


1/26/2021

item 4


The seal of the City of Santa Clara, California, is circular. It features a central illustration of the Santa Clara Mission building with a red roof and a bell tower. The text "CITY OF SANTA CLARA CALIFORNIA" is written around the top inner edge, "1852" is at the bottom, and "THE MISSION CITY" is written around the bottom inner edge.

## City Council Meeting

Item #4. Discussion and Direction on the Conversion of the Santa Clara Tourism Improvement District

January 26, 2021

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The logo of the City of Santa Clara, featuring a circular seal with a building and the text "CITY OF SANTA CLARA" and "1852".

**City of Santa Clara**  
The Center of What's Possible

## Agenda

1. Background
2. Differences Between the 1989 and 1994 Law (Kelly Rankin, Civitas Advisors)
3. Santa Clara Tourism Improvement District Conversion

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**POST MEETING MATERIAL**

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## Background

- Santa Clara TID was formed in 2005 pursuant to the Parking and Business Improvement Area Law of 1989 (Ordinance No. 1797).
- Established boundaries and includes 11 lodging businesses.
- Hotels collect a \$1.00 per occupied room night.
- In 1994, the State Legislature passed the Property and Business Improvement Law allowing for additional provisions.

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## Background

- November 12, 2019 – TID Advisory Board decided to pursue formation of a new district under the 1994 Law.
- February 11, 2020 – Council provided direction to change the TID Assessment to 1.5% of gross short-term rental revenue with potential to increase to 2%.
- March 24, 2020 – Amid the unknown impacts due to COVID-19 and overall City fiscal outlook, Council directed staff to return with flat rate assessment options.

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## Background

- April 8, 2020 – Council directed staff to continue the TID as formed under the 1989 Law and to revisit the conversion at a later time.
- The TID sees this effort as the only viable means to fund convention and tourism promotion over the longer term.

The 1994 Law includes procedural differences for the TID, as compared with the 1989 Law.

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## Santa Clara

### Tourism Improvement District Conversion

January 26, 2021



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## AGENDA

- '89 vs. '94 Law
- Steps to Conversion
- District Examples

CIVITAS

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## Law of 1989

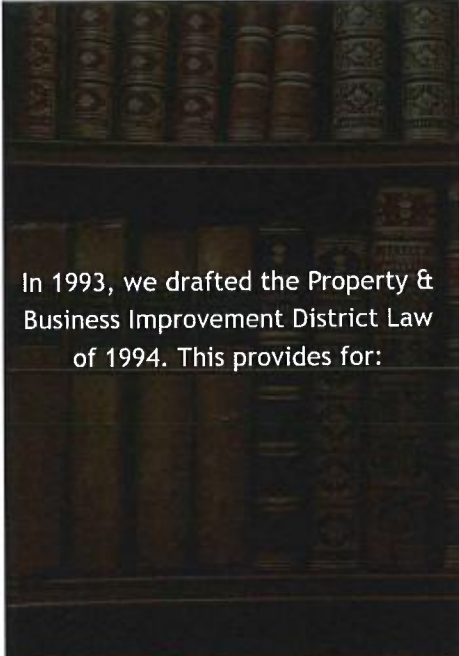
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The Parking & Business  
Improvement Area Law of  
1989 provides for:

- ✓ Assessments on businesses
- ✓ City Council can form district without petitions requesting it
- ✓ City Council-appointed Advisory Board
- ✓ District governed by Advisory Board
- ✓ 1 year term - must renew annually

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In 1993, we drafted the Property & Business Improvement District Law of 1994. This provides for:

## Law of 1994

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- ✓ Assessments on parcels and/or businesses
- ✓ Majority petition required to form
- ✓ "Owners' Association" could be a private, nonprofit corporation assigned to manage the programs
- ✓ Management District Plan provided for details of service and budget parameters
- ✓ Provided for 5 year term, with ten years upon renewal
- ✓ Requires Brown Act & Public Records Act compliance

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## '89 vs. '94

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### Parking & Business Improvement Area Law of 1989

- No Petition
- Advisory Board management
- One 30-day challenge period year
- 1 year term

### Property & Business Improvement District Law of 1994

- Over 50% supportive Petitions
- Non-profit management via the City approved Management District Plan
- Annual Report
- One 30-day challenge period per district term
- Initial 5 year term, and up to 10 years upon renewal

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## Steps to Conversion

1. Hotel & local government outreach and consensus building
2. Stakeholders determine district parameters and service plan
3. Management District Plan prepared
4. Hotel petition drive
5. City approval process
6. Expiration or Disestablishment of '89 District

## '89 to '94 Conversions

Total California TID Conversions: **15**





## **Santa Clara Tourism Improvement District Conversion**

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## **Santa Clara TID Conversion**

TID lodging businesses are interested in:

1. Establishing the District under the 1994 Law, and
2. Changing the assessment from \$1.00 per occupied room night to up to 2% of gross revenue of short-term rentals with an initial rate of 1.5%.

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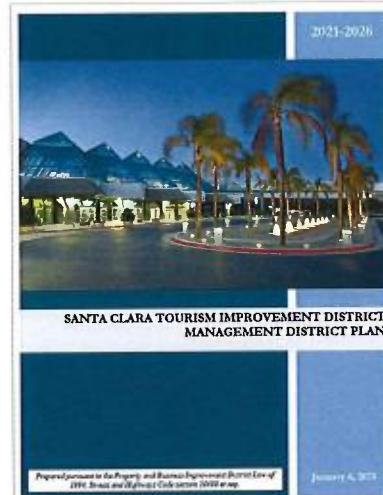




## Management District Plan (MDP)

### Key Provisions

- Governance
- District Boundary
- District Assessment Formula
- Budget and Services
- District Term



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## Governance

- District is operated through an owners' association (nonprofit).
- Proposed nonprofit is Silicon Valley/Santa Clara DMO, Inc.
- Agreement required between DMO and City for DMO to administer SCTID affairs (Council approved October 27, 2020.)
- DMO required annual reporting to City Council.
- Subject to the Brown Act and California Public Records Act.

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## Governance



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## District Boundary

- No proposed change to the District boundary.
- Would include all lodging business, existing and future.



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## District Assessment Formula

- Proposed assessment of 1.5% on gross revenue on short-term rentals (30 days or less) in Year 1; 2% in Year 2.
- Allows for fairer assessment: larger versus smaller hotels.
- Opportunity to increase funds to support sales programs and marketing efforts.
- Goal to increase hotel occupancy and overall spending.
- Collection method would not change.

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## Budget and Services

- Funds collected must directly benefit the lodging businesses paying the assessment.
- Funds would support initiatives designed to increase overnight visitation and room night sales.
- Proposed first-year budget based on 1.5% assessment formula.
- Funds would support future DMO operations without General Fund contribution.

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## Budget and Services

Program	Description	Budget
Convention Sales, Incentives and Services (40%)	Promote sales activity for the booking of SCCC events and increased room night sales of attendees; Provide financial incentives to current and new clients.	\$244,374
Marketing & Communications (20%)	Promote lodging businesses through internet marketing efforts, attendance at trade shows, lead generation activities, production and distribution of tourist-related marketing collateral, etc.	\$122,187
Administration (35%)	Administrative staffing costs, office costs, policy development and other general administrative costs such as insurance, legal, and accounting fees.	\$213,828
Contingency / Reserve (3%)	Reserve fund/could be utilized for other program, initiative, administration or renewal costs.	\$18,328
City Collection Fee (2%)	Paid to the City to cover costs of collection and administration.	\$12,219
TOTAL		\$610,936

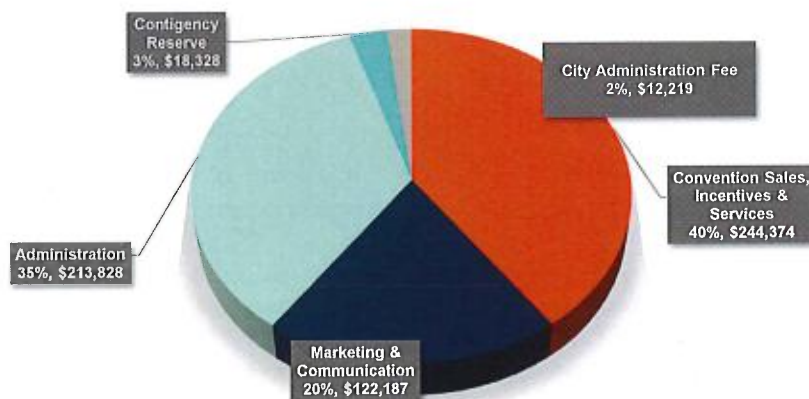
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## Budget and Services

Initial Annual Budget = \$610,936



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## District Term

- Can be initially formed for up to five years and renewed for up to ten years.
- Staff recommends alignment with the City's Fiscal Year.
- Current TID term expires June 30, 2021.
  - Align establishment process of the new district to begin FY 2021/22 and allow the current TID term to expire.

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## Summary

	1989 Law	1994 Law
<b>Establishment</b>	Same method since Santa Clara TID was formed in 2005	Cities are converting or establishing under the 1994 Law
<b>Governance</b>	Advisory Board	DMO manages via MDP
<b>Assessment Method</b>	\$1.00 fee from hotel guests on each occupied hotel/motel room night	Year 1 = 1.5% of gross revenue Year 2 = 2.0% of gross revenue
<b>Annual Revenue</b>	Approximately \$800,000 (Pre-COVID-19)	Approximately \$610,936 (1.5% w/ COVID-19 impact)
<b>Annual City fee</b>	\$3,000	Approximately \$12,219

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## Alternatives

1. Provide direction to proceed with the conversion of the Santa Clara TID established under the Parking and Business Improvement Law of 1989 to a TID established under the Property and Business Improvement Law of 1994.
2. Provide direction to continue the TID under the 1989 Law.
3. Provide direction to proceed with an initial district assessment formula of 1.5% of gross room revenue and increasing to 2% in Year Two.
4. Any other action as directed by Council.

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## Recommendation

### Alternatives 1 and 3:

That the Council:

1. Provide direction to proceed with the conversion of the Santa Clara TID established under the Parking and Business Improvement Law of 1989 to a TID established under the Property and Business Improvement Law of 1994; and
3. Provide direction to proceed with an initial district assessment formula of 1.5% of gross room revenue and increasing to 2% in Year Two.

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## District Assessment Formula

- Current TOT rate within the district boundary.

General Fund TOT	9.5%
Voter approved TOT increase	2.0%
Community Facility District Assessment	2.0%
<i>Proposed TID Assessment</i>	1.5%
<b>TOTAL</b>	<b>15%</b>

City	Rate
Gilroy	9.0%
<b>Santa Clara (w/o CFD)</b>	<b>9.5%</b>
Saratoga	10.0%
Fremont	10.0%
Mountain View	10.0%
San Jose	10.0%
Morgan Hill	11.0%
Los Altos	12.0%
Campbell	12.0%
Cupertino	12.0%
Los Gatos	12.0%
Sunnyvale	12.5%
Milpitas	14.0%
Palo Alto	15.5%

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