



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Nanci Klein

SUBJECT: SEE BELOW

DATE: May 17, 2022

Approved

Date

05/19/22

**SUBJECT: SAN JOSE HOTEL BUSINESS IMPROVEMENT DISTRICT ANNUAL
REPORT FOR FISCAL YEAR 2022-23**

RECOMMENDATION

Adopt a resolution:

- a. Approving the San José Hotel Business Improvement District Annual Report prepared by San José Hotels, Inc. for Fiscal Year 2022-23, as filed or modified by Council; and
- b. Confirming the San José Hotel Business Improvement District assessments as proposed by San José Hotels, Inc. or as modified by Council.

OUTCOME

Approval of this recommendation will provide funding for the continued enhanced destination marketing activities for assessed businesses through the levy of assessments.

BACKGROUND

In general, a Hotel Business Improvement District (HBID) utilizes the efficiencies of private sector operations in the market-based promotion of tourism. These special assessment districts allow lodging and tourism-related business owners to organize their efforts to increase tourism. Tourism-related business owners within the district fund the HBID, and those funds are used to provide services that the businesses desire and that benefit the assessed lodging businesses within the HBID.

HBID benefits:

- Funds cannot be diverted for other government programs
- They are customized to fit the needs of each destination
- They allow for a wide range of services; including marketing of the destination, tourism promotion activities, and sales lead generation
- They are designed, created, and governed by those who will pay the assessment
- They provide a stable funding source for tourism promotion

In California, Hotel or Tourism Business Improvement Districts are primarily formed pursuant to the Property and Business Improvement Area Law of 1994 (the '94 Law) (see below).

The original HBID in San José was formed in 2006 pursuant to Streets and Highways Code Section 36500 et seq, commonly referred to as the Property and Business Improvement Area Law of 1989 ('89 Law). This law provides that the HBID is renewed annually. This short term only allowed the HBID to plan in one-year increments. As a result of this uncertainty, Team San Jose (TSJ) believed it hampered its efforts to implement long-range and larger-scale marketing and visitor attraction programs. For this reason, the hotels and TSJ converted the '89 Law HBID to the '94 Law San José Hotel Business Improvement District (SJHBID) pursuant to Streets and Highways Code Section 36600 et. seq. and through City Resolution No. 78561 adopted on April 24, 2018, which established the new SJHBID, for a five-year term beginning July 1, 2018, through June 30, 2023, and selected San José Hotels, Inc. (SJHI) as the Owners' Association for the SJHBID to implement the Management District Plan.

The Management District Plan includes the boundary of the SJHBID, a service plan, a budget, and identifies a means of governance. The SJHBID includes all lodging businesses, with 80 rooms or more, existing and in the future, available for public occupancy within the boundaries of the City of San José. The boundaries for the zones/assessments are based on proximity to the airport, convention center, or where the hotel is otherwise located within San José limits.

Under the SJHBID, the City is responsible for collecting the assessment on a monthly basis from each lodging business (hotel) located in the SJHBID boundaries at the same time and in the same manner as the City's transient occupancy tax. Upon the establishment of the SJHBID, the City entered into an agreement with SJHI for the operation and administration of the SJHBID. SJHI performs services similar to those it performed under the prior agreement with the City in connection with the operation and administration of the original HBID established under the '89 Law. Under the SJHBID, the City continues to forward the assessments to SJHI which has the responsibility of managing SJHBID programs as provided in the Management District Plan. The City is paid a fee equal to one percent of the amount of assessments collected to cover its costs of collection.

ANALYSIS

Pursuant to the '94 Law and in accordance with the agreement between the City and SJHI which serves as the Owners' Association, SJHI has submitted the *San José Hotel Business Improvement District Annual Report for Fiscal Year 2022-23* to the City Council, dated April 20, 2022 (Attachment A). This report, which is the first of two reports for Fiscal Year 2021-22, will be on file in the City Clerk's Office prior to the City Council meeting. A second report, the Fiscal Year 2022-23 Financial Report, will be submitted in or around December 2022. The Annual Report contains the following information:

1. Declaration of no material changes to the district
2. FY 2022-23 improvements and activities
3. Cost estimates for FY 2022-23 improvements and activities
4. Method and basis of levying FY 2022-23 assessments
5. Amount of surplus revenue to be carried over
6. Non-assessment revenue

The use of funds by SJHBID will remain focused on sales, marketing, and public relations activities geared towards promoting travel and room night sales to the hotels paying assessments within the district. The effects of COVID-19 continue to significantly impact the San José travel and tourism industry at a disproportionate rate to many other markets in the country. Given this uncertainty, SJHI staff will continue to work closely with their Board of Directors to ensure the alignment of tactics and strategies outlined below.

The following activities have been approved for FY 2022-23 by the SJHI Board of Directors:

Tradeshows and Events: Given the dynamic and fast-changing landscape with a high level of uncertainty on tradeshows, sales efforts will remain flexible in approach and prioritize getting in front of customers as soon as, and often as possible based on the target market's different timelines for recovery. Based on availability, the TSJ sales team will mix key industry trade shows with direct sales efforts like sales missions, client events, and familiarization tours. TSJ sales staff will maximize opportunities for hotel partner participation.

Advertising and Public Relations: The intended goal is to target marketing efforts to complement and amplify the efforts of the sales team, focus on generating lead opportunities, and capture new sales opportunities through primarily digital channels. TSJ advertising and marketing staff will minimize larger destination branding efforts in order to maximize focus on direct lead generation and leverage earned media to maximize reach and compliment paid marketing efforts.

Event Hosting: This activity maintains the financial commitment to events that gain San José significant exposure for public relations and notoriety to promote these events to out-of-town visitors thereby generating room nights for the assessed businesses.

Proposed SJHBID Assessment for Fiscal Year 2022-23

The annual assessment rate is a fixed dollar amount per paid occupied room per night as shown in the following table. During the five year term, the assessment rate in each zone may be increased by the SJHI Board of Directors by a maximum of \$0.50 per paid occupied room per night. The maximum increase in any year can be no more than \$0.25 in each zone. SJHI does not recommend any increase to the assessments for FY 2022-23.

Zone	Initial Assessment Rate	Maximum Assessment Rate
A: Within 1 mile of the San José McEnery Convention Center	\$2.50	\$3.00
B: Within 1.5 miles of the San José International Airport	\$1.25	\$1.75
C: Over 1 mile from the San José McEnery Convention Center and over 1.5 miles from the San José International Airport	\$1.00	\$1.50

CONCLUSION

The SJHBID annual report does not recommend any changes to the district's boundaries, benefit zones, or assessment rates. The total budgeted revenue based on projected collections for FY 2022-23 is approximately \$2,110,831.

EVALUATION AND FOLLOW-UP

The attached Annual Report by SJHI sets the budget and proposed assessments for FY 2022-23 and is consistent with the approved SJHBID Management District Plan.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the June 7, 2022, Council meeting agenda. The report is filed in the City Clerk's Office for public review and will also be made available to the property owners within the district upon request. A notice of assessment and map of the district will be recorded with the County Recorder for public viewing and for title purposes. This will allow the district to be referenced in title searches to inform property owners of the district and the accompanying assessment. Staff is also available to respond to any public inquiries. Finally, the Association's Board of Directors are scheduled to review and approve the fiscal year budget at its publicly noticed meeting on May 20, 2022.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum has no effect on Climate Smart San José energy, water, or mobility goals.

COORDINATION

This memo has been coordinated with the City Attorney's Office, the Finance Department, and the City Manager's Budget Office.

COMMISSION RECOMMENDATION

No commission recommendation or input is associated with this action.

FISCAL/POLICY ALIGNMENT

This action is consistent with the Economic Development Strategy approved by Council, specifically Initiative No. 1, "Encourage Companies and Sectors that Can Drive the San José/Silicon Valley Economy and Generate Revenue for City Services and Infrastructure."

COST SUMMARY/IMPLICATIONS

The SJHBID will not immediately impact City revenue. However, the City receives a fee of one percent (1%) of the assessments collected to cover the costs of collecting the assessments from the hotels. Because the SJBID programs are intended to increase tourism in the City, there is a commensurate impact on the Transient Occupancy Tax and Sales Tax collections. In addition, the SJHBID assessments are restricted for use exclusively by the SJHBID. This recommended action is consistent with the Economic Recovery Strategy of the Council-approved budget strategy. The SJBID assessments are restricted for use exclusively by the SJHBID and are estimated at \$2,110,831 in 2022-2023. The 2022-2023 Proposed Operating Budget, subject to City Council approval, includes projected assessment revenue and corresponding expenses totaling \$1,800,000, as detailed in the Source and Use Statement for the Business Improvement District Fund (351). Subsequent actions will be brought forward as part of the regular budget process to align these budgeted amounts to the levels recommended in this memorandum.

HONORABLE MAYOR AND CITY COUNCIL

May 17, 2022

Subject: San José HBID Annual Report for FY 2022-23

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CEQA

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.

/s/

NANCI KLEIN

Director of Economic Development and
Cultural Affairs

For questions, please contact Sal Alvarez, Executive Analyst, at (408) 793-6943.

Attachments:

Attachment A: SJHBID Annual Report for FY 2022-2023



ANNUAL REPORT
FISCAL YEAR 2022-2023

MAY 20, 2022

1. Hotel Business Improvement District

Developed by San Jose lodging businesses, San Jose Hotels Inc. (SJHI), and Team San Jose (TSJ), the San Jose Hotel Business Improvement District (SJHBID) is an assessment district proposed to provide specific benefits to payors, by funding marketing and sales promotion efforts for assessed businesses. This approach has been used successfully in other destinations throughout the country to provide the benefit of additional room night sales directly to payors.

The annual assessment rate for lodging businesses with eighty (80) rooms or more is a fixed dollar amount per paid occupied room per night and location of the property within the City of San Jose. No changes are proposed to the district's boundaries, benefit zones, or classifications of businesses within the district.

2. Improvements and Activities to be provided in FY 2022 – 23

The usage of funds by the SJHBID will remain focused on sales, marketing and public relations activities geared towards promoting travel and room night sales to the hotels paying assessments within the district. The COVID-19 pandemic continues to significantly impact the San Jose travel and tourism industry at a disproportionate rate to many other markets in the country. With a high-level of uncertainty about timelines and recovery projections for different segments of travel, staff will work closely with the SJHI Board of Directors to ensure strategies and tactics are in alignment to produce the highest return on investment for assessed businesses.

The following activities have been approved for this fiscal year by the SJHI Board of Directors:

Sales, Marketing and PR Activities:

Tradeshows & Events

- Prioritizing Sales team getting in front of customers as soon and as often as possible
- Will remain flexible in approach to engaging with clients as different markets have different timelines for recovery.
- Will mix key industry tradeshows with direct sales efforts like sales missions, client events and familiarization tours
- Maximize opportunities for hotel partner participation with TSJ sales staff

Advertising and PR

- Targeted efforts to amplify those of the sales team focusing on generating lead opportunities through primarily digital channels
- Will also utilize funds to digitally target opportunities to drive direct transient bookings into hotels paying into the district
- Will minimize larger destination branding efforts in order to maximize focus on direct lead generation
- Leverage earned media to maximize reach and compliment paid marketing efforts

Event Hosting

- Maintain financial commitment to events that gain San Jose significant exposure for PR and notoriety to promote these events to out-of-town visitors thereby generating room nights for the assessed businesses

Event Sales Subsidies:

Event Sales Subsidies

- SJHI Board will approve on a case by case basis sponsorship / subsidies for select group business opportunities that impact the City on a large to generate rooms nights for the assessed businesses.
- Subsidies will be utilized for activities such as: offsetting costs within the destination, payment of bid fees, incentives, or other costs associated with bringing large-scale events to the destination that generate room nights for the assessed businesses.
- Subsidies may also be utilized to provide free housing services through Team San Jose at no cost to the client to incentivize events to locate in San Jose and generate room nights.
- Subsidies may also be utilized to provide branding services that expand the clients' presence within San Jose to incentivize events to locate in the city and generate room nights.

Administrative Expenses:

Administrative Expenses

- The administration and operations portion of the budget shall be utilized for administrative staffing costs, office costs, advocacy, and other general administrative costs such as insurance, legal, and accounting fees.

City Administration Fee

- Per the Management District Plan the City shall retain 1% of the collections as an administrative fee for its costs in collecting the SJHBID assessment.

3. Estimate of Costs for Improvements and Activities in FY 2022-23

The following is the total proposed expenses allocations for this fiscal year compared to the approved budget for FY 2022-23:

Top Level Budget for FY 2022-23 vs FY 2021-22

	FY 2022-23	FY 2021-22
Total Collections	\$ 2,110,831	\$ 1,762,385
Sponsorship	\$ 500,000	\$ 500,000
Marketing Expenses		
Total Marketing Expenses	\$ 1,443,498	\$ 1,129,761
Administrative Expenses		
Total Administrative Expenses	\$ 142,500	\$ 115,000
City Fee	\$ 24,833	\$ 17,624
Total Expenditures	\$ 2,110,831	\$ 1,762,385

And the following chart provides a breakdown of the Marketing allocations – the exact distribution is still being finalized:

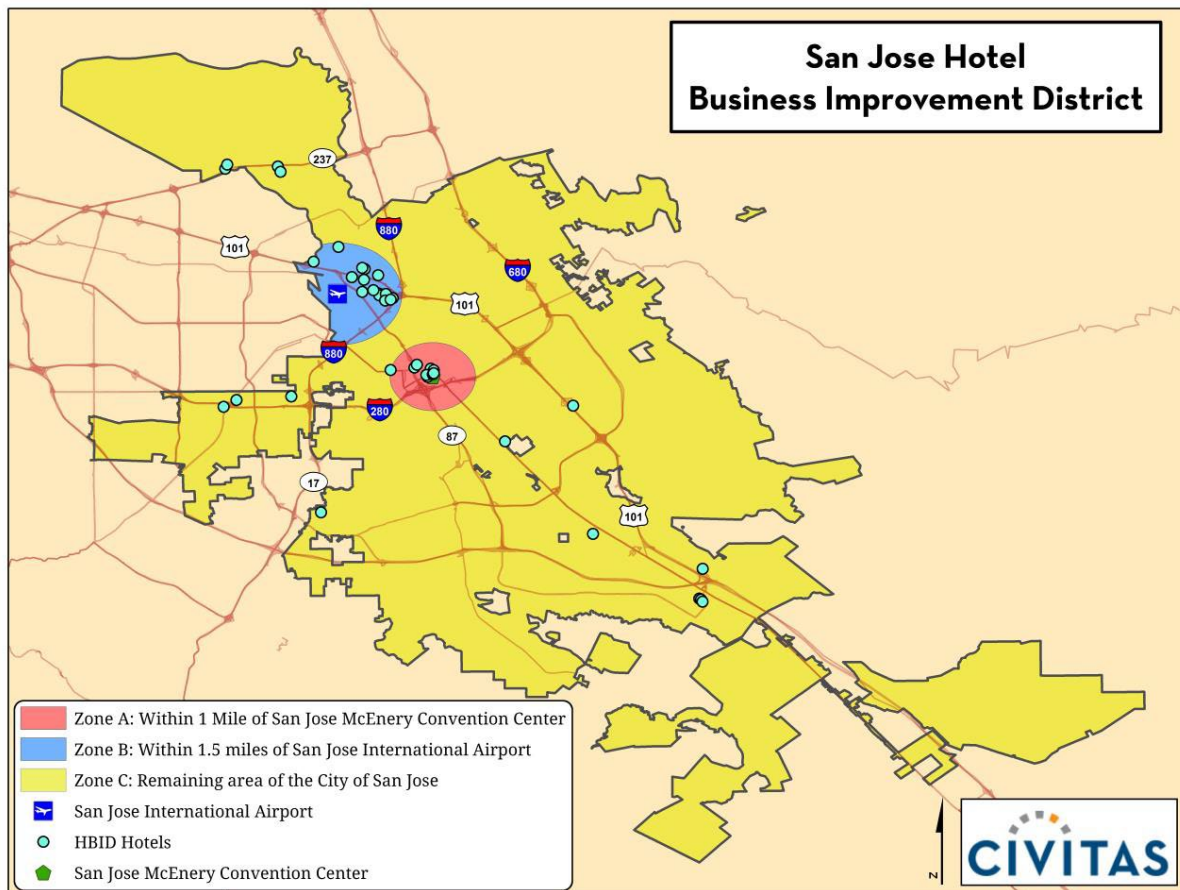
Proposed Marketing Allocations	FY 2022-23
Tradeshows and Client Events	\$ 600,000
Advertising and PR	\$ 633,498
Partnership Fee Extension	\$ 110,000
Event Hosting	\$ 100,000
TOTAL	\$ 1,443,498

4. Method and Basis for Levying FY 2022-23 Assessments

The methodology for levying the District assessments will remain the same for FY 2022-23.

The annual assessment rate is a fixed dollar amount per paid occupied room per night as shown in the following table and based on location within the map below. During the five (5) year term, the assessment rate in each zone may be increased by the SJHI Board by a maximum of \$0.50 per paid occupied room per night. The maximum increase in any year shall be \$0.25 in each zone. Based on the benefit received, assessments will not be collected on: stays of more than thirty (30) consecutive days; stays by any federal or state officer or employee when on official business; stays by any officer or employee of a foreign government who is exempt by reason of express provision of federal law or international treaty; and stays pursuant to contracts executed prior to July 1, 2018.

Zone	Initial Assessment Rate	Maximum Assessment Rate
A: Within one (1) mile of the San Jose McEnery Convention Center	\$2.50	\$3.00
B: Within one and one-half (1.5) miles of the San Jose International Airport	\$1.25	\$1.75
C: Over one (1) mile from the San Jose McEnery Convention Center and over one and one-half (1.5) miles from the San Jose International Airport	\$1.00	\$1.50



The assessment is levied upon and a direct obligation of the assessed lodging business. However, the assessed lodging business may, at its discretion, pass the assessment on to transients. The amount of assessment, if passed on to each transient, shall be disclosed in advance and separately stated from the amount of rent charged and any other applicable taxes, and each transient shall receive a receipt for payment from the business. The assessment shall be disclosed as the “SJHBID Assessment.” The assessment is imposed solely upon, and is the sole obligation of, the assessed lodging business even if it is passed on to transients. The assessment shall not be considered revenue for any purposes, including calculation of transient occupancy taxes.

5. Amount of Surplus Revenue to be carried over for previous fiscal year

The SJHBID maintains a fund balance year-over-year within the allocations for Event Sales Subsidies on an ongoing basis. The projected year end fund balance for FY 2021-22 is \$6,500,000. The funds may be utilized to incentivize additional group business into the destination to generate hotel room nights for the assessed businesses, or may be diverted in

direct sales, marketing, and public relations activities to promote travel and tourism into San Jose and directly generate room nights in the assessed businesses.

6. Contributions from Non-Assessment Revenue

The SJHBID does not receive any additional contributions from non-assessment revenues.