

***Renewal of City of San Diego Tourism Marketing District  
November 2012***

**Board Action:**

**SUPPORT**

**Rationale**

Based on SDCTA’s previous support for the initial TMD program as well as the TMD’s documented success in delivering a return on investment from assessment revenues, SDCTA supports the proposed management plan and 39 ½ year extension of the TMD program within the City of San Diego.

**Background**

On January 1, 2008, the City of San Diego’s (City) five-year term for a Tourism Marketing District (TMD) began and is scheduled to expire on December 31, 2012. The San Diego County Taxpayers Association (SDCTA) supported the City’s initial efforts to establish the TMD. The boundaries of the TMD coincide with the City boundaries and those lodging businesses within the City with 70 or more rooms are assessed two percent (2%) of eligible gross room revenues. Between Fiscal Year (FY) 2009 and 2012, the TMD has generated nearly \$100 million in assessments that are then distributed to a number of programs intended to generate additional room nights within the City (Figure 1).

*Figure 1: Fiscal Year 2009-2012 TMD Assessment Revenue<sup>1</sup>*

Fiscal Year	Assessment Revenue
2009	\$25,855,175
2010	\$24,894,581
2011	\$23,700,000
2012	\$25,436,911

The spending by the TMD has resulted in 15 million room nights and \$2.18 billion in hotel room night revenue, a 19.5:1 return on investment. In addition, the establishment of the TMD during this time has alleviated \$52 million in general fund expenditures.<sup>2</sup>

*SDCTA Rationale for Support*

SDCTA’s support for the original TMD stated in part:

“This TMD assessment is an assurance that funds generated from the TMD are reinvested into programs that generate additional TOT dollars. These TMD funded programs will be required to demonstrate their need for

<sup>1</sup> San Diego Tourism Marketing District FY 2009 - 2012 Annual Reports

<sup>2</sup> July 25, 2012 Presentation to City of San Diego Budget & Finance Committee

funding and held accountable. This process will allow the TMD to determine which programs are best for TOT revenue generation.”

## Proposal

### *Impact of Proposition 26*

In early 2012, the City Council passed enabling legislation that allowed the TMD to be extended for another 40 years. Following the passage of Proposition 26 in November 2010, a number of changes to the TMD Management Plan had to be made in order for the assessment to fall within the law. Proposition 26 specifically states an assessment is not a tax if, “A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged.” Additionally it is not a tax if, “A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged.” As a result, the TMD has prepared an amended Management Plan (Plan) that includes all 892 property addresses within the City to be assessed. The amount by which each business will be assessed is still dependant on the number of rooms within that business. The amended Management Plan ensures that all properties within the District are assessed and receive a benefit that is commensurate to the level of assessment. The renewal of the TMD will last for 39 ½ years as was outlined in the enabling legislation approved by the Council in early 2012.

### *Amended Management Plan*

Under the amended Plan, two major benefit categories will be created that also specifies the level of assessment on the hotel property while maintaining the same district boundaries. Under Benefit Category A, all hotels with thirty or more rooms will pay a 1.45 percent assessment. In addition, these same hotels will pay an additional 0.55 percent assessment outlined under Benefit Category B for a total of 2.0 percent. For those hotels with less than thirty rooms, they will only be required to pay the 0.55 percent assessment outlined under Benefit Category B.

It is expected the additional assessment will increase the total amount of TMD revenues to \$30 million for the initial year of the new Management Plan. Ninety percent of the 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 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.

*Figure 2: Breakdown of Assessment by Benefit Category*

Draft Management Plan			
	Who Assessed	Benefit	Assessment
<b>Benefit Category A</b>	Hotel w/ 30+ rooms	TMD Meeting & Group Sales/Consumer Direct Sales & Marketing	1.45%
<b>Benefit Category B</b>	All hotels	Destination Marketing with Specific Call to Action for TMD Lodging Businesses	0.55%

## **Fiscal Impact/Policy Discussion**

### *TMD Return on Investment (ROI)*

The original TMD management plan mandated clear parameters for contractor performance metrics based on hotel room night production based on the programs funded, auditing guidelines and oversight to ensure a vetting process for the deployment of all TMD funds.

In FY 2009, ROI was approximately 16:1 and in FY 2010 ROI exceeded 18:1. Though final third-party audits are pending, the preliminary stated TMD contractor ROI results for FY 2011 are approximately 20:1, with TMD funds directly supporting the production of more than \$436 million in hotel room night revenue.<sup>3</sup>

While total citywide TOT revenues decreased between FY 2009 and FY 2010, the City has experienced increases in TOT revenues in both FY 2011 and FY 2012. Should the ROI from the TMD funded programs continue to stay strong, it is expected TOT revenues for the City would continue to rise.

*Figure 3: Citywide TOT Revenues by Fiscal Year<sup>4</sup>*

TOT Revenue	
Fiscal Year	Amount (thousands)
2009	\$140,657
2010	\$123,879
2011	\$139,545
2012	\$147,900*
*Projected	

Those applicants that receive funding from the TMD and become contractors are required to submit quarterly performance updates and comprehensive annual performance reports which include detailed information including samples of marketing materials and information as to the methodology used to substantiate the ROI. The TMD then contracts with an independent third-party to audit results and verify TMD room nights generated and ROI.

### *TMD Projected Budget*

Within the Management Plan, a projected budget is outlined based upon the expected amount to be generated in the first year. While the percent allocations within each benefit category is expected to stay the same each year, the corresponding amounts will be dependent upon the amount of TMD assessment revenue that is generated for that particular year. A more detailed description of the programs to be funded within each of the benefit categories can be found within the Management Plan.

<sup>3</sup> San Diego Tourism Marketing District FY 2011 Annual Report

<sup>4</sup> FY 2009 -2011 City of San Diego Comprehensive Annual Financial Reports and FY 2013 Budget

Projected Budget		Category A		Category B	
Benefit Category	Description	% of Funding	Amount	% of Funding	Amount
<b>A1.1</b>	Hotel Meeting Sales	25.1%	\$5,440,000	0%	\$0
<b>A1.2</b>	Event Management and Group Sales Development	12.0%	\$2,595,000	0%	\$0
<b>A1.3</b>	Tourism Development Including Travel & Trade	4.9%	\$1,060,000	0%	\$0
<b>A1.4</b>	Group Meeting Direct Marketing	5.1%	\$1,110,000	0%	\$0
<b>A1.5</b>	Consumer Direct Sales & Marketing Programs	14.5%	\$3,135,000	0%	\$0
<b>A1.6</b>	Multi-Year Tourism Development	5.4%	\$1,160,000	0%	\$0
<b>A2</b>	Sub-Regional Targeting	6.9%	\$1,500,000	0%	\$0
<b>A3</b>	Competitive Targeting	16.1%	\$3,485,000	0%	\$0
<b>B</b>	Destination marketing with Specific Call to Action	0.0%	\$0	90%	\$7,515,000
<b>Contingency</b>	Opportunity/Catastrophe Reserve	5.0%	\$1,082,500	5%	\$417,500
<b>Admin &amp; Ops</b>	City of San Diego & Corporation	5.0%	\$1,082,500	5%	\$417,500
<b>Total Estimated Annual Budget</b>	<b>Projected FY 2014 Annual Budget</b>	<b>100.0%</b>	<b>\$24,650,000</b>	<b>100%</b>	<b>\$8,350,000</b>

The Management Plan does state that TMD Board of Directors may, “[A]djust program allocations as needed to address: economic conditions; tourism trends; and changes in non-assessment funding provided to those programs to ensure that assessment funds are spent on a specific benefit provided directly to assessed businesses which is not provided to those not charged.”

*Funding Relief for Programs*

As part of the initial funding plan for the TMD, ten programs totaling \$10.5 million would be funded through TMD revenues as opposed to the City TOT revenues. Should the TMD not be renewed, the City would have to set aside TOT revenues that have gone to other programs or the general fund to fund these programs, or eliminate funding for these items entirely. This includes funding for programs such as the San Diego Convention & Visitors Bureau and the San Diego North Convention & Visitors Bureau (guaranteed funding), as well as other programs such as the San Diego Sports Commission and the San Diego Bowl Game Association (competitive funding).