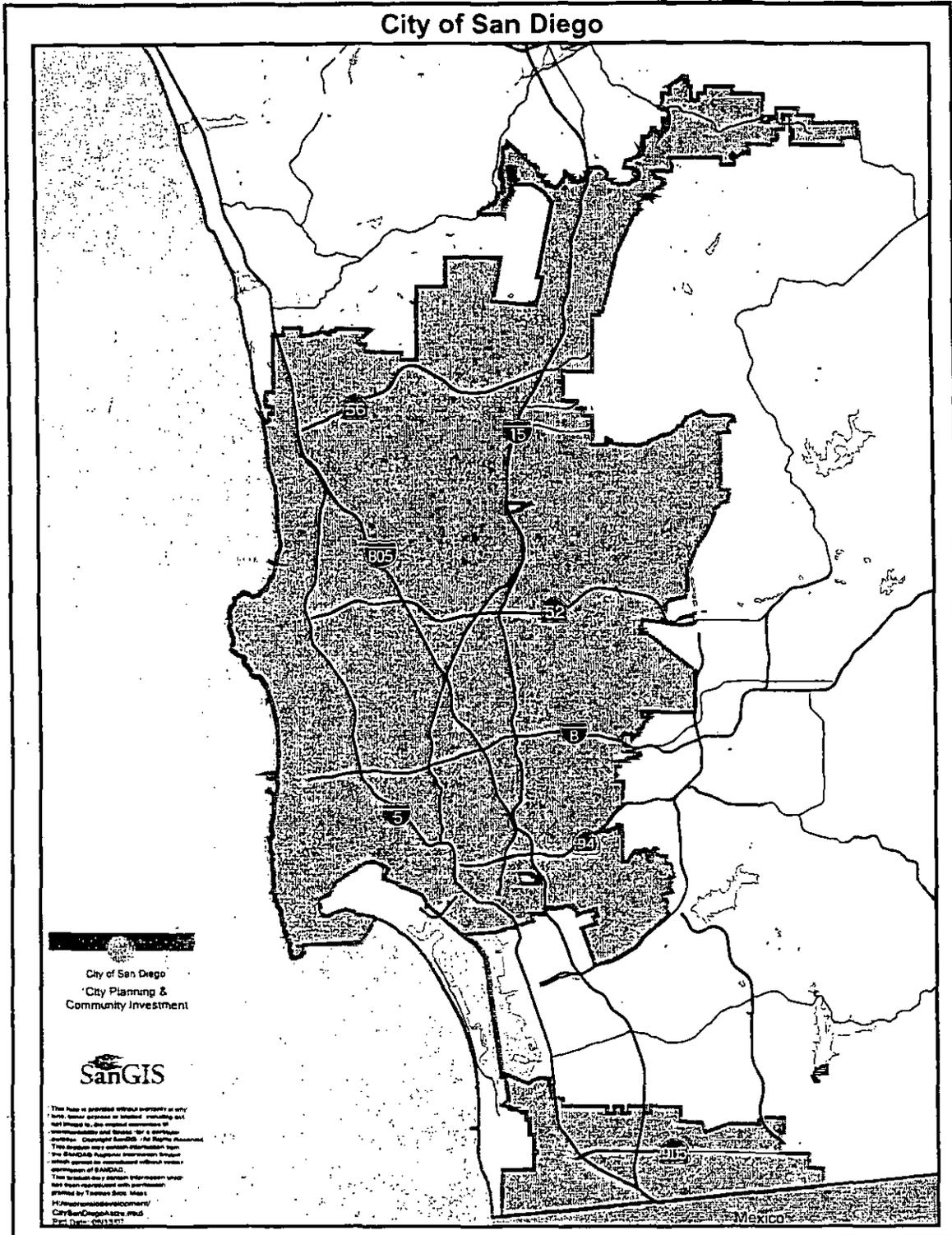
"Assessment" means a levy for the purpose of promoting activities which will benefit the businesses located within a tourism marketing district. Assessments levied under a tourism marketing district are not special taxes.

Assessments levied on businesses shall be levied on the basis of the degree of estimated benefit to the businesses within the tourism marketing district. The proposed assessment is a percentage of gross room revenue, and so when a hotel's revenue increases from the enhanced tourism marketing services provided through the TMD, the real dollar amount of the assessment will increase proportionately.

The district's activities are designed to provide benefits specifically for the assessed businesses by increasing tourism within the boundaries of the District and hence increasing hotel room occupancy and revenues. An indirect benefit may accrue to the surrounding community or to the public as a result of the activities to be provided with the assessment levied. These indirect benefits (if any) are incidental and inconsequential.

APPENDIX A

Map of District



APPENDIX B
List of Assessed Businesses – Updated as of 9/28/2007

Hotel Name	Hotel Location
500 West Broadway	500 W Broadway
Bahia Resort Hotel	998 West Mission Bay Dr
Bay Club Hotel & Marina	2131 Shelter Island Dr
Beach Cottages, The	4255 Ocean Bl
Best Western Americana Inn	815 W San Ysidro Bl
Best Western Bayside Inn	555 W Ash St
Best Western Blue Sea Lodge	707 Pacific Beach Dr
Best Western Hacienda Hotel Old Town	4041 Harney St
Best Western Inn By The Sea	7830 Fay Av
Best Western Inn-Miramar	9310 Kearny Mesa Rd
Best Western Island Palms Hotel & Marina	2051 Shelter Island Dr
Best Western Mission Bay	2575 Clairemont Dr
Best Western Posada@The Yacht	5005 North Harbor Dr
Best Western Seven Seas	411 Hotel Circle S Cr
Bristol Hotel	1055 01st Av
California Suites Hotel	5415 Clairemont Mesa Bl
Catamaran Resort Hotel	3999 Mission Bl
Chateau La Jolla	233 Prospect St
Comfort Inn & Suites Hotel Cir	2201 Hotel Circle S Cr
Comfort Inn & Suites Mission Valley	631 Cam Del Rio S
Comfort Inn & Suites Zoo/Sw	2485 Hotel Circle Pl
Comfort Inn Airport-Old Town	1955 San Diego Av
Comport Inn Gaslamp	660 G St
Country Inn & Suites	5975 Lusk Bl
Courtyard By Marriott	8651 Spectrum Center Bl
Courtyard By Marriott	530 Broadway
Courtyard By Marriott Rancho Bernardo	11611 Bernardo Plaza Ct
Courtyard By Marriott San Diego Old Town	2435 Jefferson St
Crown Plaza San Diego	2270 Hotel Circle North
Days Hotel - Hotel Circle	543 Hotel S Cr
Days Inn	4540 Mission Bay Dr
Days Inn & Suites	5343 Adobe Falls Rd
Days Inn & Suites	5550 Clairemont Mesa Bl
Days Inn Suites-Point Loma	3350 Rosecrans St
Doubletree Club Hotel San Diego	1515 Hotel Circle South
Doubletree Golf Resort San Diego	14455 Penasquitos Dr
Doubletree Hotel Del Mar	11915 El Cam Real

APPENDIX B
List of Assessed Businesses – Updated as of 9/28/2007

Hotel Name	Hotel Location
Doubletree Hotel San Diego-M.V	7450 Hazard Center Dr
Economy Inn	230 Via De San Ysidro
Embassy Hotel	3645 Park Bl
Embassy Suites	601 Pacific Hy
Embassy Suites San Diego La Jolla	4550 La Jolla Village Dr
Empress Hotel The	7766 Fay Av
Estancia La Jolla Hotel & Spa	9700 Torrey Pines Rd
Extended Stay America # 8787	3860 Murphy Canyon Rd
Extended Stay America #8573	2087 Hotel Circle South
E-Z 8 Motel Of Old Town	4747 Pacific Hy
E-Z 8 Motel-South Bay	1010 Outer Rd
E-Z 8 Motels-Sports Arena	3333 Channel Wy
Fairfield Inn & Suites	641 Cam Del Rio S
Four Points Sheraton	8110 Aero Dr
Golden West Hotel	720 04th Av
Good Nite Inn	3880 Greenwood St
Good Nite Inn	4545 Waring Rd
Hampton Inn	5434 Kearny Mesa Rd
Hampton Inn Del Mar	11920 El Cam Real
Hampton Inn San Diego Downtown	1531 Pacific Hy
Hampton Inn Sea World/Airport	3888 Greenwood St
Handlery Hotel & Resort	950 North Hotel Cr
Hilton Garden Inn - Rancho Bernardo	17240 Bernardo Garden Dr
Hilton Hotel-San Diego	1775 East Mission Bay Dr
Hilton La Jolla Torrey Pines	10950 Nrth Torrey Pines Rd
Hilton San Diego / Del Mar	15575 Jimmy Durante Bl
Hilton San Diego Airport	1960 Harbor Island Dr
Hilton San Diego Gaslamp Qtr	401 K St
Hilton Sd Mission Valley	901 Cam Del Rio S
Holiday In San Diego - Downtown	1617 01st Av
Holiday Inn Express	2296 Niels Bohr Ct
Holiday Inn Express	3950 Jupiter St
Holiday Inn Express	9888 Mira Mesa Bl
<i>Holiday Inn Express & Suites</i>	5925 Lusk Bl
Holiday Inn Express Missionbay	4610 De Soto St
Holiday Inn Express Old Town	3900 Old Town Av
Holiday Inn Mission Bay/Seaworld	3737 Sports Arena Bl

APPENDIX B
List of Assessed Businesses – Updated as of 9/28/2007

Hotel Name	Hotel Location
Holiday Inn Msn Vly-Stadium	3805 Murphy Canyon Rd
Holiday Inn Rancho Bernardo	17065 West Bernardo Dr
Holiday Inn San Diego Bayside	4875 North Harbor Dr
Holiday Inn San Diego North Mi	9335 Kearny Mesa Rd
Holiday Inn-Mission Valley	595 Hotel Circle South
Holiday Inn-S.D. On The Bay	1355 Harbor Dr
Homestead Village	9880 Pacific Heights Bl
Homestead Village M.V.	7444 Mission Valley Rd
Homewood Suites	11025 Vista Sorrento Py
Horton Grand Hotel	311 Island Av
Hotel La Jolla At The Shores	7955 La Jolla Shores Dr
Hotel Solamar	435 06th Av
Howard Johnson	1631 Hotel S Cr
Howard Johnson Inn	3330 Rosecrans St
Humphrey's Half Moon Inn & Suites	2303 Shelter Island Dr
Hyatt Regency La Jolla	3777 La Jolla Village Dr
Hyatt Regency Mission Bay Spa And Marina	1441 Quivira Rd
Hyatt Regency San Diego	0 One Market Pl
Island Inn	202 Island Av
Kings Inn	1333 Hotel Circle South
Kona Kai Resort	1551 Shelter Island Dr
La Jolla Beach Club Apartments	2000 Spindrift Dr
La Jolla Cove Suites	1155 Coast Bl
La Jolla Marriott	4240 La Jolla Village Dr
La Pensione	606 W Date St
La Quinta Inn	2380 Moore St
La Quinta Inns & Suites	10185 Paseo Montrail
La Valencia Hotel	1132 Prospect St
Lafayette Hotel & Suites	2223 El Cajon Bl
Mission Valley Travelodge	1201 Hotel Circle S Cr
Mission Vally Resort	875 Hotel Circle South
Motel 6 #1419	1546 02nd Av
Motel 6 (Loc #98)	160 Calle Primera
Motel 6 (Loc#14)	2424 Hotel Circle N Cr
New Plaza Hotel	1037 04th Av
Ocean Park Inn	710 Grand Av
Old Town Inn	4444 Pacific Hy

APPENDIX B
List of Assessed Businesses – Updated as of 9/28/2007

Hotel Name	Hotel Location
Omni San Diego Hotel	675 L St
Otay Mesa Comfort Suites	2351 Otay Center Dr
Pacific Terrace Hotel	610 Diamond St
Padre Trail Inn	4200 Taylor St
Park Manor Suites	525 Spruce St
Premier Inn	2484 Hotel Circle Pl
Quality Inn	1430 07th Av
Quality Inn	2901 Nimitz Bl
Quality Suite Hotel	9880 Mira Mesa Bl
Radisson Hotel Harbor View	1646 Front St
Radisson Suite Hotel Rancho Bernardo	11520 West Bernardo Ct
Ramada Inn & Suites	830 06th Av
Ramada Inn San Diego North	5550 Kearny Mesa Rd
Ramada Limited	1403 Rosecrans St
Ramada Plaza Hotel Circle	2151 Hotel Circle South
Rancho Bernardo Inn	17550 Bernardo Oaks Dr
Residence Inn By Marriott	12011 Scripps Highlands Dr
Residence Inn By Marriott Carmel Mountain Ranch	11002 Rancho Carmel Dr
Residence Inn San Diego Central	5400 Kearny Mesa Rd
Residence Inn San Diego Downtn	1747 Pacific Hy
Residence Inn San Diego La Jolla	8901 Gilman Dr
San Diego Marriott Courtyard	9650 Scranton Rd
San Diego Marriott Del Mar	11966 El Cam Real
San Diego Marriott Gaslamp Qtr	660 K St
San Diego Marriott Hotel And Marina	333 West Harbor Dr
San Diego Marriott Mission Valley	8757 Rio San Diego Dr
San Diego Paradise Point Resor	1404 West Vacation Rd
San Diego/Mvresidence Inn	1865 Hotel Circle South
Sea Lodge Hotel	8110 Cam Del Oro
Sheraton La Jolla Hotel	3299 Holiday Ct
Sheraton San Diego Hotel & Marina	1380 Harbor Island Dr
Sheraton San Diego Mission Vly	1433 Cam Del Rio S
Sheraton Suites San Diego	701 A St
Sofia Hotel	150 West Broadway
Sommerset Hotel	606 Washington St
Sorrento Mesaresidence Inn	5995 Pacific Mesa Ct
Springhill Suites By Marriott	12032 Scripps Highlands Dr

APPENDIX B
List of Assessed Businesses – Updated as of 9/28/2007

Hotel Name	Hotel Location
Staybridge Suites Carmel Mtn	11855 Of Industry Av
Staybridge Suites Sorrento	6639 Mira Mesa Bl
Studio 819	819 University Av
Super 8 Motel	445 Hotel Circle South
Super 8 Motel	4380 Alvarado Canyon Rd
Super 8 Motel Bayview	1835 Columbia St
The Baltic Inn	521 06th Av
The Dana On Mission Bay	1710 West Mission Bay Dr
The Friendship Hotel	3942 08th Av
The Grande Colonial Hotel	910 Prospect St
The J Street Inn	222 J St
The Lodge At Torrey Pines	11480 Nrth Torrey Pines Rd
The US Grant	326 Broadway
The Westin Horton Plaza	910 Broadway Cr
Town & Country Hotel	500 Hotel N Cr
Travelodge - Airport City	2353 Pacific Hy
U.S. Suites Of San Diego	10439 Roselle St
Vagabond Inn	625 Hotel Circle South
Valli Hi Motel	655 W San Ysidro Bl
Vantaggio Suites	1736 State St
W San Diego	421 West B St
West Park Inn	1840 04th Av
Westgate Hotel	1055 02nd Av
Woodfin Suite Hotel	10044 Pacific Mesa Bl
Wyndham Emerald Plaza Hotel	400 W Broadway

ATTACHMENTS

The following attachments are provided for information and reference purposes only. They are not meant to be construed as a part of the District Management Plan, rather they are provided as guidelines for deliberations and decisions to be made solely by the Board of Directors of the San Diego Tourism Promotion Corporation.

Attachment 1 – Framework for Application Criteria and Process

Attachment 2 – Memorandum of Understanding with San Diego Convention & Visitors Bureau

Attachment 3 – Memorandum of Understanding with San Diego North Convention & Visitors Bureau

Attachment 4 – Assumptions to Five-year Revenue Income and Distribution Budgets

Framework For Application Criteria & Process

It is anticipated that the San Diego Tourism Promotion Corporation will solicit and/or receive applications for funding from numerous, diverse organizations, and entities. Specific application guidelines will be created and available once the SDTPC is appointed by the City to manage the Tourism Marketing District. Those guidelines, criteria and application will be created at the sole discretion of the Board of Directors of the San Diego Tourism Promotion Corporation. Changes to the guidelines, criteria and application can only be made by an action of the Board of Directors. The criteria below will form the basis for the subsequent guidelines:

Legal Status:

- Applicants must demonstrate proof of current legal status within the jurisdiction of the headquarters of their business or corporation.

Tourism Mission:

- While an applicant's primary mission need not be tourism related, the applicant's mission must include an acknowledgement of tourism marketing as a component of that mission.

Use of Funds:

- An applicant's income from the SDTPC must be solely used for the purpose of fulfilling the tourism marketing portion of its mission as articulated in its application for funding.

Track Record:

- An applicant must have a demonstrable history of successful, ongoing programming or business performance prior to submitting an application.

Location:

- Regardless of where an applicant is headquartered or physically located, or where a particular marketing program is implemented, 100% of the funding received from the SDTPC must be applied to, or in support of, programs designed for the measurable benefit of hotels (lodging businesses) within the City of San Diego.

Compliance:

- Former contractors of the City of San Diego must have submitted acceptable final report packages on any completed contract and be in good standing with the City.

Application:

- Each applicant for funding will be required to submit an "Application Request for Funding" that will require significant information about the applying organization or entity, as well as a specific proposal for how the requested funds will be spent, the expected result and the proposed method for measuring results. As a model for the type and depth of information required, it is suggested that prospective applicants become familiar with the Citywide Small Business Enhancement Program Grant Guidelines & Application, published by the City of San Diego City Planning and Community Investment Department Office of Small Business.

Framework for Application Criteria & Process
Page 2

Fundamental Requirements:

- Fundamental to the funding of any application will be the clearly articulated benefit to hotels in the City of San Diego. While benefit may be delivered in numerous ways, by far the most important benefit will be measured in the delivery of room nights. *Successful applications will clearly describe the strategy and tactics for delivering room nights as well as the number of room nights projected and estimated gross room revenue.* Letters of intent for hotel room blocks and/or tentative agreements with hotels will provide the necessary back up to support the above projections and estimates.
- When considering these fundamental application requirements, priority will be given to:
 - Special need periods of the year
 - Special need geographic locations within the City
 - Incremental new room nights from existing programs or sponsoring organizations

Determining Return On Investment

- All successful applicants will clearly demonstrate a measurable Return On Investment (ROI) for the programs or services they propose. That Return On Investment can be determined in a number of different ways. Applicants are encouraged to develop and demonstrate their suggested method of measuring ROI for their particular program as a part of their application.

Application Timeline

- An application calendar and timeline will be published annually to guide applicants through the application process

Oral Presentation

- Should an application meet the fundamental requirements for consideration, and prior to any final decision, qualifying finalist may be invited to make a public, oral presentation before the SDTPC Board of Directors.

Contract Agreement

- Once the Board of Directors has approved funding and the SDTPC budget is approved by the City Council, a Contract Agreement is issued to the successful applicants. The Contract Agreement details the terms and conditions of the contract between the SDTPC and the organization and the organization's scope of work, anticipated results and mutually agreed upon method(s) for measuring those results.

ATTACHMENT 2

Draft Memorandum of Understanding with San Diego CVB

This is a Memorandum of Understanding (MOU) between the San Diego Tourism Promotion Corporation (SDTPC) and the San Diego Convention & Visitors Bureau. This MOU addresses Funding, Performance and Performance Measurement.

The following points of agreement shall be included in the Management Plan for the City of San Diego Tourism Marketing District:

1. Percentage Fixed Revenue
San Diego CVB shall receive 50% of the annual gross revenue generated by the Tourism Marketing District. This figure represents minimum, base funding. Additional funding may be allocated contingent upon a successful application to the SDTPC.
2. Specific Use For City of San Diego Lodging Establishments
The revenue received by San Diego CVB from the SDTPC will be segregated from other income and may be utilized to sell, market and promote (the City of San Diego to the benefit of) lodging establishments within the city limits of the City, and may include support activities such as critical operational expenses, including but not limited to salaries and benefits.
3. Annual Performance Audit
For purposes of inclusion in an Annual Report to the City Council, San Diego CVB shall comply with and support an annual Performance Audit based on mutually agreed upon performance standards to measure a return on investment to the City generated by San Diego CVB activities funded by the SDTPC. It is acknowledged that some activities and programs may extend over multiple years, rendering a single year assessment problematic. This Performance Audit shall be performed by a mutually agreed upon third-party auditor, and shall be paid for by the San Diego CVB.
4. Annual Financial Audit
For purposes of inclusion in an Annual Report to the City Council and general public distribution, San Diego CVB shall comply with and support an annual Financial Audit of all income and expenses relative to its operation. Specific focus of this Financial Audit will be the correct and appropriate use of SDTPC revenue to sell, market and promote (the City of San Diego to the benefit of) lodging establishments within the city limits of the City. This Financial Audit shall be performed by a third-party auditor selected by the San Diego CVB, and shall be paid for by the San Diego CVB.

Draft Memorandum of Understanding with San Diego CVB**Page 2**5. Term

The effective term of the items specified in this memorandum shall be contiguous with the term of the Tourism Marketing District, 5 years, or as approved by the City Council.

6. Contract

San Diego CVB and the SDTPC shall execute a mutually agreed upon contract that will include all of the elements listed above, and that will provide for a clear understanding of the relationship between San Diego CVB and the SDTPC. This contract will include language defining required, mutually agreed upon performance standards and the funding consequences possible should those standards not be met. This contract will define the necessary market research into mutually agreed upon areas or subjects to be provided by the San Diego CVB.

7. Effective Date

The effective date will be the first day of collections from assessed businesses, as approved by the City Council.

ATTACHMENT 3

Draft Memorandum of Understanding with San Diego North CVB

This is a Memorandum of Understanding (MOU) between the San Diego Tourism Promotion Corporation and the San Diego North Convention & Visitors Bureau. This MOU addresses Funding, Performance and Performance Measurement.

The following points of agreement shall be included in the Management Plan for the City of San Diego Tourism Marketing District:

1. Percentage Fixed Revenue: San Diego North CVB shall receive 10% of the annual gross revenue generated by the Tourism Marketing District. This figure is both the minimum and the maximum annual funding available to San Diego North from the SDTPC.
2. Specific Use For City of San Diego Lodging Establishments: The revenue received by San Diego North CVB from the TMD will be segregated from other income and may be utilized to sell, market and promote (the northern portion of the City of San Diego to the benefit of) lodging establishments within the city limits of the City, and may include support activities such as critical operational expenses, including but not limited to salaries and benefits.
3. Annual Performance Audit: For purposes of inclusion in an Annual Report to the City Council, San Diego North CVB shall comply with and support an annual Performance Audit based on mutually agreed upon performance standards to measure a return on investment to the City generated by San Diego North CVB activities funded by the TMD. It is acknowledged that some activities and programs may extend over multiple years rendering a single year assessment problematic. This Performance Audit shall be performed by a mutually agreed upon third-party auditor, and shall be paid for by the San Diego North CVB.
4. Annual Financial Audit: For purposes of inclusion in an Annual Report to the City Council and general public distribution, San Diego North CVB shall comply with and support an annual Financial Audit of all income and expenses relative to its operation. Specific focus of this Financial Audit will be the correct and appropriate use of TMD revenue to sell, market and promote (the northern portion of the City of San Diego to the benefit of) lodging establishments within the city limits of the City. This Financial Audit shall be performed by a third-party auditor selected by the San Diego North CVB, and shall be paid for by the San Diego North CVB.
5. Term: The effective term of the items specified in this memorandum shall be contiguous with the term of the Tourism Marketing District, 5 years, or as approved by the City Council.

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Draft Memorandum of Understanding with San Diego North CVB

Page 2

6. Contract: San Diego North CVB and the SDTPC shall execute a mutually agreed upon contract that will include all of the elements listed above, and that will provide for a clear understanding of the relationship between San Diego North CVB and the SDTPC. This contract will include language defining required, mutually agreed upon performance standards and the funding consequences possible should those standards not be met. This contract will define the necessary market research into mutually agreed upon areas or subjects to be provided by the San Diego North CVB.

7. Effective Date: The effective date will be the first day of collections from assessed businesses, as approved by the City Council.

ATTACHMENT 4

Assumptions to Revenue Income & Distribution Calculations

- A. City projects \$159.2 million in TOT revenue for FY '08.
- B. Estimated TOT Revenue: Assumes 6% growth annually in TOT revenues through 2013.
- C. Estimated TMD Revenue: Assumes the equivalent of 2 points of TOT.
- D. Administration Fee Paid to City: Assumes an automatic annual escalator of 4.5%.
- E. SDTPC Personnel Expenses: Assumes an automatic annual escalator of 4.5%
- F. SDTPC Overhead Assumes an automatic annual escalator of 4.5%
- G. Annual escalator of 4.5% is derived from actuarial assumptions used in calculating increases in City personnel costs in order to forecast changes to the City's pension obligation.



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THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: October 8, 2007

IBA Report Number: 07-95

City Council Docket Date: October 15, 2007

Item Number: N/A

Subject: Tourism Marketing District

OVERVIEW

The proposed Tourism Marketing District (TMD) would establish a program whereby certain lodging facilities within the City would self-impose a special assessment in order to secure a source of revenue for marketing and promotional programs. The assessment would be two percent of the daily room rate charged at hotels with 70 or more rooms, or 2.0-cents on every dollar. This assessment would be comparable in nature to the City's 10.5-cent Transient Occupancy Tax (TOT); however, revenue from the TMD assessment would be managed by the San Diego Tourism Promotion Corporation (SDTPC), a private non-profit entity, and would be allocated to various organizations and entities for marketing and promotion of the City based on a competitive application process.

The TMD is designed to benefit the lodging industry by providing a secure revenue source for marketing and promotion; however, it may also provide benefits for the City of San Diego. The primary and long-term benefit to the City is expected to be greater TOT receipts as a result of a strengthened tourism market. In addition, the TMD may also provide a more immediate benefit by alleviating current TOT allocations to various tourism-related organizations.

IBA report 07-47 (attached) posed a range of policy implications regarding establishment of the TMD. This report analyzes the potential benefit of the TMD for the City of San Diego, and highlights a few concerns with the TMD Management Plan. Overall, implementation of the TMD is expected to generate higher TOT receipts as a result of a stronger tourism market, and create savings by offsetting current TOT allocations. However, it is unclear how much the City will actually benefit in terms of greater TOT receipts, as such estimates are extremely difficult to quantify. In terms of the immediate



Office of Independent Budget Analyst

202 C Street, MS 3A • San Diego, CA 92101
Tel (619) 236-6555 Fax (619) 236-6556



benefit, the TMD may potentially free up more than \$10 million on an annual basis, which could benefit the General Fund. However, current Municipal Code provisions regarding TOT allocations may restrict those savings unless amendments to the Municipal Code are made.

FISCAL/POLICY DISCUSSION

This section begins with a discussion of the primary and longer-term financial benefit to the City as it relates to increased TOT receipts. The second part analyzes the immediate savings that may result from offsetting current TOT allocations. Finally, several policy concerns with the proposed TMD Management Plan itself will be addressed.

However, in order to get a sense of magnitude, it is helpful to first take a look at the City's TOT revenue and the amount of revenue that may be generated by the 2.0-cent TMD assessment, projected over a five-year period. Total budgeted TOT revenue in FY 2008 is \$162.6 million. Based on this projection, the 2-cent TMD assessment would generate approximately \$29 million in FY 2008 if the TMD were implemented for the entire fiscal year¹. The table below provides a five-year projection of the City's TOT revenue and the proposed 2.0-cent TMD assessment, as well as a projection of how much revenue the City would receive if the TOT rate were increased by 2.0-cents.

Table 1. Five-Year TOT Projection

	<u>FY 2008</u> <u>Budget</u>	<u>FY 2009</u> <u>Projected</u>	<u>FY 2010</u> <u>Projected</u>	<u>FY 2011</u> <u>Projected</u>	<u>FY 2012</u> <u>Projected</u>	<u>FY 2013</u> <u>Projected</u>
City TOT*	162,625,787	170,757,076	179,294,930	188,259,677	197,672,661	207,556,294
TMD 2-Cent	28,962,878	30,411,022	31,931,573	33,528,152	35,204,560	36,964,788
City 2-Cent	30,976,340	32,525,157	34,151,415	35,858,986	37,651,935	39,534,532

* Assumes 5% growth rate in all future years.

In the above projection, City TOT revenue is assumed to grow by five percent in each year, consistent with the Mayor's Five-Year Financial Outlook. As the table shows, even with this modest growth rate, the 2-cent TMD assessment would generate nearly \$37 million by 2013. If the City were to increase the TOT rate by 2.0-cents, it would generate approximately \$39.5 million. The TMD assessment would generate slightly less revenue than a commensurate increase in the TOT rate since only hotels with 70 rooms or more will be subject to the TMD assessment.

¹ If the current proposal is implemented, assessment would not begin until January 2008, thereby reducing the amount of revenue generated in FY 2008. However, for purposes of simplicity, this analysis assumes full-year implementation.

Primary TMD Benefit: Increased TOT Receipts

The purpose of the TMD is to provide a secure source of revenue for the marketing and promotion of the City. Currently, the vast majority of funding for marketing and promotion of the City comes from City TOT allocations, via the Special Promotional Programs budget. However, these allocations have been gradually cut back over the past several years due to General Fund budgetary constraints. Revenue generated from the TMD assessment would not be impacted by the City's budget, and therefore would be a more stable revenue stream for tourism marketing and promotion. In addition, the proposed assessment would generate significantly more revenue for these purposes than is currently being allocated by the City.

There is little question that increasing the amount of funding for marketing and promotion will strengthen the City's tourism and lodging industries, which in turn would provide greater TOT receipts for the City. The more pertinent question in this instance is by how much. Unfortunately, the impact of marketing dollars on TOT receipts is very difficult to quantify, and there does not appear to be any conclusive studies regarding the impact of tourism marketing districts, which are relatively new phenomena. In addition, academic research on the effectiveness of tourism marketing expenditures is limited. A brief review of the available academic literature does indicate that funding for destination marketing increases market share and has a positive return on investment. However, none of the studies reviewed were similar enough in scope to the present situation to offer conclusive guidance.

There are many factors that drive the choice of destination for travelers, such as local attractions, recreational opportunities, general economic conditions, visitor age and income, transportation costs and available alternatives. While marketing is surely one of these factors, it is very difficult to isolate its impact from that of the many others. Further research on the marginal impact of tourism marketing expenditures, and the point at which such expenditures hit diminishing returns would be beneficial.

Despite the lack of conclusive data on the impact TMDs or tourism marketing expenditures have on tourism, it is intuitive to believe that greater marketing expenditures will have a positive impact. What is clear is that implementation of the TMD will provide greater funding to the lodging industry for marketing and promotion of San Diego. A greater marketing effort will presumably result in stronger tourism and lodging industries, and benefit the City in terms of greater TOT receipts. From a policy perspective, this impact should be the prime motivation behind implementing the TMD.

Immediate Benefit: Special Promotional Program Savings

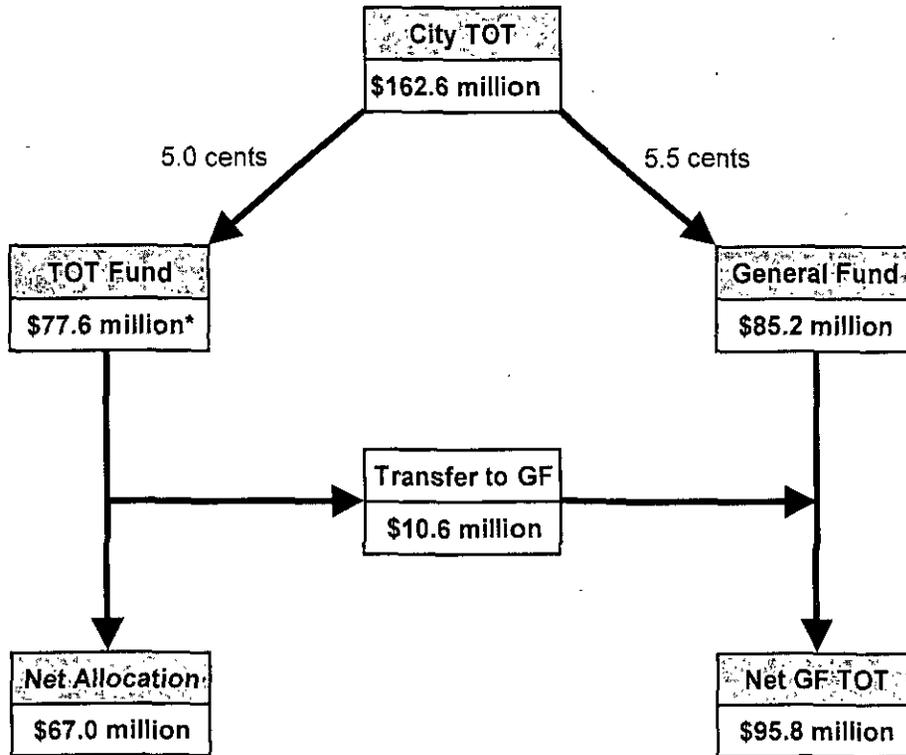
Analysis of the potential immediate benefit of the TMD is broken into two parts: first, a description of how the City's TOT revenue is allocated via the Special Promotional

Program, and how the City may realize short-term benefits from the TMD; and second, a discussion of how the potential short-term benefits may conflict with the Municipal Code.

TMD and Special Promotional Programs

The City's TOT revenue is allocated partially to the General Fund and partially to the TOT Fund to support the Special Promotional Programs (Special Promo) budget. The General Fund receives 5.5-cents of the 10.5-cent TOT levy, while Special Promo receives 5.0-cents. In FY 2008, Special Promo is budgeted to allocate approximately \$77.6 million out of the TOT Fund. Of that total allocation, \$10.6 million is returned to the General Fund, for general government purposes such as public safety, parks and libraries. The remaining funding is then allocated to various non-profit community groups, for debt service and to various other tourism-related organizations. In FY 2008, these allocations total \$67.0 million. The allocation and flow of City TOT revenue is reflected in the figure below.

Figure 1. City TOT Revenue (FY 2008 Budget)



* Includes other minor revenues

The proposed TMD would provide funding for certain tourism-related groups that are currently funded through this \$67.0 million Special Promo allocation. These groups, and their FY 2008 allocations, are listed below.

Table 2. TMD-Funded Groups

SD Convention & Visitors Bureau	\$ 8,830,411
SD Film Commission	661,817
Holiday Bowl	391,137
San Diego North ConVis	380,903
SD Intl Sports Council	145,800
Hall of Champions	75,000
Rock N Roll Marathon	19,519
California State Games	15,427
San Diego Crew Classic	4,648
TOTAL	\$ 10,524,662

The TMD, if implemented, would initially assume funding for these groups, thereby alleviating the City's current funding obligation. This could result in an annual saving of approximately \$10.5 million, which could be transferred back to the General Fund. However, it should be noted that in order to maintain this level of savings no further discretionary TOT allocations, or increases to any remaining allocations, can be made².

In addition, while the TMD guarantees funding to ConVis and North ConVis, funding for the other groups listed above would only be guaranteed for the first 12 months of operation (January – December, 2008). After that, those groups could apply for TMD funding according to the competitive application process. Should these groups not receive TMD funding, they may again seek funding from the City, which would decrease the potential savings if such funding is restored.

The table below reflects both the guaranteed savings that may be generated by implementation of the TMD, as well as the potential maximum savings. The guaranteed savings reflect the fixed TMD allocations to ConVis and North ConVis, as well as the committed funding for the other groups for the first 12 months of operation.

Table 3. Potential Savings from TMD

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Guaranteed	5,262,331	9,867,988	9,211,314	9,211,314	9,211,314	4,605,657
Maximum	5,262,331	10,524,662	10,524,662	10,524,662	10,524,662	5,262,331

² This refers only to discretionary allocations. Allocations for debt service may increase over time; however, these allocations are not discretionary, and would occur regardless of the TMD.

The lower amounts in FY 2008 and FY 2013 reflect partial fiscal year savings, since the TMD is currently scheduled to be implemented beginning January 1, 2008 and last for a term of five years. However, the TMD may be extended for a longer term, which may increase the potential savings in FY 2013 and beyond. Again, it should be emphasized that the maximum potential savings as reflected in Table 3 would only be realized if no further discretionary TOT allocations are made or increased, and if current City allocations to the groups listed in Table 2 remain fully offset for the term of the TMD.

It should also be noted that while revenue from the TMD assessment will grow year over year, the maximum potential savings to the City would not increase, regardless of how much TOT revenue the City brings in. This is because it is only the *current* allocations to the groups listed in Table 2 that would be offset; it is not anticipated that any remaining allocations would be offset by the TMD in future years.

Municipal Code Restrictions

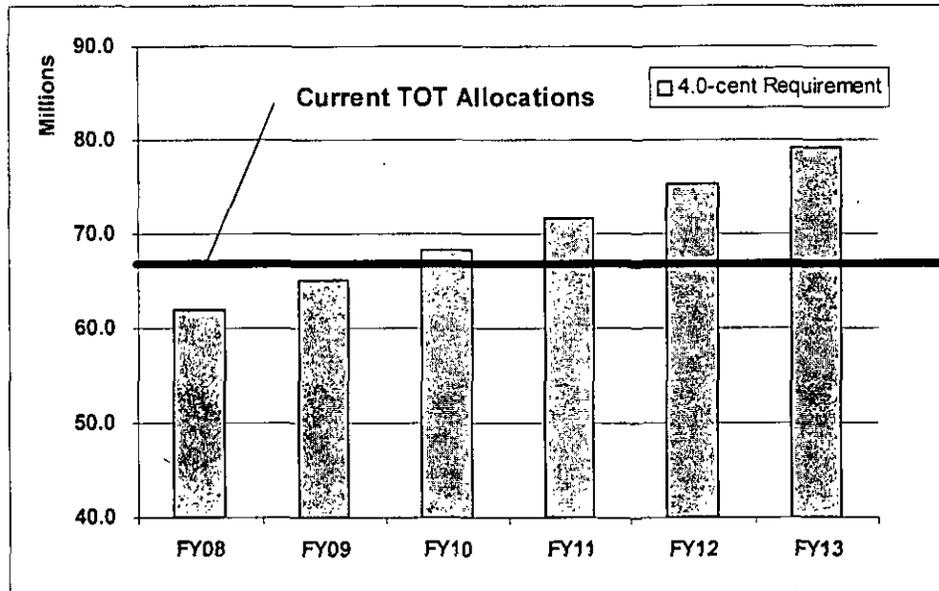
One of the complicating factors regarding these potential savings is the restriction placed on the use of City TOT revenue by the Municipal Code. Currently, the Municipal Code requires that 4.0-cents of the 10.5-cent TOT be used for the purpose of promoting the City. In previous years, TOT allocations were significantly large to easily comply with this requirement. However, due to the rapid growth in TOT revenue over the past several years, combined with reduced allocations, the 4.0-cent requirement may limit the amount of revenue that can be transferred back to the General Fund, and thus negate the potential savings in the Special Promotional Program.

Figure 1 (pg. 4) shows that the net TOT allocations in FY 2008 are \$67.0 million. It is presumed that the TMD would reduce these allocations by an additional \$10.5 million. However, based on budgeted TOT revenue in FY 2008, 4.0-cents of TOT is approximately \$62.0 million.

This means that the City could only reduce TOT allocations by approximately \$5 million in FY 2008 in order to stay in compliance with Municipal Code requirements. As TOT revenue grows in future years, the amount of funding required by the 4.0-cent requirement will grow as well. The chart below reflects current net TOT allocations in contrast to the 4.0-cent requirement.

What is "Promotion"? In the past, there has been a flexible and somewhat vague notion of what constitutes promotion. Special Promotional Programs allocates TOT funding to groups that are clearly promotion-related, such as ConVis, but also for other purposes such as debt service on the PETCO Park bonds. Other activities such as park and beach maintenance have a nexus with promotion since visitors often come to San Diego to enjoy these resources, but are funded by the General Fund. In order to maximize the benefit of the TMD to the City, it may be necessary to clarify what constitutes promotion.

Figure 2. TOT Allocations v. 4.0-cent Requirement



The space between the solid line – reflecting current net TOT allocations – and the bars representing the 4.0-cent requirement is the potential savings for the City in each fiscal year, under current law. As the chart reflects, TOT allocations could only be reduced in FY 2008 and FY 2009, which may limit the amount of savings in those years. By FY 2010, even without the TMD, the City may need to *increase* TOT allocations in order to comply with the Municipal Code.

To realize the maximum potential savings in the Special Promotional Program as a result of the TMD and still comply with Municipal Code requirements, the City may need to more clearly define what constitutes promotion to include services that are currently funded by the General Fund. Services such as park and beach maintenance and lifeguard services, which are currently funded by the General Fund, would seem to have a clear nexus with tourism and promotion, as many visitors benefit from these resources. It is recommended that the City Attorney's Office examine this issue to determine what steps may need to be taken in order to realize maximum potential savings while still complying with the Municipal Code.

TMD Management Plan – Policy Implications

The TMD Management Plan is the key document detailing the administrative and operational guidelines for the proposed assessment district. It is also an informational document that participating lodging businesses will rely upon in deciding whether to support or oppose the proposed district. The City's role in supporting and administering the TMD are described in the Management Plan.

The Management Plan and a contract between the City and SDTPC are the controlling documents for TMD operation over the next five calendar years. The IBA has reviewed the TMD Management Plan and found it to be generally comprehensive and reasonable. There are, however, a few items that might warrant clarification, discussion or further consideration prior to adoption. These items are listed below, and may be addressed with minor amendments to the Management Plan or by incorporation in the subsequent contract with SDTPC.

- Page 5 indicates that the City will annually provide the SDTPC a statement detailing actual TOT revenues collected and describing the City's use of TOT revenues as it relates to the 4.0-cent Municipal Code requirement, including the "annual marketing subsidy as required by the San Diego Convention Center Corporation." It should be noted, however, that the annual marketing subsidy provided to the Convention Center Corporation is not required, but granted at Council's discretion in response to an application for funds submitted by the Corporation. The IBA suggests that the word "required" be changed to "requested."
- To ensure compliance with the Management Plan and to gauge the effectiveness of the TMD, the IBA recommends that the SDTPC annually provide the City with a summary of expenditures from the prior fiscal year, and the actual or expected return on investment associated with those expenditures.
- The Management Plan specifies that the City may be reimbursed for TMD administrative costs up \$300,000 plus a 4.5% annual escalator. While this amount should be sufficient to reimburse the City for all normal expenses related to the TMD, it may not cover extraordinary or unforeseen costs. The IBA recommends that a provision be included in either the Management Plan or the subsequent contract with SDTPC that clarifies who will be responsible for covering the cost of extraordinary or unforeseen expenditures, including but not limited to possible legal proceedings.
- As previously described in this report, certain longstanding TOT recipient organizations (those marked with asterisks on page 13 of the Management Plan) are anticipated to receive funding from the TMD for the first 12 months of operation. Thereafter, these organizations can apply for additional funding from the TMD in accordance with the competitive application process described in Attachment 1 of the Management Plan. While City staff has indicated that these groups are guaranteed funding for the first 12 months, this provision is not written anywhere in the Management Plan. The IBA recommends that the funding commitment to these organizations be written into the Management Plan, as is the longer-term commitment to ConVis and North ConVis.

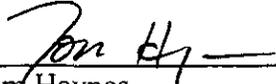
- Page 16 discusses City Treasurer administered penalty and appeal processes for TMD businesses failing to make timely payments. However, it is unclear whether the revenue from such penalties would go to the TMD or be retained by the City. The IBA recommends that the Management Plan clarify who retains the revenue from penalties.

CONCLUSION

Implementation of a Tourism Marketing District may have potential benefits for the City of San Diego. The primary and long-term benefit would be increased TOT revenue as a result of greater marketing and promotion efforts, as the TMD would secure greater funding for these purposes. However, this benefit is very difficult to quantify. While it may safely be presumed that increased funding for marketing and promotion will strengthen the tourism and lodging industries and lead to higher TOT receipts, the precise relationship between increased marketing expenditures and TOT revenues is unknown.

The TMD may also provide an immediate benefit by offsetting several TOT allocations currently made by the City. If maintained, these offset allocations may result in potential savings of up to \$10.5 million per year. However, this level of savings assumes no further discretionary TOT allocations or increases to any remaining allocations. It also assumes that none of the groups initially funded by the TMD return to the City for funding in future years.

Finally, the Municipal Code currently requires that 4.0-cents of the 10.5-cent TOT be used for promotion of the City. This requirement may limit the potential savings that may result from implementation of the TMD. In order to realize the maximum potential savings, it may be necessary to clarify what constitutes promotion to include services currently funded by the General Fund, such as park and beach maintenance and lifeguard services.



Tom Haynes
Fiscal & Policy Analyst



APPROVED: Andrea Tevlin
Independent Budget Analyst

Attachment



Attachment

THE CITY OF SAN DIEGO
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: April 30, 2007

IBA Report Number: 07-47

City Council Docket Date: May 1, 2007

Item Number: 330

Subject: Tourism Marketing District Procedural Ordinance

OVERVIEW

On Tuesday, May 1, 2007, the City Council will consider the first of several steps required to establish a Tourism Marketing District (TMD) in the City of San Diego. The TMD would be an assessment district created by the City on behalf of larger hotel and motel operators within the City. The TMD would raise funds to promote tourism in the City and be established in accordance with new language that is proposed for incorporation into the City's Municipal Code. Formation steps for the TMD would be modeled after assessment districts created pursuant to the State's Property and Business Improvement District Law of 1994. For more detailed information on the TMD characteristics and process, please refer to IBA Report 07-46 pp. 27-29, IBA Analysis of the Mayor's FY 2008 Proposed Budget. This report will discuss our approach to the TMD and items for consideration in decision-making.

FISCAL/POLICY DISCUSSION

The IBA first emphasizes that this policy discussion should take place outside of the context of the current budget process. Although we know that the Mayor has proposed his FY 2008 Budget with the inclusion of the budgetary benefits of the TMD, we urge the City Council not to allow that to influence a decision that should rest entirely on the policy merits of the proposal.

As stated in IBA Report 07-46 on the Mayor's Proposed Budget, it is our belief that the TMD impacts should not be included in the budget, primarily due to a relatively high level of uncertainty at this time. We have identified in our report ways to offset the removal of these TMD savings from the FY 2008 Budget. As we described in that report, there are a number of steps in the process of the formation of the TMD. Notwithstanding the LIA and HMA support for this proposal, the petition and ballot process may return results that are inconsistent with the conclusions drawn in the Proposed Budget. Due to this uncertainty, and in accordance with the



Office of Independent Budget Analyst

202 C Street, MS 3A • San Diego, CA 92101
Tel (619) 236-6555 Fax (619) 236-6556

principle of conservatism, we have recommended approving the FY 2008 Budget without the reliance on the TMD.

Furthermore, a City Council decision to adopt this Procedural Ordinance would not modify our recommendation that TMD impacts be removed from the FY 2008 Budget. The IBA believes that adoption of the Procedural Ordinance does not constitute sufficient certainty to include this item in the FY 2008 Budget. Approval of this Procedural Ordinance is simply the first step in a formation process with several steps, (two of which the City Council does not control), and it is important to note that the City Council's vote on this item will not assure TMD formation. Additionally, it is premature to anticipate the results of the critical vote of the hoteliers, just as it would be to anticipate the results of voter-approved bonds prior to a public vote. We believe this should provide reasonable assurance to the City Council that their vote today will not impact the financial position of the FY 2008 budget.

Should the TMD be approved, a mid-year adjustment to the budget would be appropriate to incorporate these changes. However, in the interim and as indicated above, the IBA has identified items that will mitigate the impact of removal of the TMD, and we are confident that a balanced budget can be passed without inclusion of this proposal, as we have recommended. Therefore, it is our belief that the City Council should be free to make this decision independent from the short-term concerns in the FY 2008 Budget. A longer-term perspective on this important policy matter should guide the decision.

We stress, however, that our recommendation to remove the financial impact of the TMD from the budget is not a judgment on the TMD proposal itself. Our recommendation is based on financial and budgetary best practices and does not preclude or oppose the formation and implementation of a TMD in the City of San Diego. With regard to the policy matter, the IBA is not prepared to take a position at this time, but we would provide the following items for consideration:

- The TMD is designed to provide needed funding for marketing for San Diego's tourism sector in what is a competitive industry.
- The TMD benefits one sector of our regional economy, but may not positively impact other important business sectors and economic drivers in our region.
- The implementation of a TMD may negatively impact the City's ability to raise TOT in the future. It should be noted that the City of San Diego has a low TOT rate, particularly for such a large and desirable destination. In addition, the City's total tax base is lower than most other similar cities. This action is likely to perpetuate that condition.
- A 2% assessment is significant (estimated by the IBA at over \$30 million in FY 2008). Under the TMD, the City would only receive the benefit of \$10 million expenditure savings annually. A similar TOT increase would allow the City to increase needed General Fund resources in excess of \$30 million and use that funding for a variety of purposes.

- However, it should also be noted that in 2004, citizens voted down ballot measures in two separate elections in one year that would have raised the TOT by 2%. While this is not conclusive, it may indicate lack of ability to raise the TOT to levels comparable to peer cities in the near-term.
- The TMD will relieve the City from funding certain non-profit and community groups in FY 2008 for an estimated savings of \$5 million.
- Except for the San Diego Convention and Visitors Bureau and the North San Diego Convention and Visitors Bureau, the City cannot be certain that relief from its funding of these non-profits is permanent. It is possible that groups that fail to earn funding from the TMD will return to request funding from the City in future years.
- Based on information provided, the TMD will use a robust investment strategy, requiring return on investment data, strong oversight and regular audits.
- Providing a significant increase in tourism marketing funding is anticipated to grow City TOT receipts faster than if the TMD were not established. The TMD will seek to drive demand that will keep occupancy and average daily room rates high; upon which TOT is based. Strong tourism also impacts sales taxes and other revenues.
- Potential grantees may be reticent to express concerns they may have for fear of reprisal if the TMD is implemented.

CONCLUSION

On Tuesday, May 2, 2007 the City Council will consider the Implementation Ordinance for a Tourism Marketing District. While the IBA is not prepared to take a position on this policy issue at this time, we hope to contribute a few thoughts for consideration.

The Mayor's Proposed Budget assumes implementation of the TMD around the January 2008 timeframe. Due primarily to the uncertainty of whether the TMD will be approved, the IBA has recommended that all impacts of the TMD be removed from the FY 2008 Budget at this time. It should be reiterated, however, that this recommendation is neither a judgment on the TMD proposal itself, nor prohibits its formation and implementation.

Finally, we again wish to emphasize that this policy decision should be made free from concerns about the FY 2008 Budget. We are confident that the FY 2008 Budget can be balanced without this savings and have already offered a number of recommendations to do so. The IBA will provide more information and analysis as requested and as necessary throughout this continuing discourse.

 [SIGNED]
Penni Takade
Deputy Director

 [SIGNED]
APPROVED: Andrea Tevlin
Independent Budget Analyst

REQUEST FOR COUNCIL ACTION
CITY OF SAN DIEGO

1. CERTIFICATE NUMBER (FOR AUDITOR'S USE) 205
10/16

TO: CITY ATTORNEY
2. FROM (ORIGINATING DEPARTMENT): CITY PLANNING & COMMUNITY INVESTMENT
3. DATE: 9/21/2007

4. SUBJECT: TOURISM MARKETING DISTRICT ESTABLISHMENT

5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.): Scott Kessler x66405 MS56-D
6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.): Meredith Dibden Brown x66485 MS56-D
7. CHECK BOX IF REPORT TO COUNCIL IS ATTACHED

8. COMPLETE FOR ACCOUNTING PURPOSES

FUND					9. ADDITIONAL INFORMATION / ESTIMATED COST: Approximately \$25 million of TMD assessments will be collected annually by City on behalf of TMD and disbursed back to the TMD non-profit less City admin. costs. In FY2008 approx. \$5.3M will be reimbursed to the City from the TMD for certain FY2008 citywide TOT allocations and to offset TMD start-up costs.
DEPT.					
ORGANIZATION					
OBJECT ACCOUNT					
JOB ORDER					
C.I.P. NUMBER					
AMOUNT					

10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT	SCOTT KESSLER	9-27-07	8	DEPUTY CHIEF	WILLIAM ANDERSON	9/27/07
2	DEPARTMENT DIRECTOR	WILLIAM ANDERSON	9-27-07	9	COO	JAY GOLDSTONE	9/27/07
3	ENVIRONMENTAL REVIEW	KENNETH TEASLEY	9/27/07	10	CITY ATTORNEY	ALEX SACHS	9/28/07
4	LIAISON OFFICE	ED PLANK	9/27/07	11	ORIGINATING DEPARTMENT	MEREDITH DIBDEN BROWN	9-27-07
5	FINANCIAL MANAGEMENT	AUTHORIZED SIGNER	9/27/07	DOCKET COORD: _____ COUNCIL LIAISON: _____			
6	AUDITORS	AUTHORIZED SIGNER	9/27/07	COUNCIL PRESIDENT <input type="checkbox"/> SPOB <input type="checkbox"/> CONSENT <input type="checkbox"/> ADOPTION <input checked="" type="checkbox"/>			
7				REFER TO: _____ COUNCIL DATE: 10/15/07			

11. PREPARATION OF: RESOLUTION(S) ORDINANCE(S) AGREEMENT(S) DEED(S)

- Approve TMD Management Plan, declare intent to establish Tourism Marketing District (TMD) and to levy assessments for the TMD for a maximum of 5 years, set ~~November 20, 20~~ 2007 as the noticed public meeting date, set December 3, 2007 as the noticed public hearing date for counting ballots and considering protests, and direct that the notice to affected businesses shall include a ballot whereby businesses may indicate their support of or opposition to the proposed assessment.
- Establish the TMD and authorize the levying of the assessment.
- Authorize executing a TMD Operating Agreement with a non-profit representing the assessed businesses.

11A. STAFF RECOMMENDATIONS:
Adopt the Resolutions

12. SPECIAL CONDITIONS:

COUNCIL DISTRICT(S): 1, 2, 3, 4, 5, 6, 7, 8.

COMMUNITY AREA(S): Citywide.

ENVIRONMENTAL IMPACT: This activity is not a "project" and is therefore not subject to CEQA pursuant to State Guidelines Section 15060 (c) (3).

HOUSING IMPACT: None.

OTHER ISSUES: Clerk to publish display advertisement of at least one-eighth page in a newspaper of general circulation for three weeks and CP&CI staff to mail notice and ballot to affected hotels so that the public hearing takes places no earlier than 45 days after the mailing and first publication of the advertisement.
We request between October 29 and November 20, 2007 as the noticed public meeting date and December 3, 2007 as the noticed public hearing date.

EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO

DATE ISSUED: REPORT NO:
 ATTENTION: City Council
 ORIGINATING DEPARTMENT: City Planning & Community Investment
 SUBJECT: Establishment of Tourism Marketing District
 COUNCIL DISTRICT(S): 1, 2, 3, 4, 5, 6, 7, 8
 CONTACT/PHONE NUMBER: Scott Kessler 23-66405/Meredith Dibden Brown 23-66485

REQUESTED ACTION:

At the first Council Date:

1. Approve the Tourism Marketing District Management Plan;
2. Declare intent to establish Tourism Marketing District (TMD) and to levy assessments for the TMD for a maximum of 5 years and set a noticed public meeting date of November 20, 2007, and set December 3, 2007 as the noticed public hearing date for counting ballots and considering protests, and direct that the notice to affected businesses shall include a ballot whereby businesses may indicate their support of or opposition to the proposed assessment.

At the second Council date (November 20, 2007):

3. Hold public meeting and permit testimony in support of or in opposition to the proposed assessment.

At the third Council date (Council Meeting of December 3, 2007):

4. Hold public hearing and permit testimony in support of or in opposition to the proposed assessment and at the conclusion of the hearing direct City Clerk to count the ballots.
5. Establish the TMD and authorize the levying of the assessment.
6. Authorize the Mayor to execute an agreement with the non-profit representing the assessed businesses for management of the Tourism Marketing District.

STAFF RECOMMENDATION: Approve the requested actions.

EXECUTIVE SUMMARY: Representatives from the hotel industry approached City officials about implementing a Tourism Marketing District in mid-2005. Industry representatives were interested in developing a new source of revenue for marketing and promotion in order to retain and expand the tourism industry in San Diego. The tourism industry is the third largest revenue generator for the San Diego economy and a key employment sector. However, future growth of the industry is dependent on additional marketing of San Diego, especially as more hotel rooms come on-line. Maintaining or increasing hotel occupancy rates will also result in enhanced TOT revenues to the City.

Earlier this year, the Tourism Marketing District Procedural Ordinance was adopted. This ordinance outlines the process for forming a Tourism Marketing District. It requires that a TMD Management Plan be developed and that petitions be obtained in support of the district (and the TMD Management Plan) from hotels representing more than 50% of the proposed assessments in order to bring the matter to City Council. The TMD Management Plan (Attachment A) and

petition was developed and distributed to 175 businesses (hotels) with 70 or more sleeping rooms. As of September 27, 2007, City Treasurer staff received and verified petitions in support of establishing a Tourism Marketing District from businesses representing more than 50% of the total proposed annual assessments.

As required by the Tourism Marketing District Procedural Ordinance, the establishment of the TMD is being brought to the City Council. Furthermore, if the Council declares its intention to establish the TMD and levy the assessment then the TMD Procedural Ordinance requires that a mailed ballot procedure be conducted by City staff and counted by the City Clerk to determine if a majority protest exists. If the San Diego Tourism Marketing District is established and is successful then the affected hotels could vote to extend the district at the end of the initial five (5) year period, if not, then the district would lapse of its own accord.

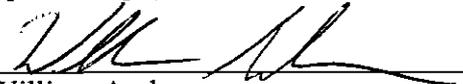
FISCAL CONSIDERATIONS: If the TMD is established then it is anticipated that the City will collect approximately \$25 million of TMD assessments annually which will then be disbursed back to the TMD non-profit on a reimbursement basis. Actual costs incurred by the City in administering the TMD program, but not to exceed \$300,000 annually plus a cost escalator, will be recouped from the TMD assessments. In FY2008, approximately \$5.3 million will be reimbursed to the City from the TMD assessments for certain FY2008 citywide TOT allocations. Additionally, the City will be reimbursed for initial start-up costs not to exceed \$60,000. On an on-going basis, for the term of the TMD, the City would no longer provide annual funding of approximately \$10 million to the San Diego Convention and Visitors Bureau and other tourism-related organizations since funding would be provided through the Tourism Improvement District assessments rather than being funded by the City with TOT funds.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: On July 19, 2006 an information only presentation was made to the Budget and Finance Committee by the San Diego Lodging Industry Association on the status of the proposed Tourism Marketing District. The TMD Procedural Ordinance was introduced at Council and had a second reading in May 2007. The ordinance was added to the SDMC on May 30, 2007 and became effective on June 29, 2007.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: Both the Lodging Industry Association and the San Diego County Hotel-Motel Association have participated in the preparation of all Tourism Marketing District documents. Mr. Scott Kessler has addressed industry participants at monthly meetings of the San Diego County Hotel-Motel Association and at committee meetings of the Greater San Diego Chamber of Commerce. Meetings have also been held with representatives of the San Diego Convention and Visitors Bureau to answer questions about the Tourism Improvement District concept. Adopting the resolution of intent will require staff to notice the affected hotel business owners of the public hearings and cause a mailed ballot to occur to determine if there is a majority protest.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: The key stakeholders are the hotels in San Diego with 70 or more rooms that would be required to pay the TMD assessment.


 William Anderson
 Originating Department


 William Anderson
 Deputy Chief/Chief Operating Officer

RESOLUTION NUMBER R-_____

DATE OF FINAL PASSAGE _____

A RESOLUTION OF INTENTION TO ESTABLISH A TOURISM MARKETING DISTRICT; TO LEVY ASSESSMENTS FOR A PERIOD OF FIVE (5) YEARS; TO DIRECT THE MAILING OF BALLOTS TO AFFECTED BUSINESSES; TO SET DATES FOR A NOTICED PUBLIC MEETING FOR THE PURPOSE OF RECEIVING TESTIMONY AND A PUBLIC HEARING TO COUNT BALLOTS, CONSIDER PROTESTS AND ESTABLISH THE DISTRICT; AND TO APPROVE THE TOURISM MARKETING DISTRICT (TMD) MANAGEMENT PLAN.

WHEREAS, on May 22, 2007, the Council of the City of San Diego adopted Ordinance O-19622 N.S., an ordinance amending Chapter 6, Article 1 of the San Diego Municipal Code by adding Division 25, the San Diego Tourism Marketing District Procedural Ordinance, effective date June 29, 2007; and

WHEREAS, the aforementioned procedural ordinance prescribes certain steps to be taken for the establishment of a Tourism Marketing District (TMD) within the City of San Diego; and

WHEREAS, the City of San Diego has been working with members of the lodging industry, including the San Diego Lodging Industry Association and the San Diego County Hotel & Motel Association regarding the industry's desire to establish a San Diego Tourism Marketing District (TMD) and to levy an assessment on lodging businesses within the City; and

WHEREAS, the lodging industry has worked with the City to develop a TMD Management Plan pursuant to San Diego Municipal Code section 61.2507; and

WHEREAS, the lodging industry has additionally gathered written petitions signed by business owners who represent entities expected to pay more than fifty (50) percent of the assessments in the proposed district, thus signaling the requisite support pursuant to San Diego

Municipal Code section 61.2506(a) for the initiation of the proceedings to form a district. NOW, THEREFORE,

BE IT RESOLVED, by the Council of The City of San Diego, that the Council does hereby approve the Tourism Marketing District (TMD) Management Plan, dated September 2007, attached hereto as Exhibit "A", and on file with the Office of the City Clerk as file number RR - _____;

BE IT FURTHER RESOLVED, that the Council does hereby declare its intent to establish a Tourism Marketing District and its intent to levy and collect assessments, for a period of five (5) years, pursuant to the procedures included in San Diego Municipal Code section 61.2501 *et. seq.*, the San Diego Tourism Marketing District Procedural Ordinance.

BE IT FURTHER RESOLVED, that;

Section 1. PROPOSED ACTIVITIES

The proposed activities of the TMD consist in general of those items described in the TMD Management Plan, Exhibit "A" attached hereto. The activities will be funded through the San Diego Tourism Promotion Corporation with the intent to deliver measurable benefit and service levels throughout the TMD. The Corporation will serve as a funding conduit for the development and implementation of effective marketing programs and services that benefit the assessed businesses within the TMD.

Section 2. DURATION OF ASSESSMENTS; AMOUNT OF PROPOSED ASSESSMENTS

The assessments for district activities will be levied for an initial period of five years, pursuant to San Diego Municipal Code [Code] section 61.2507(h), commencing on January 1, 2008, and terminating on December 31, 2012.

The proposed annual assessment amount is two (2) percent of gross room revenue for lodging businesses with seventy (70) or more sleeping rooms located within the district.

Pursuant to the Management Plan, gross room revenue is defined as the "total consideration charged to a transient, as shown on the guest receipt for the occupancy of a room, or portion thereof, in a hotel." Gross room revenue shall also include such incidental items of consideration as detailed in the definition of "rent" in Code section 35.0102. Gross room revenues will exclude those revenues derived from exempt activities as also detailed in San Diego Municipal Code 35.0111, the exemptions under the Transient Occupancy Tax. Transient occupancy taxes due shall not be included when calculating the assessment. Assessment amounts, if passed onto the transient, shall be specifically identified in any and all communications as a "San Diego Tourism Marketing District Assessment."

Section 3. BONDS

Bonds will not be issued in connection with the establishment or continued operation of the San Diego Tourism Marketing District.

Section 4. BOUNDARIES OF PROPOSED DISTRICT

The boundaries of the proposed Tourism Management District shall be the entire corporate limits of the City of San Diego, as shown on a map included as Appendix A to the TMD Management Plan.

Section 5. ASSESSED BUSINESSES; TIME AND MANNER OF COLLECTION

Pursuant to the TMD Management Plan, assessments are proposed to be levied upon the owner(s), operator(s), or authorized representatives of lodging businesses with seventy (70) or more sleeping rooms located within the City of San Diego. Lodging businesses with fewer than seventy (70) sleeping rooms will not be assessed. A listing of those businesses subject to the initial TMD assessments as of October 2007 is attached as Appendix B to Exhibit A (The TMD

Management Plan). As new lodging businesses begin operation, and as existing businesses with fewer than seventy (70) sleeping rooms expand, the number of assessed businesses will increase.

The collection of the assessments levied under the TMD shall be made at the time and in the manner that is set forth by the San Diego City Council in a forthcoming resolution of district establishment. Under the TMD Management Plan, it is proposed that assessments be remitted on a monthly basis to the City Treasurer, with businesses using a self-reporting form indicating the accounting period for the previous month, the applicable gross room revenue and the district assessment.

Section 6. NOTICE OF PROPOSED ASSESSMENTS; PROVISION OF BALLOT

Following the approval of this resolution, City staff shall provide the lodging business owners notice, by mail, of the proposed establishment of the TMD, the estimated total initial annual assessments for the entire district, and a specific formula with sufficient detail to allow the business owner to calculate the proposed assessment for individual lodging businesses. The notice shall include additional information as required in San Diego Municipal Code [Code] section 61.2508(c), and shall include a summary of the procedures for the completion, return and tabulation of ballots as required under Code section 61.2508(d).

Section 7. SETTING OF TIME AND DATE FOR PUBLIC MEETING

Pursuant to the requirement of California Government Code section 54954.6(a)(1) that, before any new assessments are adopted, the legislative body shall conduct at least one public meeting at which local officials shall allow public testimony, City staff shall notice a public meeting regarding the proposed assessments. Said public meeting shall be held on Tuesday, November 19, 2007 at 10:00 a.m. in Council Chambers of the San Diego City Administration Building, 202 C Street, in the City of San Diego, California.

Section 8. TIME AND PLACE OF PUBLIC HEARING; CONSIDERATION OF PROTESTS; TABULATION OF BALLOTS AND ESTABLISHMENT OF DISTRICT

Pursuant to San Diego Municipal Code section 61.2508(e), a noticed public hearing shall be held on Monday, December 3, 2007 at 2:00 p.m. in the Council Chambers of the San Diego City Administration Building, 202 C Street, in the City of San Diego, California. This shall be noted as the date, hour and place for the hearing when any person interested may state support or opposition to the proposed levy of assessments, the proposed amount of the assessments, or the proposed activities of the TMD. If need be, the hearing may be continued from time to time, so long as all continuances are properly noticed. Failure of any person to make objections at the time of the hearing, or any continuance thereof, will be deemed to be a waiver of all objections and shall operate as a bar for any claim for damages. In order to be counted as official protests, they must be submitted in writing in the form of the official ballot and must contain a description of the business in which each signer thereof is interested, sufficient to identify the same. Any and all protests shall be delivered to and filed with the City Clerk at a time no later than the hour set for the hearing or continuance thereof.

At the public hearing, the Council shall consider all protests against the proposed TMD assessment and City staff shall tabulate the ballots. The Council shall not impose the assessment if there is a majority protest. Under San Diego Municipal Code section 61.2508(e), a majority protest exists if, upon conclusion of the hearing and tabulation of the ballots, those ballots submitted in opposition to the assessment exceed the ballots submitted in favor of the assessment, based on a weighted vote.

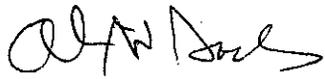
Persons desiring to make inquiries regarding these proceedings are hereby advised that they may contact Meredith Dibden-Brown, Program Manager, City Planning & Community Investment, 1200 Third Avenue, 14th Floor, San Diego, California 92101 or telephone (619) 236-6700.

Section 9. NOTICE OF HEARING

City staff is directed to cause a notice of the hearing and the assessment ballots to be mailed at least forty-five (45) days before the date of the hearing, postage prepaid, to all proposed assessees, as determined by the City Treasurer pursuant to the criteria for assessed businesses as stated in Section 5 above. All such notices and balloting shall be performed in the manner and form provided for under the law.

BE IT FURTHER RESOLVED, that the Council does hereby declare that this activity is exempt from the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15060(c)(3).

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By 
Alex W. Sachs
Deputy City Attorney

AWS:mm
10/05/07
Or.Dept:CPCI
R-2008-317
MMS#5445

I hereby certify that the foregoing Resolution was passed by the Council of the City of San Diego, at this meeting of _____.

ELIZABETH S. MALAND
City Clerk

By _____
Deputy City Clerk

Approved: _____
(date)

JERRY SANDERS, Mayor

Vetoed: _____
(date)

JERRY SANDERS, Mayor