

Mendocino County Lodging Business Improvement District ADVISORY BOARD ANNUAL REPORT FOR FY 2014-2015

ADVISORY BOARD MEMBERS:

INLAND REPRESENTATIVES:

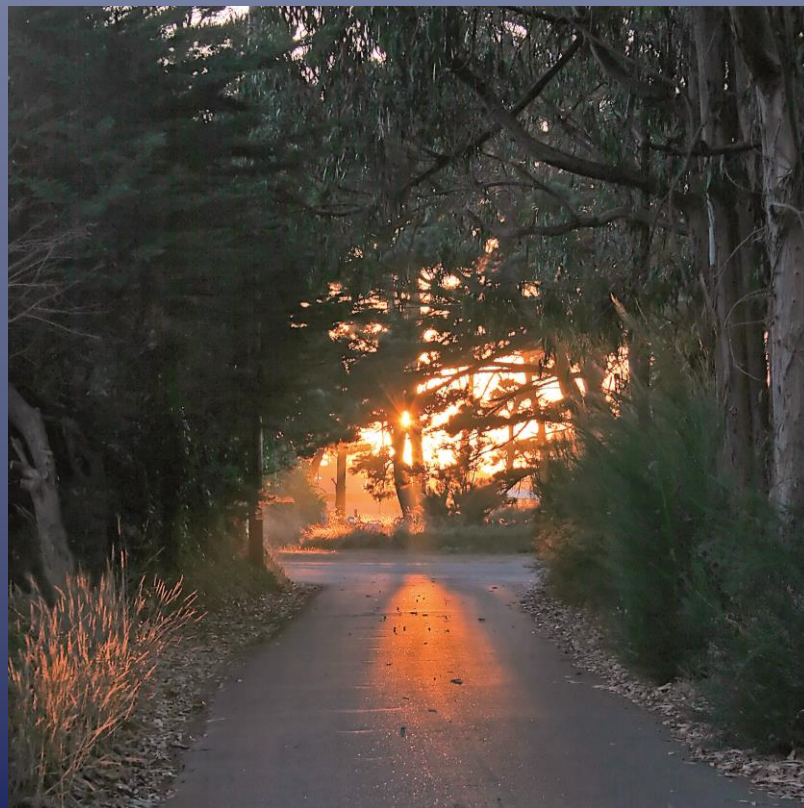
- ANIL BHULA (Fairfield Inn)
- ROBERT PINOLI (Pinoli Ranch)

COASTAL REPRESENTATIVES:

- JIM HURST (Anchor Lodge)
- WENDY ROBERTS (Water Tower Rental)

MCLA BOARD REPRESENTATIVE:

- STUART MARCUS (Shambhala Ranch)



**Mendocino County Lodging Business Improvement District
Advisory Board Annual Report for Fiscal Year 2014-2015
(July 1, 2014 through June 30, 2015)**

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 2014-2015. It has been prepared by the Mendocino County Business Improvement District Advisory Board (“Advisory Board”) in collaboration with the Mendocino County Lodging Association (“MCLA”) 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 several hundreds of businesses throughout the county employing, as of 2011, over 4,800 people with total earnings, as of 2011, of \$118 million. Travel spending in 2012 was \$314 million generating approximately \$595 of annual tax relief for every household within the County¹. Our mission continues to be to increase overall visitor spending. We are thus creating more tax relief for residents, more employment opportunities, and higher earnings, helping to ensure Mendocino County’s economy is a vibrant one.

With the approval of this report, created by the Advisory Board for the Mendocino County Board of Supervisors, we will begin the eighth 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 seven years and significant accomplishments. MCLA 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”), 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 industry². 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 seven years, many committees have been formed in order to work together promoting the county. Projects such as website redesigns, festival coordination, research studies, promotional videos and more, have been accomplished through these committees. It was in 2008 when several organizations banded together to conduct a comprehensive research

¹ Source: Dean Runyan & Associates (www.deanrunyan.com/CATravelImpacts/CATravelImpacts.html).

Tax relief is calculated based on tax revenue generated from travel in 2011 (\$20.3MM and dividing by number of households 34,102 – source for number of households: <http://quickfacts.census.gov/qfd/states/06/06045.html>)

² Source: County of Mendocino

project that brought Mendocino County's promotional efforts to new heights ensuring maximum efficiency and effectiveness. The comprehensive Mendocino County Travel Research Study ("MCTRS") of 2008 contains detailed recommendations on how to market Mendocino County. An executive summary of the report is available from MCLA at http://www.mcla.info/?page_id=107

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. Marketing plans henceforth have been used to spend BID and county funding cohesively and effectively. Each year, the marketing plan brings more efficiency and resources due to the prior year's experiences and successes.

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 http://www.mcla.info/?page_id=11.

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 composed 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 one member 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 four and a half years, has proven itself to be the vital foundation for promoting Mendocino County enhancing its economic vitality and development – including becoming the county’s Official Destination Marketing Organization. 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 (DMO) 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, 2012 and ending on July 1, 2015. 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.”* A full copy of the contract is available at http://www.mcla.info/?page_id=690.

Once the 2014-2015 marketing plan is approved by the MCLA Board, the 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 2012-2013 approved Marketing Plan was a major success. With the support of MCLA, MCPA, the Arts Council of Mendocino County (ACMC) and others, VMC has been designated, by the Board of Supervisors, 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.

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 \$10,000 membership fees collected from these counties, VMC administers the programs and activities of NCTC. VMC pays zero dollars of the membership dues and receives \$9,000 from NCTC for its administering the NCTC programs and activities resulting in a \$9,000 positive cash flow for VMC. 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 and New Zealand.

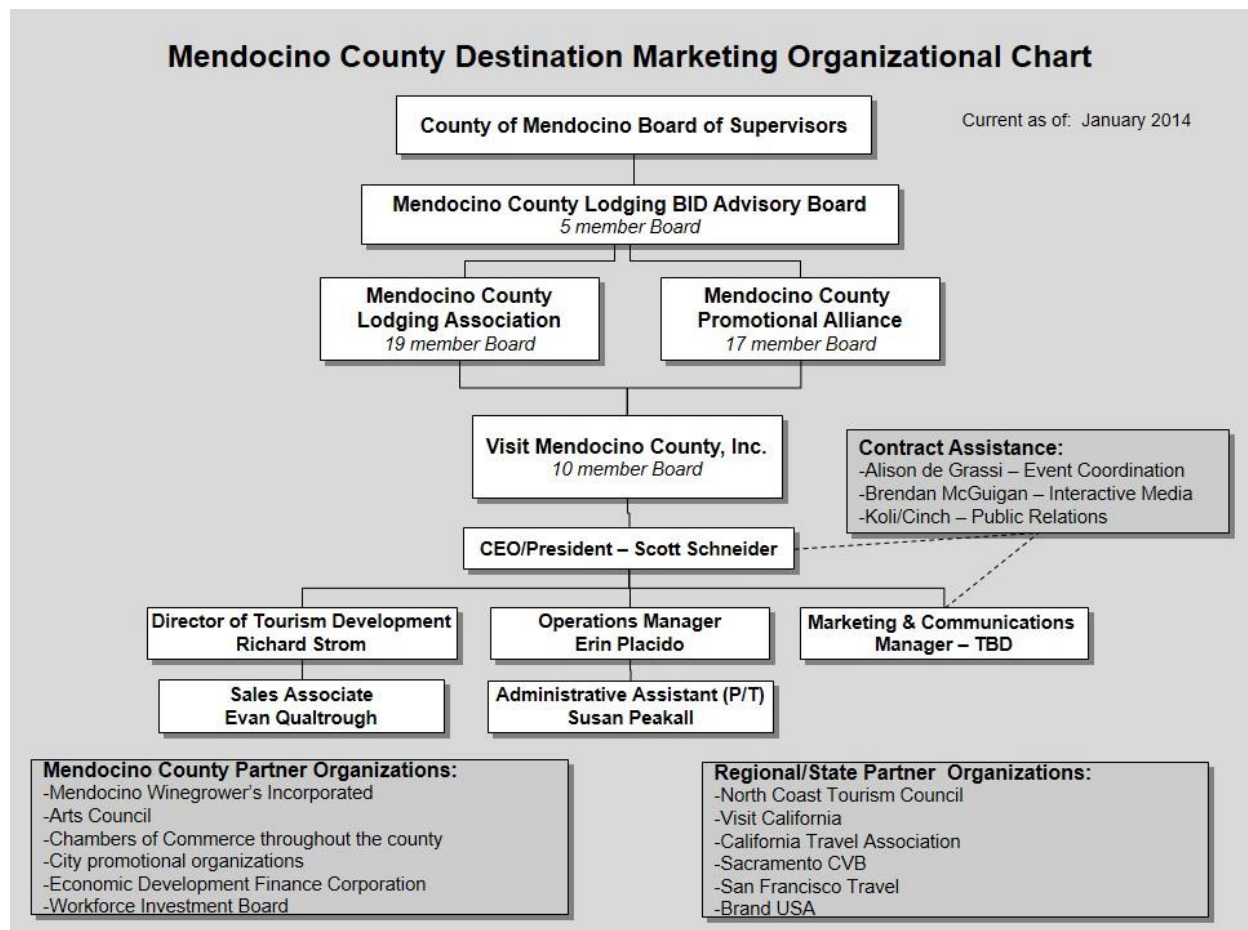
VMC is looked upon as a leader throughout the State. Currently, VMC holds the co-chairmanship of California Tourism's Rural Marketing Advisory Committee as well as the Vice-Chairmanship of the California Travel Association (CalTravel). These partnerships are directly responsible for dozens of visiting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

VMC, through the execution of the July 2012-2013 Marketing Plan, has accomplished the following:

- Reached 12,277 leads, 20% above goal.
- Nearly 45 million (11% over goal) advertising impressions from placement in print, radio, outdoor and online vehicles
- Reached 20,000 Fans on Facebook
- Consumer mailing list passed 25,000 subscribers
- Launched iPhone app in tandem with Trazzler/Openplaces, populating more than 600 visitor facing businesses
- Website has 139,257 unique visitors; the five top keywords were Mendocino, Mendocino CA, Mendocino County, Mendocino California and Visit Mendocino
- Distributed over 100,000 county materials including tear off maps, wine maps, event calendars, pet-friendly guides and meeting guides countywide
- Established informational kiosks at Noyo Harbor, Fort Bragg and Solar Living Institute (Real Goods), Hopland
- Installed second gateway sign on Highway 20 and visitor kiosk in downtown Boonville
- Hosted inland and coastal Customer Service workshops with about 40 local businesses and organizations attending
- Won a Silver award for the 2011-2012 Visitor Guide from the North American Travel Journalists Association
- Booked over 1,000 room nights from group sales efforts
- Placed more than 100 Mendocino County stories in print, broadcast and internet media, resulting in \$10 million dollars in comparable advertising value (200% of goal)
- Recruited 50 members of the media (editors, producers, bloggers and freelancers) to visit Mendocino County and distributed 36 press releases on various topics to local, regional, national and international media
- Continued partnership with Mendocino Winegrower's Incorporated – Mendocino county's new winegrowers and vintner collaborative organization

VMC is currently carrying out the 2013-2014 Marketing Plan which includes increased goals and even more targeted activities and programs, learning from the successes and challenges of the past three Marketing Plans. Also included in this year's plan are two research studies – one for marketing and one for governance as well as a website redesign.

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



Improvements and Activities for Fiscal Year 2014-2015

For the second consecutive year, the countywide lodging community strongly encourages the County of Mendocino to look into the feasibility and benefits of adding Transient Occupancy Tax (TOT) & BID assessment requirements to private campgrounds throughout the county. This addition will not only bring more tax resources to the county, but will enhance overall marketing efforts and their economic impact on our communities. The lodging community is in support of private campgrounds paying TOT & BID.

The specific services, activities and programs to be provided for the 2014-2015 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 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 a month. In July 2012, the partnership was increased to \$1,200 per 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, and more. The MCLA Board makes a conscious effort to provide funds throughout all regions equally.

The following is a chart provided by the office of the Treasurer/Tax Collector (amounts include both the unincorporated areas as well as Fort Bragg, Ukiah, Willits and Point Arena):

Business Improvement District Assessment Quarterly Collection Comparisons

Fiscal Year	1st Quarter (Jul – Sep)	2nd Quarter (Oct – Dec)	3rd Quarter (Jan – Mar)	4th Quarter (Apr – Jun)	Fiscal Year Collections	% Diff
2006-07	\$229,451.91	\$135,187.31	\$101,295.12	\$164,795.45	\$630,729.79	
2007-08	\$236,816.80	\$145,112.09	\$109,152.86	\$164,044.17	\$655,125.92	+4%
2008-09	\$246,578.87	\$127,594.85	\$92,211.44	\$142,679.41	\$609,064.57	-7%
2009-10	\$204,945.33	\$119,638.66	\$90,268.49	\$145,028.45	\$559,880.93	-8%
2010-11	\$200,531.37	\$120,131.46	\$88,690.20	\$146,816.37	\$556,169.40	-1%
2011-12	\$214,215.21	\$127,611.28	\$102,664.54	\$156,528.09	\$601,019.12	+8%
2012-13	\$225,296.59	\$129,443.71	\$105,939.66	\$168,038.87	\$628,718.83	+5%

***Please Note:** The collections reflected above represent the actual quarters in which the lodging establishments collected the taxes and assessments. Information provided by the Mendocino County Auditor may vary as the

audited financial reports reflect the timeframe in which the taxes and assessments were actually received by the County; however, the Auditor does accrue the end of fiscal year payments into the proper fiscal year so the variances are typically minimal.

With the goal of being efficient, effective and transparent, the Advisory Board recommends MCLA and MCPA should have annual, coordinated financial reviews (with audits triggered by irregularity in the review). Visit Mendocino County should have an annual audit.

Estimated Cost of Services/Proposed Budget

The County of Mendocino BID paid to MCLA \$628,718.83.³ (Six Hundred Twenty Eight Thousand, Seven Hundred Eighteen Dollars) in the fiscal year July 2012 – June 2013 to provide for the services, activities and programs of the District. The County of Mendocino BID has paid to MCLA \$~~251,697.54~~~~405,270.88~~ (Two Hundred ~~Fifty One~~ ~~thousand~~, ~~Six Two~~ Hundred ~~Ninety Seven~~ ~~ty~~ dollars and ~~Fifty Four~~~~Eighty Eight~~ cents) in the first ~~five~~~~four~~ months of fiscal year 2013-2014. 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 \$630,000 (six hundred thirty thousand dollars) for District services, activities and programs for fiscal year 2014-2015.

Upon the recommendation of the Advisory Board, a Reserve Account was included in the 2008-2009 BID Budget to be accessed by the Mendocino County Lodging Association for possible unexpected BID expenses that are consistent with applicable laws and the annual contract by and between the County of Mendocino and the Mendocino County Lodging Association. Those expenses could include promotional events, special publications, or promotional and public relations efforts to help the District recover from natural disaster or other adverse, unexpected events having extreme administrative and program costs and threat to the local tourism economy.

In FY 2008-2009 the annual allocation for the Reserve Account was 8.1% of the projected assessment income (\$50,000). Unexpended Reserve Account funds would be carried forward in subsequent Fiscal Years until the targeted fund balance of the reserve account equaled one quarter's worth of estimated assessment or approximately \$150,000.00 (One Hundred Fifty Thousand Dollars) on or before June 30, 2010.

In FY 2009-2010, the Advisory Board recommended lowering the annual allocation to the Reserve account to 5% of anticipated assessment income (\$30,000) with a \$100,000 fund balance goal. The January 12, 2009 minutes of the Advisory Board Meeting also verified that the Reserve Account funds could also be used to cover lower than budgeted assessment income.

For FY 2014-15 the Advisory Board is recommending that the annual allocation to the Reserve Account be \$0 (zero) as the fund balance has met the \$100,000 target and no more funds should be set aside for reserves at this time. Since the reserve account budget has been met, the Advisory Committee recommends using any additional funding to be used as part of the 2014-2015 marketing plan. The current amount of the reserve can be found on the MCLA

³ Source: MCLA monies received from County of Mendocino.

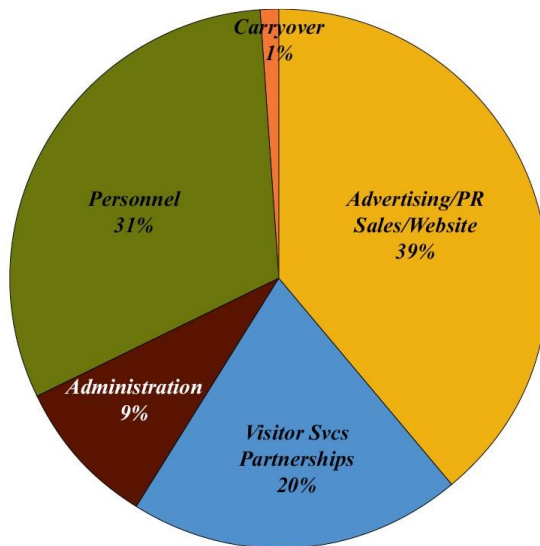
Balance Sheet dated and is included in this report as Appendix A. ~~The BID Advisory Committee is recommending VMC receive an additional \$45,000 than provided in the 2013-2014 Fiscal Year to be used as part of the approved 2014-2015 Marketing Plan.~~

The 2013-2014 fiscal year budgeted cost of services, activities, and programs for the District is \$630,000 (six hundred thirty 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 \$6,300 (six thousand, three hundred dollars).

The proposed budget from net District assessment income for the 2013-2014 fiscal year is:

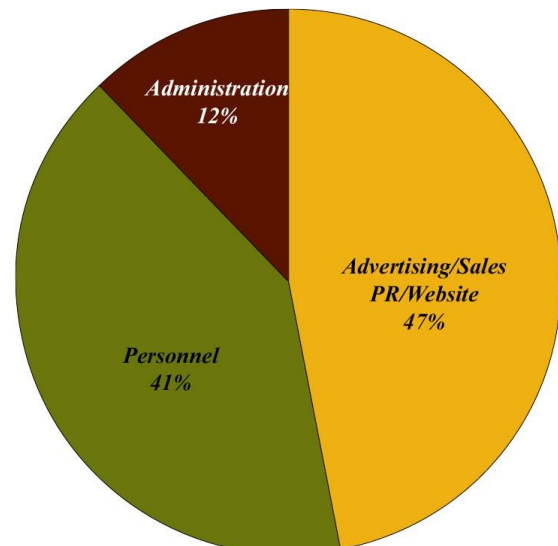
Visit Mendocino County	=	\$585,000	=	93%
Partnership	=	\$28,000	=	4%
MCLA Operations	=	\$10,700	=	2%
Additional monies for Reserves	=	\$0	=	0%
County Administration	=	\$6,300	=	1%
Total	=	\$630,000	=	100%

*Visit Mendocino County, Inc.
2012-2013 Budget Breakdown*



Advertising/PR Sales/Website	\$387,973.22
Visitor Services/Partnerships	\$197,533.82
Administration	\$90,288.24
Personnel	\$311,214.64
Carryover	\$10,385.09
Total 2012 – 2013 Profit/Loss	\$997,395.01

*DMO Industry Average
Represented by a sample of 195 DMOs that participated
in DMAI'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 2014-2015 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 2014-2015, 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 overnight guests 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. 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 \$630,000 (six hundred thirty thousand dollars) in assessments, which will require the County of Mendocino to budget for matching funds in an amount of at least \$315,000 (three hundred fifteen thousand dollars). The matching funds, in collaboration with the funds determined in this report, will be used to implement the approved 2014-2015 Visit Mendocino County, Inc. 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 BID 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.