



Agenda Report

20-169

Agenda Date: 5/26/2020

REPORT COUNCIL

SUBJECT

Action on the Annual Report and Resolution of Intention for Levy of Annual Assessment for the Santa Clara Tourism Improvement District [Council Pillar: Promote and Enhance Economic and Housing Development]

BACKGROUND

In 1989, the State Legislature passed the Parking and Business Improvement Area Law, which added Sections 36500, et seq., to the California Streets and Highways Code ("Code"). The Code was created to "promote the economic revitalization and physical maintenance of the business districts of its cities in order to create jobs, attract new businesses, and prevent erosion of the business districts." The Code had the further goal of promoting tourism. To achieve this goal, the Code allowed cities to fund property related improvements and activities through the levy of assessments upon the businesses which benefit from those improvements and activities.

Pursuant to the authority granted under the Code, on January 11, 2005, City Council adopted Ordinance No. 1797 (the "Ordinance") amending the Santa Clara Municipal Code to add Article IX entitled "Santa Clara Tourism Improvement District" to Chapter 16.10 ("Local Improvements - Acquisition and Improvement Procedure"), establishing the Tourism Improvement District ("TID") and its boundaries. The TID currently includes the following eleven hotels near the Santa Clara Convention Center: AC Santa Clara, Avatar Hotel, Biltmore Hotel & Suites, Element, Embassy Suites, Hilton Santa Clara, Hyatt House, Hyatt Regency, Marriott Santa Clara, The Plaza Suites, and TownePlace Suites by Marriott. The Ordinance also established a District Advisory Board (the "Advisory Board") to administer the affairs of the TID. The Advisory Board is constituted of representatives of businesses within the TID. All hotel properties located within the District boundaries currently collect a \$1.00 fee from hotel guests on each occupied hotel/motel room night.

In 1994, the State Legislature passed the Property and Business Improvement Law (1994 Law), adding Sections 36600 et seq. to the California Streets and Highways Code. The 1994 Law is based upon the belief that there is a local benefit to be derived from allowing business districts to fund business related improvements, maintenance, and activities through the levy of assessments upon the businesses or real property that receive benefits from those improvements. The 1994 Law includes procedural differences for the district, as compared with the 1989 Law.

Lodging businesses in the TID decided to pursue the formation of the district under the 1994 Law and on November 12, 2019, Council consented to the TID's request (RTC 19-920). On February 11, 2020, City staff returned to Council with additional information on the potential assessment rate and for the purposes of preparing the necessary documents and Resolutions for future Council consideration as to the formation of the district, Council provided direction to proceed with a change to the TID assessment method from \$1.00 per occupied room night to 1.5% of gross short-term room

rentals, with the future option to increase the assessment to no more than 2% (RTC 20-1394).

On March 24, 2020, staff presented signed petitions submitted by the lodging businesses to initiate the formation process of the new district (RTC 20-416). In light of the COVID-19 pandemic already resulting in the closure of several businesses and hotels in the community and the unknown extent of the economic impacts to the City, Council reconsidered the percent assessment and directed staff to return with a flat rate assessment option for Council's consideration.

On April 8, 2020, staff presented flat rate assessment options to Council (RTC 20-452) and Council voted to temporarily postpone the formation of a new district under the 1994 Law and to renew the current TID under the 1989 Law.

Pursuant to Section 36533 of the Code of the 1989 Law and Santa Clara City Code ("SCCC") 16.10.1220, the Advisory Board is required to file with the City Clerk and submit to the City by April 1st of each year an Annual Report that includes improvements and activities during the current fiscal year, the amount of any surplus or deficit to be carried over from a previous fiscal year, and a TID budget for the following fiscal year. After the approval of the Annual Report, to levy the annual assessment for the upcoming fiscal year, Council must consider a Resolution of Intention followed by a notice and hearing process as outlined in Sections 36534-36535 of the Code.

DISCUSSION

The TID has been in effect for 15 years and was established to fund activities such as marketing campaigns to attract additional travelers, tourists, cultural groups, and conventions; print ads in travel publications; outdoor advertising campaign; and fund administrative costs of the program.

As mentioned previously, the City's Municipal Code requires that the TID Annual Report be submitted by April 1st of each year. As direction was provided by Council on April 8th to proceed with the renewal of the current district, the TID Advisory Board prepared and submitted to staff the Annual Report dated May 5, 2020.

The two-step process for levying the assessment includes Council's consideration of the Annual Report and a Resolution of Intention to levy and collect assessments within the district during the upcoming fiscal year and setting a date for the Public Hearing and then holding the Public Hearing itself. Following approval of the TID Annual Report and adoption of the Resolution of Intention, a Public Hearing will be noticed for June 23, 2020 and if the levy is approved by Council at the June 23rd meeting, the levy will become effective July 1, 2020.

In accordance with Sections 36524-36525 of the Code, the Public Hearing will allow businesses subject to the assessment to submit comments, voice concerns, and protest the assessment. Council can approve the continuation of the TID assessment (\$1.00 per occupied room night) at the Public Hearing; unless oral or written protests are received from the businesses located within the TID that pay 50% or more of the proposed assessments. In that event, the Council cannot consider continuation of the TID assessment for a period of at least one year from the date of the finding of the majority written protest.

With the absence of an active destination marketing organization (DMO), the TID Annual Report notes the TID's efforts and accomplishments including, but not limited to, providing resources to support the formation of the new DMO including the CEO recruitment, participating in the

development of a new booking strategy with industry partners, and leading efforts and activities to identify a long-term funding strategy for the DMO.

The TID's FY 2020/21 Proposed Budget was developed in collaboration with the TID lodging businesses and the DMO Board of Directors. The Proposed Budget includes an Operating Budget of \$1,244,060 and additional funds to support identified one-time costs. The FY 2020/21 Proposed Budget supports the implementation of the "phase one" approach previously presented to Council and includes funding for continued DMO organizational development, the purchase of start-up equipment and supplies, and four sales and marketing positions including the CEO for which recruitment efforts are underway. The TID Advisory Board also includes a proposed budget for FY 2021/22 which considers a reduction in TID assessment collection for that fiscal year. Based on the TID's projections, maintaining the current TID assessment would not be sustainable after two years.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

FISCAL IMPACT

If the increased TID assessment is approved at the June 23rd Public Hearing, the projected TID assessment for FY 2020/21 will be \$600,000. This reduced estimate takes into consideration continued lodging businesses and Convention Center closures into the first quarter of FY 2020/21. The total projected budget for the TID is \$1,321,060 which includes use of \$721,060 from the \$1.66 million Reserve Balance.

Of the projected revenue, \$3,000 is budgeted to cover the City's administrative costs associated with collecting and disbursing the assessment.

COORDINATION

This report has been coordinated with the City Attorney's Office and Finance Department.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov.

ALTERNATIVES

1. Approve the Annual Report for the Santa Clara Tourism Improvement District;
2. Adopt a Resolution of Intention to levy and collect assessments with the Santa Clara Tourism Improvement District area for Fiscal Year 2020/21 from hotel guests at the rate of \$1.00 per occupied hotel/motel room night;
3. Set the date for the Public Hearing for June 23, 2020.
4. Any other action as determined by Council.

RECOMMENDATION

1. Approve the Annual Report for the Santa Clara Tourism Improvement District;
2. Adopt a Resolution of Intention to levy and collect assessments with the Santa Clara Tourism Improvement District area for Fiscal Year 2020/21 from hotel guests at the rate of \$1.00 per occupied hotel/motel room night; and
3. Set the date for the Public Hearing for June 23, 2020.

Reviewed by: Ruth Mizobe Shikada, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. TID Annual Report
2. DMO FY 2020/21 Proposed Budget
3. Resolution of Intention for Levy of Annual Assessment for the Santa Clara Tourism Improvement District