

Mendocino County Lodging Business Improvement District
Annual Report for fiscal year 2012-2013
(July 1, 2012 through June 30, 2013)

Overview

This is the annual report for the Mendocino County Lodging Business Improvement District (“District”), as required by Chapter 5.140 to Title 5 of the Mendocino County Code, for fiscal year 2012-2013. It has been prepared by the Mendocino County Lodging Association (“MCLA”) in conjunction with the Mendocino County Business Improvement District Advisory Board (“Advisory Board”) for review and submission to the Mendocino County Board of Supervisors.

Introduction and Background

The travel and tourism economy is vital to Mendocino County. Promotional efforts serve hundreds of businesses throughout the County employing over 4,800 people with total earnings of \$114 million. Travel spending in 2010 was \$297 Million generating approximately \$556 of annual tax relief for every household within the County. Our mission continues to be to increase the overall visitor spending. We are thus creating more tax relief for residents, more employment opportunities, higher earnings, helping to ensure Mendocino County’s economy is a vibrant one.

With the approval of this report by the Mendocino County Board of Supervisors, we will begin the seventh year of the Mendocino County Lodging Business Improvement District (“BID”). The County contracts annually with MCLA to carry out the services, activities and programs authorized by this Chapter. There has been considerable growth over the past six years and significant accomplishments. MCLA has grown from an association focused solely on lodging, to being an inter-organizational leader in promoting Mendocino County. It has grown from being a trade organization to a research-based destination marketing organization. This change has occurred with the hard work of MCLA’s Board of Directors, their contractors, the Mendocino County Promotional Alliance (“MCPA”), Visit Mendocino County, Inc. (“VMC”), the Mendocino Winegrape and Wine Commission (“MWWC”) and other organizations with which MCLA and VMC have closely partnered.

In the spring of 2006, the BID was formed with only twenty four percent (24%) opposition within the Countywide lodging industry. Every year since, there has been no formal opposition to the BID. MCLA began the use of BID funds in 2006 with the hiring of an agency based in San Francisco, committing 70% of the total BID funds to that agency. Each year MCLA, and its partners, have gained the knowledge and experience to keep a much larger percentage of the promotional funds within the County. Not only does this keep our dollars local, it enables MCLA and its partners to become more effective and efficient in executing the District’s programs and services through the funds collected.

Over the past six years, many committees have been formed in order to work together promoting the County. Projects such as the redesign of gomendo.com, festival coordination, a promotional video and more, have been accomplished through these committees. It was not until several organizations banded together to conduct a comprehensive research project in 2008 that Mendocino County’s promotional efforts were streamlined to ensure maximum efficiency and effectiveness. The comprehensive Mendocino County Travel Research Study

("MCTRS") of 2008 contains detailed recommendations on how to market Mendocino County. A complete report and the Executive Summary are available from MCLA at www.mcla.info.

MCLA intensively discussed the marketing study and its recommendations. In their November, 2008 meeting, the MCLA Board voted to move forward immediately with two of the more important recommendations:

- (1) Becoming a research-based marketing organization, and
- (2) Joining MCPA in the creation of Visit Mendocino County, Inc.

Becoming a research-based marketing organization takes much of the guessing out of how to market Mendocino County. By using research, MCLA is able to determine exactly where to market, what to market and how to market in order to be most effective. The 2009-2010 Marketing Plan was created based on information gleaned from the research study. The 2011-2012 Marketing Plan brought more efficiency and resources due to the prior year's experiences. These successes and challenges were measured using specific studies and surveys as outlined in the Marketing Plan.

A more detailed history of past BID activities, programs and committees is available from past BID Annual Reports and can be obtained from MCLA at www.mcla.info.

Every organization is not without its challenges and of course we've had a few. Most recently the MCLA board has been dealing with the Allegation document that was sent to the Board of Supervisor's and then onto the MCLA Board of Directors. Below is the final report that is on file:

Mendocino County Lodging Association has investigated the claims in an allegation letter dated March 2011 that was distributed to the Board of Supervisors and ultimately to the MCLA board. A committee was formed to investigate the allegations noted in the document, with Kevin Gallagher as Chair.

Upon review, the board has found that the majority of the claims are false. Therefore, the committee recommends that these allegations be deemed unfounded. A full outline of the committee's findings is available.

The MCLA Board of Directors strongly rejects these allegations and the method in which they were collected and communicated to Lodging members, Government Officials and the Public. The Board regrets any inconvenience that document may have caused to any of the named individuals.

VISIT MENDOCINO COUNTY, INC.

Visit Mendocino County, Inc (VMC) was established as a not-for-profit 501(c) 6 organization on July 1, 2009. The establishment of VMC enables MCLA and MCPA to work together more closely than ever to create a structure where, essentially, one group is responsible for all aspects of marketing the County. MCLA and MCPA began contracting with VMC for marketing and administration services, also, on July 1, 2009. Combining staff and resources of the two groups enables those making day-to-day decisions to: become more efficient in their activities; decrease duplication of effort; create a comprehensive approach in achieving key programs and activities for marketing the County, its visitor-serving businesses and organizations, while keeping overhead as low as possible.

VMC was created as a result of the MCTRS conducted in 2008. Activities carried out by VMC through the MCLA Board approved Annual Marketing Plan is based on the MCTRS. In essence, with the creation of VMC and the implementation of the 23 recommendations of the 2008 Marketing Study, BID funds are being used as efficiently as possible. The BID assessments collected by lodging properties are used to increase the economic impact of the travel and tourism industry throughout Mendocino County.

VMC is led by a Board comprised of ten individuals – five from the MCLA Board and five from the MCPA Board. Members of MCLA's Executive Committee serve on the committee as well as one other appointed MCLA Board Member. MCPA has 1 members representing the wine industry, one representing the art industry, one representing the Chambers, one representing culinary/attractions and one member-at-large appointed by the MCPA Board. Thus, representation on the VMC Board provides a range of individuals with diverse experience in the promotion of our County.

The collaboration between MCLA and MCPA through the development of VMC has thus far proven to be a very effective use of funds, resulting in marketing strategies that are more targeted and efficient. Duplication of effort within the overall Countywide Marketing has been eliminated. This collaboration allows for one organization with one staff structure to be responsible for implementing a comprehensive marketing plan as approved by both MCLA and MCPA. It has resulted in more collaboration of organizations, businesses, and individuals promoting the County than ever before!

VMC over the past year and a half has proven itself to be the vital foundation for promoting Mendocino County enhancing its economic vitality and development. Through its programs and staff, VMC has been able to:

- Continue to leverage partnerships with County businesses, organizations and State and local government
- Continue to stay attuned to marketing trends to take advantage of opportunities to promote the County as a travel destination
- Further streamline for most efficient use of resources
- Continue as the leader in promoting the North Coast region
- Become the Official Destination Marketing Organization for the County.
- Attain success in consolidating efforts, coordinating strategies, improving professional management practices and providing leadership for other County businesses and organizations within the travel and tourism industry

MCLA signed a contract with VMC for a 3-year period beginning on July 1, 2009 and ending on July 1, 2012. A summary of the contract is as follows: *"MCLA desires to contract with VMC to have VMC provide marketing and administrative services for MCLA relative to the Mendocino County Lodging Business Improvement District (District), Chapter 5.140 of the Mendocino County Code (Code) on (Exhibit A) the terms and conditions set forth in this Agreement. VMC desires to receive payment for such services."* An Addendum was signed for the 2011-2012 Fiscal Year paying VMC \$535,000 (Five Hundred Thirty Five Thousand Dollars) based on a total BID Assessment budget of \$606,000 (Six Hundred Six Thousand Dollars). A full copy of the contract and current addendum are available at www.mcla.info.

On July 1, 2012 the above mentioned 3-year contract will expire. Since MCLA was intimately involved with the formation of VMC as a cooperative and Countywide effort, it is the intent of the MCLA board to renew the VMC contract for 3 years starting with the 2012-2013 fiscal year.

Once the 2012-2013 marketing plan is approved by the MCLA Board that Board will continue to monitor and safeguard the use of its funds throughout the year. In the contract with VMC, there are stipulations protecting MCLA's funding, should VMC fail to execute the marketing plan as approved.

The primary function of VMC is to carry out the Annual Marketing Plan as approved by the MCLA Board. VMC and its staff are responsible for making that plan a reality. The Annual Marketing Plan includes a budget specifying how the allocated funds are to be used. The 2009-2010 approved Marketing Plan was a major success. Mendocino County's promotional efforts at the end of 2008 showed a return on investment (ROI) of 17:1 – meaning for every dollar spent on promotion, \$17 of travel spending occurred in the County. At the conclusion of the 2009-2010 fiscal year, closely following the approved marketing plan, the ROI showed a 29% increase or 22:1. VMC continues to see great improvement with the results from the 2010-2011 promotional efforts garnering a 29:1 return on investment or another 31% increase. This return on investment is calculated by correlating the number of inquiries we receive with the estimated percentage of visitors who come to the County as a result of receiving our information and multiplying that figure by the average daily visitor spending (\$491.28 per party as per the 2008 MCTRS). VMC has been able to continue to increase its ROI due to the number of potential visitors it reaches through its programs become more effective, efficient and results-oriented.

With the support of MCLA, MCPA, MWWC, the Arts Council of Mendocino County (ACMC) and others, VMC has been designated as the Official Destination Marketing Organization for Mendocino County. VisitMendocino.com is the Official Travel Website for Mendocino County and the Visitor Guide is the Official Visitor Guide for Mendocino County. VMC has gained traction with local businesses and organizations as the “go to” organization for assistance with marketing and promotion of their unique stories, specials, packages, news, etc. VMC continues to provide many opportunities for local travel-related businesses to partner, to grow and to effectively use their own marketing dollars. This past year included the development of a Partner Information Packet (PIP) which was distributed personally to Countywide businesses to showcase and explain the who, what and how's of VMC. Over 100 one on one meetings with businesses have been conducted in a dramatic attempt to gain partnership benefiting not only VMC's programs, but the individual businesses' marketing efforts as well.

VMC has been very successful in becoming a leader in travel and tourism promotion throughout the North Coast Region and the State of California. In its fourth year, VMC contracted with the North Coast Tourism Council (NCTC) to administer the region on behalf of the member Counties of Marin, Sonoma, Lake, Humboldt, Del Norte and, of course, Mendocino. (This Council was formed to replace the now defunct Redwood Empire Association) Using the \$8,500 membership fees collected from these counties, VMC administers the programs and activities of NCTC. VMC does not pay the Membership Fee. In lieu of paying the membership Fee, VMC administers the organization. These programs focus on doing, as a region, what most Counties cannot do for themselves – cater to the

International travel trade and media in the targeted areas of the UK, Germany, Japan, Australia & New Zealand.

VMC is looked upon as a leader throughout the State. Currently, VMC is responsible for chairing California Tourism's Rural Marketing Advisory Committee and is Treasurer and on the Executive Committee and Board of the California Travel Association (CalTravel). These partnerships are directly responsible for dozens of visiting media, article placements, and opportunities to showcase Mendocino and its products at special events throughout the year.

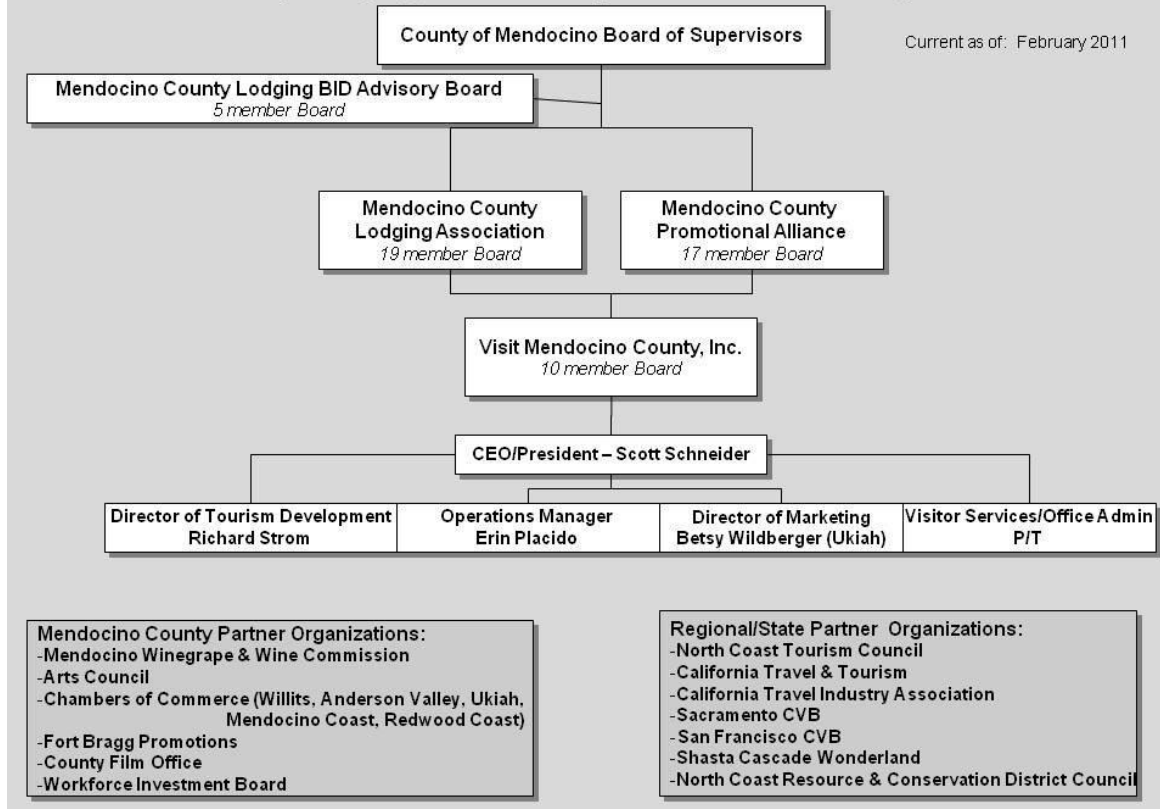
VMC, through the execution of the July 2010-2011 Marketing Plan, has accomplished the following:

- Obtained over 6,000 new consumer leads
- Took first place for "Why Tourism Matters." Awarded by California Travel & Tourism Commission (CTTC) at the 2011 Destination Leadership Convention in Sacramento
- Attended and spoke at the CTTC Sustainable Tourism Summit in Lake Tahoe and spoke on a sustainable destination panel with San Francisco and Santa Monica
- Partnered with Mendocino Winegrape and Wine Commission to coordinate Taste of Mendocino in San Francisco at Fort Mason. Over 400 trade and over 400 media were in attendance with Mendocino County businesses showcasing the wonderful offerings of the County
- Placed the Mendocino County message and brand ("impressions") 53,000,000 times through paid advertising (print, radio and online) reaching 177% of our goal
- Produced the second annual Official County Visitor Guide distributing 75,000 copies primarily throughout the Bay Area and Sacramento Valleys
- Placed more than 100 stories in print, broadcast & internet media through public relations resulting in over \$11 Million dollars in comparative advertising value
- Generated 127 Million consumer impressions (105% of goal), resulting in more visitors to Mendocino County
- Directly recruited more than 50 members of the media (editors, producers, bloggers, and freelancers) to visit Mendocino County, resulting in dozens of placements
- Enhanced successful partnerships throughout County, North Coast Region and State of California
- Continued to printed and distributed a Countywide nature tourism guide, guide to artful living (in collaboration with the ACMC, 2 event calendars, festival brochures and pet-friendly guides working to provide the visitor with a plethora of information
- Worked with CTTC to film 3 Mendocino County locations for the Royal Visit TV commercial
- Greatly enhanced partnership with MWWC joining Board of Directors, Executive Committee and PR/Events Committee

VMC is currently carrying out the 2011-2012 Marketing Plan which includes increased goals and even more targeted activities and programs, learning from the successes and challenges of the 2009-2010 Marketing Plan.

The current organizational structure for the Lodging BID in Mendocino County is as follows:

Mendocino County Lodging Business Improvement District Organizational Chart



Improvements and Activities for Fiscal Year 2011-2012

The specific services, activities and programs to be provided for the 2011-2012 fiscal year by the District, as defined by Section 5.140.050 of the Mendocino County Code, are to generally promote tourism in the District, to benefit all lodging. Those services, activities and programs are accomplished through the execution of the approved Annual Marketing Plan and carried out by VMC are as follows:

- A. The general promotion of all lodging establishments operating within the District;
- B. The marketing of products and events that have a connection with the lodging industry operating in the District;
- C. The marketing of the District to the media and travel industry in order to benefit local tourism and the lodging establishments in the District;
- D. Any activities permitted under the Parking and Business Improvement Law of 1989, being Section 36500 to 36551 of the California Streets and Highways Code, that are included as costs as specified in this annual report and adopted by the Mendocino County Board of Supervisors, including:
 1. Marketing, advertising and promotion of Mendocino County as a premier destination, focusing on activities and destinations that encourage overnight visitors
 2. Public outreach and community relations to connect District funded services, activities and programs with lodging operators in the District
 3. Cooperative and financial partnerships with other agencies interested in or performing promotional and marketing services, activities and programs in the District to enhance overall promotion of Mendocino County**

4. Administration and project management of District activities and efforts including the research and development of statistical reports for quantitative analysis of district marketing strategies
5. Establishment of a reserve and/or contingency fund to ensure financial viability and flexibility in the support of services, programs, and activities that benefit the lodging operators in the District
6. Develop, support and provide fulfillment programs and related activities with the cooperation of MWWC, MCPA and/or MCLA, primarily funded by the County of Mendocino's matching funds
7. Continue to improve communication of MCLA activities to its members via web, written newsletter, annual membership meeting, and other outreach programs.

**MCLA, in 2006, established a sponsorship and partnership program to fulfill this requirement. The main partnership has been with the Arts Council of Mendocino County providing them \$800 monthly with an increase in July 2009 to \$1,000 month. The sponsorship policy is to provide up to \$1,000 in funds for events and programs within a single region and up to \$5,000 if the event and/or program involves more than one region of the County. Examples of other funds granted are Howard Hospital Foundation for their Wine & Mushroom Train, Mendocino County Heritage Days, events held at the Mendocino Coast Botanical Gardens, Mendocino Coast Clinics for their Crab & Wine Days.

Estimated Cost of Services/Proposed Budget

The County of Mendocino BID collected \$565,290.00 (Five Hundred Sixty Five Thousand Two Hundred Ninety Dollars) in the fiscal year July 2010 – June 2011 to provide for the services, activities and programs of the District. The County of Mendocino BID has collected \$256,210.00 (Two Hundred Fifty Six Thousand, Two Hundred Ten Dollars) in the first three months of fiscal year 2011-2012. Pursuant to the Mendocino County Code, the County of Mendocino has entered into an agreement with MCLA to provide the services, activities and improvements for the District. The Balance Sheet and Profit and Loss Budget vs. Actual reports are provided on a quarterly basis to the County. The Mendocino County Lodging Association has an adopted budget of \$606,000 (Six Hundred Six Thousand Dollars) for District services, activities and programs for fiscal year 2011-2012.

The BID Advisory Board recommended in 2007 that a reserve (contingency) account be maintained for possible unexpected expenses that are consistent with applicable laws, Generally Accepted Accounting Principles (GAAP) as well as the annual contract by and between the County of Mendocino and the Mendocino County Lodging Association. The \$100,000 (One Hundred Thousand Dollars) targeted fund balance for the reserve account has been reached.

The proposed budget for the fiscal year 2012-2013 is conservative in the opinion of MCLA and the BID Advisory Board. However, due to unstable economic conditions, MCLA and the BID Advisory Board are once again recommending a \$30,000 increase in contingency funds as a precaution against a significant shortfall. If the collection of BID assessment funds is on target to reach budget, these funds, at the MCLA Board's discretion, will be used for marketing of the district rather than to increase the contingency fund.

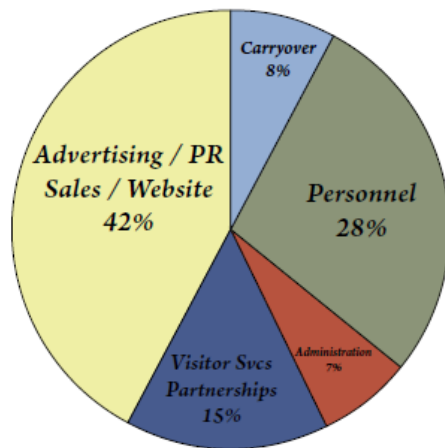
The 2012-2013 fiscal year budgeted cost of services, activities, and programs for the District is \$606,000 (Six Hundred Six Thousand Dollars). Pursuant to Section 5.140.240 the County of Mendocino is entitled to charge an amount equal to its actual costs of collection of

assessments and administration, not to exceed one percent (1%) of the assessments collected; this amount is estimated to be \$6,000 (Six Thousand Dollars). Therefore gross District income requirements for the 2012-2013 fiscal year are estimated to be \$606,000 (Six Hundred Six Thousand Dollars).

The proposed budget from net District assessment income for the 2012-2013 fiscal year is:

Visit Mendocino County	=	\$535,000	=	89%
Partnership	=	\$30,000	=	5%
MCLA Operations	=	\$5,000	=	1%
Contingency	=	\$30,000	=	5%
Total	=	\$600,000		

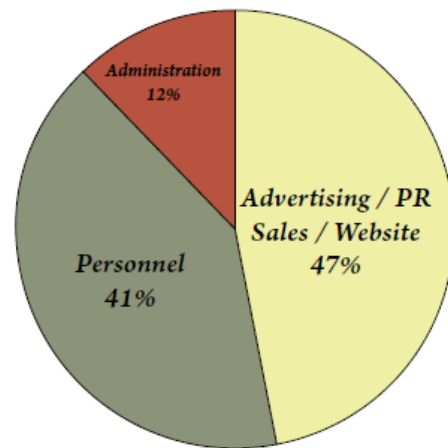
**Visit Mendocino
2010-2011 Budget Breakdown**



Personnel	\$268,001.50
Administration	\$ 67,178.80
Visitor Services / Partnership	\$147,548.37
Advertising / PR / Sales / Website	\$406,518.25
Carryover to 2011/2012	\$ 74,546.37
Total 2010 - 2011 Profit/Loss	\$963,793.29

DMO Industry Average

Represented by a Sample of 195 DMOs which Participated in
DMAT's 2011 DMO Organizational & Financial Profile Study



District Boundary and Classification of Businesses

The District boundary for the assessment shall remain unchanged for fiscal year 2011-2012 and the classification of businesses remains unchanged and shall include all "Hotel" or "Lodging" establishments, as defined by Section 5.140.030 of the Mendocino County Code, in the County of Mendocino, City of Ukiah, City of Willits, City of Fort Bragg and the City of Point Arena, California.

Method and Basis for Levying the Assessment

The method, basis, rate and collection process of the assessments will remain the same for fiscal year 2011-2012, pursuant to Chapter 5.140 to Title 5 of the Mendocino County Code.

Pursuant to Section 5.140.060 each lodging establishment which collects rent and benefits from tourist visits and operates in the District will be assessed a share of the costs of the services, activities and programs according to the rent revenues and the benefit to be received, and the assessment is hereby levied as set forth as a one percent (1%) levy on gross rent. The assessment is calculated on a daily basis from gross rent revenues collected by each lodging establishment, is levied on the operators of the lodging establishment on a daily basis, and is due to be collected on a monthly basis.

Contributions from Other Sources

The County of Mendocino is required to provide matching funds at least equal to fifty percent (50%) of the total assessment collected by the District. Those matching funds can only be directed to the MCLA and/or the MCPA, pursuant to Section 5.140.250 of the Mendocino County Code.

Before any matching funds can be allocated to the MCLA and/or MCPA, the County and the MCLA must enter into a contract. This contract controls the expenditure of District funds as well as determines the fate of the matching funds. The District funds must be used for the services, activities, and programs to benefit the District (lodging establishments).

Based upon the estimated costs in this Annual Report, the District is estimated to collect \$606,000 (Six Hundred and Six Thousand Dollars), in assessments, which will require the County of Mendocino to budget for matching funds in an amount of at least \$303,000 (Three Hundred Three Thousand Dollars). The matching funds will be used to implement the approved 2013-2013 marketing plan supporting countywide promotion.

The annual contract by and between the County of Mendocino and the Mendocino County Lodging Association shall provide for a reasonable timeline and payment schedule to transfer District revenues to the MCLA. This should include a major payment within 30 days following the collection of the assessment and subsequent payments on a monthly basis as the County collects and deposits delinquent payments.

Pursuant to Section 5.140.240 the County of Mendocino shall be entitled to charge an amount equal to its actual costs of collection and administration, not to exceed one percent (1%) of the assessments collected. The administration fee limit shall not apply to enforcement costs pursuant to Section 5.140.260 of the Mendocino County Code.