



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** February 22, 2013

**IBA Report Number:** 13-09

**City Council Docket Date:** February 25, 2013

**Item Number:** 200

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# Tourism Marketing District Renewal Background

## OVERVIEW

The San Diego Tourism Marketing District (TMD), which began January 1, 2008, expired on December 31, 2012 after its five year term. As a part of the district, hotels with 70 or more rooms self-imposed a special assessment of 2% of gross room night revenue in order to secure a revenue source for marketing and promotional programs. This assessment was in addition to, but separate from the City's 10.5-cent Transient Occupancy Tax (TOT). The San Diego Tourism Marketing District (SDTMD) Corporation, a private non-profit entity, managed the revenue from the TMD assessments and allocated it to various organizations and entities for marketing and promotion of the City based on a competitive application process.

Beginning with the adoption of amendments to the Procedural Ordinance on September 13, 2011, which established the process for forming and renewing a TMD, the City Council has taken the required steps to renew the TMD. These steps included the approval of the District Management Plan, the Resolution of Intention, a noticed public meeting and hearing, and the balloting of affected businesses. This effort concluded with the adoption of a Resolution of Formation, and the authorization of an operating agreement between the City and the SDTMD for the administration of the district.

The City Council resolution authorizing the Mayor to enter into an agreement with the SDTMD to administer the TMD was approved by Council on November 26, 2012 and signed, by then Mayor Jerry Sanders, the following day. Mayor Sanders was unable to sign the operating agreement with SDTMD before leaving office. As of the date of this report, the operating agreement has not been signed. As a result, the SDTMD has not received funds for the administration of the renewed district, leaving it unable to provide funding support to marketing and promotions related activities for the City.

On February 25, 2013, the Council will hear an informational item on the economic impacts of the TMD and the impacts of the TMD on the City budget. The purpose of this report is to

provide background information regarding the expired TMD district and the TMD renewal previously approved by the City Council.

## FISCAL/POLICY DISCUSSION

As an initial step in preparation for the District's renewal, on September 13, 2011, the Procedural Ordinance establishing the process for forming and renewing a TMD was amended by the City Council. The amendments extended the maximum term of a TMD from 10 years to 40 years, ensured the adherence of TMD assessments with Proposition 26, and established actions to determine the validity of and for contesting the validity of a district. In following the renewal procedures outlined in the Procedural Ordinance, on September 25, 2012, the City Council considered the approval of the TMD District Management Plan (Plan). The Plan proposed the boundaries of the new District, the number of years for which assessments are to be levied, set forth changes in assessments, and expanded the number of businesses to be assessed. It also detailed administrative and operational guidelines for the TMD, including fundable activities and budgeting guidelines for the district.

Before being heard at Council, the proposed District Management Plan was presented at the October 19, 2011 Budget & Finance Committee meeting. At that meeting the Committee had an opportunity to provide input on the Plan before affected businesses were petitioned. With feedback from the Committee and IBA at the October Committee meeting, and additional modifications to address Proposition 26 considerations, the Plan draft underwent numerous revisions. A revised draft of the Plan was presented at the July 25, 2012 Budget & Finance Committee meeting. With the final revisions to the District Management Plan, lodging businesses were petitioned over the summer, concluding with the submission of petitions to the City, and verification that support for the District represented 50% of the annual assessment from businesses. (IBA Report 12-40 highlights the major changes from the previous TMD District Management Plan to the proposed District Management Plan.)

On September 25, 2012, the City Council approved the District Management Plan and adopted the Resolution of Intention to renew the TMD which declared the intent to levy assessments for the 39.5 year term of the District, noticed the dates for a public meeting and public hearing, and directed that ballots were sent to businesses for indication of support or opposition to the assessment as proposed. On October 23, 2012, public testimony was taken regarding the establishment of the District. On November 26, 2012, the public hearing date, public testimony was taken, ballots were counted, and in the absence of a majority protest, the Council adopted a Resolution of Formation for the district, and authorized an operating agreement between the City and the SDTMD Corporation. The Operating Agreement detailed the administrative and operational guidelines for how the SDTMD is to administer the TMD in adherence with the Procedural Ordinance and the District Management Plan.

### ***Economic & Budgetary Impacts of the TMD***

#### **Tourism & Promotion Expenditures**

With its inception, the TMD was designed to benefit the lodging industry by providing a secure revenue source for marketing and promotion. Before the creation of the TMD, the vast majority of funding for marketing and promotion of the City came from City TOT allocations, via the

Special Promotional Programs budget. Those allocations had been gradually cut back over 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 marketing and promotion than what was previously allocated by the City.

When the TMD was established, it initially assumed funding support for certain tourism and marketing groups previously funded by the City, thereby alleviating the City’s funding obligation. This resulted in an annual savings of approximately \$10.6 million for the City. The TMD guaranteed funding to ConVis and the former North ConVis. Funding for the other groups were only guaranteed for the first 12 months of operation (January – December, 2008). After that, those groups were required to apply for TMD funding according to the competitive application process. The chart below shows the former annual funding obligations of the City that were assumed by the TMD with its establishment. In addition, the chart shows the level of funding provided to these organizations in FY 2012. If the renewed TMD does not receive funding, at the moment, no other funding source for these organizations or programs has been identified.

**TMD Supported Organizations/Activities Previously Funded by the City**

	<b>FY 2008</b>	<b>FY 2012<sup>1</sup></b>
SD Convention & Visitors Bureau	\$ 8,830,411	\$ 23,761,168
San Diego North ConVis	380,903	2,758,443
SD Film Commission	661,817	-
SD Bowl Game Association /Holiday Bowl	391,137	450,000
SD Sports Commission/SD Intl Sports Council <sup>2</sup>	145,800	893,800
SD Sports Commission/SD Hall of Champions <sup>2</sup>	75,000	-
Rock N Roll Marathon	19,519	350,000
Accessible San Diego	65,039	-
California State Games	15,427	125,000
San Diego Crew Classic	4,648	213,400
<b>TOTAL</b>	<b>\$ 10,589,701</b>	<b>\$ 28,551,811</b>

<sup>1</sup> FY 2012 totals may not reflect audited amounts.

<sup>2</sup> The SD International Sports Council and the SD Hall of Champions are now the San Diego Sports Commission.

The City of San Diego still funds other tourism and promotions related expenditures through the Special Promotional Programs budget. Per the San Diego Municipal Code, 5.0 cents of the City’s 10.5-cent TOT levy are deposited into the TOT Fund, and allocated for various purposes via the Special Promotional Programs budget. Of the 5.0 cents deposited into the TOT Fund, the Municipal Code requires that 4.0 cents be used solely for the purpose of promoting the City, while the remaining 1.0 cent can be used for any purpose as directed by the City Council. The FY 2013 Adopted Budget for Special Promotional Programs is \$74.4 million. The budget funds debt service payments for visitor- related facilities, economic development programs, operating

support for visitor-related facilities, a City Council discretionary transfer into the General Fund, and reimbursements for General Fund tourism and promotions-related expenses.

### TOT Impacts

During the five-year period of the former TMD, a total of \$724.3 million in TOT revenue was generated. In FY 2013, a projected \$159.8 in TOT revenue is anticipated as of the First Quarter Budget Monitoring Report—with \$98.6 million going to the General Fund and \$61.2 million being received in the TOT Fund for special promotional purposes.

While TMD promotions and marketing does support hotel room night stays, which is the basis for TOT assessments, it is extremely difficult to quantify the TOT receipts directly related to the TMD's activities. 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.

However, it should be noted that TMD contactors and programs are required to demonstrate Return of Investment (ROI) as measured by hotel room night revenue supported with TMD funding. It is a requirement that they demonstrate ROI as a part of their application for funding and submit quarterly performance reports to verify results. Reported ROI is subject to a third party audit. This process ensures that allocations are directed toward increasing hotel room night stays and can demonstrate results.

### ***Outstanding Budget Approvals***

The FY 2013 TMD Report of Activities Part I, presented to the Council in June 2012, only included funding for half a year of District activities (July 1, 2012 - December 31, 2012) due to the anticipated expiration of the current district, and the ongoing renewal process. After the renewal of the district, it was anticipated that in the first months of calendar year 2013, the SDTMD Corporation would request City Council approval of the TMD budget for the renewed district to cover the remaining months of FY 2013 as a Report of Activities Part II. The TMD needs Council approval to expend the assessments collected from the new district beginning January 1, 2013 until June 30, 2013. The budget is projected at \$11.7 million for the period.

In addition to this, the TMD needs to attain close out approvals for the expenditure of above budget assessment funds from the expired district (Report of Activities Part I for FY 2013). Without Council authorization, these monies cannot be expended. Per the TMD, \$1.6 million is currently outstanding for budgetary approval.

It is within the purview of the City Council to docket the approval of these expenditures at a future council date, irrespective of current funding delays related to the renewed TMD. It is anticipated that the approvals for the expenditures of remaining funds from the expired district will be scheduled to be heard at the February 27, 2013 Budget & Finance Committee meeting, and forwarded to Council for a later hearing date. The approval of the Report of Activities Part II for the first half year of the new district is anticipated to be docketed at a March Budget & Finance Committee meeting.

In accordance with the TMD District Management Plan, the TMD must also present a detailed budget for FY 2014 as a part of its annual Report of Activities for approval by the TMD Board of Directors and City Council. This report is typically scheduled for a May/June Council hearing.

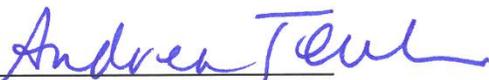
Notwithstanding the aforementioned future Council approvals for the renewed district, it must be noted that it is still unclear whether collected funds for the renewed TMD will be released to the district. Even with signed approval of the City's contract with SDTMD, outstanding legal challenges may delay the disbursement of funds.

## CONCLUSION

As a final step in the TMD renewal process, on November 26, 2012, the City Council resolution authorizing the Mayor to enter into an agreement with the SDTMD Corporation to administer the TMD was approved by Council. The resolution was subsequently signed by then Mayor Jerry Sanders. The operating agreement with SDTMD was not signed by Mayor Sanders before leaving office. As of the date of this report, the operating agreement has not been signed. As a result, the SDTMD has not received funds for the administration of the renewed district. The purpose of this report is to provide background information regarding the expired TMD district and the TMD renewal process for discussion.

It is important to note that irrespective of the current delay in the release of funding for the renewed TMD district that began January 1<sup>st</sup>, Council approvals are necessary to authorize the expenditure of close out funds from the expired district. In addition, in moving the administration of the TMD forward, the City Council must also approve the TMD budget for the first half year of the renewed district, and the FY 2014 Report of Activities.

  
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