

Mendocino County Lodging Business Improvement District Annual Report for fiscal year 2009-2010 (July 1, 2009 through June 30, 2010)

Overview

This is the annual report for the Mendocino County Lodging Business Improvement District (the "District"), as required by Chapter 5.140 to Title 5 of the Mendocino County Code, for fiscal year 2009-2010. It has been prepared by the Mendocino County Lodging Association (the "MCLA") in conjunction with the Mendocino County Business Improvement District Advisory Board (the "Advisory Board") for review and submission to the Mendocino County Board of Supervisors.

Introduction and Background

With the approval of this report by the Mendocino County Board of Supervisors, we will begin the fourth year of the Business Improvement District. 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 three years and significant accomplishments. MCLA has gone from a purely lodging association to being a leader in promoting Mendocino County – from a trade organization to a destination marketing organization. This change has occurred with the hard work of MCLA's Board of Directors, contractors, the Mendocino County Promotional Alliance ("MCPA") and other organizations with whom MCLA has closely partnered.

Prior to 2006, the MCPA, under contract with the Board of Supervisors, was performing all of the marketing activities for the County. MCLA was involved only in quarterly or annual meetings bringing lodging operators together to collaborate with one another, attend educational sessions and advocate for increased promotion of Mendocino County.

MCPA came to MCLA in or around 2003, to discuss the formation of a Lodging Business Improvement District (BID) to increase funding to promote the County. Following two years of joint meetings and numerous discussions with County and lodging industry leaders, MCLA, in 2005 & 2006, hired consultants to schedule public hearings and informative meetings, and to organize the overall BID. Multiple meetings were held in all Cities and towns around the County. It was widely agreed that if a BID were formed the funds would have to be controlled by MCLA. It was also discussed that administration costs should be kept to around 10% of the entire budget. Keeping administrative costs in line was a concern at the time because it was felt MCPA administration costs were very high. In these early meetings it was further explained to MCLA members and the public that a marketing firm would be hired very shortly after the start of the BID to conduct marketing, buy advertising and do public relations to promote County tourism.

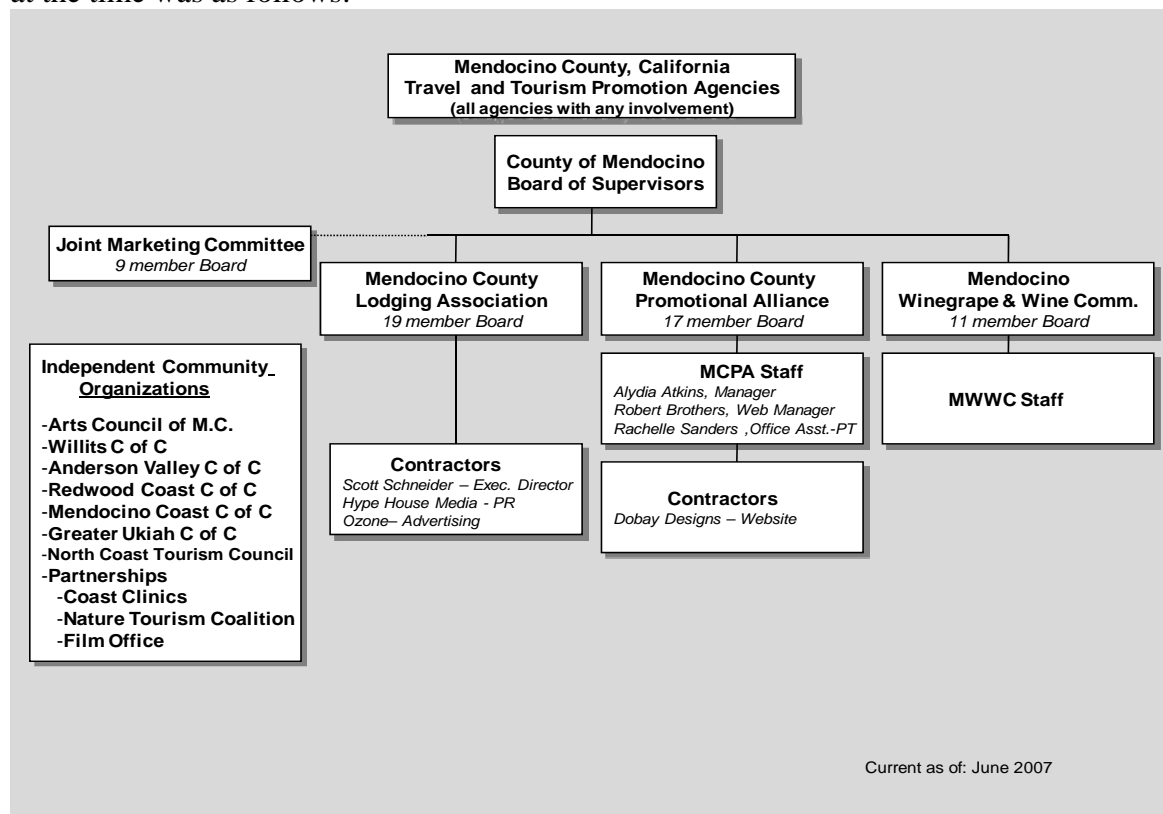
In the spring of 2006, the BID was formed with only 24% opposition within Lodging industry. Immediately thereafter, MCLA sent out Requests For Proposals to 12 firms around California to perform the marketing for the County. Team Ozone was selected and marketing commenced following the signing of the contract in late September, 2006. The firm was allocated 70% of the entire budget to design and place advertising, perform public relations, and guide the Mendocino County tourism promotional effort. At the time, MCLA as an organization did not know much about marketing a County. The Board also contracted for a part-time (20 hours per week) staff person to oversee the marketing firm as well as to conduct other business of the organization.

During the first few months of the BID, MCLA learned just how much was involved with managing a budget of \$550,000 to promote a County. The marketing firm was doing the marketing; but the time and energy necessary to cultivate the partnerships MCLA was creating, following up with the marketing firm on advertising & public relations activities, and keeping lodging members informed required full-time attention. By the end of the first BID fiscal year, after several stages of discussions and a slow increase in contracted hours spent, MCLA decided to contract for a full-time Executive Director. MCLA was learning that advertising and public relations are only one part of properly promoting a destination.

MCLA also learned in the first BID year how much the formation of the BID changed the promotional landscape for Mendocino County. Prior to the BID, the role of promotion was the sole responsibility of MCPA. As an independent organization, MCLA had to find its place in the promotion of the County. With time, it was apparent MCLA would have significant responsibility for bringing people to the County. MCPA would be responsible for taking care of the people once they came to the County. This is true not only in the sense of visitors coming personally, but also visitors coming to the GoMendo Web site, calling or writing for information, etc. Once the promotional effort initiated an inquiry, MCPA would take over responsibility for making sure they come to the County, answering their questions, etc.

The Joint Marketing Committee was established in January of 2007 to provide a forum for MCLA, MCPA and the Mendocino Winegrape and Wine Commission (MWWC) to get together and work on projects collaboratively. A 9 member committee was formed with 3 members from each organization serving on the committee. Initial projects of the committee included a new trade show booth, redesign of gomendo.com, festival coordination, and the production of a video for promotional purposes.

To help clarify the roles of the different committees and organizations, the organizational chart at the time was as follows:



The second year of the BID continued to provide huge growth for the organization. MCLA began to question the wisdom of allocating 70% of its budget to one marketing firm. The MCLA Board decided to contract separately for advertising and public relations. MCLA wanted a more direct relationship with its public relations firm, HypeHouse. There were also discussions around MCLA doing its own media buying to eliminate payment of commission to contractors when buying advertising. It was decided that the advertising agency would plan and buy the advertising for the BID's second year.

Administrative costs continued to be an issue the Board discussed often to ensure they did not increase over the 10% discussed at the onset of the BID. The Board was realizing however, that a 10% administrative cost cap was not realistic to effectively manage its financial resources.

Also during the BID's second year, MCLA became a leader in the promotion of not only the County of Mendocino, but also of the North Coast region. MCLA found that the more time and energy spent on partnerships within the region and the State of California, the more Mendocino County would benefit. An example of this is a two page article on Mendocino County which appeared in the 2008 Official California Visitor's Guide. A two page advertisement would have cost over \$60,000.

In the spring of 2007, the MCLA Board held a one-day retreat to review its structure, relationship with other organizations around the County, and relationship with its contractors. The imperative for MCLA to become the "center of gravity" for the promotion of Mendocino County resulted from this retreat. MCLA and MCPA were each responsible for different aspects of promoting the County without a structure for regular, day-to-day communications. The MCPA Board Chair was playing a vital role in the day-to-day operation of the MCPA in the absence of a CEO for the organization. The idea of having the MCLA Executive Director serve as the interim Executive Director of MCPA made sense to both organizations, and in October 2007 this was put into effect. This initial step to reduce duplication of effort and increase marketing effectiveness has proven very successful.

Over the past almost three years, MCLA has evolved into a more experienced and knowledgeable destination marketing organization. Much has been accomplished in promoting the County. Examples are:

1. Advertised in numerous publications leaving hundreds of millions of impressions and resulting in tens of thousands of direct inquiries
2. Received over \$5 Million in advertising value through unpaid PR efforts
3. Promoted Mendocino County to over 10,000 direct consumers through attendance at Travel Shows
4. Became the center of promotion of the entire North Coast region through involvement with and administration of the North Coast Tourism Council
5. Developed successful partnerships with the Arts Council of Mendocino County, Nature Tourism Coalition, and many other individual groups to enhance promotion of the County
6. Created a strong partnership with the MCPA & Mendocino Winegrape & Wine Commission in the establishment of the Joint Marketing Committee. Projects completed include a complete redesign of www.gomendo.com, creation of a trade show booth, completion of a County-wide marketing study, hiring of a County-wide event coordinator, and creation of printed fulfillment pieces
7. Created strong partnerships with the California Travel & Tourism Commission and the California Travel Industry Association

In early 2008, the Joint Marketing Committee (MCLA, MCPA, and MWWC) retained Randall Travel Marketing of North Carolina to conduct comprehensive travel research study for Mendocino County. Research was conducted during the five-month period of June 2008 through October 2008. MCLA held off on any major advertising efforts in the fall of 2008 to await the recommendations of the marketing study. MCLA continued its public relations and sales efforts, however, to ensure quality exposure along the West Coast and throughout the US.

District Boundary and Classification of Businesses

The District boundary for the assessment shall remain unchanged for fiscal 2009-2010 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.

Improvements and Activities Proposed for Fiscal Year 2009-2010

The results and recommendations of the Countywide marketing study became available in October 2008. Randall Travel Marketing submitted a detailed Mendocino County Travel Research Study ("Study") outlining recommended strategic initiatives for the short term (two years) and long term (five years). The Study includes tracking and return-on-investment benchmarks to measure success.

The study concluded that MCLA, MCPA & MWWC *"have established a good foundation/partnership and the time is right for strategic tourism growth going forward."* Among the 10 *"Strategic Direction"* recommendations was the need to *"Refine/streamline the successful marketing partnership between MCLA & MCPA."* The study confirmed the *"marketing and fulfillment program has been successful and is ready to move to the next level to drive increased return on investment."* While the current Board structure and funding of the two organizations was considered fine, specifically the study recommended:

- *Realigning of staff and streamlining the organizational structure so that work assignments and goals are clearly defined and aggressive deadlines are met*
- *Improve staff efficiency and communication*
- *Replace the Joint Marketing committee with a new organization titled "Visit Mendocino."*

The comprehensive Study contains detailed recommendations on how to market Mendocino County. A complete report and the Executive Summary are available from MCLA.

MCLA intensively discussed the marketing study and its recommendations. In their November 2008 meeting, the 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 can determine exactly where to market, what to market and how to market. The 2009-2010 marketing plan will be created based on the research outlined in the study. This is a huge step forward for MCLA as a destination marketing organization.

The establishment of Visit Mendocino County, Inc. (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. Combining staff and other resources of the two groups enables those making day-to-day decisions to; become more efficient in their activities; decrease

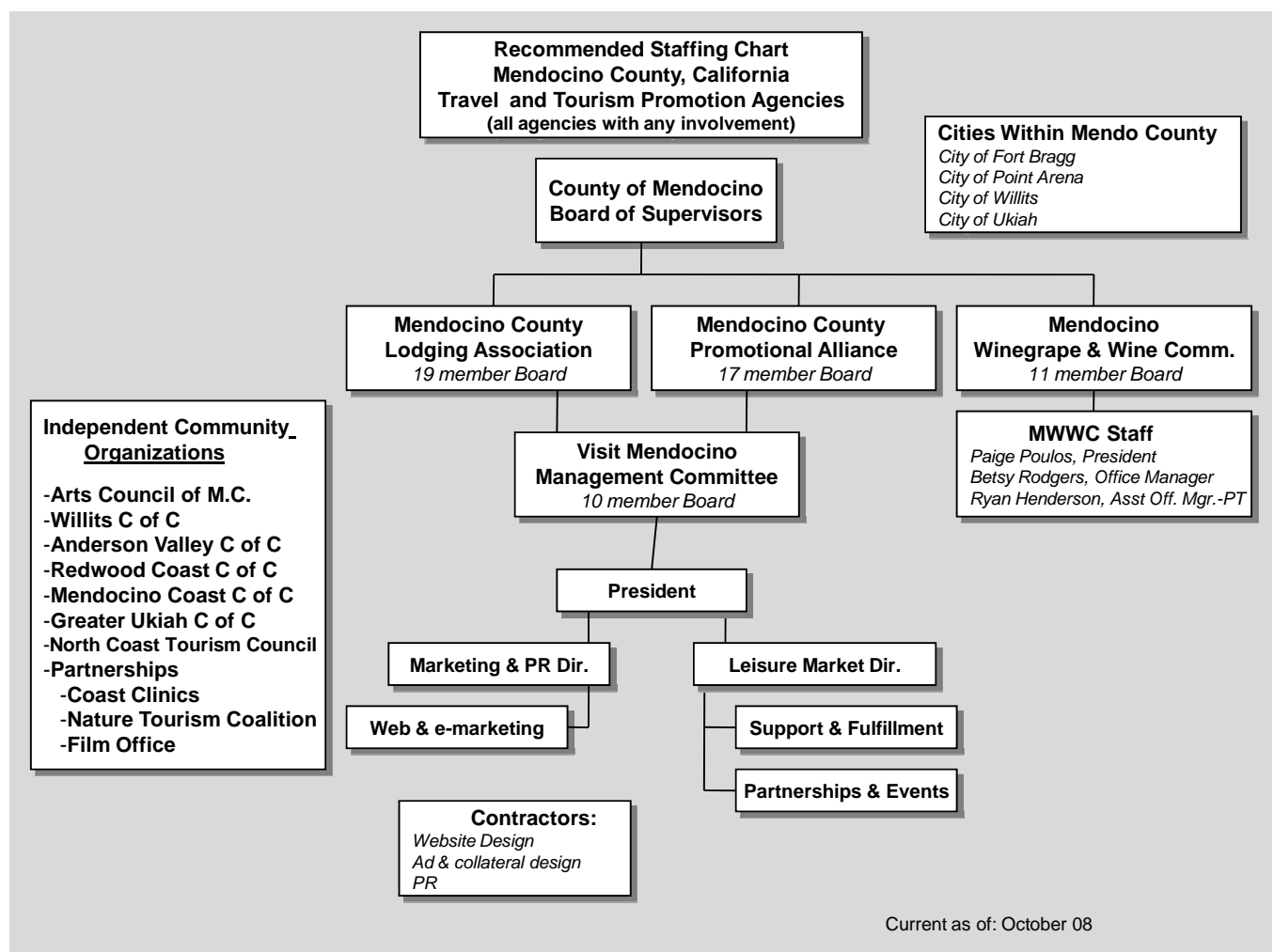
duplication of effort; and create a comprehensive approach to achieve key programs and activities for marketing the County.

The primary function of the VMC is to carry out the annual marketing plan as approved by The MCLA Board. VMC and its staff will be responsible for making that plan a reality. The annual marketing plan will include a budget specifying how the allocated funds are to be used.

VMC will consist of 10 individuals – 5 from the MCLA Board and 5 from the MCPA Board. Members of MCLA's Executive Committee will serve on the committee as well as one other appointed Board Member. MCPA will have 2 members representing the wine industry, one representing the art industry, one representing the Chambers, and one member-at-large to be appointed by the MCPA Board. This make-up will provide quality individuals with experience in the promotion of our County.

According to Randall Travel Marketing, 99% of destinations market themselves with one organization. It is their strong recommendation for us to market with, essentially, one organization – Visit Mendocino [County], Inc.

The proposed structure as recommended in the Study is as follows:



Once the marketing plan is approved, the MCLA Board will continue to monitor and safeguard the use of its funds throughout the year. In the contract with VMC, there will be stipulations protecting MCLA's funding should VMC not perform the marketing plan as outlined or become dysfunctional for any reason.

So much has been learned over the past three years. Powerful partnerships have been created throughout the State and the World. Effective advertising and public relations campaigns have been created, yet there is still a great deal to be done. The Study provides a recommended framework for moving forward and ensuring that BID funds are spent effectively for the benefit of the tourist industry and Mendocino County as a whole.

The specific services, activities and programs to be provided for the 2009-2010 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 as follows:

- A. The general promotion of all lodging 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 effort including the research and development of statistical reports for quantitative analysis of district marketing efforts.
 - 5. Establishment of reserve and/or contingency fund to ensure financial viability and flexibility to support services, programs, and activities that benefit the lodging operators in the District.
 - 6. Develop, support and provide fulfillment programs and related activities preferably with the cooperation with the Mendocino County Winegrape and Wine Commission, the Mendocino County Promotional Alliance and/or the Mendocino County Lodging Association, 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, etc.

Estimated Cost of Services/Proposed Budget

The County of Mendocino collected \$634,326.53 in the second fiscal year of the BID (July 2007 – June 2008) to provide for the services, activities and programs of the District. The County of Mendocino has collected approximately \$346,421.90 in the first two quarters of the third fiscal year of the BID. Pursuant to the Mendocino County Code, the County of Mendocino has entered into an agreement with the Mendocino County Lodging Association 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 \$621,150.00 for District services, activities and programs for fiscal year 2008-2009.

The BID Advisory Board recommended in 2007 that a reserve (contingency) account be maintained 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. The \$100,000 (One Hundred Thousand Dollars) targeted fund balance for the reserve account has been reached and is secured in an interest-bearing account.

The 2009-2010 fiscal year budgeted cost of services, activities, and programs of the District is \$600,000.00 (Six Hundred Thousand Dollars) This estimated budget is lower than the 2008-2009 budget to take into account the current poor economic conditions surrounding the overall travel and tourism industry. 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 \$6,000.00. Therefore gross District income requirements for the 2009-2010 fiscal year is estimated to be \$606,000.00 (Six Hundred Six Thousand Dollars):

The proposed budget from net District assessment income for the 2009-2010 fiscal year is:

| | | | | |
|-------------------------|---|---------------------|---|-------|
| Marketing | = | \$476,000.00 | = | 79.4% |
| Partnership | = | \$44,000.00 | = | 7.3% |
| Administration/Staffing | = | \$50,000.00 | = | 8.3% |
| Contingency/Reserves | = | \$30,000.00 | = | 5% |
| Total | | \$600,000.00 | | |

Method and Basis for Levying the Assessment

The method, basis, rate and collection process of the assessments will remain the same for fiscal year 2009-2010, 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 an assessment 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 quarterly basis.

Contributions from Other Sources

The County of Mendocino is required to provide matching funds at least equal to 50% of the total assessment collected by the District. Those matching funds can only be directed to the

MCLA and/or the Mendocino County Promotional Alliance (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) and the matching funds must be used for countywide promotion.

Based upon the estimated costs in this Annual Report, the District is estimated to collect \$606,000.00, in assessments, which will require County of Mendocino to budget for matching funds in an amount of at least \$303,000.00. (Three Hundred and Three Thousand Dollars). The matching funds shall be used for countywide promotion and marketing and primarily for the purposes of fulfillment, including, but not limited to; mailing and postage; website development and maintenance; servicing telephone, website and other visitor inquiries; creation of fulfillment publications, such as brochures, a travel planner and/or visitor guide; and the development and funding of co-operative marketing and promotional opportunities, as applicable.

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, which should include a major payment within 30 days following the collection of the assessment with 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. The Advisory Board would encourage the Board of Supervisors to have County staff exhibit less tolerance for the nonpayment of BID assessments in the future.

Mendocino County Lodging Association Business Improvement District

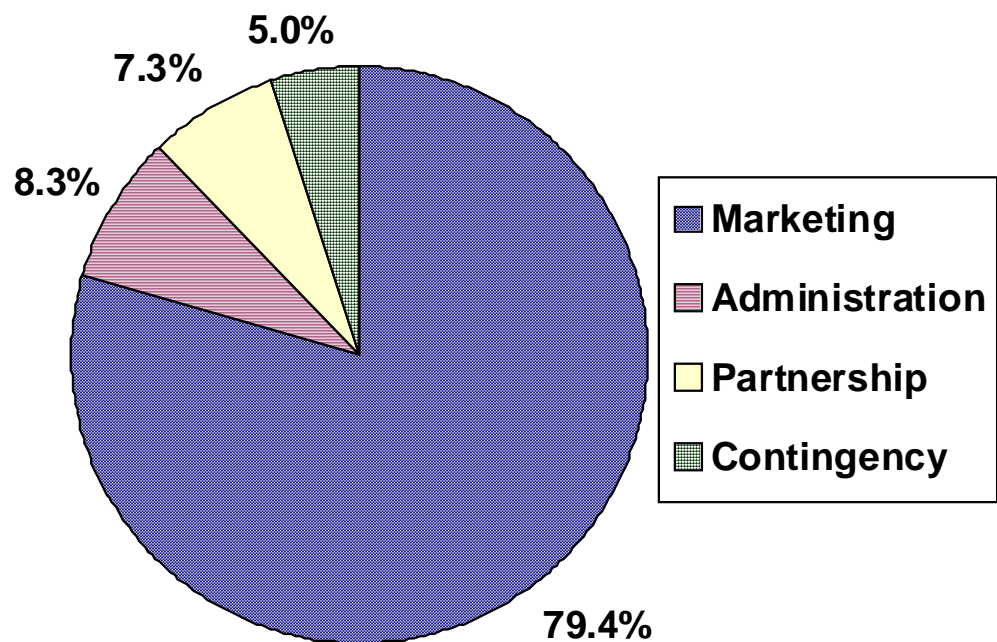
2009 – 2010
Proposed Budget

Receipts

| | |
|--|----------------|
| Estimated gross income from assessments | \$606,000 |
| <u>Less: Estimated BID Administration Fees Paid to County 1% max</u> | <u>\$6,000</u> |
| Net available income from assessments | \$600,000 |

Expenses by Category Totals

| Description | Amount | % Total Expense |
|----------------------|---------------------|-----------------|
| Marketing | \$476,000.00 | 79.4% |
| Partnership | \$44,000.00 | 7.3% |
| Administration | \$50,000.00 | 8.3% |
| Contingency/Reserves | \$30,000.00 | 5% |
| Totals | \$600,000.00 | 100% |



2009 – 2010 Expenses By Categories

PARTNERSHIPS

| | |
|---|---------|
| Project Management | 15,000* |
| Collaborative Projects | 24,000 |
| Partnership Related Travel (CTTC, CalTIA, NCTC) | 5,000 |

| | |
|---------------------------|---------------|
| Total PARTNERSHIPS | 44,000 |
|---------------------------|---------------|

MARKETING

| | |
|--|---------|
| Advertising (including graphic design) | 150,000 |
| PR Contracts & Activities | 125,000 |
| Fulfillment and other marketing activities | 25,000 |
| Website maintenance and redesign | 32,000 |
| Sales effort (travel shows, etc.) | 28,000 |
| Marketing/PR Management | 95,000* |
| Marketing/PR Related Travel | 15,000 |
| MCLA Quarterly Newsletters (printing, copying, shipping) | 4,000 |
| MCLA Annual Meeting | 2,000 |

| | |
|------------------------|----------------|
| TOTAL MARKETING | 476,000 |
|------------------------|----------------|

MCLA ADMINISTRATION

| | |
|--|---------|
| Insurance – Board of Directors | 2,000 |
| Meeting Expenses | 500 |
| Administrative Related Travel (mileage, meals, etc.) | 5,000 |
| Accounting Fees | 2,000 |
| Legal Fees | 2,500 |
| General Administration (staffing) | 27,000* |
| Office Space, as necessary | 5,000 |
| Postage, shipping, printing, copying | 1,500 |
| Office Supplies | 2,500 |
| Telephone & Telecommunications | 2,000 |

| | |
|----------------------------------|---------------|
| Total MCLA ADMINISTRATION | 50,000 |
|----------------------------------|---------------|

CONTINGENCIES & RESERVES

| | |
|-----------------------|--------|
| Contingencies – Other | 30,000 |
|-----------------------|--------|

| | |
|---|---------------|
| Total CONTINGENCIES & RESERVES | 30,000 |
|---|---------------|

| | |
|---------------------|----------------|
| TOTAL BUDGET | 600,000 |
|---------------------|----------------|

NOTES:

*** Total Staffing Costs to MCLA is \$137,000.00.**

- **According to Destination Marketing Association International (DMAI), destination marketing organizations should use 35-40% of their funds for staffing. Under this budget 23% will be used for staffing.**
- **Staffing costs are significantly increased this year due to the absence of a full marketing firm. Activities such as media planning, media buying, media placement, graphic design management, etc. will be undertaken by staff to save costs.**