



CITY COUNCIL AGENDA REPORT

MEETING DATE: May 6, 2014

ITEM NUMBER:

SUBJECT: BUSINESS IMPROVEMENT AREA (BIA) REAUTHORIZATION AND RESOLUTION OF INTENTION, AND REVIEW OF ANNUAL REPORT

DATE: APRIL 29, 2014

FROM: CITY CEO'S OFFICE

PRESENTATION BY: DANIEL K. BAKER, MANAGEMENT ANALYST
PAULETTE LOMBARDI-FRIES, PRESIDENT, COSTA MESA CONFERENCE AND VISITOR BUREAU

FOR FURTHER INFORMATION CONTACT: Dan Baker (714) 754-5156

RECOMMENDATION:

It is recommended that the City Council:

1. Receive and file the Business Improvement Area (BIA) annual report for Fiscal Year 2013-14 (Attachment 1).
2. Receive and file audited financial report for Fiscal Year 2012-13 (Attachment 2).
3. Approve Resolution No. 14-xx: A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COSTA MESA, CALIFORNIA, DECLARING ITS INTENTION TO LEVY AN ANNUAL ASSESSMENT FOR FISCAL YEAR 2014-2015 FOR A BUSINESS IMPROVEMENT AREA COVERING CERTAIN COSTA MESA HOTELS AND MOTELS AND SETTING THE TIME AND PLACE FOR A PUBLIC HEARING ON PROPOSAL. (Attachment 3)

BACKGROUND:

The California Legislature adopted the Parking in Business Improvement Area Law of 1989 (Streets and Highways Code, §36500), which enables cities to impose an assessment fee on businesses within an area designated by the city.

On July 5, 1995, the City Council adopted Ordinance No. 95-9 to establish a Business Improvement Area (BIA) for the purpose of assisting the hotel and motel industry in its promotion of tourism within the city. The BIA imposed a one percent (1%) assessment on the sale of hotel and motel overnight guest room stays. This money was to be used for the establishment and maintenance of a local tourism and promotion council. The Costa Mesa City Council authorized the city manager to enter into an agreement with the Costa Mesa Tourism and Promotion Council to develop and administer the BIA. In 2001, the Costa Mesa Conference & Visitor Bureau (CVB) became the administrator of the BIA.

In accordance with the CVB's bylaws (Attachment 4), the CVB's Board of Directors is currently comprised of 10 general managers from the 10 participating hotels, one member of the City Council, and the City Chief Executive Officer's designee.

In January 2000, the participating hotels requested an increase in the assessment from one percent (1%) to two percent (2%), which was approved. In October 2010, the participating hotels requested an increase to the assessment from two percent (2%) to three percent (3%). The increase was approved by Council resolution and became effective on November 1, 2010. The BIA benefit zone encompasses all areas within the boundaries of Costa Mesa.

ANALYSIS:

Currently, the number of properties included in the BIA assessment levy is limited to the 10 hotels that have expressed an interest in participating in the program as detailed in the resolution of intention (Attachment 3). Upon adoption of the resolution of intention, property owners of the participating hotels will be notified in writing within seven days of the assessment renewal, and the resolution will also be published in the Daily Pilot at least seven days prior to the public hearing scheduled for June 3, 2014 at 7 p.m. City staff will also notify all the hotels and motels in the city not currently included in the BIA to allow them the opportunity to be included in the BIA.

Property owners will be provided an opportunity to protest the annual assessment or address any concerns regarding the BIA at the public hearing. The City Council will vote to adopt or deny the resolution levying an annual assessment for the upcoming fiscal year, and makes the ultimate decision as to the size of and the properties to be included in the BIA. Once the annual assessment is approved, the assessment is collected along with the city's Transient Occupancy Tax (TOT). The hotels and motels included in the BIA are required to itemize the BIA levy as a separate assessment. The CVB staff manages the day-to-day activities and provides all services to administer the BIA.

Per the agreement between the City of Costa Mesa and the CVB and as required by Streets and Highways Code (§36533), the CVB is required to provide an annual review describing the programs and activities implemented during the previous fiscal year as well as the status of the programs and activities implemented during the current fiscal year (Attachment 1). The City Council may make recommendations and revisions to the annual report, which will ultimately be approved at the public hearing as part of the resolution to levy an annual assessment.

Also in accordance with the agreement between the city and the CVB, the annual audit for the 2012-13 Fiscal Year has been completed by Geller, Eperthener and McConnell, LLP, an independent auditor, and paid for by assessment funds. The audit is intended to ensure that the assessment revenue is expended for public purposes as specified within the resolution and that no expenditures are made in a manner contrary to the agreement. The Council is asked to receive and file the audit (Attachment 2).

Highlights of the 2013-2014 Fiscal Year

The CVB focused on marketing the "City of the Arts" over the past fiscal year with the goal of marketing the city's location and amenities and making Costa Mesa a desirable tourism destination. Through online marketing, print and social media, the CVB focused on the city attributes that would entice overnight guests to stay in Costa Mesa. The

CVB's campaign featured three pillars or highlights throughout the year -- "Art of Fashion," "Art of the Stage," and "Art of Dining."

The CVB partnered with the city on local programs, and sponsored Costa Mesa Restaurant Week and the OC Marathon. Focused on need times, the CVB continued the "50 Reasons to Stay," a successful new hotel package that ran during the summer and holiday timeframes.

The hotels within the CVB continued to make enhancements to their properties. The Hilton has completed a renovation of its ballroom space, added a new Executive Lounge Club, and created a sophisticated tech lounge in the lobby of the hotel and a Grab-n-Go pantry. The Holiday Inn Express (HIE) is completing upgrades to its guest rooms, lobby and Sunshine breakfast room. Added amenities to the HIE include the addition of a fitness center, pool and meeting room. The Costa Mesa Marriott remodeled its fitness center, and the Crowne Plaza launched the opening of the Fireside Tavern as well as created a welcoming porte-cochere entrance for guests.

New restaurants found their homes in Costa Mesa, which included Taco Maria and Greenleaf Gourmet Chopshop at the OC Mix, Seabirds Kitchen at The LAB, Fluff Ice and Jerry's Wood-Fired Dogs at Marquee CM, and H2O Sushi, Saddle Ranch Chop House and El Corazon de Costa Mesa at the Triangle.

The travel industry continues to drive growth to the state economy. According to Visit California, travel-related spending within the state was projected to reach \$106 billion in 2013 and total visits to the state of California are forecasted well above 200 million. According to Star Data Research, hotel occupancy in the state grew 2.8% to 70.7%, and the average daily rate (ADR) was \$130.45 – up 5.6% compared to 2012. Closer to home, Orange County occupancy grew 2.5% to 77.5%, and the ADR was \$121.61 – an increase of 8.4% (as reported by PKF Consulting). Participating hotels within the Bureau achieved an increase of 9.9% in occupancy, reaching 79.3% occupancy, and grew ADR to \$122.60, an increase of 2.4%.

Beginning this past fiscal year, the Bureau began marketing the City of the Arts™ to China, Canada and Mexico with the hope of welcoming these guests to our city. The Bureau has invested in translation to website and marketing collateral to reach these international markets. Within the next few years, they will be expanding their reach to additional countries.

ALTERNATIVES CONSIDERED:

The Council may vote to deny the resolution of intention, which will prevent a public hearing from taking place to consider the levying an annual assessment for the upcoming fiscal year.

FISCAL REVIEW:

The recently completed audit shows the CVB's cash equity as of June 30, 2013, to be \$1,316,832. According to the 2013-2014 annual report, the CVB has a total of \$1,757,752 in BIA actual revenues through March and is estimating to generate an additional \$493,753 for the months of April, May and June for an estimated fiscal year total of \$2.25 million.

The city receives one percent (1%) of the BIA revenue/assessment as partial reimbursement for its collection and administrative costs. The one percent (1%) allocated to the city for reimbursement is estimated at \$22,000 for the 2014-2015 Fiscal Year. This fee will sufficiently cover the costs incurred by the City of Costa Mesa in assisting the CVB. Examples of CVB expenditures include an advertising campaign, media relations, brochures/promotional items, video production, administration, special promotions, and hotel niche marketing.

Lastly, the City utilizes CVB funding for community-wide marketing and support. The Fiscal Year 2014-2015 proposed budget totaling \$164,000 is outlined in attachment 5. Beginning in FY 2014-2015, the City will budget and track revenues and expenditures of \$164,000 within the City's financial system. This budget will be annually added as an addendum to the existing Professional Services Agreement between the City and the CVB. The proposed addendum will be presented for review and authorization by the City Council at the June 3, 2014, public hearing. These changes will satisfy the recommendations in the audit that the City better track such expenditures. All expenditures of these funds will be on a reimbursement basis and will adhere to the City of Costa Mesa purchasing policy guidelines.

LEGAL REVIEW:

Legal counsel has prepared the resolution of intention and reviewed the documents and approved as to form.

CONCLUSION:

Adoption of the resolution of intent is the initial step in the reauthorization of the BIA assessment. State law mandates the specific procedure to be followed in the establishment of such an area. Staff will make a presentation to the City Council on the implementation of the BIA assessment at the public hearing on June 3, 2014, but the City Council must approve the proposed resolution of intention before the hearing can be scheduled to consider the levying of an annual assessment.

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DISTRIBUTION: Costa Mesa Conference & Visitor Bureau

- ATTACHMENTS:
- 1 [Fiscal Year 2013-14 Annual Report for the BIA](#)
 - 2 [Completed Audit of Fiscal Year 2012-13](#)
 - 3 [Proposed Resolution of Intention](#)
 - 4 [Bylaws of Costa Mesa Conference & Visitor Bureau](#)
 - 5 [Annual Community-wide marketing and support budget](#)