

Tourism Business Improvement Districts

A Study of Tourism Business Improvement Districts in California

FINAL REPORT

November 2010

Prepared By:



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Executive Summary

- The average length of time the respondent destinations have had a TBID was 5.4 years.
- Survey respondents indicated the primary reason for TBID formation was their primary funding agency reducing their budget (45%).
- In organizing for the TBID formation, fully 47% of survey respondents indicated the Lodging Industry was the primary organizer.
- Fully 65% of those surveyed indicated their TBID took 6-12 months to form.
- Fully 65% of respondents indicated owner/outreach was the most challenging step in the formation process.
- Of those surveyed fully 65% indicated the amount collected by their TBID was less than \$1M.
- Sixteen percent of those surveyed indicated they did increase TBID funding over the original TBID formation funding amount.
- Fully 94% of those surveyed indicated TBID funds increased the destination's tourism promotion efforts.
- With the exception of special events those surveyed indicated increased spending by approximately 70% or better in a number of program areas with traditional media and website development being the most frequently mentioned.
- When considering marketing strategies 82% of those surveyed indicated their TBID funds would be used to increase new and existing visitors.
- Overall, 70% of those surveyed indicated their destination became more competitive with the additional TBID funds.
- Overall, 59% of survey respondents indicated they had developed formal measurement programs for the TBID funds being used.
- Of those surveyed 65% indicated they had a formal lodging advisory committee as part of the formation process.
- Fifty-eight percent of those surveyed indicated they adjusted their board of directors to accommodate the TBID.

Introduction

Project Overview

For many years tourism promotion by Destination Marketing Organizations (DMOs) has been funded primarily through the collection of Transient Occupancy Taxes (Room Taxes) levied on visitors when they stay at a local lodging facility. The tax is then collected by the appropriate jurisdiction, either County or City, and funds are fed into a general fund.

Room tax funds are utilized by local jurisdictions to fund tourism promotion efforts through local bureaus and chambers of commerce. In some cases, the amount of the room tax dedicated to tourism promotion is decided by formula. But in many cases, tourism promotion funding is allocated based upon competing budget priorities, often against popular programs like police and fire protection. Despite these competing priorities many tourism promotion organizations have been able to maintain and in some cases increase funding levels.

Unfortunately, not all tourism promotion organizations have been able to maintain their budgets. Local budget issues that can eliminate tourism funding have been exacerbated by the State's continued budget challenges. Until recently, State politicians were able to appropriate local funds to balance the State budget. This action put increased pressure on local cities and counties, and as a result many regions saw tourism funding reduced or cut entirely.

To combat this trend and create a funding source that cannot be allocated for other purposes, many tourism communities are implementing a Tourism Business Improvement District (TBID). These districts have been formed by local lodging operators to specifically fund tourism promotion efforts. As of the time of this survey there were approximately forty TBIDs throughout California with at least a dozen more on the way. Creation of TBIDs is having a huge impact on the tourism promotion landscape.

In the TBID process local lodging operators agree to assess themselves and ask the local government to collect the money and pass the funds onto a designated tourism promotion organization, often times the Visitors and Convention Bureau. This process has already been implemented in a number of communities in California and will continue to occur in the future. Many communities are planning to develop TBIDs as a hedge against potential future budget reductions that would threaten tourism-based economies.

Reshaping the Tourism Landscape

TBIDs are reshaping the tourism industry's standpoint on marketing funds. What is happening is twofold; those that have already been in the tourism promotion business are implementing TBIDs to guarantee a secure funding source and increase their overall marketing budgets. In the second case, TBID funding is allowing a number of destinations who previously were not actively promoting their destination to form a Destination Marketing Organization (DMO) and start promoting their community. Examples of this can be seen in Temecula and Placer Valley.

Neither entity was active in the tourism game before establishing a TBID, but now both are. Funding, put simply, is the essential fuel of tourism marketing.

What does this new source of tourism funding mean? Ultimately it will most likely result in increased competition for tourist destinations-much like changes in professional sports. If you follow professional sports you know that many teams have, over the past ten years, built new fan friendly stadiums that produce a significant amount of revenue. That revenue has enabled teams to be more competitive. A similar phenomenon will occur with TBID-funded organizations. Those destinations that create this new sustainable revenue stream and increase overall tourism funding will have a distinct long-term competitive advantage over those funded by just Transient Occupancy Tax. Remember that TBID formulas are often tied to growth, and as more room nights are sold more tourism promotion revenue is generated, creating what is called a virtuous cycle. This is often not the case with those destinations that are funded by just traditional TOT. In many cases when TOT collected increases very little (if any) of those funds go back to the DMO, as municipalities prefer to use those funds for other pressing budgetary priorities. Over the long term organizations funded by TBIDs will probably outpace those funded solely by TOT.

In an effort to better understand the TBID process and the impact it's having on the tourism industry, Civitas and the Strategic Marketing Group have undertaken this study of California Tourism BIDs.

Project Goals

Project goals were:

1. To identify characteristics of destinations that have implemented a tourism-related business improvement district.
2. To better understand the district formation process.
3. To understand the challenges and opportunities in forming a tourism related business improvement district.

Project Methodology

Project methodology included the following:

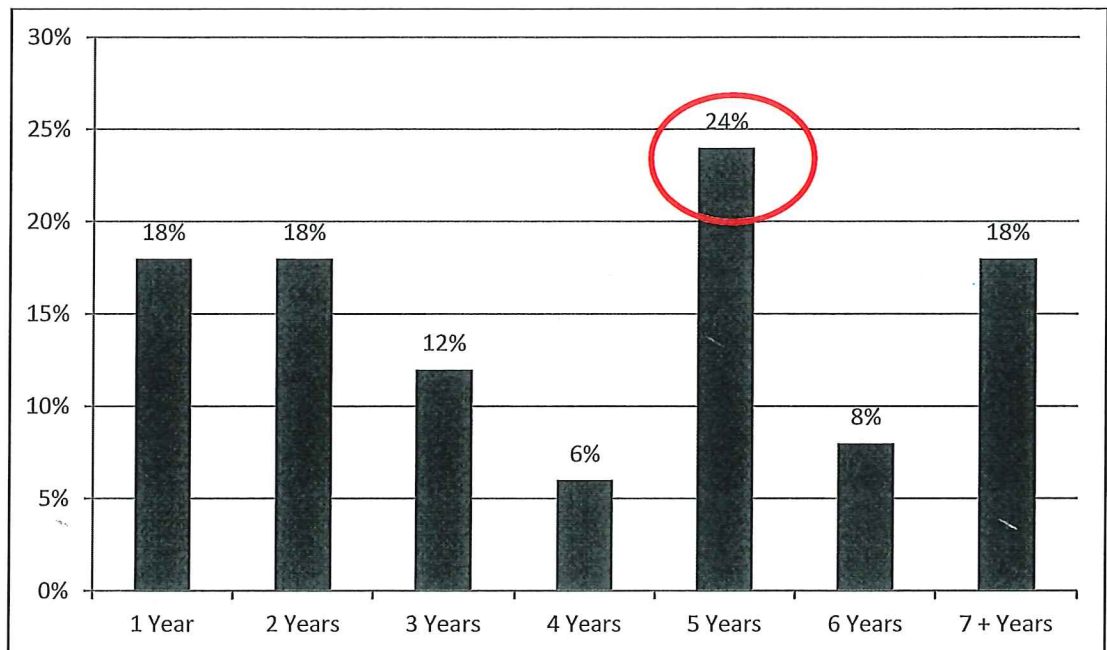
1. Civitas and the Strategic Marketing Group identified tourism related business improvement districts implemented within the State of California. This process identified thirty-six Tourism Business Improvement Districts with clear contact information.
2. A survey, cover letter, return stamped envelope and \$1 incentive with a response date were sent to each contact.
3. After the response date those that did not respond were re-contacted. A total of 18 responses were received, a 50% response rate. The collected information was tabulated and the following report was developed.

Section 1: TBID Destination Profile

A. Number of Years Destination has had a TBID

The average length of time the respondent destinations have had a TBID has been 5.4 years, with approximately 48% of respondents indicating they have had a TBID 3 years or less.

Figure 1.1
Years Destination has had a TBID



Note: Numbers may not foot due to rounding.

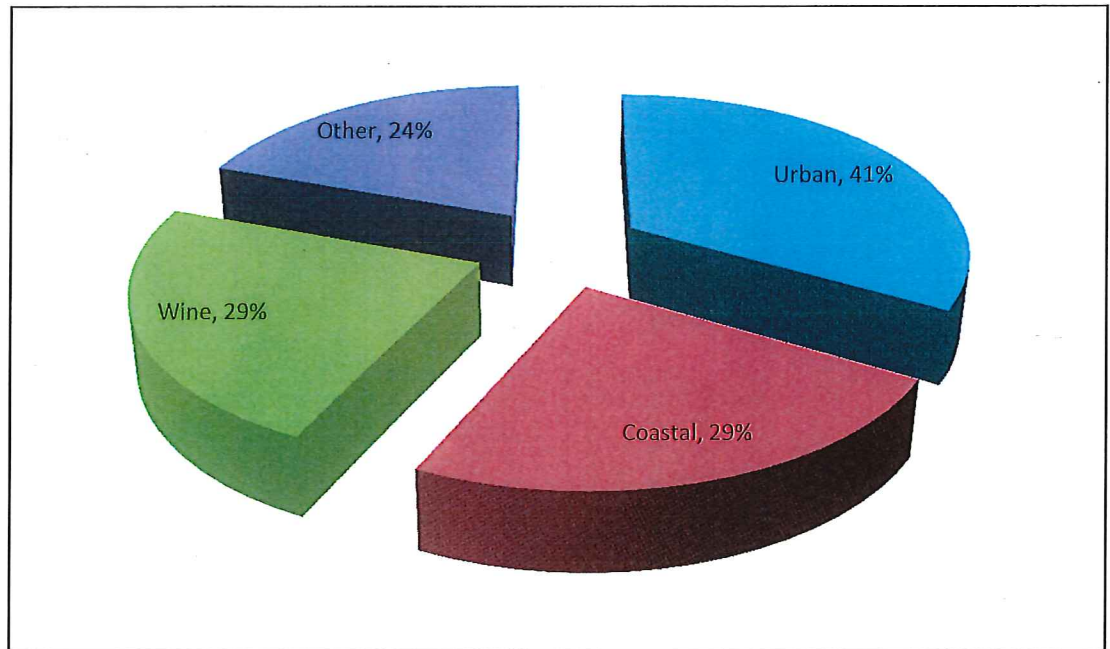
Figure 1 shows that while TBIDs have been in existence for some time their frequency has been accelerated, with almost half of the destinations surveyed indicating they have had their TBID for 3 years or less.

It is also worth noting that approximately 24% of survey respondents have had their TBID for five years.

B. Destination Description

Of those surveyed fully 41% indicated they were an urban destination, 29% identified themselves as a coastal destination, 29% indicated they were a wine destination, and 24% indicated "Other."

Figure 1.2
Destination Type

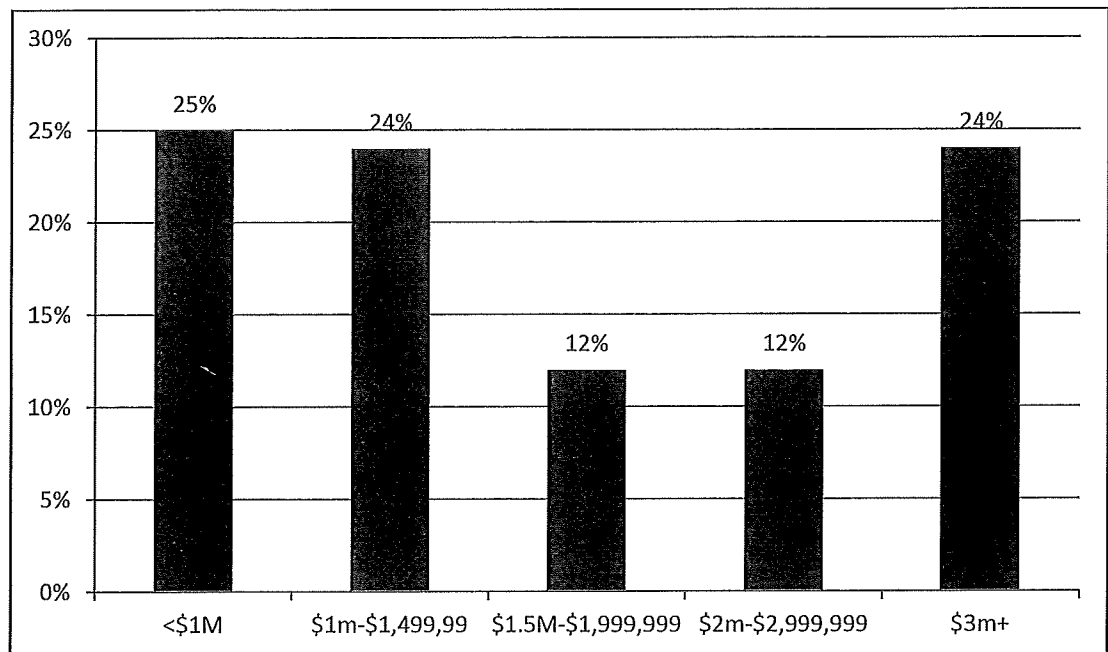


Note: Numbers may not foot due to multiple responses.

C. Destination Budget

Of those surveyed fully 25% indicated they had an actual or projected budget of less than \$1M while 24% indicated they would have an actual or projected budget of \$3M or more.

Figure 1.3
Actual/Projected Budget after TBID implementation



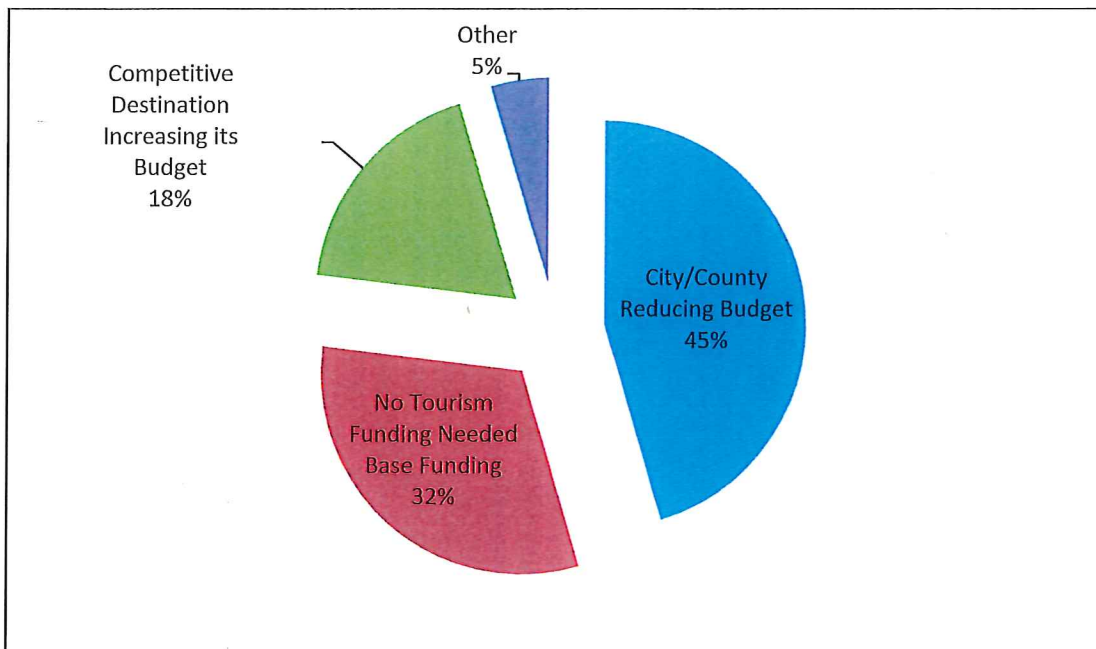
Note: Numbers may not foot due to rounding.

Section 2: TBID Formation Issues

A. Primary Reason for TBID Formation

Survey respondents indicated the primary reason for TBID formation was their primary funding agency reducing their budget (45%), followed by those DMOs that had no tourism funding whose collected TBID funds would represent start-up funding, and finally those destinations whose competitors increased their funding.

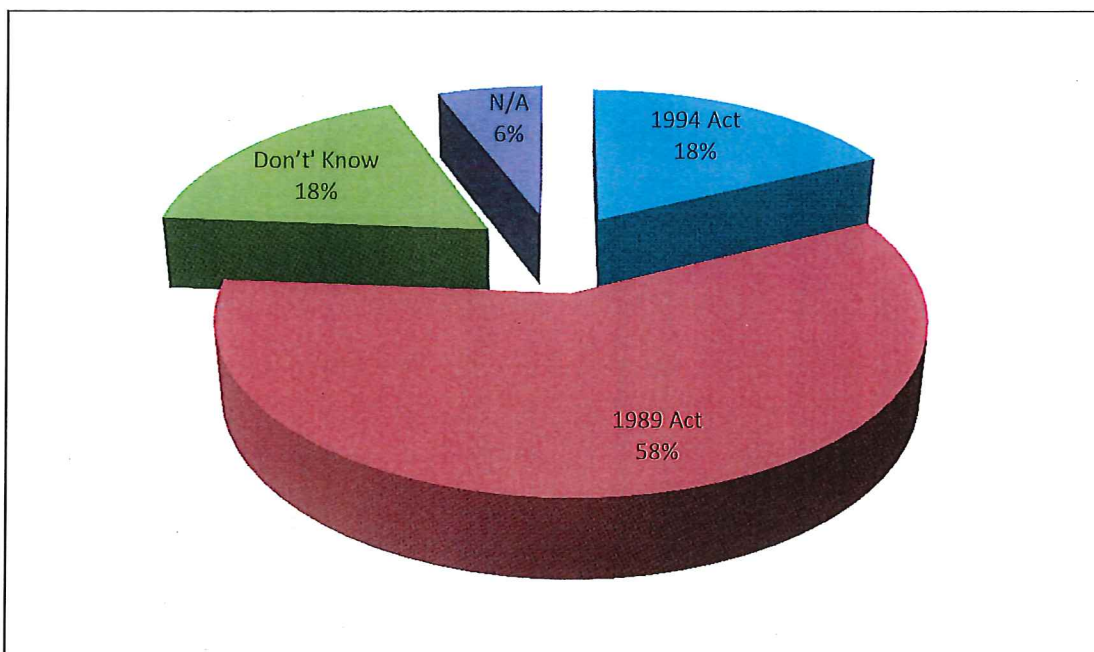
Figure 2.1
Primary Reason for Forming TBID



B. Law Used in Forming the TBID

Of those surveyed fully 58% indicated they used the 1989 Act to form their TBID, while 18% indicated they used the 1994 Act. Approximately 18% indicated they did not know which act was used and 6% had no answer, which may suggest they were not sure either or did not want to respond. It is also possible that some of these districts were not formed under either Act, as charter cities are able to create their own district enabling ordinances.

Figure 2.2
Law Used in Forming Tourism BID



In California, there are two separate laws that authorize Business Improvement Districts:

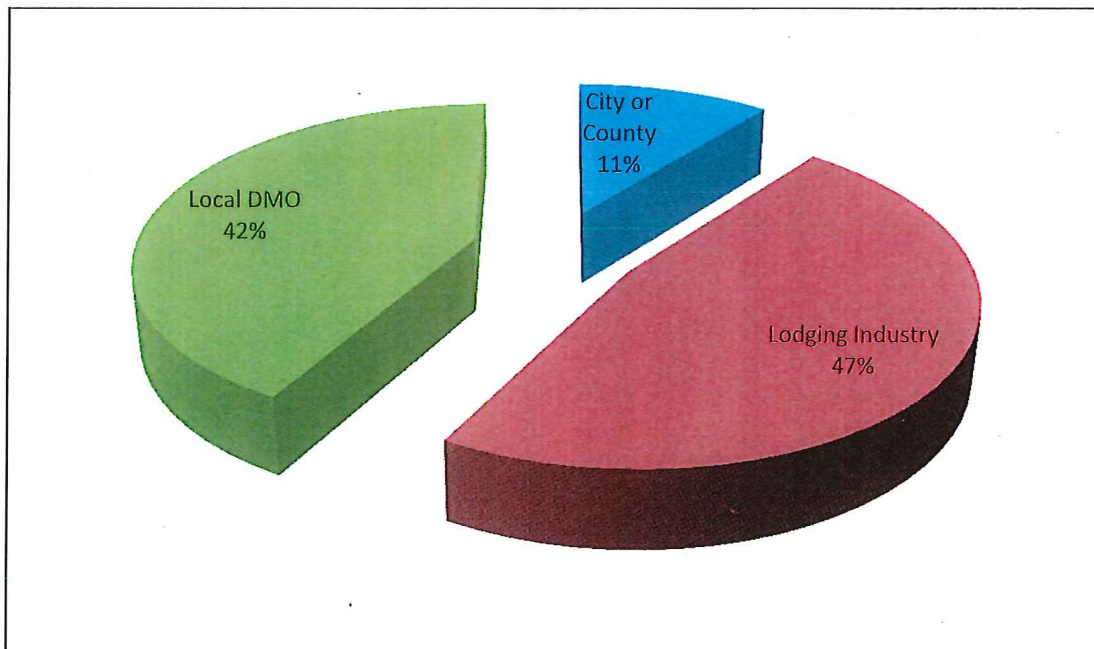
- **The Parking and Business Improvement Area Law of 1989**
- **The Property and Business Improvement District Law of 1994**

For more detail on each law please see the Appendix Section of this report

C. Primary Organizer of TBID

Fully 47% of survey respondents indicated the lodging industry was the primary TBID formation organizer, followed by the local DMO at 42% and, to a much lesser degree, the local municipality-either city or county.

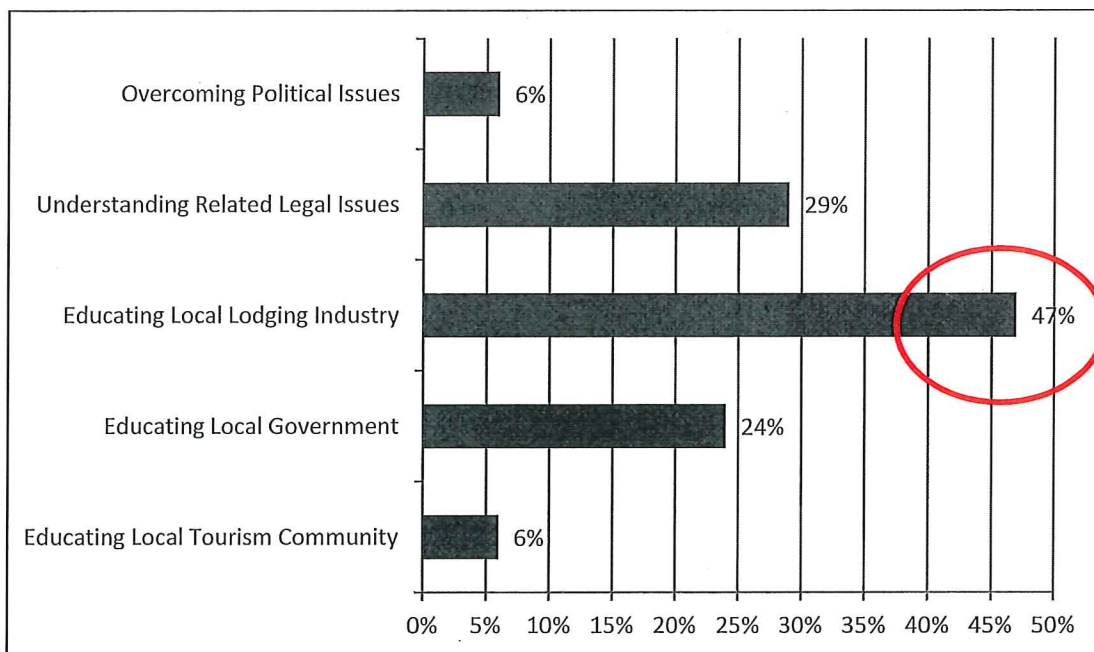
Figure 2.3
Primary Organizer of the Tourism BID



D. Biggest Challenge in Forming the TBID

Those surveyed indicated the single biggest challenge in TBID formation was educating the local lodging industry. Given that this industry is essential to TBID formation this difficulty is of critical note. Other challenges identified include understanding the legal issues related to a TBID at 29% as well as educating local government at 24%.

Figure 2.4
Biggest Challenge in Forming TBID



Note: Numbers may not foot due to multiple responses.

E. Form of Funding Collection Used

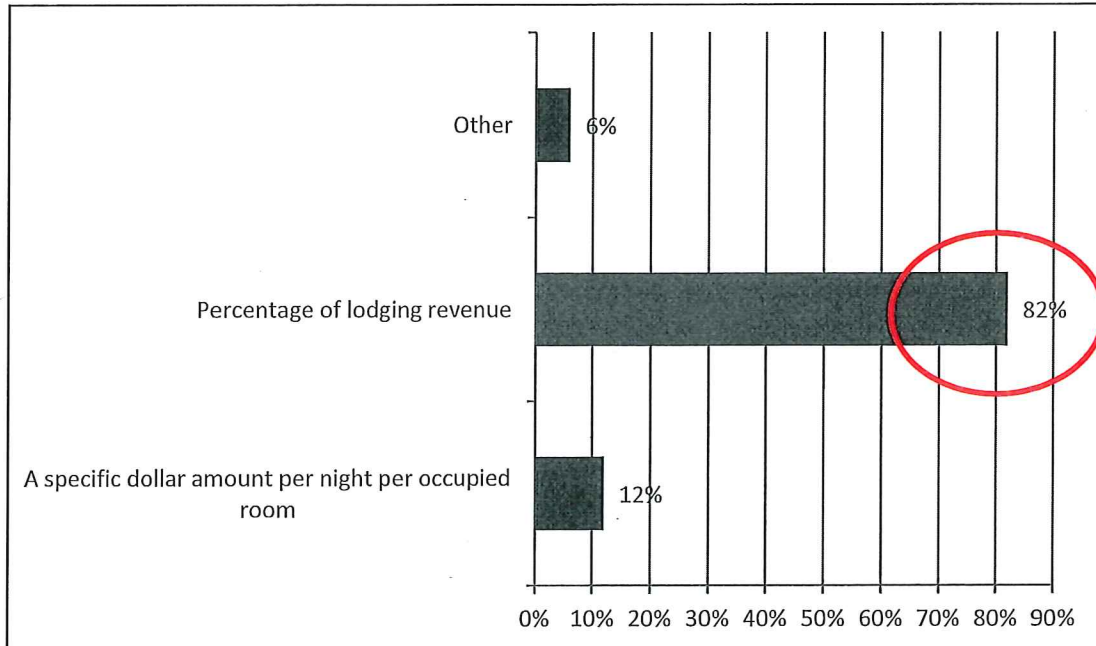
Typically destinations that form a TBID use one of two methods for collecting funds: a percentage or flat rate. The percentage or flat rate collected varies and is one of the key items that a lodging industry interested in forming a TBID must determine.

The first collection method is to designate a percentage of room cost. For example, if a room is \$100 and the agreed amount to collect is 2% the TBID funds collected would be \$2.

The second method is to apply a specific amount paid per occupied room. For example, if a specific lodging property has 100 paid occupied room nights for the month and the agreed upon TBID collection amount is \$2 per paid occupied room per night that property would pay \$200 in TBID funds.

In the case of survey respondents, fully 82% indicated they used a percentage of lodging revenue method to collect TBID funds.

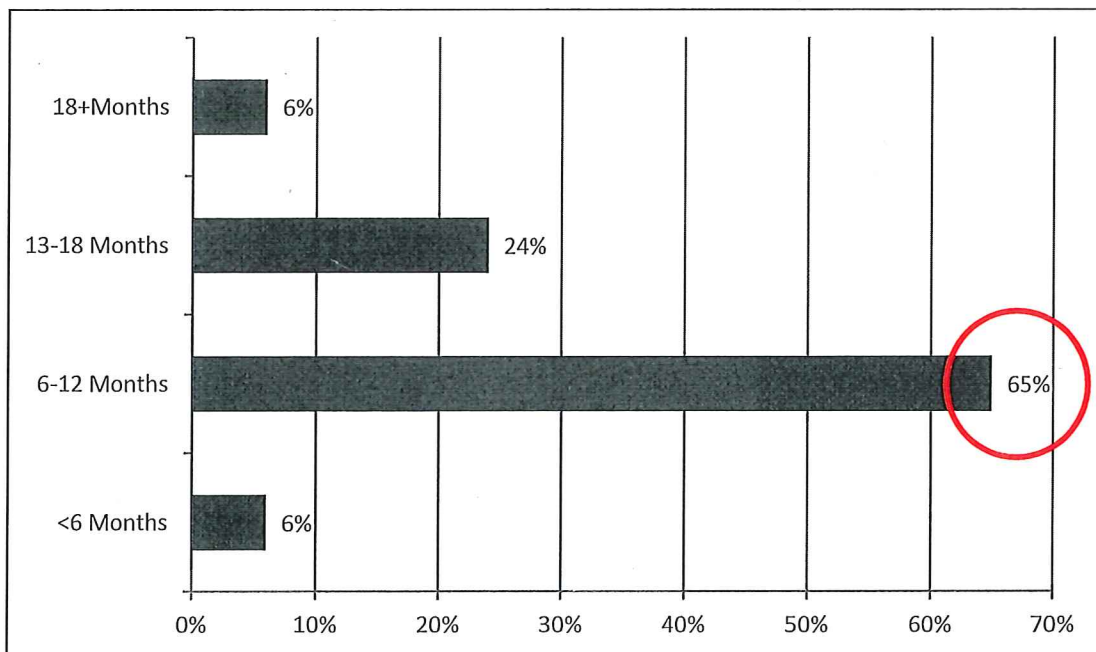
Figure 2.5
Form of Funding Collection Used



F. Length of Time to Form TBID

Fully 65% of those surveyed indicated their TBID took 6-12 months to form from start to finish, another 25% indicated it took 13-18 months. Only 6% indicated it took 18 or more months, and likewise 6% took less than 6 months.

Figure 2.6
*Length of Time to Complete TBID Formation
(Start to Finish)*



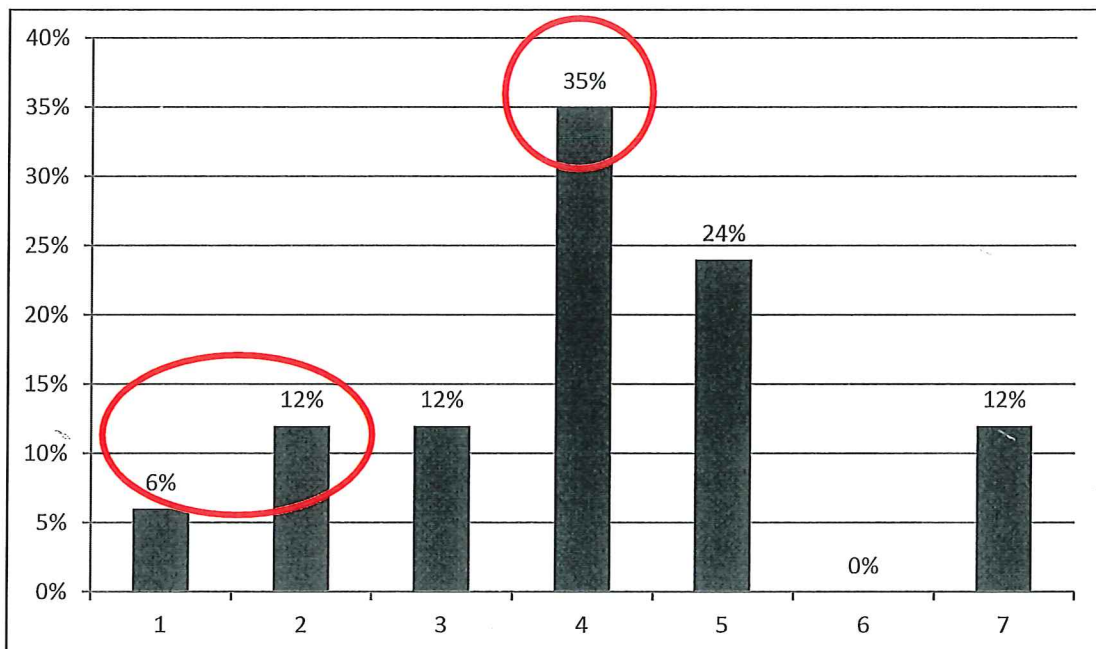
Note: Numbers may not foot due to rounding.

DMOs planning on developing a TBID should consider a 6-12 month time frame and plan accordingly. However, TBID formation may take more or less time depending upon the specific situation in each destination.

G. Overall Rating of Ease of Implementation

Overall survey respondents had mixed feelings on the ease of TBID implementation. Eighteen percent of those surveyed gave the highest two ratings for ease of implementation while fully 35% saw the process as not easy, and only 12% gave the process low ratings in ease of implementation.

Figure 2.7
Rating Ease of Implementation of TBID
1=Very Easy, 7=Very Difficult

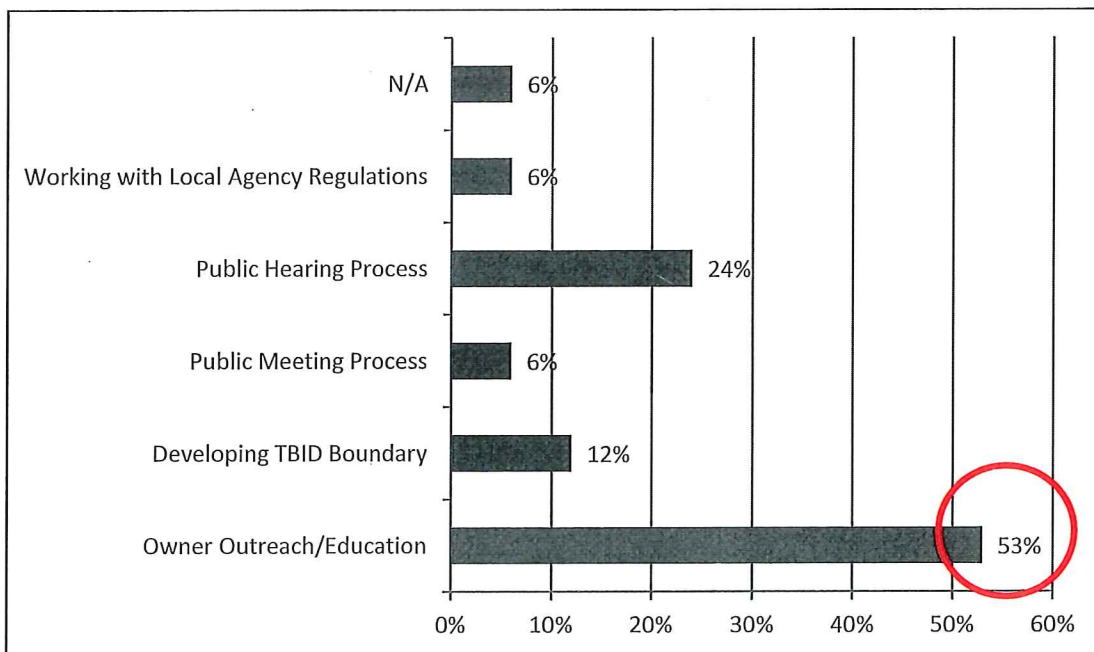


Note: Numbers may not foot due to rounding.

H. Most Challenging Steps in the TBID Formation Process

When considering the most challenging steps in the formation of a TBID, fully 65% indicated owner/outreach was the most challenging step in the process. This step often takes significant time and efforts as such this response would be expected. The second most challenging step in the process was the public hearing process-fully 24% indicated this step was the most challenging.

Figure 2.8
Most Challenging Steps in the TBID Formation Process

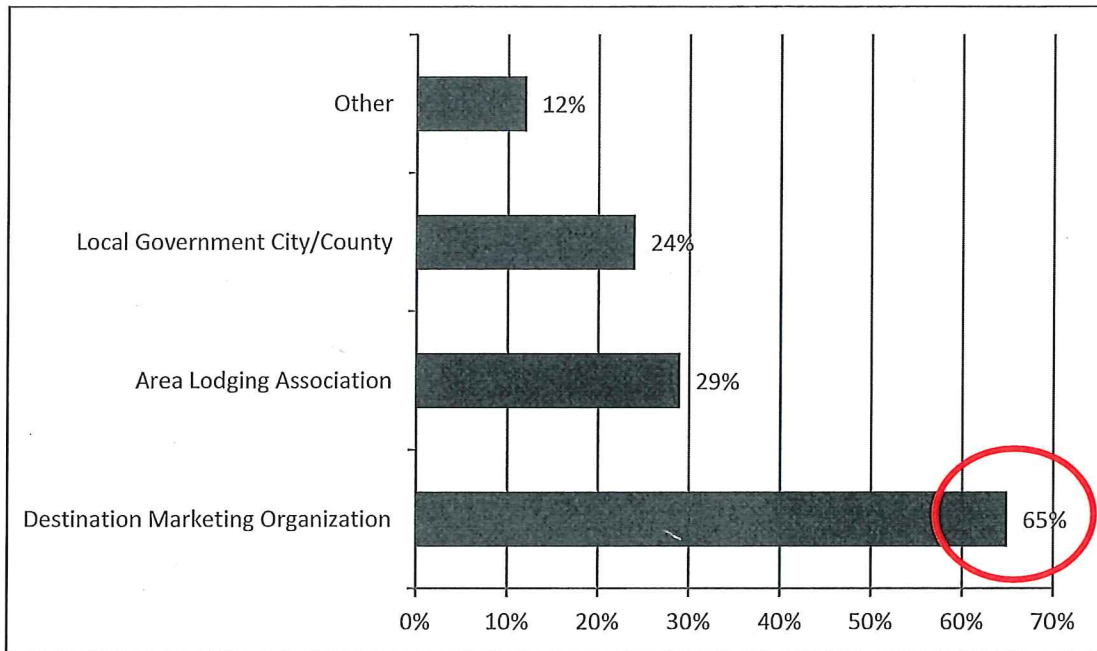


Note: Numbers may not foot due to multiple responses.

I. Lead Organization in TBID Formation

Of those that responded to the survey 65% indicated that the Destination Marketing Organization (DMO) was the lead organization in TBID formation. This is followed by the area lodging association and local government.

Figure 2.9
Lead Organization



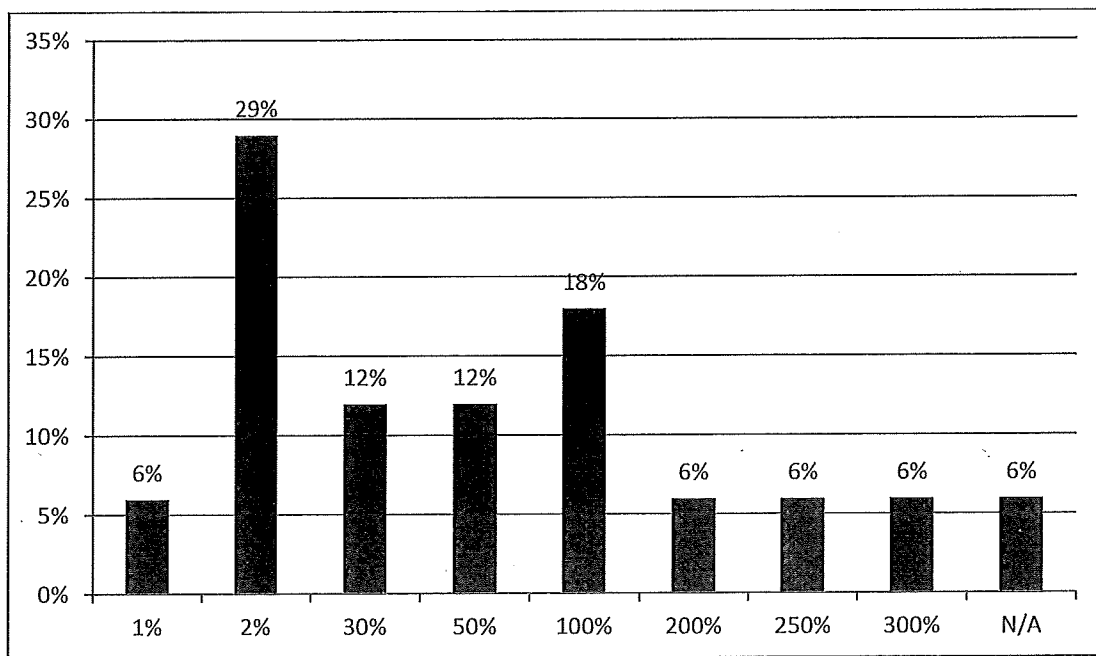
Note: Numbers may not foot due to multiple responses.

Section 3: TBID Marketing

The survey asked a number of questions related to two primary activities TBID funds are used for: marketing and promotions.

A. Percent TBID Funds Increased Tourism Promotional Funds

*Figure 3.1
Percent TBID Funds Increased Organizations' Tourism Promotion Funds*

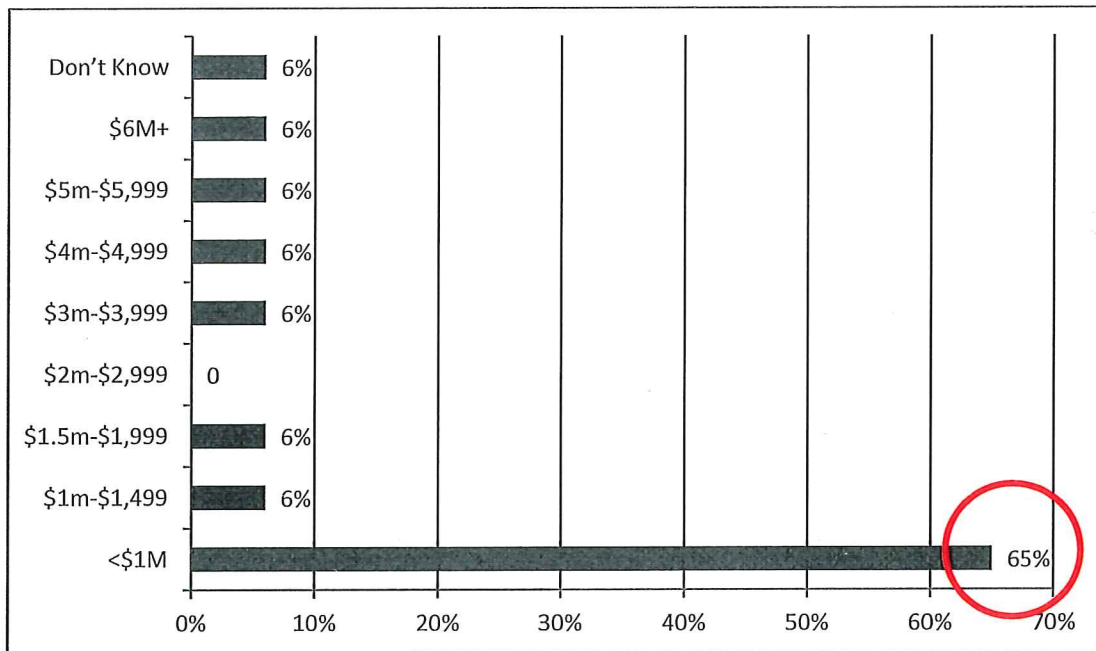


Note: Numbers may not foot due to rounding.

B. TBID Dollars Collected in First Year

Of those surveyed fully 65% indicated their TBID collected less than \$1M in its first year, beyond that segment the amount was spread evenly among the other 35% of those surveyed.

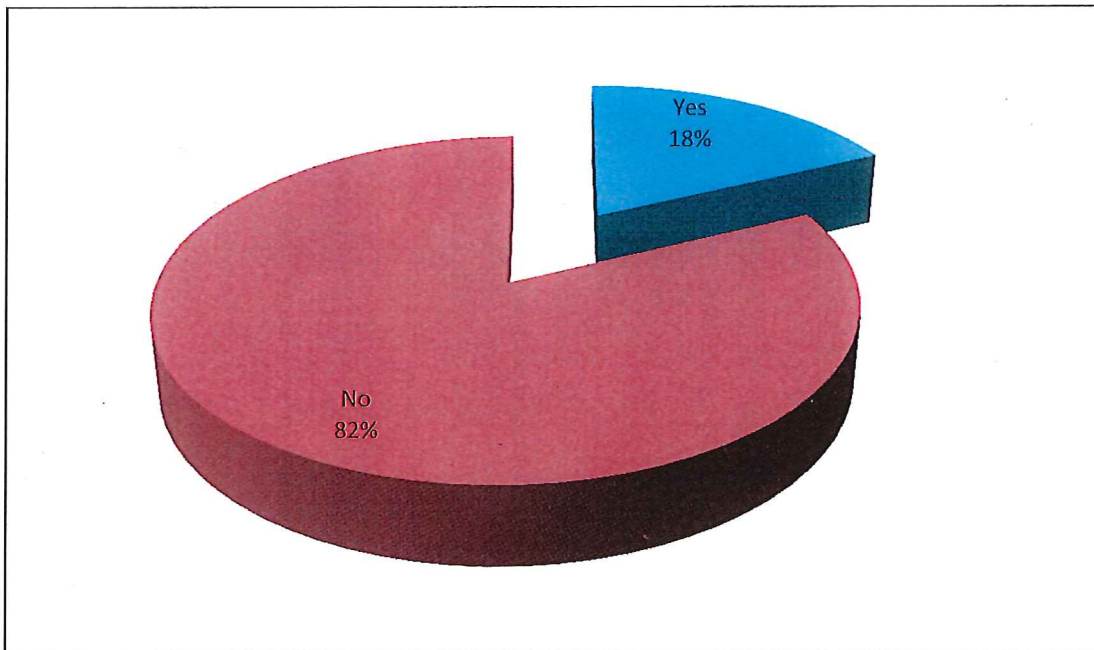
Figure 3.2
Number of Dollars TBID Collected in First Year



C. Have Destinations Increased their TBID Collection

As TBIDs have been in existence for some time, some destinations have gone back to increase collection over the original amount. Sixteen percent of those surveyed indicated they did increase TBID funding over the original amount of collection in the formation of the TBID.

Figure 3.3
Increased TBID Funding

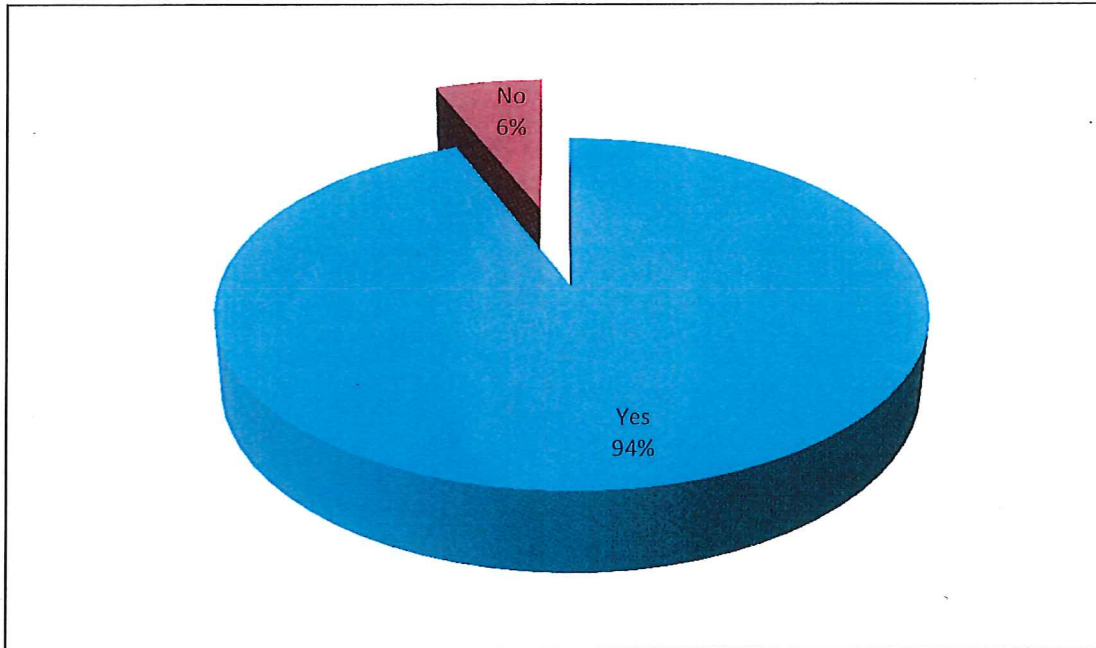


It is clear that TBIDs will be an ongoing source of tourism promotion funds and that destinations and local lodging associations will, for competitive reasons, eventually seek to increase the amount of funds collected. As such, it becomes increasingly important for destinations to have a smooth initial TBID formation process and to deliver on the programs that were originally intended so as to build confidence and support for future TBID increases.

D. Increase Destination Tourism Promotion Efforts

As almost all TBID funds are intended for tourism promotion it is no surprise that fully 94% of those surveyed indicated that TBID funds increased the destination's tourism promotion efforts.

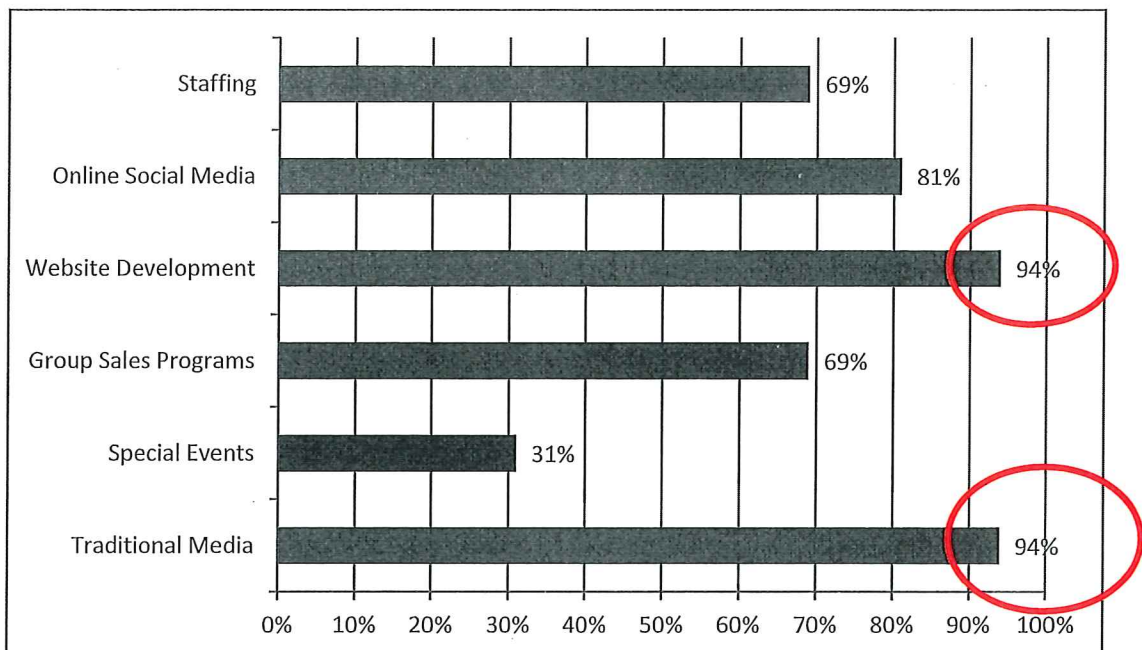
*Figure 3.4
Increase Area's Tourism Promotion Efforts*



E. Areas of Tourism Promotion

Of those surveyed it was clear that destinations across the board increased spending on a variety of promotional areas. With the exception of special events, those surveyed indicated increased spending by approximately 70% or better in a number of program areas with traditional media and website development being the most frequently mentioned.

Figure 3.5
Areas of Tourism Promotion Organization has Increased Since TBID



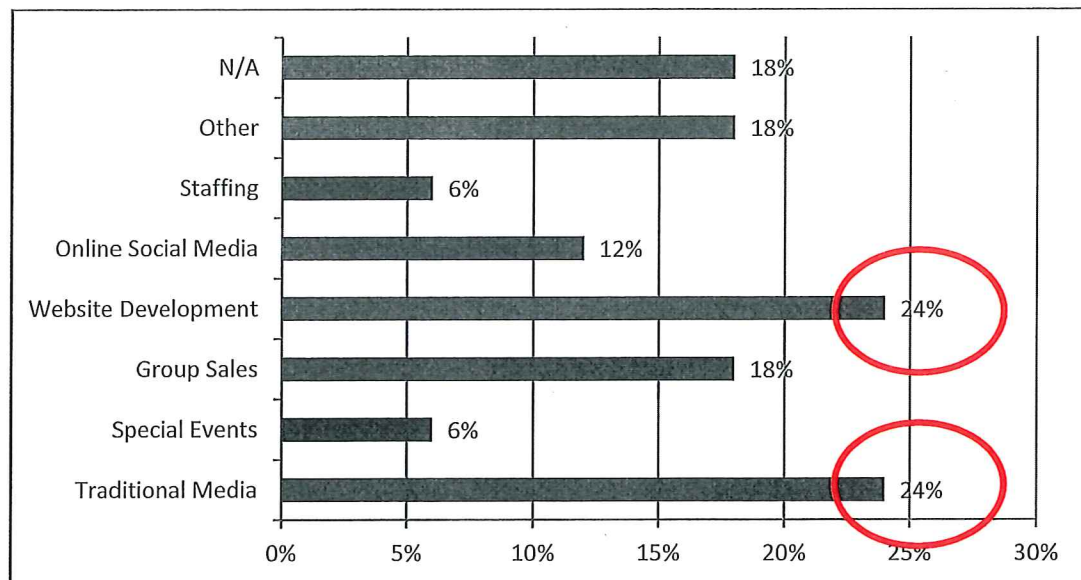
Note: Numbers may not foot due to multiple responses.

It should be noted that 69% of those surveyed indicated they increased staffing with TBID funds. While this would be natural for new and start-up destinations, it can be challenging for existing because staff increases can be perceived as not spending funds to attract visitors. Despite this perception; the additional funding and programs that a TBID generates must be implemented by someone either inside or outside the organization.

F. If TBID Funds Disappeared What Areas of Program Fund Would be Reduced

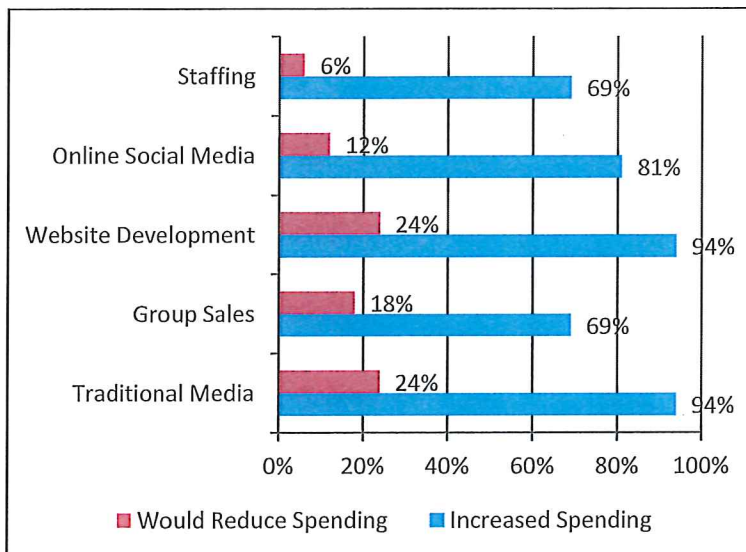
Those surveyed indicated that if TBID funding were reduced the marketing programs that would be reduced would primarily be traditional advertising and website development, followed by group sales and to a much lesser degree online media and staffing.

Figure 3.6
IF TBID Funds Disappeared What Program Areas Would be Reduced



Note: Numbers may not foot due to multiple responses.

Figure 3.7
Funds Increased vs. Funds Reduced



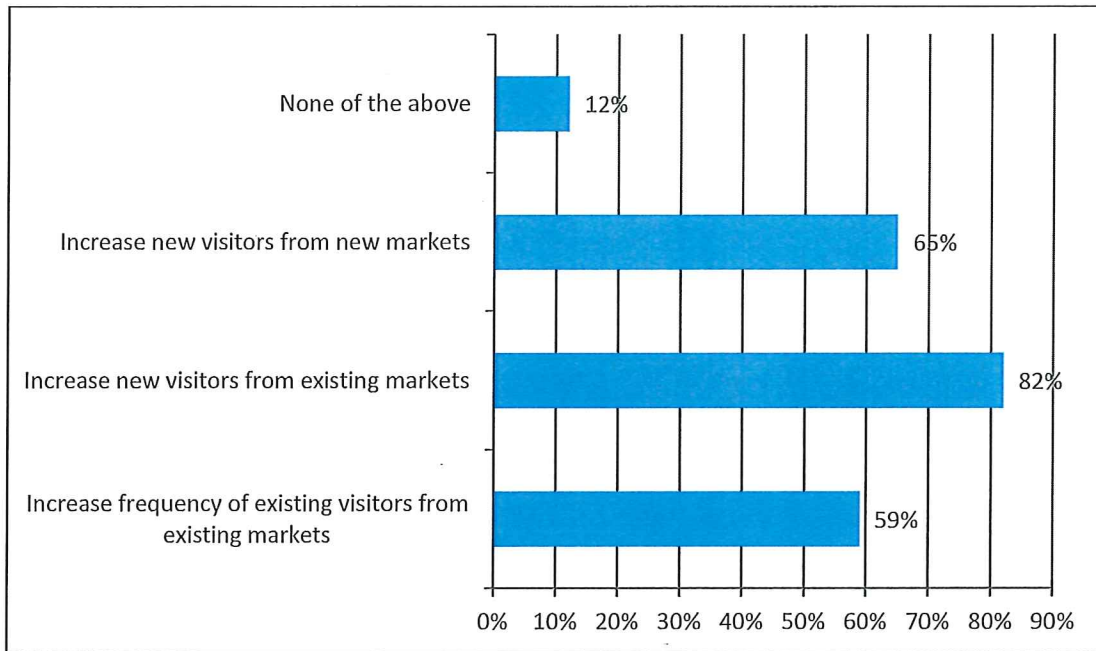
Note: While traditional media and website development were the most likely to receive increased funding, they were also most likely to be cut should funds be reduced.

At the same time group sales and staffing were also very likely to receive increased funding but were much less likely to be reduced should funds also be reduced.

G. Marketing Strategies Used

When considering marketing strategies 82% of those surveyed indicated their TBID funds would be used to increase new visitors from both new and existing markets. To a lesser degree funds would be used to increase frequency of visitors from existing markets.

Figure 3.8
Marketing Strategies



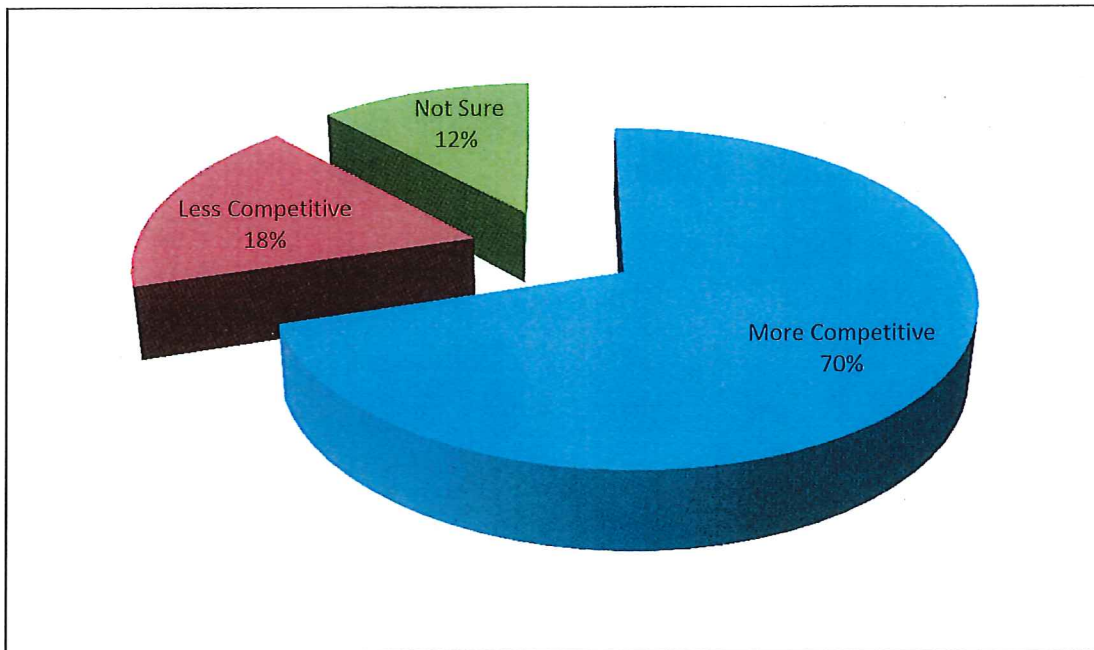
Note: Numbers may not foot due to multiple responses.

It should be noted that TBID funds are primarily being used to increase incremental visitation by attracting new visitors as opposed to increasing the frequency of existing visitors.

H. Destination Competitiveness

Overall 70% of those surveyed indicated their destination was more competitive with the additional TBID funds. Eighteen percent indicated they were less competitive and 12% indicated they were not sure.

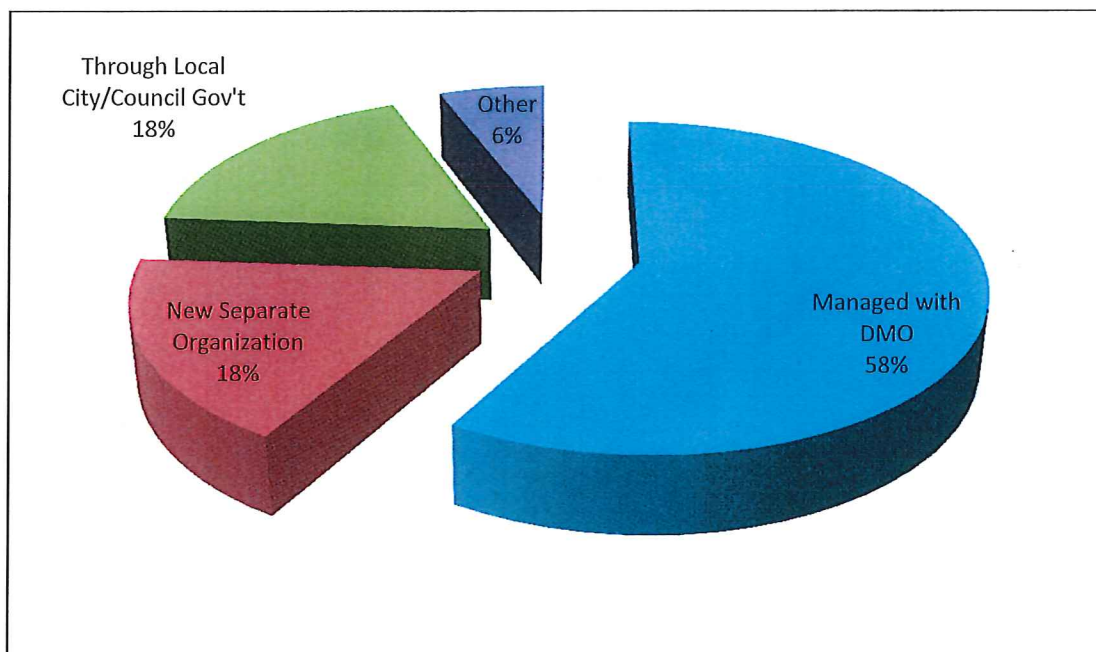
Figure 3.9
Destination More Competitive/Less Competitive



I. TBID Fund Management

Fifty-eight percent of those surveyed indicated that TBID funds were managed with local DMO funding, 18 % indicated the funds were run through a new separate organization and 18% indicated the funds were administered through the local government.

Figure 3.10
TBID Fund Management



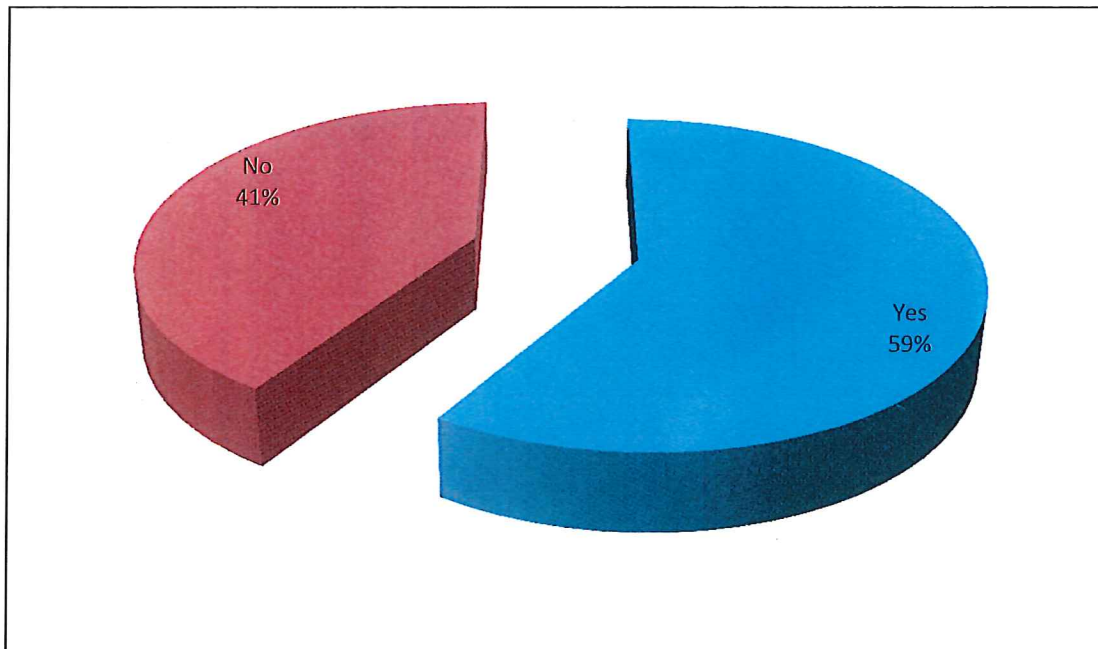
It is interesting to note that fully 58% of those surveyed indicated TBID funds were managed with existing DMO funds, suggesting that TBID destinations are concerned with the potential leverage the new funding sources would create with the existing funds.

Section 4: TBID Management Issues

A. Formal Measurement Program

Overall, 59% of survey respondents indicated they had developed formal measurement programs for TBID funds. Forty-one percent indicated they did not have such programs.

*Figure 4.1
Developed Formal Measurement Program for TBID Funds Used*

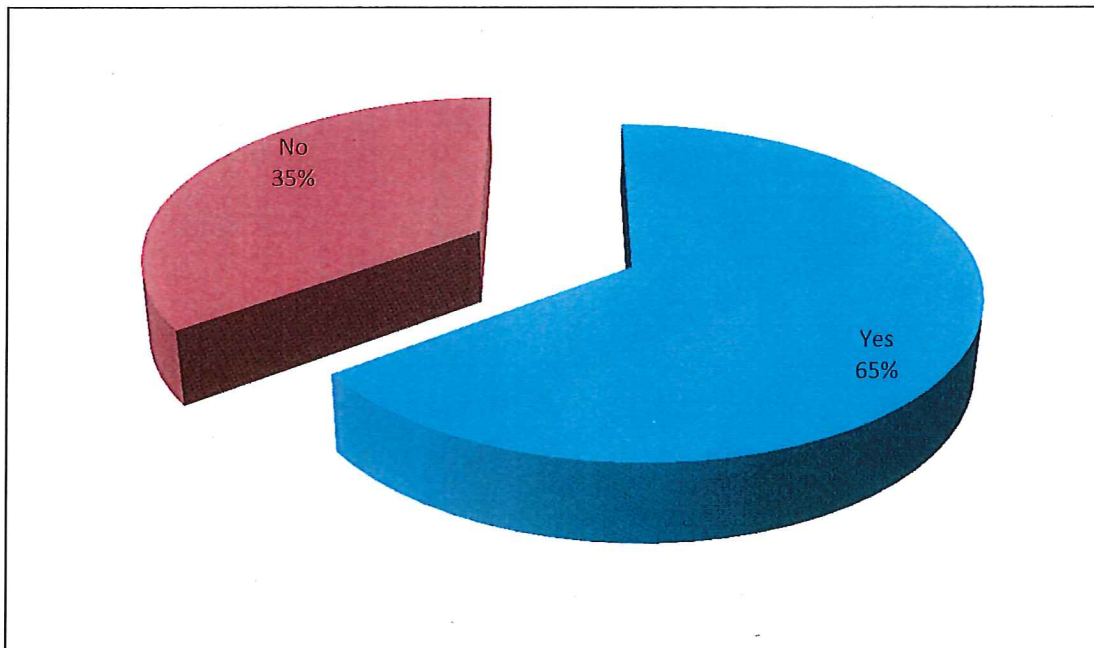


It is important to note that formal measurement programs could be a great aid if the destination plans to look at increasing TBID funds in the future. Measurement programs in general should be used to continually aid in improving marketing program execution as such, a continually improving program is more likely to see additional future funding.

B. Lodging Advisory Committee

Of those surveyed 65% indicated they had a formal lodging advisory committee as part of the formation process. The lodging advisory committee is key in interfacing with the local jurisdiction and the DMO if it is the recipient of TBID funding.

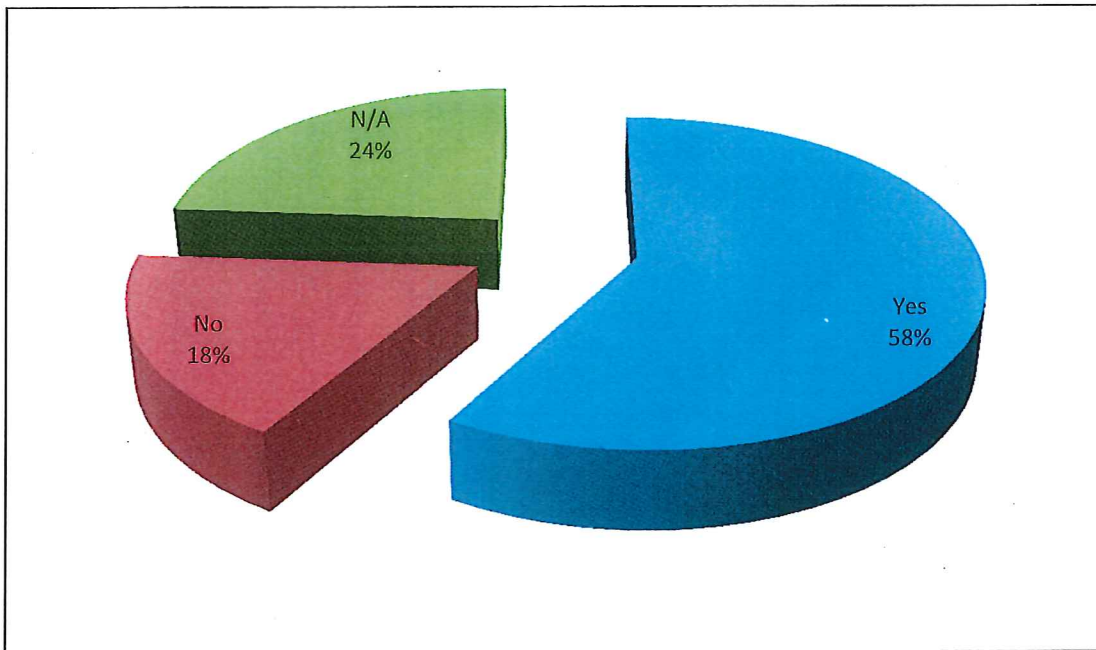
Figure 4.2
Does TBID have a Separate Lodging Advisory Committee



C. Modified Board of Directors

Fifty-eight percent of those surveyed indicated they adjusted their Board of Directors to accommodate the TBID. Eighteen percent indicated they did not.

Figure 4.3
Made Adjustments to Board of Directors to Accommodate TBID

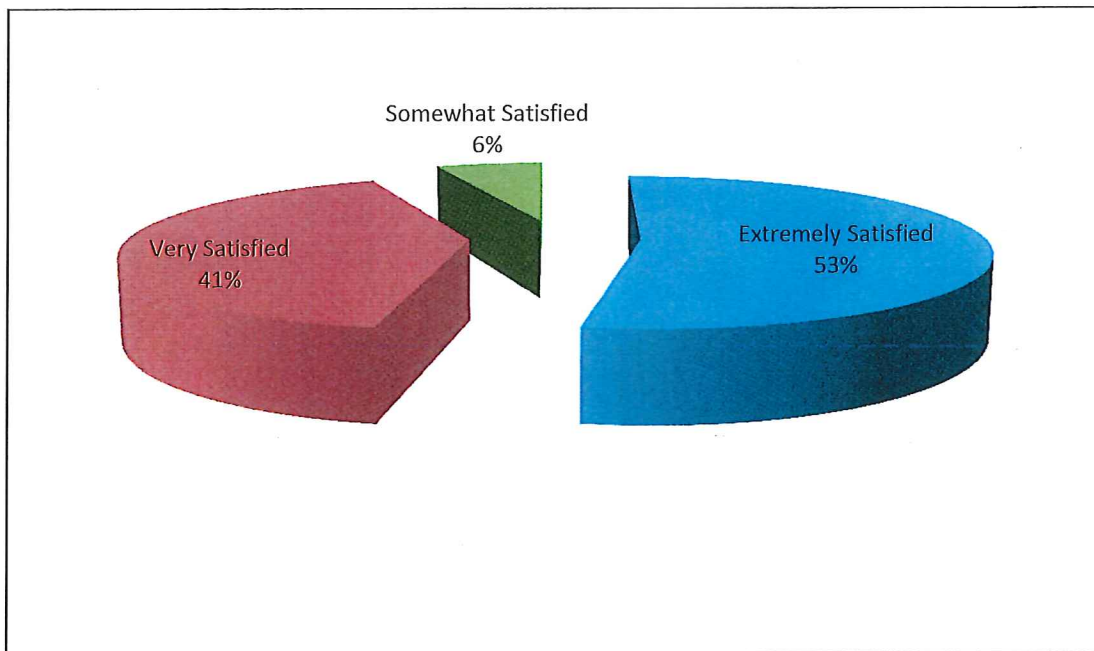


It should be noted that many DMOs modify their existing Board of Directors in an effort to provide additional representation for the lodging industry generating the TBID funds. This can include adding lodging industry members to give more and in some cases majority representation.

D. Overall Satisfaction with TBID

Overall those destinations who have implemented a TBID are satisfied. Fully 94% indicated they are extremely/very satisfied with the TBID.

Figure 4.4
Overall Satisfaction Level with TBID



Appendix

California BID Laws

1994 Act

The "Property and Business Improvement District Law of 1994" allows formation of special districts placing an assessment on businesses. Lodging businesses often choose to form tourism improvement districts under this law because it allows an initial term up to five years and a renewed term up to ten years. Initiating formation procedures requires submission of petitions from businesses which will pay at least 50% of the assessment, followed by three city council hearings and an opportunity for protests. This law also allows designation of a non-profit corporation to act as the owners' association and manage the district funds, with oversight by the municipality. The owner's association manages the district funds in accordance with a written plan, is subject to the open meeting requirements of the Ralph M. Brown Act, and must comply with the California Public Records Act, but is not a public entity for any other purposes.

1989 Act

A municipality can initiate proceedings to form a business-based special assessment district under the "Parking and Business Improvement Area Law of 1989" on its own initiative, and must then undertake a hearing and protest procedure to form the district. The 1989 Law allows formation of business improvement districts for a one-year term. Every year, the district must be renewed by the municipality in order to continue operating. To manage the district, the municipality appoints an advisory board, which operates the district in accordance with requirements set in Ordinances adopted by the municipality. For certain purposes, the advisory board may be considered a public entity.

About the Firms



With over fifteen years' experience, Civitas provides unparalleled expertise in forming, modifying and renewing improvement districts. Improvement districts provide structure and stable funding for marketing efforts. Civitas' team of experts has guided over 100 districts through the formation, modification or renewal process. Civitas has formed property and business based districts, city and county wide districts, and improvement and marketing districts. Civitas' clients are innovative cities, counties, and community organizations working together to create a strong future for their locale.

Civitas provides unmatched expertise in district formation and renewal. Civitas' founder and current president, John Lambeth, has authored business improvement district laws in California, Nevada and Hawaii. He helped form California's first property and business improvement in 1995, a vigorous district that continues to operate today. Civitas has also worked with international districts in Brazil, El Salvador and Singapore.



The Strategic Marketing Group (SMG), a Certified California Small Business (Supplier 1020784) and is located at 2048 Dunlap Drive, Suite 11, South Lake Tahoe, CA and is a marketing advisory firm specializing in providing marketing research, strategic planning and strategy development services for the travel, tourism and recreation industries.

SMG prides itself on providing its clients with insights and solutions for effective marketing strategies. We view ourselves as strategists that assist our clients by understanding bigger issues necessary for their success.

SMG has access to a wide variety of tourism industry/marketing research resources to help ensure our clients receive state-of-the-art solutions. The firm has attracted a roster of blue chip public and private sector clients including visitor and convention bureaus, hotels, lodging management companies, casinos, ski resorts, economic development agencies and chambers of commerce.

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