



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: June 16, 2016 REPORT NO: 16-061 REV
ATTENTION: Council President Lightner and City Council
SUBJECT: Modification of the San Diego Tourism Marketing District and Management Plan
REFERENCE:

REQUESTED ACTION:

1. Adopt the Resolution of Intention to declare intent: to modify the San Diego Tourism Marketing District (District) and to continue the levy of certain assessments for the District through June 2052, to modify the Management Plan, to set August 2, 2016 as the noticed public hearing date for considering modifications to the District and Management Plan and consider protests; and to direct the mailing of a notice to affected businesses regarding the public hearing and proposed modifications to the District and Management Plan.
2. Modify the District and Management Plan and affirm the continued levy of certain 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.

STAFF RECOMMENDATION:

Approve the requested actions.

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

Representatives from the lodging industry partnered with the City to establish the San Diego Tourism Marketing District [District] effective January 1, 2008 and then renew the District January 1, 2013 for a term of 39 1/2 years. The guidelines for the renewed District were incorporated into the District Management Plan [Plan] approved by City Council in September 2012.

Lodging industry representatives now seek to modify the District and Management Plan after some years of operating under the renewed District and Plan. Petitions were received on May 23, 2016 from assessed lodging businesses (representing a majority of existing assessments) supporting the elimination from the District of lodging businesses with fewer than 70 rooms and the associated assessments. Additionally, the San Diego Tourism Marketing District Corporation [Corporation] submitted a letter to the Mayor on May 4, 2016 requesting modifications to the Management Plan consistent with eliminating from the District those lodging businesses with fewer than 70 rooms and associated assessments. The rate of assessment will continue at two percent (2%) in total for lodging businesses with 70 or more rooms and the District boundaries shall remain the same i.e. coterminous with the boundaries of the city of San Diego.

The specific benefit provided with District funds is still to generate room night sales 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. To the extent that a benefit may accrue to lodging businesses not assessed, a study is in process to determine the annual cost/value of that benefit which, although not legally required, shall then be covered by non-TMD assessment funds.

The estimated annual assessment revenue for the modified District is \$33.8 million. The amount of assessments may vary as occupancy rates and room rental rates change, and as businesses open and close. No bonds shall be issued.

Ninety percent (90%) of assessment revenue will be designated annually for Marketing and Sales activities which will be tailored within the specific categories as listed below and as further described in the modified Plan to benefit the assessed businesses. Funding will be allocated on the basis of competitive applications or responses to specific requests for proposals.

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 revenue 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.

During the budgeting process each year, the Corporation's Board of Directors may adjust program allocations as needed within these overall percentages to address: economic conditions; tourism trends; and changes in non-assessment funding provided to those programs. The Annual Report of Activities submitted to Council will reflect these allocations and the required non-TMD assessment funding to support potential benefits accruing to those not assessed.

The kinds of activities anticipated that fall within the 90% are grouped within two areas:

Targeted Marketing and Sales Programs

- Hotel meeting sales
- Event management & group sales development
- Consumer direct sales & marketing
- Sub-regional targeting
- Competitive targeting

Destination Marketing

- Tourism development, including travel & trade
- Group meeting destination marketing
- Multi-year tourism development
- Destination marketing

As is presently required, applicant organizations requesting funding will have to 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)
- Number of marketing impressions (included as supportive information only where applicable)
- Cost allocation methodology

Successful applicants will continue to be required to submit quarterly performance updates and comprehensive annual performance reports. The Corporation will contract with an independent third-party to audit the results and to verify District room nights and ROI.

A major review of the activities and allocation percentages will occur every five years with the preparation and presentation to Council of a prospective and retrospective Milestone Report.

If City Council supports modifying the District then it may adopt a Resolution of Intention to modify the District and Management Plan, continue the levy of certain assessments and give notice of the required public hearing (requested for August 2, 2016). The affected lodging businesses will receive a notice regarding the modifications and the date, time and location of the required public hearing. At the conclusion of the public hearing after considering public testimony, City Council may decide to modify the District and Management Plan by adopting a Resolution of Formation.

All of the rules for the continued levying and remittance of certain assessments will be incorporated in the Management Plan and Resolution of Formation. The procedures for implementing the program through the Corporation will be included in an Operating Agreement between the City and the Corporation to be submitted as a separate Request for City Council Action.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal #3: Create and sustain a resilient and economically prosperous City

Objective #3. Diversify and grow the local economy

Objective #5. Enhance San Diego's global standing

FISCAL CONSIDERATIONS: Modification of the existing District would generate around \$33.8 million of assessments annually rather than the FY2017 estimate of \$38.4 million. The assessments would continue to be disbursed to the non-profit except for the amount retained by the City for cost recovery and any required reserves. Notwithstanding any successful legal challenges the modification will not result in any net financial impact to the City. Successful implementation of TMD programs is intended to increase room night stays and generate an undetermined amount of additional TOT for the City. TOT funding of around \$10M traditionally provided by the City annually for activities to increase room night stays would continue to be saved.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (IF APPLICABLE):

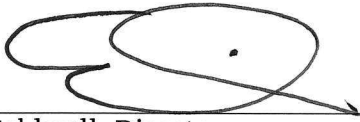
Contracts or agreements associated with this action are subject to the City's Equal Opportunity Contracting (SD Ordinance No. 18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (SD Municipal Code Sections 22.3501 through 22.3517).

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The TMD was renewed by Council on November 26, 2012 by Resolution R-307843. The District Management Plan was submitted to Council during renewal and is on file in the office of the City Clerk as Document RR-307843. This item was heard by the Economic Development & Intergovernmental Relations (ED&IR) Committee on June 16, 2016 with an approved motion to support the staff recommendation.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: Both the Lodging Industry Association and the San Diego County Hotel-Motel Association have discussed changes to the Plan for the District modification.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: Key stakeholders include lodging businesses in San Diego and those included in a modified District would continue to be assessed in order to provide activities which would confer specific benefit and privileges directly to them.



Erik Caldwell, Director
Economic Development Department



David Graham
Deputy Chief/Chief Operating Officer

Attachment(s): 1. Management Plan – June 16 2016