



**Report to the City Council  
on a Possible Business Improvement or Tourism  
Improvement District  
in the City of Coronado**

**January 19, 2010**

*Presented by Marco Li Mandri, President  
New City America, Inc.*



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June 2002**

## EXECUTIVE SUMMARY/OVERVIEW

In June, 2009, the Coronado Chamber of Commerce sought one-time funding from the City of Coronado to finance a proposed "Small Business Catalyst Program". Because of the impact on the City's finances, the City Council instead appointed an Ad Hoc Advisory Committee to investigate the feasibility of creating a Business Improvement District, or some other alternative financing mechanism as a means of funding a destination marketing program. A consulting firm, New City America, Inc., was contracted by the City to assist in this process. The purpose of this document is to report back to the City Council on the work and findings of the Committee, the consultant and staff and to seek approval of a plan to fund a destination marketing program.

This document is intended to answer several inter-related questions.

### **Is there a problem and, if so, what is it?**

Coronado, like other cities, is facing a confluence of events on a national, state and local level that has affected its hotel and retail industry. These events ultimately affect the City's financial capacity to provide "general benefit" services to its residents, which are financed, in part, by the hotel and sales tax revenues generated by these industries.

Currently, the business community does not have a destination marketing program to attract tourists and daytime visitors to the City. There are other factors that affect the viability of the City's retail industry. These factors include sales leakage, a small population base, isolated geography, etc. To assess the economic conditions that Coronado businesses are facing, outreach meetings were held and a survey was conducted. The survey sampling revealed that many retailers are struggling to stay in business; many retailers are struggling to attract customers over the bridge to their business; and many retailers view the loss in sales as an ongoing problem.

### **Is a destination marketing program the solution to the problem?**

Most retailers believe that a destination marketing strategy would benefit the local businesses and that it would be supported by the businesses but not by residents. Without a systematized mechanism for promoting local retail businesses regionally, the Coronado business district is at a disadvantage. This is in contrast to nearby competitors (ex: Gaslamp and Little Italy) who have well funded marketing strategies and are attracting customers with disposable income.

Elements of a Coronado destination marketing program could include, but are not limited to, branding, internet marketing, special events, marketing campaigns targeting residents of downtown San Diego and cruise ship patrons, and marketing campaigns emphasizing alternative modes of transportation to Coronado.

**Is there a viable funding mechanism available that can finance a destination marketing program?**

The Committee explored how to achieve a destination marketing campaign. These ideas included altering the existing contracts of the three community organizations; increasing parking meter fees to fund marketing efforts; and creating a special benefits assessment district. These mechanisms could be employed jointly or separately. Viewed separately, it was determined that a special benefits assessment district was the most viable means of financing an effective marketing campaign.

The Committee focused its energy on exploring the possibility of a Tourism Improvement District (TID) that would levy a 0.5% to 1% surcharge on room occupancy at the four largest hotels in Coronado. Such a surcharge could generate sufficient funding to underwrite the destination marketing strategy envisioned to address both the hotel and retail industry.

**What effect would the proposed funding mechanism have on the financial resources of the City of Coronado?**

In addition, the Committee looked at how a TID could also generate funding to support the work of the three community organizations (Chamber of Commerce, CHA/Visitor Center, and MainStreet) that serves visitors. Different ideas were discussed on how some or all of the existing funding provided by the General Fund to financially support these organizations could come from a TID, so long as the remaining TID funding is used for the purpose of a destination marketing program.

The Committee also felt that having a 0.5% to 1% surcharge for a TID would not constrain the City's future ability to increase its transient occupancy tax to supplement the City's General Fund because its current rate of 8% is significantly lower than surrounding municipalities and other destination cities in Southern California.

This report reflects the combined efforts of New City America, City staff and members of the Ad Hoc Advisory Committee.

## II. IDENTIFICATION OF PROBLEM

Coronado, like other cities, is facing a confluence of events on a national, state and local level that has directly affected the hotel and retail industry. These events ultimately affect the City's financial capacity to provide "general benefit" services to its residents, which are financed, in part, by the tax revenues generated by these industries.

### A. Macro Economic Trends:

The City of Coronado, consistent with many cities in the County and throughout the state, is in the process of a great realignment of resources, based upon the instability of historic revenue sources. Though the impact from the decline of these revenue sources varies from city to city, no city is immune to its impact. Please consider the following:

- The United States is in a deep recession. In January 2009, stocks had their worst January in the 113 year history of the Dow Jones Industrial Average. The five months leading up to last January saw a total decline of 31% in the stock market which was the sharpest drop since December 1937. (Wall St. Journal, January 31, 2009);
- Unemployment has hit records not seen in almost 70 years. The unemployment rate in California has soared passed 12% and unofficially is closer to 19%. In the United States, it is 10.8% but when those who have stopped seeking jobs are included, it rises to over 17%. The average duration of unemployment reached 29 weeks in December 2009, the longest since the government began tracking such data in 1948. (WSJ, January 9, 2010)
- For years households spent in excess of their household income by borrowing against the equity in their homes, leaning on credit cards and tapping stock portfolios. But home prices have plummeted, stock holdings have diminished and banks have sliced credit even for healthy borrowers, leaving the paycheck as the primary source of household finance. The spending binge that the US economy relied on during the past seven years has disappeared. (WSJ, January 9, 2010)
- The State of California faces a \$21 billion dollar budget shortfall though June 2011 according to the non-partisan Legislative Analyst. The deficit is expected to be worse in the years beyond 2011, as temporary taxes expire and raids on local government funds must be repaid by Sacramento. The Legislative Analyst projected a 21.3 billion dollar deficit in 2011-12 and a 23 billion dollars shortfall in fiscal 2012-13. Even

those numbers could be conservative as they assume no raises for state workers and no cost of living adjustments for government programs. They also assume that California will win all pending court cases in which billions of dollars in service cuts are being challenged. Until at least June of 2015, the report projected California will face annual budget shortfalls of about \$20 billion per year. (LA Times, November 19, 2009, pg A-8).

## **B. Micro Economic Trends:**

Locally, various economic trends affecting tourism, retail sales and property taxes have been and will continue to affect the general revenues of the City of Coronado. These include the following:

- **The tourism industry** is suffering its greatest decline since 9/11. In the summer of 2008, the airline industry was put into an economic tailspin by the increase in oil prices to almost \$140 per barrel. Soon after oil prices stabilized, there was a dramatic decline in business travel due to the corporate and banking crises. Since the hotel industry is so sensitive to business travel, this decline has led to unprecedented drops in hotel occupancies and room rates. The resulting decline of TOT in Coronado has been significant.
- **The major retail industry** is going through its greatest upheaval in almost 50 years. The debt ratio of shopping mall companies is unprecedented and financing for inventory has been nearly eliminated. In April 2008, General Growth Properties Inc. filed the biggest real estate bankruptcy in U.S. history after amassing \$27 billion dollars in debt during the acquisition spree that turned it into the second largest shopping mall owner in the US. (Bloomberg News April 16, 2008)

Data released on January 5, 2010 by Reis Inc., showed that the vacancy rate of shopping centers (mostly strip malls) hit 10.6% in the fourth quarter of 2009, an 18 year high. For regional malls, it was 8.8%, the highest vacancy level on record since Reis began tracking regional malls in 2000. (WSJ January 6, 2010)

- **Retail sales** have also declined. The drop in consumer spending has to do with a major increase in unemployment and the elimination of disposable income resulting from the inability to realize previous lines of credit from people's homes. Additionally, the national savings rate has increased to almost 8%, creating a lot less consumer dollars chasing goods.

Though holiday sales in 2009 were better than expected, the Christmas season ended a year that saw the biggest sales decline in at least four decades according to the International Council of Shopping Centers. Sales for 2009 fell 2% from 2008. Stores cut inventories 20 to 30% for the 2009 holiday season. (San Jose Mercury News, January 8, 2010)

Taxable retail sales in San Diego County dropped by 1.4% in FY 2008, 9.2% in 2009 and 15% in the first half of FY 2010, which ended in December 2009. (San Diego Union Tribune, January 10, 2010)

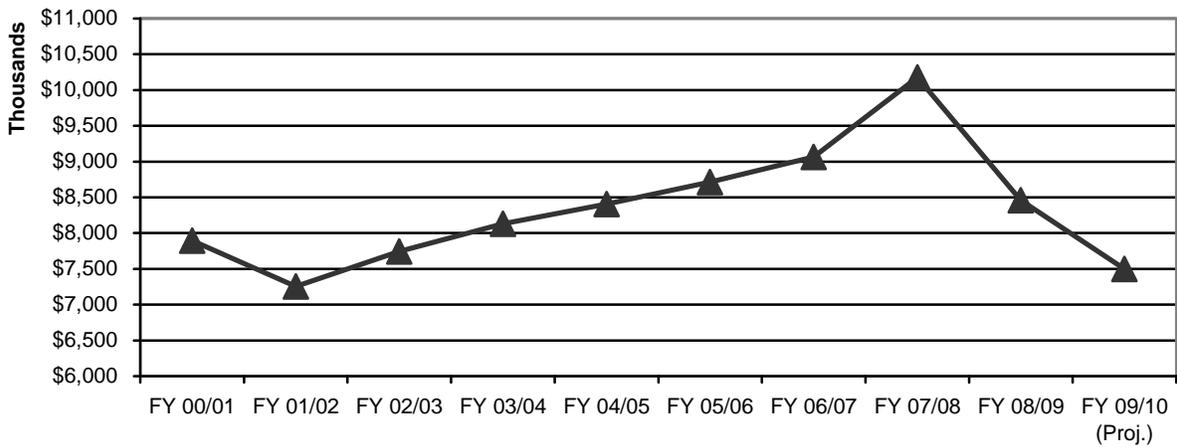
- **Regionally property taxes** will continue to decline as people appeal their home values, coupled with a historically high foreclosure rate. Although Coronado has not experienced the foreclosure rates or declining property values that neighboring cities have, its property tax base is not immune to the real estate decline. It is expected that there will be flat or negative growth in assessed valuations in the next year, and the City will not experience the 8% to 10% growth rates of the last 5-10 year period.

The property tax base of San Diego County eroded by an estimated \$9 billion in FY 2009-10 due to increased property reassessments. "When property that was once valued at \$700,000 is sold for \$400,000 it can take 24 years to get back to the former tax rate, since Prop 13 allows you to raise the tax at only 2% per year" (Donald Steuer, Chief Financial officer of San Diego County, SDUT January, 10, 2010).

### **C. Impact of Trends on City Services;**

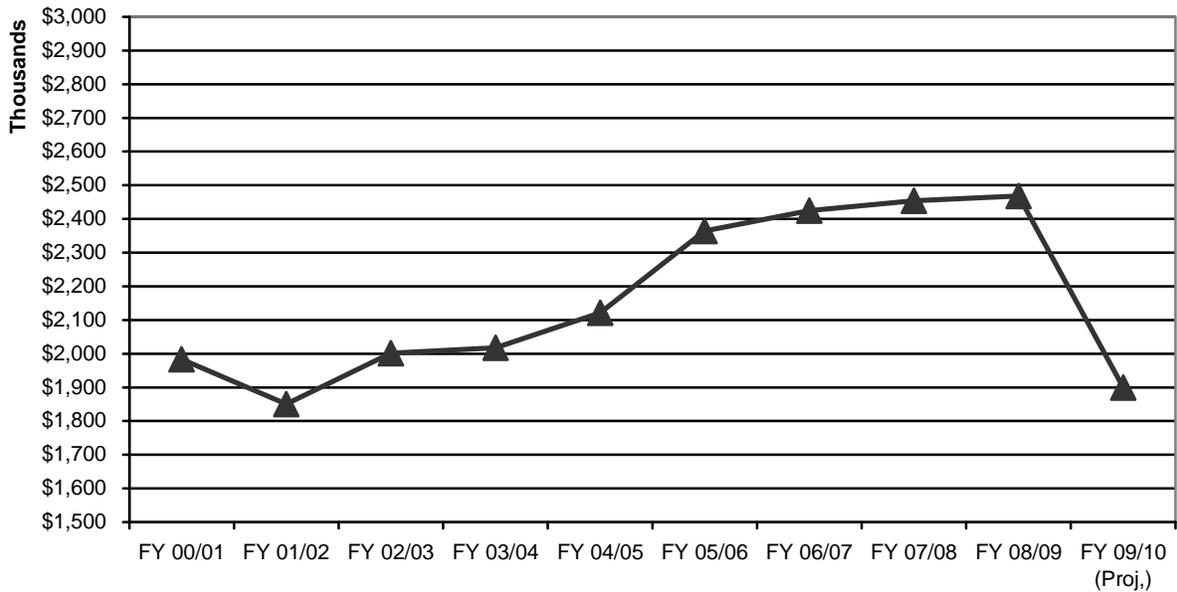
The impact from the above-stated macro and micro economic trends upon the City's general fund budget will be significant. Consider the following two factors affecting the City's general fund:

***Hotel Taxes:*** From a high in FY 2007-08 of \$10.2 million, transient occupancy taxes (TOT) are projected to **drop by 26% in** FY 2009-10 to \$7.5 million in FY 2009-10. Provided below is a chart illustrating the level of TOT provided to the City over the last 10-year period:



Source: City of Coronado, Administrative Services Department

**Sales and Use Taxes:** Sales taxes in Coronado come primarily from visitor-serving retail businesses. The drop in hotel taxes, therefore, is a strong indicator of a corresponding decline in sales taxes. Sales and Use Taxes (SUT) are projected to **drop by 21%** in FY 2009-10, from \$2.4 million in FY 2008-09 to a projected \$1.9 million in FY 2009-10. The projected decline in Sales Taxes is not as great as the decline in hotel taxes because not all sales taxes are generated by the tourist dollar. Provided below is a chart illustrating the level of SUT provided to the City over the last 10-year period:



Source: City of Coronado, Administrative Services Department

The impact from declining sales has affected Coronado's business community. Although there are many reasons why businesses close (e.g. retirement, failed business, lost lease, etc.), as illustrated by the table below, during the past four years, the net growth in businesses has decreased while turnover has increased significantly since 2007.

	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
New Business	9	13	11	17
Business Loss	2	6	9	15

In light of the economic trends and the already declining tax base, the ongoing impact of the economic decline upon the City's general fund budget could be significant.

**D. Comparison with Surrounding Communities:**

The impact of national and state economic trends on Coronado's hotel and retail industry are not unique. Please see the tables provided below that show Coronado compared to other municipalities in San Diego County where tourism provides a significant source of tax revenues:

*Transient Occupancy Taxes (TOT) by City (in millions):*

<i>City</i>	<i>FY 07-08 Actual</i>	<i>FY 08-09 Actual</i>	<i>Variance</i>	<i>FY 09-10 Projected</i>	<i>Variance</i>
Coronado	\$10.2	\$8.5	(20%)	\$7.5	(13%)
San Diego	\$159.3	\$ 173 (not actual)	9%	\$127.6	(26%)
Carlsbad	\$14.2	\$12.7	(12%)	\$12.1	(5%)
Del Mar	\$1.2	\$1.4	16%	\$1.2	(16%)
Newport Beach	\$12.8	\$11.2	(12.5%)	N/A	N/A

Note: For Del Mar, the largest hotel was closed for seven months in FY 2007-08. For San Diego, approximately 3,000 new hotel rooms opened during FY 08-09, but occupancy percentage in existing hotels dropped. For San Diego, FY 09-10 TOT & SUT projection to be further adjusted as part of mid-year report.

*Sales Taxes by City (in millions):*

<i>City</i>	<i>FY 07-08 Actual</i>	<i>FY 08-09 Actual</i>	<i>Variance</i>	<i>FY 09-10 Projected</i>	<i>Variance</i>
Coronado	\$2.5	\$2.5	-	\$1.9	(15%)
San Diego	\$234.9	\$249.2	6%	\$190.7	(23%)
Carlsbad	\$28.0	\$24.7	(13%)	\$23.0	(8%)
Del Mar	\$1.0	\$1.0	-	\$1.0	-
Newport Beach	\$29.9	\$25.4	(15.1%)	\$27.3	8%

As represented by this small sampling, the City of Coronado's decline in TOT and SUT has been significant as in other coastal cities in San Diego County that also rely on tourism.

**E. Use of General Funds to Support Community Organizations**

In the current fiscal year (FY 2009-10), the City provided over \$1 million in general fund revenues to various community organizations. Of that amount, 51% was provided to three organizations whose missions, to varying degrees, is to promote/support Coronado businesses and serve visitors once they arrive. Those three organizations include the Coronado Historical Association/Visitor's Center (\$359,300), the Chamber of Commerce (\$79,400) and Coronado Main Street (\$88,675). Each organization has its own Board of Directors and its own set of priorities which, when combined, create a rich mix of services with the end product being one of the most attractive and quaint beach community business districts in the State of California. However, even with this level of support from the City, these three organizations do not necessarily have the financial means to effectively market and promote Coronado regionally. Additionally, it is unknown for how long the City will be able to continue providing the same level of funding to the various community organizations.

**F. Other Factors Affecting Coronado:**

As stated previously, the Coronado retail industry is primarily visitor serving, relying heavily on the tourist dollar. Coronado residents tend to leave the City for many basic purchases such as general merchandise, home furnishings, building materials/home improvement supplies, automobiles and other related services and goods. The sales taxes generated by these purchases are lost to neighboring cities. This phenomenon is commonly referred to as "leakage."

This phenomenon was noted in a 2002 market study conducted by the consulting firm of Keyser Marston Associates as part of its work on the Orange Avenue Corridor Specific Plan. (A copy of the Market Study Summary is provided as Appendix D to this report.) The study stated Coronado was retaining only 35% of its sales potential. In addition to the exportation of sales taxes, Keyser Marston also noted the following limitations with regard to the City's ability to grow its tax base:

- *Small Population Base and Isolated Geography* – Coronado's population base is relatively small in comparison to other cities in the region. The City's ability to compete for retail sales in a trade area beyond Coronado is hampered by its physical separation from San Diego/South Bay proper which, in turn, limits the City's potential to attract a broad range of national retail tenants. The City's population growth is stagnant and, at least with respect to retail sales potential, the enlisted and retired military personnel are considered absent because they primarily utilize on-base retail as opposed to Orange Ave. retailers.
- *Lack of Assemblage Opportunities* – There are few vacant sites within the boundaries of the Plan area that can be combined to form larger development opportunities. Moreover, existing parcels tend to be narrow and deep, fronted by Orange Avenue and backed by multi-unit residential properties.
- The City should encourage businesses that contribute to create a unique retail environment oriented to one-of-a-kind upscale retail. An objective should be to retain local merchants and attract new merchants whose uniqueness will: (a) add to downtown's ability to offer both merchandise and ambiance that is difficult to duplicate in most shopping centers and other downtowns, (b) help to establish and maintain Downtown Coronado as a significant destination retail location, and (c) serve the retail needs of local residents.

### **G. Perceptions of Coronado Business Community**

Part of the work of the BID Ad Hoc Committee was to determine if the proposal by the Coronado Chamber of Commerce in the early summer of 2009 was a response to a real problem facing the business community. The Committee decided on two ways of gathering feedback from the business community. The first was a series of meetings with retailers, restaurants and business leaders. The second was to conduct a survey of the business community. The meetings and survey would also help

determine whether the business community would support a funding mechanism to finance a destination marketing program.

***Outreach Efforts:***

New City America and City staff held a series of meetings to maximize the exposure of the work of the Ad Hoc Committee and build support for a response to the survey. This included meetings with the major hotels, restaurants and retailers as well as meetings with the Boards of each of the three community organizations. Additionally, separate meetings were held with the three Executive Directors of the three organizations.

The primary purpose of the outreach meetings with the retailer and restaurant focus groups was to get the word out about the impending business survey so identification of a problem could be documented. These constituencies were asked if the business community was experiencing a problem in sales in Coronado. The overwhelming response by the retail and restaurant focus groups (comprising ~30 businesses) was that there was a problem in maintaining and expanding their customer bases. The response to the business survey corroborates that opinion.

Many within the focus groups stated that having another year of declining sales could terminate their business. All spoke with a certain sense of urgency about getting some type of destination marketing program going as quickly as possible. There was a general agreement that 1) increasing the occupancy of the major hotels, coupled with 2) a systematic approach to bringing people from over the bridge to shop and dine in Coronado, could do much to mitigate the recent loss in business activity. Furthermore there was a belief that the three community organizations currently funded by the City, did not have the financial resources to effectively market or promote Coronado businesses.

***Business Survey:***

During the week of October 12, an 8-page survey was distributed to approximately 200 retailers, including restaurants, hotels/motels and real estate brokers. The real estate brokers were deemed to be relevant by the Committee and people were interested in seeing how their businesses were doing. Fifty eight surveys were returned. This represents a 30% return rate. Although the 58 respondents constitute a self selected group and not a scientific sampling, their responses do represent the opinions of business owners and managers who were concerned enough to take the time to respond. The BID Ad Hoc Advisory Committee felt that this return

rate, although lower than hoped, was representative of the “general sentiment” of the business community.

The purpose of the survey of the business community was to assess the economic conditions that Coronado businesses are facing. There was no point in proposing a solution to a problem if no problem was perceived by the business community to exist. The survey also assessed whether there was, in fact, support for a destination marketing program and, to a lesser extent, preference in regards to type of Business Improvement District. The complete survey results are provided as Appendix A to this report. A demographic profile of the 59 respondents is provided below:

- The classification of responses by business type included: 24 retailers; 17 restaurant/food service; 7 hotel/motels; 5 real estate and 4 other.
- The respondents (who identified themselves) included: 33 owners, 16 managers, and one finance manager.
- Sixty-nine percent of the respondents were located on Orange Avenue between 8<sup>th</sup> and the Hotel Del; while 15% of the respondents were located at or near the Ferry Landing.
- Seventy-six percent of the respondents don't own their business location.
- The respondents reported that 61% of their customers were non-residents with 56% of those non-resident customers coming from outside San Diego County.

### ***Perceived Problem***

Outlined below is a summary of key findings relating to the issues of problem identification and support for a destination marketing program:

- 58% of the respondents believed that the *loss in sales was an ongoing vs. a temporary problem*.
- 68% of the respondents rated the *retail mix in Coronado* as fair or poor.
- 66% of the respondents rated *availability of parking* in Coronado as fair or poor.

- 68% of the respondents rated group *marketing of retailers in Coronado* as fair or poor. A similar percentage felt that what group marketing existed was fair or poor.
- 59% of the respondents rated *their personal success in attracting customer over to the bridge to their business* as fair or poor.
- 69% of the respondents rated the *affordability of rents* as fair or poor;
- 56% of the respondents described the image that the business district projects *to residents* as fair or poor.
- 51% of the respondents described the image that the business district projects *to people across the bridge* as fair or poor.
- 47% of the respondents found access to capital and financing for their business to be difficult.
- 73% of the respondents believe that the Coronado business district has not improved or has remained the same over the past five years.
- In terms of sales from September 2008 to September 2009, eight-five (85) percent of the respondents reported sales that were even with or lower than the previous years' sales. Seven respondents reported higher sales, ten reported their sales were the same, 30 reported lower sales and 3 preferred not to respond. *Of those with lower sales, the average reduction in sales was 23%. Of those with higher sales, the average increase in sales was 13%.*

### ***Destination Marketing Program***

- 66% of the respondents believe that a destination marketing strategy should be employed for Coronado retailers, restaurants and hotels.
- 73% of the respondents believe a destination marketing strategy would be embraced by businesses.
- 66% of the respondents believe that a destination marketing strategy would not be embraced by residents.
- 24% of the respondents stated they would voluntarily contribute to financial support a destination marketing program. 34% stated they would not; while 42% stated they needed more information.

- The following describes the level of support for each proposed funding mechanisms to finance a destination marketing campaign:
  - 68% support a surcharge on hotel guests
  - 41% support a parking meter fee increase
  - 17% support a business assessment
  - 10% support a property assessment

***Visitor Survey:***

In addition to documenting the perceptions of the business community, the BID Ad Hoc Advisory Committee supported an effort to survey visitors to Coronado over a two week period from October 26 through November 6. The intent of the survey was to provide a “snap shot” as to what draws visitors to Coronado, their frequency of visits, their mode of transportation, their amount of spending, their residency, along with their general perspectives and opinions of Coronado, itself.

The surveys were provided to visitors of the CHA/Visitor Center, and a canvassing was conducted of visitors on Orange Avenue and at the Ferry Landing during a Friday noon hour. Seventy-four (74) surveys were completed. The complete survey results are provided as Appendix B to this report. In general, the survey responses found:

- Visitors came to Coronado for a myriad of reasons.
- Most visitors were “first timers.”
- Most visitors arrived by personal vehicle.
- Most visitors relied on “word of mouth” from a friend or family member that enticed them to come to Coronado.
- Most visitors purchased food when they visited.
- Many visitors thought of the physical amenities of Coronado as their first image. Many others thought of the Hotel Del.
- Many visitors liked most the ambience and cleanliness of Coronado.
- Of those visitors who identified how much they will spend during their visit, it was almost a 50/50 split between those visitors that spent less or more than \$100.00.

- Few visitors were from San Diego County. Less than half were from California. Of those from outside of California, several were from West of the Mississippi. A few visitors were from overseas.

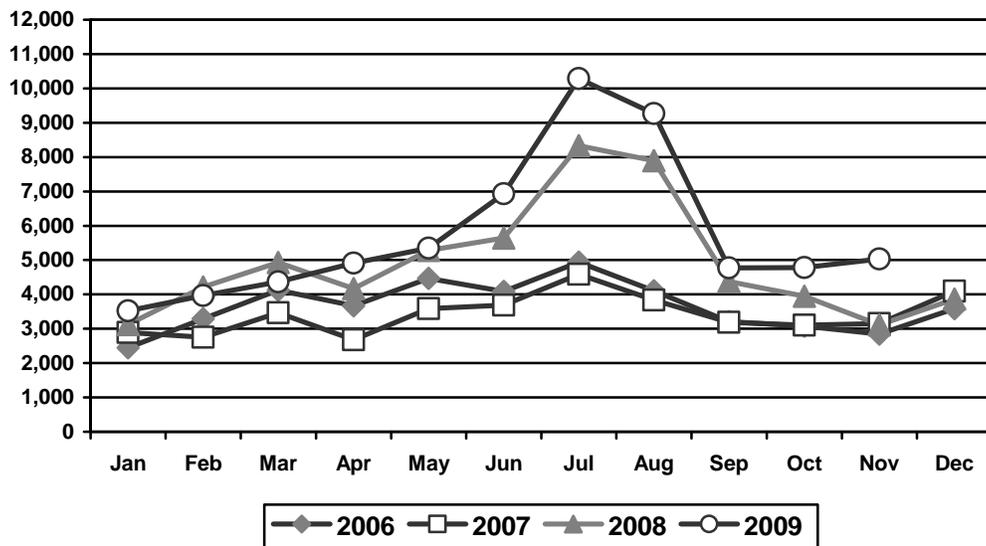
## H. REGIONAL VISITORS

Over 21 million people live in the area bounded by the border and Santa Barbara. These people are within a half days drive to Coronado. That does not include the estimated 2 to 3 million people living in Baja California Norte.

Therefore, a total of almost 24 million people are within a train ride or half a day's drive to Coronado. This makes this region the second most densely drivable metropolitan region in the United States, just behind the New York City to DC corridor.

Attracting a small percentage of these potential visitors could make a difference to the Coronado business community. That said, data compiled by the Coronado Visitor's Center, based on the number of people coming into the Center, suggests that the number of visitors to Coronado may have increased over the past years – especially during the summer months.<sup>1</sup>

Provided below is a chart illustrating the Center's visitor count over the last four-year period:



<sup>1</sup> This data contrasts with similar data provided by the Coronado Ferry Landing which indicated there were 8,800 less commuters using the ferry during the months of January-October in 2009 as compared to 2008.

Despite the above trend, according to some local retail owners, the growing number of visitors to Coronado during the summer months has not resulted in increased sales activity. (This point is supported by the business survey results.) This is because these visitors primarily come to enjoy the Coronado beaches and, thus, do not patronize local restaurants and/or specialty shops.

Regardless, one must not underestimate the impact from the influx of regional visitors to the ambiance and character of the City. This is due to the use of personal vehicles as the primary means of transportation. Thus, any destination marketing program would need to encourage other modes of transportation (ferry, bus, trolley, etc.) to diminish the impact from an influx of regional visitors.

### **III. ANALYSIS/FINDINGS:**

Based upon research of the local economy, the business and visitor survey results, and the meetings held with retailers, restaurant owners, and the three community organizations and their staff, New City America has summarized its views on the conditions in the business community and provided recommendations for addressing these conditions:

- Along with national economic trends, the decline in hotel occupancies over the last year has impacted retail establishments. Looking at the City's historical sales tax and hotel tax revenue, there is a correlation between hotel occupancy in Coronado and the success of small retailers.
- With the steep decline in hotel occupancy, a void of commercial/retail activity ensued. The majority of survey respondents stated that they are struggling to stay in business. The majority of respondents stated they had lower sales in 2009 compared to 2008 and the average decline in sales was 23%. This percentage can make the difference in whether a retail outlet remains in business. The spending of the residential population is not sufficient to fill this gap in this economy.
- The net growth in businesses has decreased over the past two years, while turnover has increased significantly since 2007.
- While every city and tourist region is impacted by this recessionary economy, the Coronado businesses are not aggressively competing for the smaller but still present tourist dollar. The business community could be working to attract tourists that are staying in other cities, or are coming off of cruise ships. The business community could also attract other County of

San Diego residents with ample disposable income to patronize local restaurants and specialty shops.

- The visitor survey affirmed that the majority of visitors to Coronado do not come from San Diego County and that there is untapped potential to attract more regional visitors.
- The Committee agreed that there are many factors affecting the local economy and that bringing more visitors to Coronado to address the documented decline in SUT and TOT is necessary. The Committee also agreed that a coordinated destination marketing program should be created to increase tourism both in the short and long term. It was felt that an increase in visitors would positively affect the hotel and retail industry and thus increase SUT and TOT.
- The quality of marketing of Coronado retail business is perceived by the local business community as fair to poor. Without a systematized mechanism for promoting local retail businesses regionally, the Coronado business district is at a disadvantage. This is in contrast to nearby competitors (ex: Gaslamp and Little Italy) who have well funded marketing strategies and are attracting customers with disposable income.
- The 2002 recommendation from the Keyser Marston study addressing the need to create a unique retail environment oriented to one-of-a-kind upscale retail continues to be sensible.
- A destination marketing campaign could enhance the image of the business district that is projected to people from across the bridge and Coronado residents. The overwhelming majority of survey respondents believed that a destination marketing campaign would be embraced by the businesses within the city.
- There are viable funding mechanisms at the City's disposal that could generate between \$200,000 and \$900,000 in funding to finance destination marketing. Over 2/3 of the business survey respondents supported using a levy on hotel visitors to fund a destination marketing program. Less than 20% supported the creation of a merchant based BID and only 10% supported the creation of a property-based BID.
- The existing contracts of the three community organizations which currently receive \$550,000 in City general funds should be altered to enable them to dedicate resources toward a destination marketing program targeting an increase of visitors.

- A destination marketing campaign and preserving the village atmosphere of Coronado do not have to be mutually exclusive. It is possible to market Coronado and draw additional tourist and/or regional visitor dollars to the community without exacerbating traffic congestion. This can be achieved by marketing campaigns that encourage other modes of transportation (i.e., ferry, bus, trolley, bicycle, etc.)
- The problems facing Coronado are perceived by the majority of survey respondents as not a temporary problem attributable to the slow economy but, rather, as a long-term problem. This was evidenced by nearly 60% of the respondents.

#### **IV. POSSIBLE FINANCING MECHANISMS**

As provided in this report, the problem affecting both Coronado businesses and its local government is attributable to a confluence of events and trends that will have a potential long-lasting effect that, over time, could adversely impact the quality of life in Coronado. This problem can be partially addressed by a destination marketing program. There is a limited source of viable options for funding such a program. The limited number of available options includes the following:

1. Altering the wording of the existing contracts of the three organizations to allow for a destination marketing campaign or function.
2. Increasing parking meter fees and dedicating the increased funding to financing a destination marketing program.
3. Creating a new "special benefits assessment district" through the California Streets and Highway Code which would fund specific improvements or activities as allowable by state statute.
4. A combination of the above.

##### **A. Amending Contracts of Community Organizations:**

The current contracts of the three community organizations funded by the City (i.e., CHA/Visitor's Center, Mainstreet and Chamber of Commerce) could be amended to allow for collaboration on a destination marketing campaign. One option would be to earmark up to 25% of their existing annual funding, or approximately \$133,000, toward this effort during the first year. However this option would greatly tax the current operations of each community organization. An alternative would be to lift the implied

restriction upon the three organizations by allowing them to include tourists and/or regional visitors (along with Coronado residents) in their promotion of Coronado businesses.

**B. Parking Meter Revenues:**

The business survey identified parking meter revenues as the second most popular recommendation for funding the destination marketing program.

A doubling of parking meter revenues, or increasing it from \$0.25 per hour to \$0.25 per half hour , could generate approximately \$240,000 per year. This figure is based on an average for the previous five-year period. Exhibit 1 on the following page includes a map of the City's current parking meter zones.

The City could determine that it was going to double the parking meter fees at any time, and earmark that additional \$240,000 to a destination marketing campaign. This could include: 1) paying the San Diego Convention and Visitor's Bureau (CONVIS) directly for the promotion of the Coronado hotel/motel industry; 2) providing grants to one or more of the three community organizations to fund destination marketing projects; or 3) funding a shuttle service between the Ferry Landing and the Hotel Del Coronado.

This option would be easy to implement since it does not require approval by a majority of the electorate but, rather, by a majority of the City Council. Additionally, even with raising the parking meter rates to \$0.50 per hour these rates would be considerably lower than nearby San Diego which has rates at \$0.25 per 12 minutes. However, if the City were to increase parking meter fees in order to fund a destination marketing campaign, it would preclude the City from realizing these additional monies to support its general fund revenues to finance other City obligations.

The City Council would need to assess the level of concern from Coronado residents toward increasing parking meter rates upon the general business community.



### **C. Special Benefits Assessment District:**

There are two types of special benefit assessment districts in California. One type levies an assessment on the business owner and the second levies an assessment on the commercial property owner. These two types of districts are described more fully in Exhibit 2 on page 18. Examples of how these districts might be applied in Coronado are briefly discussed below.

#### ***Business Improvement District (BID): (1989 Act)***

The law pertaining to formation of this type of district is found in the California Streets and Highways Code Section 36500, et seq., also known as the Parking and Business Improvement Area Law of 1989. (See Appendix C.) It allows for a fee to be levied along with the business licenses in order to fund improvements or activities that benefit a particular business district.

This option could levy a surcharge on the business license for those businesses located on Orange Avenue and around the Coronado Ferry Landing. Based on an assessment of \$200 per business for an estimated 400 businesses, an estimated \$80,000 would be realized during the first year.

Based upon feedback in the outreach meetings with businesses and the business survey, this option was not popular. However, many survey respondents indicated they needed to know more before making a decision. The support for such a district is likely proportionate to the size of the assessment. A similar business survey conducted in 1996 showed similar opposition to a mandatory assessment.

Over the past 10 years, a variation of the "BID" known as a Tourism Improvement District or TID has emerged in California due to the flexibility in the California Streets and Highways Code. (See Sections 36501(d) in Appendix C.) The law that allows for an assessment levied on business licenses to fund improvements or activities that benefit a particular business district through a BID also encourages the creation of districts that might focus on tourism.

More recently, specialty BIDs including ones geared toward promoting car dealer destinations (Mile of Cars in National City and Auto Park Drive/Chula Vista), restaurants, or hotels (Monterey, San Jose and Sacramento Tourism Improvement Districts), have been established over the past ten years. This is an evolving field and as specialty retail areas

determine that they need a funding mechanism for attracting new customers, they seek the 1989 Act to accommodate that need.

***Property Business Improvement District (PBID) (1994 Act):*** This option, as provided under the California Streets and Highway Code, would levy an assessment on commercial property owners located on Orange Avenue and around the Coronado Ferry Landing to fund special benefit services. It is not known what amount of funding would be generated. Typically, PBIDs are not setup for destination marketing purposes but, rather, for property-related purposes (i.e., “clean and safe services, security, beautification,” etc.) According to the business survey results, currently, there is virtually no support for this funding mechanism. If approved, it is believed the property owners would simply pass through their assessments to their tenants.

## EXHIBIT 2

### COMPARISON BETWEEN THE BUSINESS IMPROVEMENT DISTRICT ACT (1989 STREETS AND HIGHWAY CODE WHICH INCLUDES A BID OR TOURISM IMPROVEMENT DISTRICT) OR THE PROPERTY BUSINESS IMPROVEMENT DISTRICT ACT (1994 STREETS AND HIGHWAY CODE)

<i>Issue or Feature</i>	<i>Business Improvement District (BID)</i>	<i>Property Business Improvement District (PBID)</i>
Basis of Funding special benefits or services	Additional fee, (not assessment) on local business license or business tax	Assessment on Benefiting parcels
Services that can be funded	Parking, marketing and promotions, landscaping, cleaning, security, maintenance, administration, beautification, etc.  NOTE: TID would specify tourism-related activities.	Services that confer a "special benefit on real property" including, but not limited to parking, marketing and promotions, landscaping, cleaning, security, economic development, visitor related services, maintenance, administration, beautification, etc.
Maximum term allowable	Annual levy of BID fees, no set legislatively mandated term	First term, five years, second term, 10 year
Formation Process required by legislation	District can be started on the "initiative of the local legislative body". Requires majority protest provision <i>not</i> to establish district  NOTE: For TID, petition of affected hotels would be used here. Seek to get 100% support	Stringent formation procedure required under legislation including creation of Management District, certification of plan by Assessment Engineer, weighted petition, and assessment ballot proceeding
Management District Plan required	No, but highly recommended outlining costs, boundaries, specific services	Yes
Subject to State Constitution, Prop 218?	No	Yes, considered a property assessment under Prop 218
Is an election required?	No, only a majority protest hearing.	Yes, a mail assessment ballot procedure among affected property owners is required.
Public Hearing required	Yes, district can only not be formed by a demonstrated majority protest	Yes, majority <i>weighted</i> returned mail ballots, as well as those turned in by the end of the public

<i>Issue or Feature</i>	<i>Business Improvement District (BID)</i>	<i>Property Business Improvement District (PBID)</i>
		hearing must demonstrate support for establishment of the district
City Council action needed	Yes	Yes, to levy the assessments on the benefiting parcels
Management	Provides for self-management as per legislation	Provides for self-management as per legislation
City oversight required in the management of the district	Yes	Yes
Adhere to Brown Act open meeting provisions?	Yes	Yes
Disestablishment Procedures	The City Council adopts a resolution of intent stating the reason to disestablish the BID. A public hearing is held and an ordinance is adopted. The BID assets are disposed in accordance with the ordinance.	During operation of PBID, there is a 30-day period each year in which the assessed parties may request disestablishment. The 30-day period commences on the anniversary date that PBID was established. Upon written petition of 50% or more of the assessed parties, the City Council passes a resolution of intent to disestablish the PBID. A public hearing is held with the assessed parties notified. A proposal is considered on disposing of the PBID assets.

**D. Recommendation – Establishing a TID:**

In meetings with the General Managers of the major hotels, a proposal was developed to form a Tourism Improvement District (TID) as allowed by the Parking and Business Improvement Area Law of 1989. This proposal would levy a one percent (1%) assessment on room revenues of Coronado hotels with more than 90 rooms. This would include the following four major hotels:

No.	Hotel/Motel	Rooms
1	Hotel Del Coronado	757
2	Loews Coronado Bay Resort	439
3	Coronado City Marriott Resort	300
4	Glorietta Bay Inn	100

These four major hotels contain 82% of the 1,944 rooms available among all 16 hotels in Coronado and generate 94% of the City’s total TOT revenues each year. It is estimated this option could generate a range of annual funding from \$750,000 to \$900,000 in TID revenues. This option could finance a destination marketing program and other business enhancing projects as well as possibly provide the City with a partial or complete funding source for the grants currently given to the three community organizations.

The issue of determining who to assess is dictated by who will directly benefit from the assessment. The above-listed four major hotels have the wherewithal to effectively promote and market their rooms, which gives them a distinct advantage over the smaller hotels/motels. This includes marketing on the internet, providing discounts for major wholesalers of rooms and accommodating group sales. The smaller hotels/motels do not have that ability. While the smaller hotels do, for the most part, have a presence on the internet, their ability to influence large groups of customers to make buying decisions is limited to the small advertising budgets that they possess.

The ability of the larger hotels to work with the already-established Tourism Marketing District (TMD) in San Diego, and its largest benefactor ConVis, is an important piece of the equation. Due to Coronado's geography, its hotels are not part of the San Diego TMD. As a result, Coronado hotels cannot participate in many of the programs that are offered to competitor hotels located in San Diego. For example, large scale ‘inventory sale’ opportunities with online travel agencies (OTAs) are

missed, since the funding for them comes from the San Diego TMD. If a similar Coronado TID was established, it could contract with the San Diego TMD to access ConVis . By providing additional revenues through this option, a crucial part of the market can be obtained. Through name recognition and overflow, even the smaller, non-participating hotels can benefit from this as well.

Most importantly, the margins and rates charged by the four hotels could easily accommodate a one percent (1%) room charge, where this might be a much higher financial burden on the hotels with rooms under 90 rooms.

The levying of an additional one percent upon each room of the hotels in Coronado could adversely affect the ability of the City to later raise its tourism occupancy taxes. However, given the City’s current rate of 8%, there is still capacity, if needed, to raise TOT rates while remaining competitive with surrounding cities in Southern California. Provided below is a table listing the TOT rates of municipalities with a significant hotel/motel industry in Southern California:

<b>Comparative Analysis of TOT Rates In Southern California*</b>			
<b>City</b>	<b>TOT Rate</b>	<b>TID in Place?</b>	<b>TOTAL</b>
Anaheim	15%	Pending at 2%	17%
Garden Grove	13%	Pending at 2%	15%
Long Beach	12%	Yes, 3%	15%
Beverly Hills	14%	No	14%
Santa Monica	14%		14%
West Hollywood	12.5%	Yes, 1.5%	14%
San Diego	10.5%	2% TMD	12.5%
Redondo Beach	12%		12%
Del Mar	11.5%	No	11.5%
Carlsbad	10%	1\$/room night	10%+\$1
Chula Vista	10%	No	10%
Encinitas	10%	No	10%
Manhattan Beach	10%		10%
National City	10%	No	10%
<b>Coronado</b>	<b>8%</b>	<b>1% proposed</b>	<b>9%</b>
<b>AVERAGE</b>	<b>11%</b>		<b>12%</b>

❖ Sorted highest to lowest by Total

As illustrated by the above table, adding a one percent (1%) TID surcharge would increase the overall room rate to 9%, which is still below every City listed.

As proposed, a new TID management entity (overseen by a Board of Directors) would be responsible to allocate the revenues generated by the new TID.

The Committee explored three variations of the concept described above, addressing the use of some portion of the funds to finance the three community organizations:

**Option A:** Under this option, some of the TID funds would be used to support the three community organizations. A base amount equal to the budgeted FY 2010/11 funding allocations (\$535,000) would be allocated per year to the three community organizations. Of the remaining funds, a one-to-one (1:1) dollar match would be implemented. From these matching dollars, an amount not to exceed \$250,000 would be allocated to underwrite the program with CONVIS to promote the four major hotels and bring visitors. The remaining balance would be used to underwrite the elements of a regional destination marketing program for the business community and/or fund annual cost-of-living adjustments for the three community organizations.

A nine-member TID Board of Directors could be established consisting of representatives from the assessed businesses; representatives from community organizations and other at-large representatives. The membership could include:

- one (1) representative from each of the four hotels;
- one (1) representative from the Chamber of Commerce;
- one ( 1) from MainStreet;
- one (1) from the CHA/Visitors Center; and
- two (2) at-large representatives from the business community.

**Option B:** Similar to Option A, the TID would segregate a base amount of \$535,000 of TID revenues to fund the three community organizations. But the funding would be provided to the City and the City would subcontract with the three organizations. After the first year, the three organizations would approach the City Council for annual funding increases as it currently does. The remaining amount of TID revenues would be allocated by the new TID management entity, as described above.

**Option C:** Under this proposal, the three community organizations would continue to be directly funded by the City's **general fund** as part of the City's annual budget adoption. The TID would be funded through either a one-half (0.5%) or full one (1.0%) percent increase in the hotel room surcharge. As with Option A, these revenues would underwrite the CONVIS program along with various elements of a regional destination marketing program for the business community. (This option is in response to the concerns of the three community organizations to being annually funded by a new semi-autonomous entity.)

## V. CONCLUSION

The problem facing Coronado stems from a confluence of events on a national, state and local level. These events directly affect the hotel and retail industry and, ultimately, the City's tax base that provides "general benefit" services to its residents which are financed, in part, by the tax revenues generated by these industries. The city's retail sector cannot solely rely on the resident population to sustain itself. Thus, it must attract visitors from outside the city. Fluctuations on the room occupancy among the city's hotel/motel sector also directly impact the viability of the city's retail sector. Thus, to effectively promote tourism and Coronado businesses, a destination marketing program appears to be the best solution to these interrelated problems.

## VI. RECOMMENDATION

There appears to be broad-based support among the business community for a destination marketing program. The target of that program would be tourists, including visitors from Southern California.

The BID Ad Hoc Committee, as a whole, supported the establishment of a destination marketing program. To finance the program, a majority of the Committee supported the establishment of a Tourism Improvement District funded by the major hotels, based on either Option B or C.

It is the professional opinion of New City America, that based upon the multitude of meetings held, the results of the survey, and the sentiment of the BID Ad Hoc Committee, Options B and C represent concepts worthy of further development. Depending on specific management plan details and legal considerations, either of these options would result in the needed comprehensive promotion of Coronado businesses, without disrupting the current contracting relationship between the City and the three community organizations.

## ALTERNATIVE

The City Council could decide to maintain the status quo OR adopt a combination of the options discussed in this report.

## VII. NEXT STEPS

If the City Council approves either Option A, B or C, the next steps in the formation of the Tourism Improvement District includes:

1. If directed by the City Council, *the adopted proposal* would be presented to the community-at-large for input. A workshop could be conducted to solicit input from the Rotary, church groups, community organizations, neighborhood associations or any other group that City staff felt important to the process.
2. Prepare the legal, management and other related documents to establish a TID, based upon instructions of the City Council.
3. Meet with the four major hotels to establish a "TID Steering Committee" and confirm the assessments to be levied and what those assessments would provide.
4. Develop a management plan to determine percentages and/or amounts to be allocated to specific programs or activities related to the limitations of the 1989 Act. The management plan would identify:
  - a. the boundaries of the district;
  - b. the exclusions (hotels under 90 rooms)
  - c. the special benefit services to be funded by the TID;
  - d. the management entity;
  - e. the term of the TID, if relevant; and
  - f. any other special provisions of the TID.
5. Submit the management plan to the City Attorney for review and approval.
6. Promulgate a petition (outlining the TID plan) to all of the affected hotels. They would demonstrate their support by signing a document stating that they understand the financial impact of the TID and endorse the provisions of the management district plan.
7. Submit the management plan (as an ordinance) to the City Council to docket the item for a public hearing. At the public hearing, public

testimony would be taken, and the ordinance establishing the TID would be considered. If the ordinance is approved by the City Council, the City would then begin the TID collection process to coincide with the TOT collection process. Once segregated, the TID funds would be allocated to the management corporation, and/or held back by the City to fund the organizations at outlined in TID Option B or Option C.

The entire process of formation should be concluded as quickly as possible, ideally by the end of April, to allow for the promotion of the business community and hotels during the summer of 2010.

## VIII. ISSUES ASSOCIATED WITH ESTABLISHING A TOURISM IMPROVEMENT DISTRICT

Outlined below are issues which have been identified at this juncture with regard to establishing a TID.

### 1. *What programs could a Coronado TID fund?*

**ANSWER:** Possible programs and activities funded by a new Coronado Tourism Improvement District could include the following:

- a. branding of the local business district;
- b. internet marketing;
- c. underwriting special events;
- d. hiring of a local PR firm to draw attention to activities in Coronado;
- e. funding a pedestrian way-finding system;
- f. marketing campaigns targeting residents of downtown San Diego and cruise ship patrons;
- g. marketing campaigns emphasizing alternative modes of transportation to Coronado;
- h. aiding in the funding of organizations whose purpose is to enhance and promote the Coronado business community; and/or
- i. down town shuttle service.

### 2. *What is the fiduciary role of the City?*

**ANSWER:** Once the City has approved an assessment to levy on the benefitting hotels, the City would ultimately have the fiduciary responsibility to ensure that the TID funds are allocated pursuant to the management plan and state law. The City ultimately can disestablish the TID or change the management contract if it is not satisfied with the level of services being provided by the management entity.

3. *Who provides legal advice to the TID management entity, the City or independent legal counsel?*

**ANSWER:** The management entity of the TID has the option to retain its own legal counsel, which is consistent with other TIDs and BIDs. However, the ultimate authority on use of the funds would be the City Council. Examples of best practices by other cities would be very instrumental in interpreting this issue.

4. *What are the legal and administrative costs to support the TID management entity, and who pays for these costs?*

**ANSWER:** The legal and administrative costs to support the TID management entity should be laid out in an administrative services component of the TID plan. Usually, the administrative costs would include general liability insurance, directors and officers insurance, accounting and auditing services, CPA services, staff oversight of contracts, office expenses, printing, etc. Legal costs should be minimal as there is not really a need for legal input on an ongoing basis for the administration of the district.

5. *What oversight does the City Council have on use of TID revenues?*

**ANSWER:** Every year, the City Council will receive an annual report from the TID "Advisory Board." The Advisory Board is spelled out in Section 36530 of the California Streets and Highway Code (See Appendix C). Once the Advisory Board has made its recommendation to the City Council on the expenditure of revenues, the City Council may adopt or amend the recommendation based upon feedback from the assessed businesses, City Manager, City Attorney or in response to City Council inquiries. The Advisory Board's report is then adopted in the form of a resolution by the City Council and the City Manager is usually authorized to enter into an agreement with the TID Management entity for another year to administer the funds of the TID. (See Sections 36534 and 36535 in Appendix C.)

6. *Who appoints members to the TID management entity Board of Directors?*

**ANSWER:** A new non-profit entity (501(c) 3) will be established by the benefiting businesses and the sole function of that new non-profit corporation will be to administer the TID consistent with the management plan. The non-profit entity will have provisions for nomination or election of Board members within its bylaws and those bylaws must conform to the rules of the Secretary of State of California. So usually, the TID

management corporation has its own internal provisions for determining appointment of its members. The current proposal regarding membership on the Board Directors may include representatives from the four major hotels, the three community organizations and two at-large representatives from the business community.

**7. *What is the oversight role of the TID management entity by the City Council?***

**ANSWER:** Since the TID Management entity could only receive the TID assessments under contract with the City, the oversight would be spelled out in the contract. It is recommended that the City adopt the same model under the current contracts with the three community organizations. That is, the City should not interfere in the daily workings and operations of the TID management entity. The TID management entity should be allowed to hire and fire staff, conduct its own Board meetings and raise funds as it sees fit.

**8. *What is role of City staff?***

**ANSWER:** Normally, City staff plays a supportive role. City staff may have a seat on the Board, if the bylaws provide for that. At a minimum, City staff should have any ongoing, constructive working relationship with the TID Manager (if there is one), or the TID Board President. City staff support services will include processing bill payments, collecting revenues, conducting accounting functions, etc.

**9. *For how long will the TID be in existence?***

**ANSWER:** If desired by the City Council, a sunset clause can be incorporated in the management plan. Otherwise, the TID will continue until the City or a majority of the TID members (i.e., the four hotels) decide to dissolve the TID.

**APPENDIX A**  
**BUSINESS SURVEY RESULTS**

**APPENDIX B**  
**VISITOR SURVEY RESULTS**

## **APPENDIX C**

**CALIFORNIA STREETS AND HIGHWAY CODE  
SECTION 36500, ET. SEQ. (1989 PARKING AND  
BUSINESS IMPROVEMENT AREA LAW)**

**APPENDIX D**

**ORANGE AVENUE CORRIDOR SPECIFIC PLAN  
MARKET STUDY SUMMARY  
June 2002**