



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: September 11, 2012 REPORT NO: 12-105  
ATTENTION: City Council Members  
SUBJECT: San Diego Tourism Marketing District Renewal

REQUESTED ACTIONS:

1. Approve the District Management Plan, and adopt the Resolution of Intention to declare intent to renew the San Diego Tourism Marketing District (District) and to levy assessments for the District for a maximum of thirty nine and one-half (39 ½) years, to set October 23, 2012 as the noticed public meeting date, to set November 26, 2012 as the noticed public hearing date for counting ballots and considering protests, and to direct that the notice to identified businesses shall include a ballot whereby businesses may indicate their support of or opposition to the proposed assessment.
2. Renew the District and authorize the levying of assessments for the term of the District by adopting the Resolution of Formation.
3. Authorize the creation of a new Fund to receive the assessments and associated revenue.
4. Authorize executing an operating agreement with a non-profit representing the assessed businesses for a ten and one-half (10 ½) year term by adopting an ordinance and provide an option for two (2) additional ten (10) year terms and one final nine and one-half (9 ½) year term..

STAFF RECOMMENDATION:

Approve the requested actions.

DISCUSSION:

The term of the existing Tourism Marketing District ends December 31, 2012. The lodging industry association has developed a proposal to renew the District for thirty-nine and one-half (39 ½) years and incorporated proposed operational guidelines for the renewed District in a District Management Plan.

Background

Representatives from the hotel industry partnered with the City to establish a five-year Tourism Marketing District [District] which started January 1, 2008 and will end December 31, 2012. The District has been a source of funding for initiatives to market and promote District lodging businesses in order to enhance room night stays. The tourism industry is the third largest

revenue generator for the San Diego economy and a key employment sector. However, future growth of the lodging industry is dependent on additional efforts, especially given the recent downturn in the economy and more aggressive marketing by other cities.

The initial five-year District has proved successful and the lodging industry wishes to renew the District to continue generating additional specific benefits to those assessed. As part of the renewal process an initial draft of the District Management Plan [Plan] was developed and provided to the Budget and Finance Committee in October 2011. Since then, that initial draft was reworked and refined to more clearly articulate the nexus between the proposed assessments, the activities, and the specific benefit to the payors and was presented to the Budget and Finance Committee on July 25, 2012.

At that meeting the Committee approved the draft Plan in concept and directed staff to add language regarding Brown Act compliance to the section pertaining to “Board Standards and Conduct”, which was done. Staff also noted that language would be added to clarify exemptions for residential establishments. These additions and definitions are in Appendix 1. Staff also advised that clarifying language would be added as needed to address questions raised during the meeting. Other changes include correction of typographical errors.

#### Plan Summary

The District boundaries are the same as the boundaries of the City of San Diego. However, there will now be two (2) benefit categories in the District. Each benefit category is designed so that the activities provided in connection with that category will confer specific benefit and privileges directly to assessed businesses (current and future).

Lodging businesses benefitting under category A include all lodging businesses in the District with thirty (30) or more rooms. Lodging businesses benefitting under category B include all lodging businesses in the District, regardless of size. The current District only includes lodging businesses with 70 or more rooms.

All assessment rates are based on the specific benefit and privileges directly conferred to assessed businesses from the activities provided within each category and are levied on “Assessable Rent” of those benefitting businesses. Annual assessment rates are as follows:

- Benefit Category A Rate: 1.45% - applied to Assessable Rent of qualifying lodging businesses.
- Benefit Category B Rate: 0.55% - applied to Assessable Rent of qualifying lodging businesses.

In summary, lodging businesses with 30 or more rooms will be assessed at a total rate of 2% (Category A + Category B). All other lodging businesses will be assessed at a total rate of 0.55% (Category B only).

The specific benefit provided with District funds is room night sales generated through activities such as sales, marketing, advertising and promotional programs for assessed businesses only. Non-assessed businesses will not have access to the privileges and services provided by the

assessment. For example, only assessed businesses will be entitled to receive sales leads generated by District-funded activities or to be featured in District-funded marketing materials.

### Budget Guidelines

The assessment revenue derived from the District is estimated at approximately \$30,000,000 annually. Over the thirty-nine and one-half (39 ½) years of the District, this would equate to an estimated \$1,200,000,000 through 2053. This amount may fluctuate as occupancy rates and room rental rates change, and as businesses open and close during the term of the District. There shall be no increase in the assessment rates within the two (2) benefit categories for the term of the District, except pursuant to the rules set forth in the Municipal Code for modification of this Plan.

Assessments are proposed to be used for the Activities as generally described below and as further described in the Plan. The allocations are summarized in the Budget Guidelines table below. It is anticipated that ninety percent (90%) of assessment revenue will be designated annually for Marketing and Sales activities which will be tailored within the specific benefit categories to benefit the assessed businesses.

Ten percent (10%) of assessment revenue will be designated in total annually for Administration (including actual City costs to administer the District) and for a Reserve for opportunities, catastrophes, contingencies, and renewal of the District. Other revenues such as penalties and interest and incidental revenues shall be designated for Administration but may be added to the Reserve or designated for other activities at the discretion of the Corporation's Board of Directors.

Although actual revenues of the Corporation will fluctuate, the proportional allocations as listed in the table below shall generally remain the same; however, during the budgeting process each year, the Corporation's Board of Directors may adjust program allocations as needed to address: economic conditions; tourism trends; and changes in non-assessment funding provided to those programs. The resulting proposed annual budget submitted to City Council for consideration as part of the Annual Report of Activities will then ensure that assessment funds are to be spent on a specific benefit provided directly to assessed businesses which is not provided to those not charged. In no event will the budget for City administration costs fall below the amount necessary to recover City administration costs.

The kinds of activities anticipated are:

- A1.1 Hotel Meeting Sales  
Deployment of a direct sales force tasked to attend sales conferences and make sales calls on meeting planners, association and business group clients, and individuals.
  
- A1.2 Event Management and Group Sales Development  
Execution of special events dedicated to the production of District lodging business meeting leads and room night sales demand through, but not limited to, participation in

and marketing activities at, professional and/or affinity group conferences, organizations or associations of meeting planners, business group clients, and individuals.

- A1.3 Tourism Development including Travel & Trade  
Execution of special events dedicated to the production of District group meeting leads and room night sales demand through, but not limited to, domestic and international travel and trade shows.
- A1.4 Group Meeting Direct Marketing  
Placement of advertisements to targeted affinity group organizations through various mediums such as business, association, or trade networks and publication to directly influence the production of District lodging leads and room night sales through conferences, meeting planners, associations, and group clients.
- A1.5 Consumer Direct Marketing Programs  
Placement of consumer direct sales and marketing campaigns including, but not limited to, Pay-Per-Click Online Banner Advertising and dedicated Online Travel Agency (OTAs such as Expedia, Orbitz, Travelocity) campaigns that are specifically designed to place booking opportunities for assessed businesses in the grasp of consumers who have or may have expressed an interest in traveling to San Diego.
- A1.6 Multi-Year Tourism Development  
Strategic development of multi-year or long-range event planning dedicated to the production of District lodging business leads and room night sales demand.
- A2 Sub-Regional Programs to Drive Sales Demand for District Lodging Businesses  
Supplemental programs of the type detailed in benefit category A1 but specific to District sub-regions outside of the downtown core such as Rancho Bernardo, La Jolla, Mission Bay, Mission Valley, and others.
- A3 Competitive Targeting  
Programs of the type detailed in benefit category A.1 awarded through competitive process.
- B Destination Marketing with Specific Call to Action  
Destination advertising campaigns and earned media will have specific call to actions such as special consumer-directed website landing pages, links, and/or phone numbers to drive sales demand for District lodging businesses. All approved campaigns must have budgeted proportional other source funding reflective of benefit that will be used to augment the District funding to proportionally reflect any percentage of the specific benefit received by non-assessed businesses.

## Budget Guidelines Table

Budget Guidelines (based on historical activity)		Category A		Category B	
Benefit Category	Description	Estimated Percent of Assessment Revenue	Amount	Estimated Percent of Assessment Revenue	Amount
<b>A 1</b>	<b>Meeting and Group Sales &amp; Marketing and Consumer-Direct Sales &amp; Marketing</b>				
A 1.1	Hotel Meeting Sales	25.1%	\$5,440,000		
A 1.2	Event Management and Group Sales Development	12.0%	\$2,595,000		
A 1.3	Tourism Development Including Travel & Trade	4.9%	\$1,060,000		
A 1.4	Group Meeting Direct Marketing	5.1%	\$1,110,000		
A 1.5	Consumer Direct Sales & Marketing Programs	14.5%	\$3,135,000		
A 1.6	Multi-Year Tourism Development	5.4%	\$1,160,000		
<b>A 1 - Subtotal</b>	<b>Meeting &amp; Group Sales and Consumer Direct Marketing</b>	<b>67.0%</b>	<b>\$14,500,000</b>	<b>0.0%</b>	<b>\$0</b>
<b>A 2 - Subtotal</b>	<b>Sub-Regional Targeting</b>	<b>6.9%</b>	<b>\$1,500,000</b>	<b>0.0%</b>	<b>\$0</b>
<b>A 3 - Subtotal</b>	<b>Competitive Targeting</b>	<b>16.1%</b>	<b>\$3,485,000</b>	<b>0.0%</b>	<b>\$0</b>
<b>B - Subtotal</b>	<b>Destination Marketing with Specific Call to Action</b>	<b>0.0%</b>	<b>\$0</b>	<b>90.0%</b>	<b>\$7,515,000</b>
<b>Contingency</b>	<b>Opportunity / Catastrophe Reserve</b>	<b>5.0%</b>	<b>\$1,082,500</b>	<b>5.0%</b>	<b>\$417,500</b>
<b>Admin &amp; Ops</b>	<b>City of San Diego and Corporation</b>	<b>5.0%</b>	<b>\$1,082,500</b>	<b>5.0%</b>	<b>\$417,500</b>
<b>TOTAL ESTIMATED ANNUAL BUDGET</b>	<b>PROJECTED FY2014 ANNUAL BUDGET</b>	<b>100.0%</b>	<b>\$21,650,000</b>	<b>100.0%</b>	<b>\$8,350,000</b>

The Corporation will be required to continue to submit an Annual Report of Activities for City Council consideration as part of the annual budgeting process though we anticipate bringing forward an item early 2013 to address budgeting for activities during the transition period of FY2013 plus the first full fiscal year of 2014 of the new district.

The reason for this timing is that while the old District activities are wrapping up, the final assessments from December 2012 are not due to the City until January 31, 2013. Additionally, the outstanding advances will be accounted for during the last two months of the current agreement with the Corporation which ends March 31, 2013. Similarly, the assessments from the renewed District for January 2013 will not be due to the City until February 28, 2013 and there will be an on-going lag for subsequent months. Given this timing for the City to receive the assessments, reconcile the Fund, determine the amount of available revenue to be disbursed, submit the payment request, and release the funds, funding will not flow to the Corporation until April/May 2013. Therefore, the initial Report of Activities for the renewed District will cover a slightly longer term. Likewise, the initial reporting of the results will cover a longer term and then be on an annual basis thereafter.

A major review of the activities and allocation percentages will now occur on a five year cycle (rather than the ten (10) years as was originally proposed) with the preparation and presentation to Council of a prospective and retrospective Milestone Report. Each Milestone Report shall look prospectively at the coming five (5) years for trends and opportunities along with results from the previous five (5) years in order to recommend appropriate adjustments to the allocations and prospective budgets. The Milestone Report shall also include all of the information required of the annual Report of Activities for the coming fiscal year and budgeting process.

#### Funding Process to Contractors

Because marketing services are provided by Corporation-approved contractors, requirements for contractors and the application process have been developed. Specifically, all funding requests must delineate:

- All sales, marketing, advertising and promotional programs;
- Number of District lodging business room nights generated – existing and incremental;
- Average daily rate;
- Return on Investment (ROI) as measured in District room night revenue;
- Time of year (peak, shoulder, low); and
- Number of marketing impressions (included as supportive information only where applicable).

Successful applicants that become contractors for the Corporation will be required to submit quarterly performance updates and comprehensive annual performance reports which include the above required information along with samples of marketing materials and information as to the methodology used to substantiate the ROI. Funded contractors and programs must also have a cost allocation methodology which demonstrates that costs are apportioned between applicable funding sources so that the amount of assessment revenue used is proportionate to the benefit derived by District lodging businesses.

The Corporation will contract with an independent third-party to audit the results and to verify District room nights and ROI.

All of the rules for the levying and remittance of assessments will be incorporated in the Resolution of Formation. The procedures for implementing the program through the Corporation will be included in the Operating Agreement between the City and the Corporation.

#### Renewal Process and Timing

Approval of the draft Plan at Budget and Finance Committee on July 25, 2012 was the first step in the renewal process. The proponents of the District have also obtained petitions in support of establishing or renewing the district from lodging businesses representing more than 50% of the proposed assessments.

Since sufficient petitions were collected and submitted to the City in August, this item will be presented to City Council in September for consideration. If there is support for renewing the

District the City Council may adopt a Resolution of Intention to establish the district, levy assessments and give notice of the required public meeting (requested for October 23, 2012) and public hearing (requested for November 26, 2012). The City's procedural ordinance requires that the City give notice by mail to all lodging businesses identified by the City Council which shall have a special and specific benefit conferred on them by the activities and upon which an assessment will be imposed. The notice shall include a ballot for the business owner to return to indicate their support or opposition to the proposed assessment. Pursuant to the procedural ordinance, weighting of ballots shall be on the basis of proportional financial obligation where the financial obligation is the estimated assessment. Estimated assessment obligation will be calculated by applying the assessment rates set forth in the Plan to the lodging business's assessable rents calculated from the TMD Assessments (for lodging businesses with 70 or more rooms) or Transient Occupancy Tax (for lodging businesses with 69 or fewer rooms) remitted for lodging activity during the period of July 1, 2011 through June 30, 2012, as reflected in the City's records as of August 31, 2012.

In reviewing the records managed by the City Treasurer there appear to be many lodging businesses registered with the City that are not active and have not remitted any TOT payments to the City for activity during FY2012 as of August 31, 2012. These businesses are not included in Appendix 3 of the Plan but staff intends to send a courtesy notice to them to advise them of the proceedings.

At the noticed public hearing, public testimony will be taken and at the conclusion of that portion of the public hearing, staff from the Offices of the City Clerk and the City Treasurer will tabulate the returned ballots and determine if there is a majority protest of those responding. Each ballot shall be weighted as noted above. Since the amount of the proposed assessment per business is considered to be confidential financial information under state law it will not be printed on the ballot but shall be maintained in a spreadsheet to be used by staff from the Offices of the City Clerk and the City Treasurer in counting the ballots and determining if a majority protest exists. In the absence of such a majority protest, the Council may decide to renew the District by adopting a Resolution of Formation.

FISCAL CONSIDERATIONS: Renewal of the existing Tourism Marketing District would generate approximately \$30 million of assessments annually which would be disbursed to the non-profit (SDTMD Corporation) for implementation of the Plan except for the amount retained by the City to recover its costs of District management and administration resulting in no net financial impact. However, any resulting increase in room night stays would generate additional TOT for the City which has not been estimated at this time. Expenditures from District assessments for activities to increase room night stays which traditionally had been funded by the City with TOT revenue will also provide for continued savings to the City of approximately \$10 million annually.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: A draft Plan for renewing the District was heard as an information item at the Budget & Finance Committee meeting of October 19, 2011 and revised version of the draft Plan was presented on July 25, 2012. At that meeting the Committee approved the draft Plan in concept and directed staff to add language regarding

Brown Act compliance to the section pertaining to “Board Standards and Conduct”, which has been added to the Plan attached to this action.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: Both the Lodging Industry Assoc. and the San Diego County Hotel-Motel Association have discussed changes to the Plan for the District renewal. A number of outreach meetings have been held in various locations around the City for the affected businesses to advise them of the proposed renewal, proposed assessment and activities.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: Are the lodging businesses in San Diego that may be included in a renewed District who would be assessed in order to provide activities which would confer specific benefit and privileges directly to them.



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