



August 15, 2013

To: Ron Trabes, North Lake Tahoe Resort Association

CC: Andy Chapman, North Lake Tahoe Resort Association

From: Carl Ribaud, Strategic Marketing Group

RE: **North Lake Tahoe Funding Review**

Ron,

Below is a review of potential funding sources for NLTRA's consideration.

DMO Funding Options

In considering funding options, there historically have been several funding sources for DMOs to access. They include the following:

Tier 1 Funding Sources

General Fund

Typically many DMOs have been funded by general fund contributions for either local or city government. This funding has historically had some connection to Transient Occupancy Tax (T.O.T.) collections. For example a municipality would fund some fixed percentage to collection. Over time this relationship has been diminished and many jurisdictions fund what they can afford. As such any increase in funding from the existing Transient Occupancy Tax collections competes with other traditional areas of demand such as police, fire or public services.

The potential for additional funding may need to be linked to an increase in Transient Occupancy Tax collection rate, though this option can be challenging and many times all but impossible.

If a jurisdiction proposes to increase T.O.T. and dedicate a percentage to tourism promotion it would have to go to voters with and obtain a 66 2/3% approval vote. If on the other hand if it is not dedicated

and the full amount can flow into the general fund it would only require a 50% plus one support of the electorate.

This approach can be problematic as it then allows the local collected agency the ability to use these funds as they deem necessary, which puts the tourism industry in a position to compete for those funds with other departments.

Tourism Business Improvement District (TBID)

A tourism business improvement district (TBID) is a reliable source of funding typically generated by an assessment on lodging stays within a destination. The funds can then be used for marketing efforts designed to increase occupancy and room rates for lodging businesses. The collected funds are used to provide services desired by and directly benefitting the businesses in the district.

The TBID has become major source of funding as there are now approximately 72 destinations within that use this form of tourism promotion funding either in conjunction with general fund promotional contributions or by themselves.

- Approximately \$147M is collected in California for tourism promotion via TBID. Of that amount, San Francisco (\$25M), San Diego (\$29M) and Los Angeles (\$11.5M) are the largest TBIDs in the state.
- Of the remaining TBIDs the average collected is \$1.2M.

Jurisdictions within the Northern California market that have TBID funding can be seen below:

Table 1: Northern California TBID Jurisdictions

Region	TBID Funding	Region	TBID Funding
Berkeley	\$375,000		
Davis	\$90,500	Sacramento	\$5,200,000
Fairfield	\$400,000	San Francisco	\$27,000,000
Folsom	\$315,000	San Jose	\$1,500,000
Half Moon Bay	\$145,000	San Mateo	\$2,100,000
Healdsburg	\$320,000	Santa Clara	\$600,000
Humboldt County	\$1,000,000	Santa Cruz County	\$1,140,000
Lodi	\$156,000	Santa Rosa	\$300,000
Marin	\$1,320,000	Sonoma County	\$2,000,000
Mariposa	\$920,000	Sonoma City	\$440,000
Mendocino County	\$600,000	South Lake Tahoe	\$1,800,000
Monterey County	\$3,500,000	Stockton	\$847,000
Napa Valley	\$4,000,000	Tiburon	\$44,000
Placer Valley	\$380,000	Tri-Valley	\$800,000
Rancho Cordova	\$580,000	Vallejo	\$300,000
Redding	\$380,000	Walnut Creek	\$300,000
Richmond	\$120,000	Woodland	\$83,000
	\$14,601,500		\$44,454,000
Total	\$59,055,500		

Source: Civitas/SMG

There are several approaches to the collection of the TBID funds. Approximately 17% of all TBIDs collect a flat amount per occupied room, while 83% collect a percentage of gross room rental. In collecting the funds in the second manner there is a built in escalator of the collected funds. Those destinations that collect based on a flat amount per occupied room only collect more when actual room demand increases while those that use a gross room rental revenue may see increases with just an increase in Average Daily Rate (ADR). They also see a significant increase when both demand and Average Daily Rate increase.

The rise of the TBID as a funding source has changed the competitive equilibrium of the marketplace as those that have well thought out well funded TBIDs have a sustainable competitive advantage over those destinations that do not have them.

Tier 2 Funding Sources

In considering smaller funding sources to augment budgets there are typically two areas that may be able to provide some additional funding – membership dues and cooperative marketing opportunities.

Membership

Currently the NLTRA already has membership dues through the chamber of commerce. As such, the only opportunity for incremental funding would be separate dues for tourism activities, though this will probably not be practical, and if implemented this source may only provide limited incremental increases.

Cooperative Marketing

Cooperative marketing programs with partners within the Resort Association as well as those from outside the organization are based on achieving common objectives. Cooperative programs can provide additional reach and/or efficiencies, but will only provide marginal additional funding. Additionally, those within the community have indicated that funds available for cooperative marketing are limited.

Summary Conclusion

If the NLTRA is seeking major additional funding to remain competitive over the long term the Tourism Business Improvement District provides a significant opportunity. The benefits of this approach include the following:

- It provides a stable funding source for tourism promotion
- It is designed and created by those who pay the assessment
- It is governed by those who pay the assessment & funds cannot be diverted for general fund programs

The formation of a TBID can take 6-12 months and normally requires the following organizational steps¹ developed by Civitas. Historically TBIDs have been formed including only lodging properties. However this trend has changed as the Town of Mammoth Lakes recently approved a TBID (3-2 in favor) that included the lodging industry as well as retail and dining. The premise is that each of these other sectors also benefit from tourism spending and should contribute funding to attract visitors.

1. Steering committee formation

A steering committee should be created to guide the district formation process. It is recommended the lodging industry take the lead in forming and running the steering committee and could include lodging (and retail and dining) business owners, government representatives and others who are supportive of the proposed district.

2. Database of impacted businesses

The foundation of the formation process is a thorough and accurate database of the tourism-related businesses that will be in the district. Information including owner name and mailing address, and in the case of lodging industry participants', hotel room count, maximum occupancy, and gross revenue should be developed. In the case of dining and retail participants, estimates can be developed from aggregate data within the TBID boundaries. This information will be used to determine the district's annual budget and business contribution.

3. Develop a TBID Plan

The steering committee should meet with business owners to determine what the assessment rate and resulting budget will be, what services will be provided, and who will manage the district. The steering committee will develop a TBID plan that a majority of the business owners support. These guidelines will be used to create the district's written business plan.

4. Approval process

The owner approval process, which will be dictated in the adopted legislation, must be followed.

5. Public Sector Approval Process

The adopted legislation will also prescribe a government approval process that must be implemented. Typically the government will examine and approve the written documents, certify that there is enough support from owners to form the district, and officially order formation of the district.

¹ Civitas

Types of TBID Organizations

Typically TBID funding works in a number of ways. TBID legislation requires a TBID advisory board which consists of a representative group of those involved in the TBID. This advisory group can dictate how their funds will be spent. Many advisory boards funnel their funds to the local DMO so their funds can be leveraged along with the funds of the DMO. In most cases the DMO provides the lodging advisory board with a plan of work that is approved, at which point the DMO implements that plan of work (See Santa Barbara Conference and Visitors Bureau and Film Commission and Lake Tahoe Visitors Authority TBID).

A second approach and one that is used in a very limited way is the advisory board hires its own subcontractors (advertising agency, public relations, etc.) and directs its spending without involving the Destination Marketing Organization or involving them to a limited extent (See Ventura County TBID).

Potential Pitfalls

SMG has seen the following potential pitfalls when working with TBIDs.

1. Opposition with the lodging industry – There is almost always some level of opposition that must be addressed as such industry outreach and education is critical.
2. Determining where the collected funds should go – In some cases TBID funds are rolled into the DMO budget where they are spent on behalf of the TBID. In other cases the TBID organization spends them separately. Without a clear understanding of how these funds are spent there can be significant confusion and challenges.
3. Clear measurement – TBID funds have specific limitations on how they can be spent as identified in the TBID plan. Typically funds can be spent on marketing programs that work to drive overnight visitation and in some cases funds can be allocated for employee costs to administer funds. As such the measurement of the actual impact of TBID funds becomes important to the long term confidence of funding supporters.
4. Continued public sector support – Key to successful TBID funding is to also maintain existing public funding. There have been some cases where once TBID funding has been established public sector funding has been severely reduced or in some cases eliminated. As such it is important to position the TBID as a public-private partnership to improve travel spending and resulting employment and tax revenues.