

**Mendocino County Lodging Business Improvement District
Annual Report for fiscal year 2010-2011
(July 1, 2010 through June 30, 2011)**

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 2010-2011. 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

With the approval of this report by the Mendocino County Board of Supervisors, we will begin the fifth year of the 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 four years and significant accomplishments. MCLA has grown from an association focused solely on lodging to being an inter-organizational leader in promoting Mendocino County from a trade organization to a research-based destination marketing organization. This change has occurred with the hard work of MCLA’s Board of Directors, contractors, the Mendocino County Promotional Alliance (“MCPA”), the newly formed Visit Mendocino County, Inc. (“VMC”), the Mendocino Winegrape and Wine Commission (“MWWC”) and other organizations with whom MCLA has closely partnered.

In the spring of 2006, the BID was formed with only twenty four percent (24%) opposition within the local lodging industry. Immediately thereafter, MCLA sent out Requests for Proposals to 12 firms throughout 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 seventy percent (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 was inexperienced as to the marketing of a County. The MCLA Board also contracted for a part-time (20 hours per week) staff person to oversee the marketing firm scope of work as well as to conduct other business of the organization.

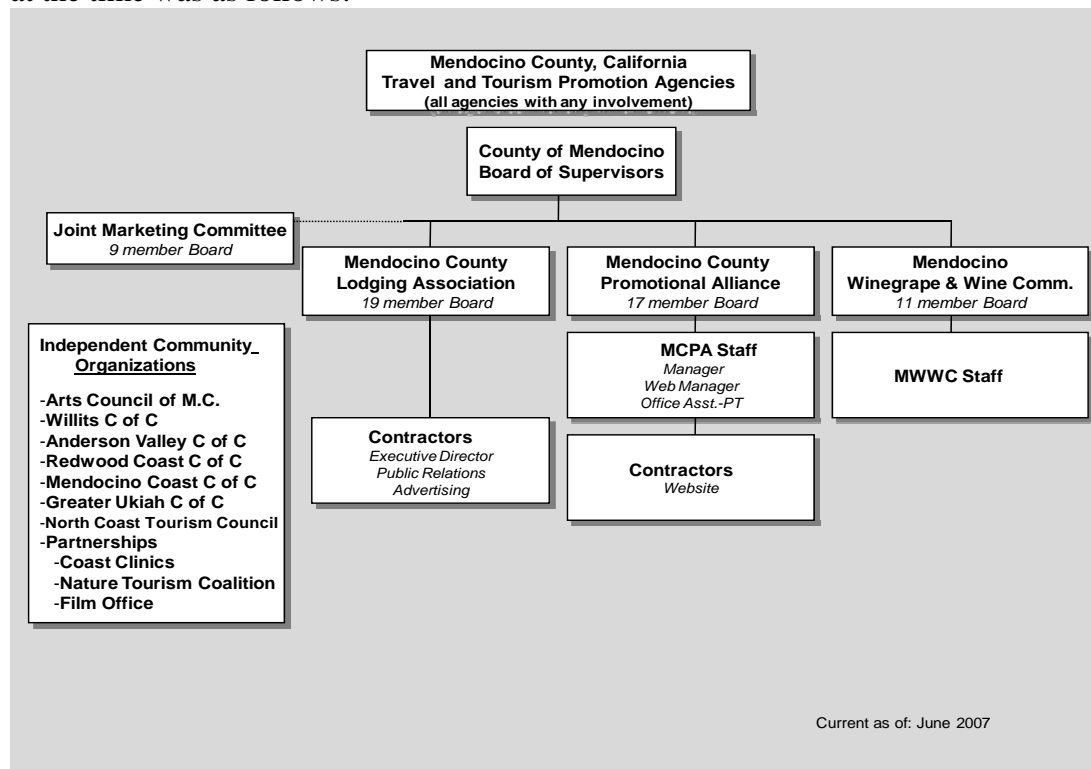
During the first few months of the BID, MCLA learned just how much was involved with managing a budget of \$550,000 to promote a County. Although the marketing firm was responsible for the implementation of the marketing, it quickly became apparent that the time and energy necessary to cultivate the partnerships MCLA was creating, following up with the marketing firm on advertising and public relations activities, and keeping lodging members informed required full-time attention. By the end of the first BID fiscal year, and 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 role in the promotion of the County. With time, it was apparent MCLA would have significant responsibility for bringing people into the County. It would also be responsible for taking care of the people once they came to the County. This is true not only for individuals visiting in

person, but also for prospective visitors going online to the GoMendo website, calling or writing for information, etc. Once the promotional effort initiated an inquiry, MCPA would take over responsibility for making sure individuals would indeed visit the County, answering their questions and making recommendations as to points of interest.

The Joint Marketing Committee was established in January of 2007 to provide a forum for MCLA, MCPA and the Mendocino Winegrape and Wine Commission to get together and work on projects collaboratively. A nine member committee was formed with three members from each organization serving on the committee. Initial projects of the committee included a new trade show booth, redesign of the gomendo website, 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 major growth for the organization. MCLA began to question the wisdom of allocating seventy percent (70%) of its budget to one marketing firm. The MCLA Board decided to contract separately for advertising and public relations. It wanted a more direct relationship with its public relations firm, HypeHouse. There were also discussions about MCLA doing its own media buying to eliminate payment of a commission to contractors when buying advertising.

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

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 tourism 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 if MCLA had purchased it on its own.

In the spring of 2007, the MCLA Board held a one-day retreat to review its structure, relationships with other organizations around the County, and relationships 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 four years, MCLA has evolved into a more experienced and knowledgeable research-based destination marketing organization. Much has been accomplished in promoting the County as the following examples show:

1. Advertised in numerous publications leaving hundreds of millions of impressions and resulting in tens of thousands of direct inquiries;
2. Received over \$7 Million in advertising value through unpaid PR efforts;
3. Promoted Mendocino County to over 15,000 direct consumers through attendance at Travel Shows;
4. Became the center of promotion of the entire North Coast region through leadership 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 & MWWC in the establishment of the Joint Marketing Committee. Projects completed include a redesign of www.gomendo.com, creation of a comprehensive sales program, formulation 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 and Tourism Commission and the California Travel Industry Association;
8. Partnering in the completion of a comprehensive Countywide Marketing Research Study resulting in joining resources and eliminating duplication with the creation of VMC;

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

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 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 in order to be most effective. The 2009-2010 Marketing Plan was created based on the research outlined in the research study. This is a major step forward for MCLA as a destination marketing organization.

VISIT MENDOCINO COUNTY, INC.

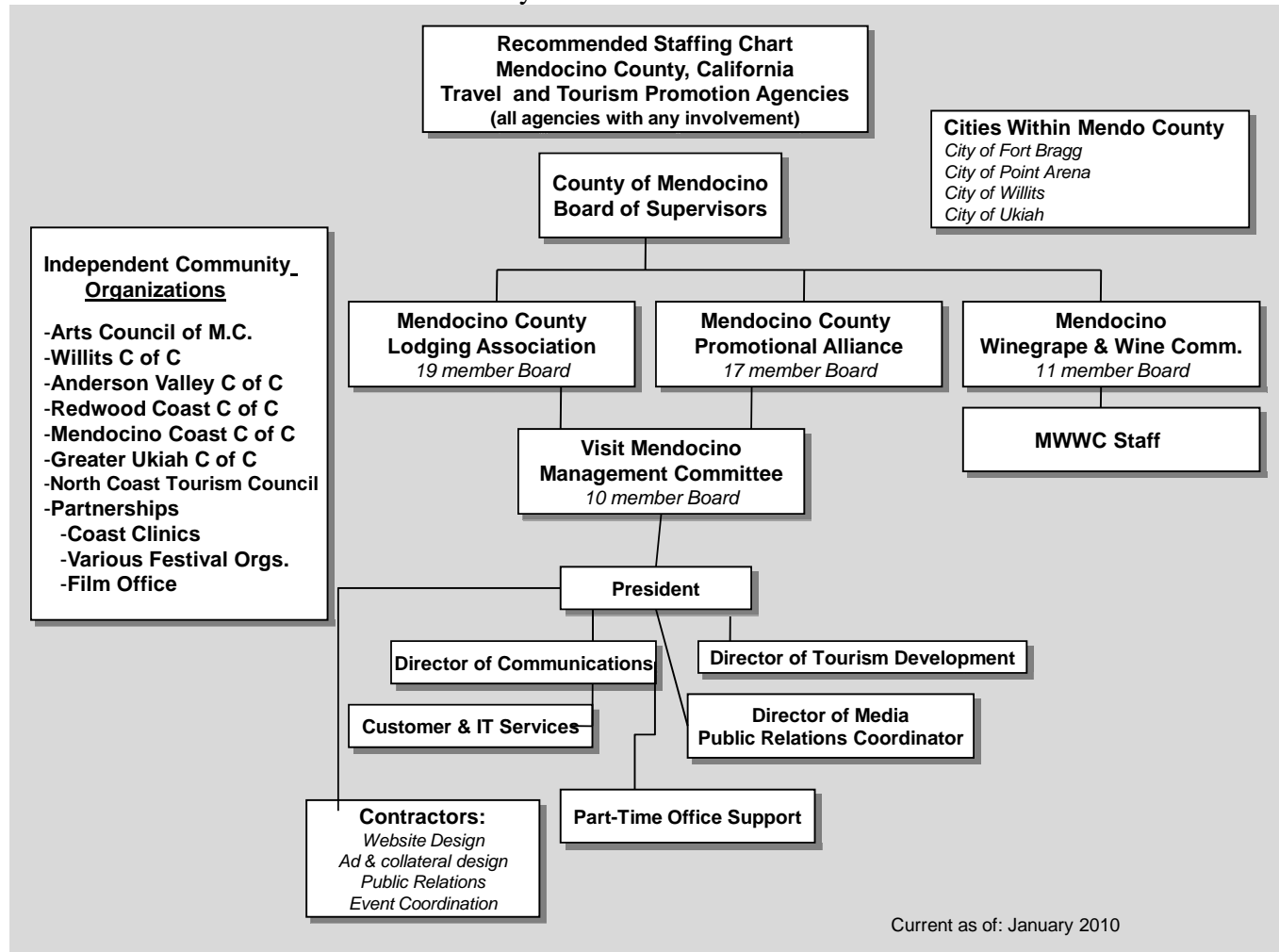
The establishment of VMC enables MCLA and MCPA to work together more closely than ever to create a structure where, essentially, one group is responsible for all aspects of marketing the County. MCLA and MCPA began contracting with VMC for marketing and administration services on July 1, 2009. Combining 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. The 2009-2010 approved Marketing Plan can be considered a major success thus far. At this point BID income for July - Sept is up by two point eight percent (2.8%) over the same period in 2008. This is a clear indication of accurate research and the quality of the resultant marketing plan. As a point of comparison, during the same period, there was a 18% decrease statewide in lodging revenues.

VMC consists 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 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. Thus, representation on the VMC Board provides a range of individuals with diverse experience in the promotion of our County.

According to Randall Travel Marketing, ninety-nine percent (99%) of destinations market themselves with one organization. It is their strong recommendation for us to also market with, essentially, one organization – Visit Mendocino County, Inc.

The structure as recommended in the Study is as follows:



Improvements and Activities Proposed for Fiscal Year 2010-2011

The specific services, activities and programs to be provided for the 2010-2011 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 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 to support 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, etc.

Once the 2010-2011 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 are stipulations protecting MCLA's funding, should VMC not perform the marketing plan as outlined or become dysfunctional for any reason.

Estimated Cost of Services/Proposed Budget

The County of Mendocino collected \$616,785 (Six Hundred and Sixteen Thousand Seven Hundred and Eighty Five Dollars) in the fiscal year July 2008 – June 2009 to provide for the services, activities and programs of the District. The County of Mendocino has collected \$261,899 (Two Hundred Sixty One Thousand Eight Hundred and Ninety Nine Dollars) in the first four months of fiscal year 2009-2010. 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 2009-2010.

The BID Advisory Board recommended in 2007 that a reserve (contingency) account be maintained for possible unexpected expenses that are consistent with applicable laws and 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 and is secured in an interest-bearing account. The proposed budget for the fiscal year 2010-2011 is conservative in the opinion of MCLA and the BID Advisory Board. In the event of a BID revenue shortfall, MCLA will consider the use of contingency funds as appropriate.

The 2010-2011 fiscal year budgeted cost of services, activities, and programs for the District is \$570,000 (Five Hundred Seventy Thousand Dollars) This estimated budget is lower than the 2009-2010 fiscal year budget taking into account the current economic climate. 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 \$5,000 (Five Thousand Dollars). Therefore gross District income requirements for the 2009-2010 fiscal year is estimated to be \$565,000 (Five Hundred Sixty-five Thousand Dollars):

The proposed budget from net District assessment income for the 2010-2011 fiscal year is:

Marketing	=	\$470,000	=	83.2%
Partnership	=	\$45,000	=	8%
Administration/Staffing	=	\$50,000	=	8.8%
Total		\$565,000		

District Boundary and Classification of Businesses

The District boundary for the assessment shall remain unchanged for fiscal year 2010-2011 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 2010-2011, 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 quarterly 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) 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 \$570,000 (Five Hundred Seventy Thousand Dollars), in assessments, which will require the County of Mendocino to budget for matching funds in an amount of at least \$285,000 (Two Hundred Eighty Five Thousand Dollars). The matching funds shall be combined with the BID Assessment in order to implement the approved 2010-2011 marketing plan.

The collaboration between MCLA and MCPA through the development of VMC has thus far proven to be an effective use of funds, resulting in marketing strategies that are more targeted and efficient. Duplication of effort within the overall Countywide marketing efforts has been greatly reduced. 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 organizations, businesses, and individuals working together to promote the County than ever before!

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.

The Advisory Board encourages the Board of Supervisors to instruct and support County staff in exhibiting less tolerance for the nonpayment of BID assessments in the future.

Mendocino County Lodging Association
Business Improvement District

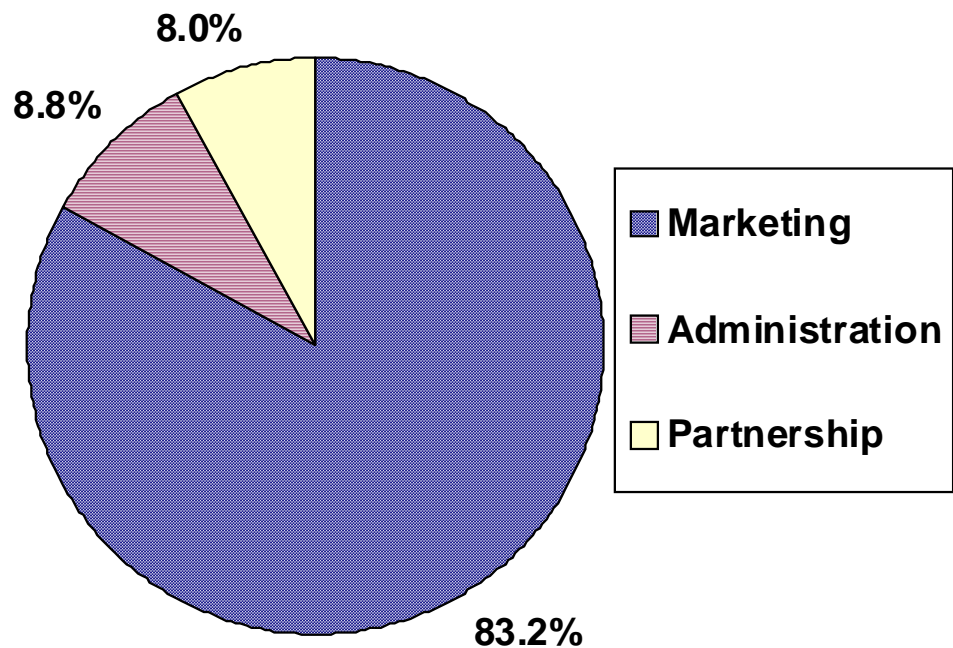
July 2010 – June 2011
Budget

Receipts

Estimated gross income from assessments	\$570,000
<u>Less: Estimated BID Administration Fees Paid to County 1% max</u>	<u>\$5,000</u>
Net available income from assessments	\$565,000

Expenses by Category Totals

Description	Amount	% Total Expense
Marketing	\$470,000.00	83.2%
Partnership	\$45,000.00	8%
Administration	\$50,000.00	8.8%
Totals	\$565,000.00	100%



July 2010 – June 2011 Expenses By Categories

PARTNERSHIPS

Project Management	10,000
Collaborative Projects	25,000*
Partnership Related Travel (CTTC, CalTIA, NCTC)	10,000

Total PARTNERSHIPS	45,000
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MARKETING

Advertising (including graphic design)	150,000
PR Contracts & Activities (includes travel, hosting media)	140,000
Fulfillment and other marketing activities	39,000
Website maintenance and redesign	10,000
Sales effort (travel shows, etc.)	30,000
Marketing/PR Management	95,000
MCLA Quarterly Newsletters (printing, copying, shipping)	4,000
MCLA Annual Meeting	2,000

TOTAL MARKETING	470,000
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MCLA ADMINISTRATION

Insurance – Board of Directors	2,000*
Meeting Expenses	500
Administrative Related Travel (mileage, meals, etc.)	5,000
Accounting Fees	1,500
Legal Fees	1,000*
Audit	4,000*
General Administration (staffing)	25,000
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
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TOTAL BUDGET	565,000
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NOTES:

- All but the starred (*) items will be included and funded as part of the contract with VMC for implementation of MCLA Board approved 2010-2011 marketing plan. Individual category amounts will change dependent on final approved Marketing Plan. No more than 10% of BID funds will be used for administration purposes.