



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Nanci Klein

SUBJECT: SEE BELOW

DATE: June 14, 2021

Approved

Date

06/17/21

SUBJECT: SAN JOSE HOTEL BUSINESS IMPROVEMENT DISTRICT ANNUAL REPORT FOR FISCAL YEAR 2021-22

RECOMMENDATION

Adopt a resolution:

- a. Approving the San José Hotel Business Improvement District Annual Report prepared by San José Hotels, Inc. for Fiscal Year 2021-22, 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 operation 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 '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 Team San Jose converted the '89 Law HBID to the '94 Law SJHBID pursuant to Streets and Highways Code Section 36600 et. seq. commonly referred to as the Property and Business Improvement Area Law of 1994 (the '94 Law) and through City Resolution No. 78561 adopted on April 24, 2018, which established the new San José Hotel Business Improvement District (SJHBID), for a five-year term beginning July 1, 2018 through June 30, 2023, and selected San José Hotels, Inc. 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 and budget and identifies a means of governance. The SJHBID includes all lodging businesses, with eighty (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 the City 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 San José Hotels, Inc. for the operation and administration of the SJHBID. San José Hotels, Inc., 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 San José Hotels, Inc., 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 (1%) 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 San José Hotels, Inc, (SJHI) which serves as the Owners' Association , SJHI has submitted the *San José Hotel Business Improvement District Annual Report for Fiscal Year 2021-22* to the Council, dated May 26, 2021 (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 Council meeting. A second report, the Fiscal Year 2021-22 Financial Report, will be submitted in or around December 2021. The Annual report contains the following information:

1. Declaration of no material changes to the district
2. FY 2021-22 improvements and activities
3. Cost estimates for FY 2021-22 improvements and activities
4. Method and basis of levying FY 2021-22 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 and the attendant shelter-in-place restrictions over the past year has severely impacted the revenues of the district and curtail the ability of the hotels to operate at full capacity for the totality of the fiscal year. Funding will prioritize engaging in direct sales and marketing efforts to drive visitation to San Jose with a particular focus on restarting the meetings market.

The following activities have been approved for this FY 2021-22 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 travel restrictions and target markets. Based on availability, the TSJ sales team will mix 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 and will continue to cover relationship fees.

Advertising and Public Relations: The intended goal is to target marketing efforts to compliment and amplify the efforts of the sales team, focus on generating lead opportunities and capturing 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 2021-22

The annual assessment rate is a fixed dollar amount per paid occupied room per night as shown in the following table. 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 can be no more than \$0.25 in each zone. SJHI does not recommend any increase to the assessments for FY 2021-22.

Zone	Initial Assessment Rate	Maximum Assessment Rate
A: Within one (1) mile of the San José McEnergy Convention Center	\$2.50	\$3.00
B: Within one and one-half (1.5) miles of the San José International Airport	\$1.25	\$1.75
C: Over one (1) mile from the San José McEnergy Convention Center and over one and one-half (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 2021-22 is approximately \$1,762,385.

EVALUATION AND FOLLOW-UP

The attached annual report by the San José Hotels, Inc. sets the budget and proposed assessments for FY 2021-22 and is consistent with the approved San José HBID Management District Plan.

CLIMATE SMART SAN JOSE

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

PUBLIC OUTREACH

This memorandum will be posted on the City’s Council Agenda Website for the June 29, 2021 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 approved the fiscal year budget at its publicly noticed and held meeting on May 26, 2021.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

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 its 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 to 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 Council approved Budget Strategy.

The SJHID assessments are restricted for use exclusively by the SJHID and is estimated at \$1,762,385 in 2021-2022. However, due to the timing of the development of the 2021-2022 Proposed Operating Budget and the final adoption of the Hotel BID budget, \$1,766,609 was allocated in the 2021-2022 Proposed Operating Budget in the Business Improvement District Fund for this purpose. As part of the 2020-2021 Year-End Budget process, budget adjustments for this fund will be brought forward for City Council approval on June 15, 2021, as part of the Manager’s Budget Addendum #35 that was included in the Mayor’s June Budget Message for Fiscal Year 2021-2022.

BUDGET REFERENCE

For Budgeting purposes, the table below identifies the fund and appropriation proposed to fund the City’s assessment recommended as part of this memorandum. The BID assessments are collected by the City and then passed through to the BID.

Fund #	Appn #	Appn. Name	Total Appn.	Rec. Budget Action	2020-2021 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
351	3408	Hotel Business Improvement District	\$1,766,609	N/A	IX-13	N/A

* The 2021-2022 Operating Budget was reviewed and approved by City Council on June 15, 2021 and adopted on June 22, 2021.

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

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

Attachment A: SJHID Annual Report for FY 2021-22



ANNUAL REPORT
FISCAL YEAR 2021-2022

MAY 26, 2021

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 2021 – 22

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 has had catastrophic effects on the meeting and tourism industries. As San Jose begins the long road to recovery, these funds will focus on engaging in direct sales and marketing efforts to drive visitation to San Jose with a particular focus on restarting the meetings market.

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
- Dynamic and fast changing landscape with high levels of uncertainty. Will remain flexible in approach to engaging with clients based on travel restrictions and target markets.
- Will mix key industry tradeshows (as available) with direct sales efforts like sales missions, client events and familiarization tours
- Maximize opportunities for hotel partner participation with TSJ sales staff

- Relationship fees for hotel partners will continue to be covered

Advertising and PR

- Targeted marketing efforts to compliment and amplify the efforts of the sales team
- Focus on generating lead opportunities and capturing new sales opportunities through primarily digital channels
- 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 2021-22

The following is the total proposed expenses allocations for this fiscal year compared to the approved budget for FY 2020-21:

Top Level Budget for FY 2021-22 vs. FY 2020-21

	FY 2021-22	FY 2020-21
FY 19-20 Actual	\$ 2,267,745	
Proj. Loss over FY 19-20 Levels	-22.2%	
Zone A Collections	\$ 789,811	\$ 1,069,335
Zone B Collections	\$ 579,235	\$ 474,671
Zone C Collections	\$ 393,339	\$ 346,472
Total Collections	\$ 1,762,385	\$ 1,890,478
Sponsorship	\$ 500,000	\$ 885,786
Marketing Expenses		
Total Marketing Expenses	\$ 1,129,761	\$ 885,786
Administrative Expenses		
Total Administrative Expenses	\$ 115,000	\$ 100,000
City Fee	\$ 17,624	\$ 18,905
Total Expenses	\$ 1,762,385	\$ 1,890,478

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

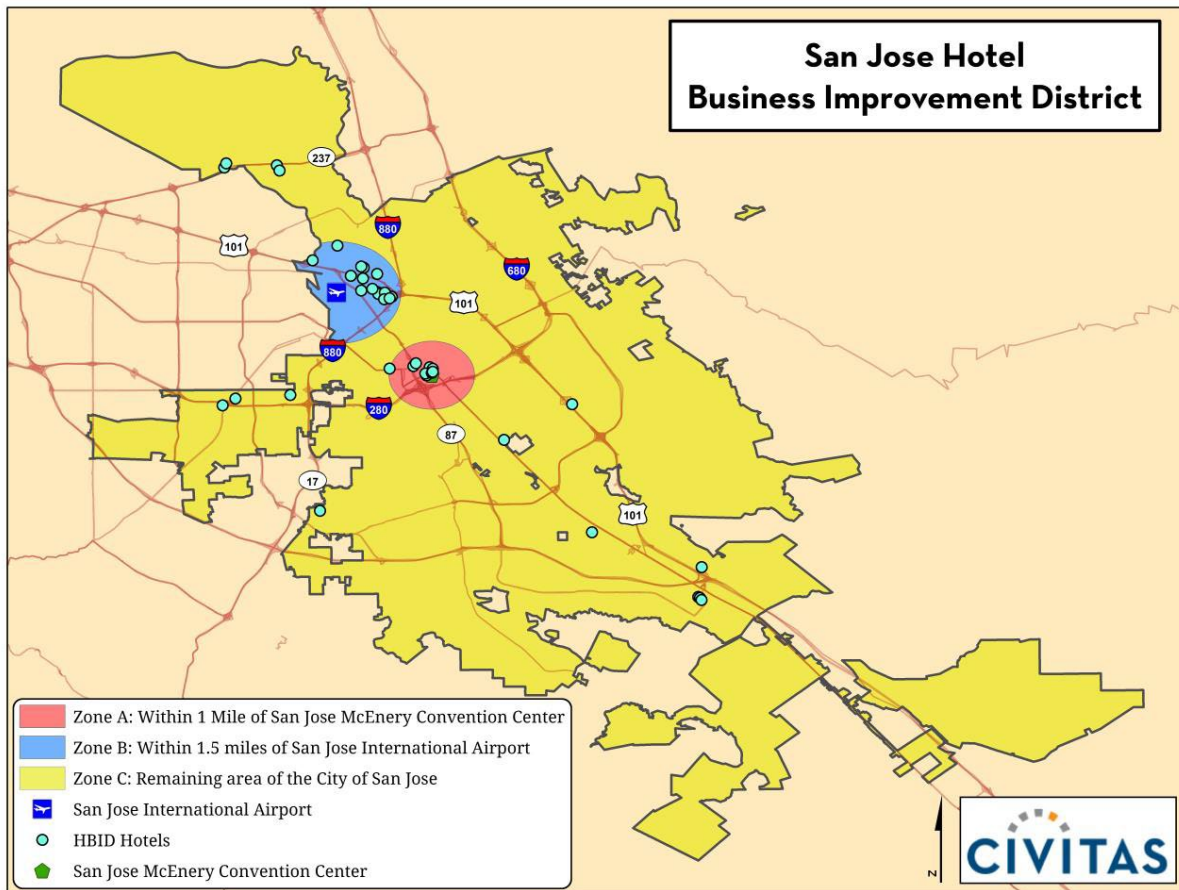
Proposed Marketing Allocations	FY 2021-22
Advertising and PR	450,000
Tradewshow and Client Events	644,761
Event Hosting	35,000
TOTAL	1,129,761

4. Method and Basis for Levying FY 2021-22 Assessments

The methodology for levying the District assessments will remain the same for FY 2021-22.

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 2020-21 is \$5,003,208. 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.