

SAN FRANCISCO TOURISM IMPROVEMENT DISTRICT (SF TID)

Overview

Tourism is San Francisco's largest industry, generating more than \$8 billion in annual economic impact which directly benefits San Francisco residents.

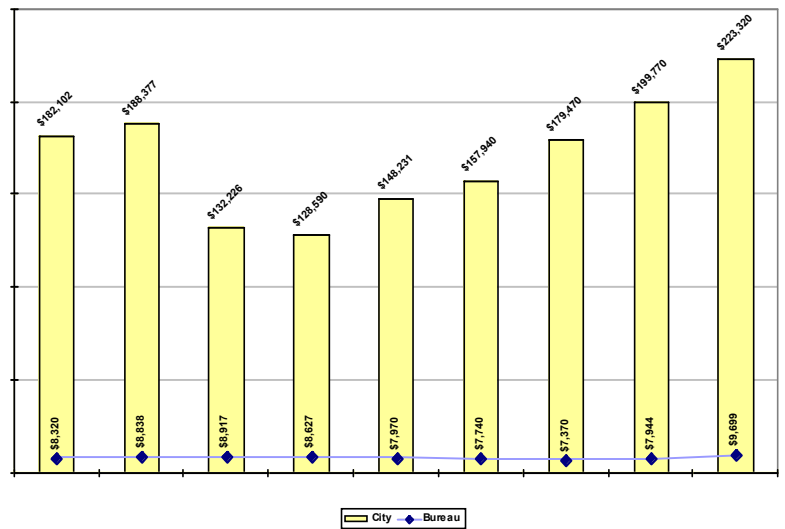
However, due to historic and ever present government budget challenges and priorities, the sales and marketing efforts for San Francisco have not, and will not be, adequately funded to grow, or even maintain, market share for convention and leisure business. With more robust budgets and greater community support for the tourism industry, competitive destinations such as San Diego, Chicago and Los Angeles (LAX as an international gateway) continue to take away market share from San Francisco.

SAN FRANCISCO VISITOR INDUSTRY
 visitor spending averages over **\$22.3 million every day**
 over **\$527 million in taxes per year**
 over **72,856 jobs**
 visitor industry generates over **\$8.52 billion in annual economic impact**

San Francisco Hotel Tax Collections vs SFCVB Allocation | 1999/00 to 2007/08* (in thousands)

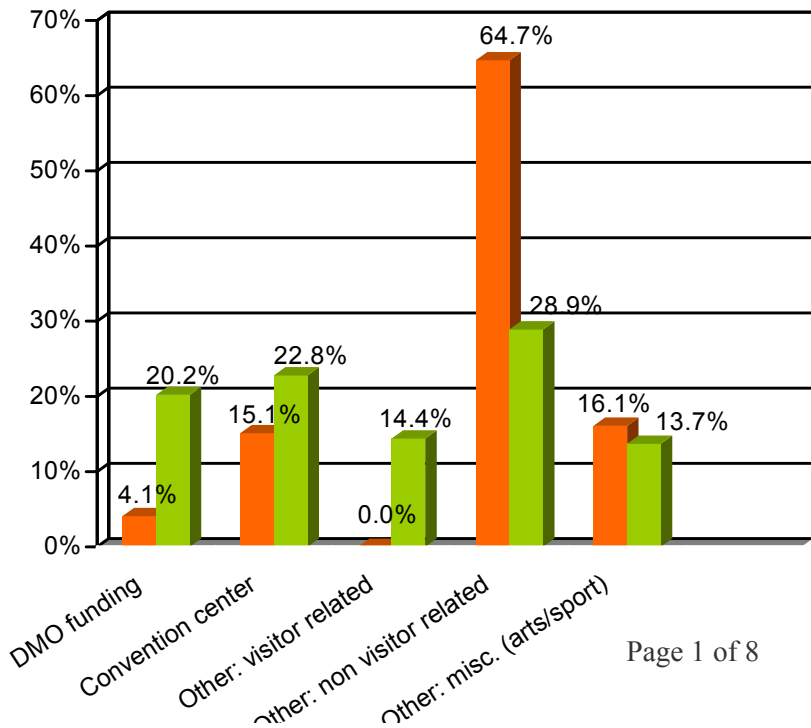
**2007/08 based on mid-year forecast*

While Transient Occupancy Tax (TOT) is increasing sales and marketing funding stays flat. This represents a **decrease** since the same amount of money buys less than it did in the past. Because of this the SFCVB has cut sales programs and most consumer marketing efforts. Due to increased activity by domestic (both first and second tier cities) as well as international competitors, and the condition of convention facilities, if marketing and promotion remains under-funded we stand to lose significant market share.



Hotel Tax Collection Allocations: San Francisco vs. average of Competitive Set*

**2007/08 based on weighted average for Destination Marketing Organizations (DMOs) who responded to each question*



Compared with our competitors, the City of San Francisco allocates significantly lower funding from TOT revenues to visitor-related services. In San Francisco the majority of TOT revenues is earmarked for City services and programs, leaving little funding to promote the city to visitors and accommodate their meeting needs when they arrive.

■ San Francisco
■ Comp set average

In addition, San Francisco's primary meeting facility, the Moscone Center, has become outdated and in need of extensive renovations and eventual expansion. Resources are needed not only for sales and marketing efforts, but also to update and expand convention facilities. Because the economic impact of convention groups is not limited to the convention neighborhood hotels, tourist attractions, retail, restaurants, transportation and many other segments of the city are impacted when conventions are in town. The dollars ripple into the entire city through "rate compression," pay checks, local purchases and taxes paid by visitors.

The Need

- Ensure the growth of the tourism industry.
- Create a sustainable revenue source to allow the SFCVB to significantly enhance its sales and marketing efforts in order to remain competitive.
- Ensure the City remains engaged in the upgrade and expansion of Moscone Center.

Competition

Other destinations are focusing on the same markets as we are in consumer marketing, international and meeting sales efforts. If customers and consumers continue to see presence from those cities year after year, and none from us, our market share will decline.

Example: Incentive and Congress Market

Incentive and congress (international attendance at major conventions) business is lucrative and high end, and our competitive destinations are going after this business with dedicated sales people and marketing dollars. The SFCVB does not currently have the resources to focus on this market.

Example: International Spend: SFO vs. LAX

San Francisco spends **\$400,000** on international efforts
Los Angeles spends **\$7.5 million**

Example: Meetings

Many groups currently do not include San Francisco in their rotation, due to both convention center size and inadequate SFCVB resources to actively pursue opportunities. For example, our current top 15 prospective groups, ranging in peak room nights from approximately 6,000 to 18,000, with economic impact per group ranging from \$7-\$54 million, would like to hold meetings in San Francisco but can not due to convention center size.

Convention Facilities: Moscone Center Issues

To address the approximately \$28 million in current maintenance costs for Moscone Center, the City dedicates approximately \$1-2 million per year. Unfortunately this in no way comes close to addressing the need to keep Moscone competitive with other convention centers. And currently there is no funding in place to address the need for more contiguous space.

The Customer Advisory Council, which represents San Francisco's top meeting clients and has met with SFCVB staff two times a year since 2002, recently wrote to the Mayor requesting attention to Moscone Center in order to avoid losing their (significant) business.

The Concept:

The intent is to not financially impact residents and non-tourism related business in the city. Visitors, through a proposed surcharge, would fund:

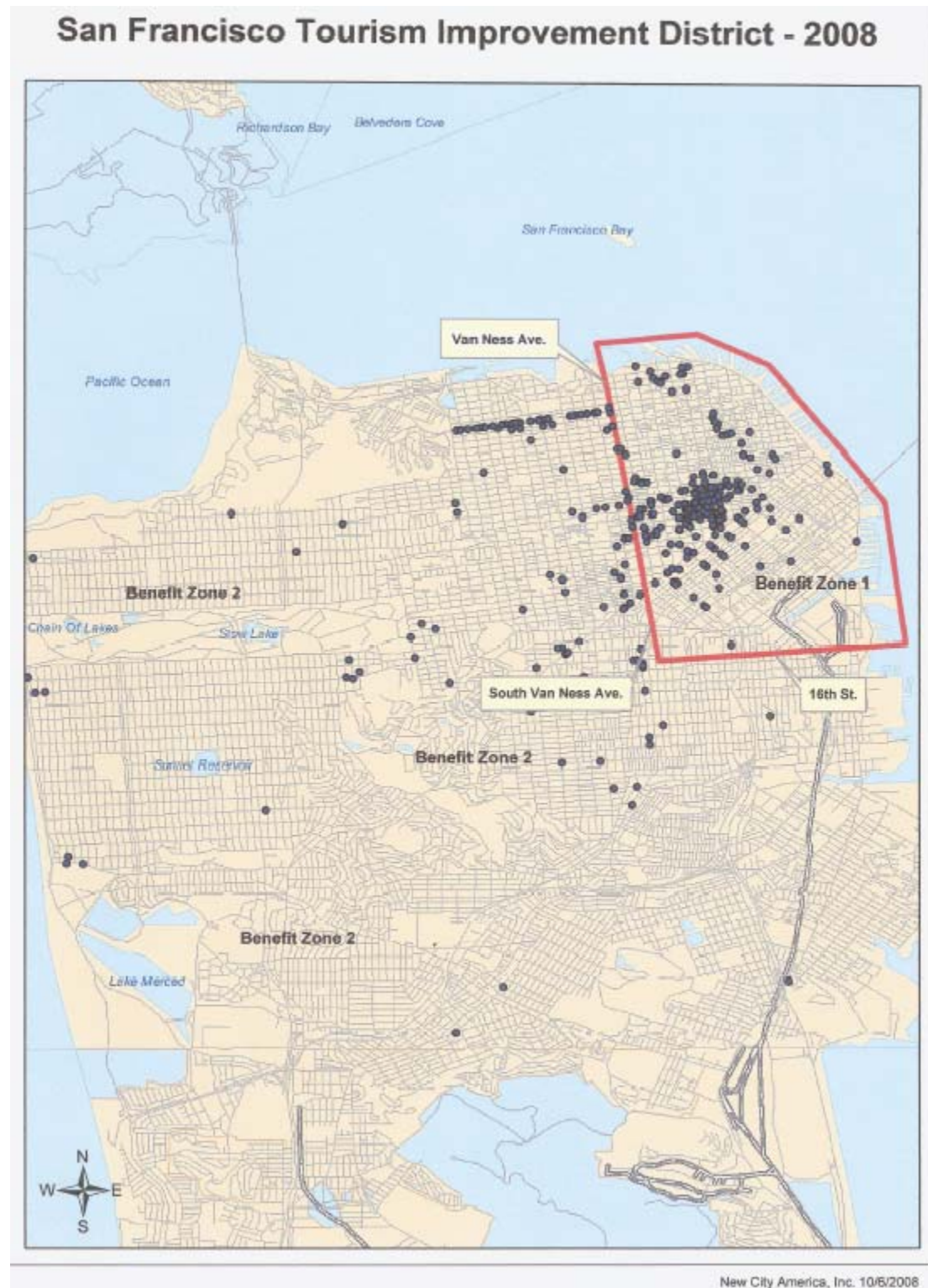
- Increasingly aggressive sales and marketing programs for San Francisco;
- Improvements and upgrade of existing Moscone facility;
- Design, plans and costs of the expansion of Moscone.

There would be three primary components:

- Phase 1 – Hotel participation: SF TID assessment on all occupied hotel rooms in the city, in place for 15 years;
- Phase 2 – SFO and tourism-related business participation: Assessment on businesses that generate over \$1 million annually in tourism-related business, based in San Francisco;
- Plus: redirect City's current SFCVB allocation to Moscone upgrade and expansion.

The breakdown – phase 1:

Hotels in the city will be divided into two zones, based largely on geographic proximity to Moscone Convention Center and on the City's transportation infrastructure. See the map below for reference.



Hotels in Benefit Zone 1 (largely east of Van Ness Avenue) will be assessed 1.5% of gross revenue from tourist rooms for years 1-5, and reduced to 1% of gross revenue from tourist rooms for years 6-15 of the proposed TID, unless they vote again to reinstate the 0.5%.

Hotels in Benefit Zone 2 (largely west of Van Ness Avenue) will be assessed 1% of gross revenue from tourist rooms for years 1-5, and reduced to 0.75% of gross revenue from tourist rooms for years 6-15 of the proposed TID, unless they vote again to reinstate the 0.25%.

How we'll compare – years 1-5: (table below shows total taxes and fees charged on a hotel guest's room bill in various competitor cities, using an example room rate of \$200, compared with total taxes and fees charged on a hotel guest's room bill in Zone 1 in San Francisco)

CITY	TOT	TOT as \$	EXTRA FEES	TOTAL AS \$
Boston	14.70%	\$29.40	\$5.50	\$34.90
Vancouver	17.00%	\$34.00		\$34.00
San Antonio	16.75%	\$33.50		\$33.50
Kansas City	15.23%	\$30.46	\$1.00	\$31.46
Seattle	10.50%	\$21.00	\$10.20	\$31.20
PROPOSED San Francisco	14.00%	\$28.00	\$3.00	\$31.00
Chicago	15.39%	\$30.78		\$30.78
New York	13.38%	\$26.76	\$3.50	\$30.26
Anaheim	15.00%	\$30.00		\$30.00
Atlanta	12.00%	\$24.00	\$6.00	\$30.00
Dallas	13.00%	\$26.00	\$4.00	\$30.00
Washington, DC	14.50%	\$29.00		\$29.00
Los Angeles	14.00%	\$28.00		\$28.00
New Orleans	13.00%	\$26.00	\$2.00	\$28.00
San Diego	10.50%	\$21.00	\$4.00	\$25.00

note: New Orleans fee is a range of \$1-\$3, have taken average of \$2

Rev. 10/23/08

Management:

The TID funds will be managed by a new independent non-profit management corporation. This non-profit management corporation will have eleven (11) Board members and shall be comprised of the following:

- Six (6) seats shall be filled with appointees representing tourist hotels;
- One (1) appointee shall be allocated to the SFCVB Chair;
- One (1) appointee shall be from Moscone Center;
- Three (3) appointees shall be at-large from the tourism business community of San Francisco;

The SFCVB will act as a service provider to the SF TID Board;

The SFCVB will present its budget to the SF TID Board annually for review, approval and funding.

Allocation of funds

Marketing/Operations of the SFCVB: 1% of gross revenue from tourist rooms in Benefit Zone 1 hotels, and 0.75% of gross revenue from tourist rooms in Benefit Zone 2 hotels, in place for 15 years:

Marketing and promotions, including, but not limited to:

- Ad creative and media placement;
- Marketing and promotions programs and staff oversight;
- Satellite offices operations and staffing;

- Sales activities;
- Hosted industry events.

Administration and Personnel for operations of the SFCVB;
 Contingency/Reserve, including administrative costs and expenses of the SF TID.

Services and Improvements to Moscone Center: 0.5% of gross revenue from tourist rooms in Benefit Zone 1 hotels, and 0.25% of gross revenue from tourist rooms in Benefit Zone 2 hotels, in place for 5 years:

Upgrading and renovations to Moscone Centers North, South and West, including capital improvements;
 Oversight and management of the improvements to Moscone Center;
 Expansion plans for Moscone Center;
 Contingency/Reserves;
 PLUS: City will match approximately \$9 million per year.

Timeline:

TASK	DATE TASK IS DUE/WAS COMPLETED
Form steering committee to explore SF sales and marketing funding requirements and options.	August 2007
Submit first draft of concept to City	June 2008
Meet with Convention Advisory Council to discuss concept and solicit customer feedback	July 2008
Begin outreach and education to hotel community	August 2008
Final approval of Management District Plan by SF TID Steering Committee	September 2008
Mail TID Petitions endorsing District to all affected hotel owners/operators	October 7, 2008
Submit petitions endorsing the plan representing a minimum of 50% of the rooms to the Board of Supervisors	October 21 2008
Ballots, Management Plan and notice of public hearing distributed by mail to hotel owners/operators upon Resolution of the Board of Supervisors	October 31 2008
Public hearing at the Board of Supervisors' Government Audit and Oversight Committee meeting	November 17 2008
Ballots due, public hearing, ballots counted, District formed	December 16 2008
SF TID Assessments begin	January 1, 2009
First Quarterly SF TID Assessments due	April 30, 2009

Support:

Pat Gallagher | President, San Francisco Giants | SFCVB Board Chair

Tourism is San Francisco's largest industry as we all know, generating \$8 billion in economic impact which directly benefits San Francisco residents. Visitors spend over \$22 million every day in our city, and the industry supports over 72,000 jobs. However, we're in jeopardy of losing ground to other cities who compete for this business. The convention center is outdated and in some areas even falling apart whereas other cities update their convention facilities regularly and have greater resources for marketing. We fully understand the pressure on City budgets and the need to come up with a new model. With great leadership from both the hotel industry in San Francisco and from City Hall, who all have a feel for the importance of this industry, this new TID model is a remarkable result of all the stakeholders in the public and private sectors working with the same goal in mind. I'm pleased to note that the concept has great support from the hotel industry and members of San Francisco Convention & Visitors Bureau.

Rick Swig | President, RSBA & Associates | SF TID Steering Committee Chair

This TID concept sets the tone for what the SFCVB calls "Only in San Francisco". We will be the only city in the country to provide an economic stimulus model for our most important industry, tourism, while joining in partnership with the public sector to sustain an important City asset, Moscone Convention Center, which produces significant revenue and tourism demand in the city. The TID provides no burden on tax payers of San Francisco, doesn't take money from the General Fund and, in fact, supplements the City's financial commitment to restore and maintain the convention center. We have heard from Moscone Center customers that the center is not up to par. Many cities have realized convention centers stimulate the local economy and the TID provides the opportunity to join private and public sectors to maintain and provide the necessary capital to ensure Moscone Center remains competitive. Thank you for your support of tourism, San Francisco's number one industry, and let's continue to treat it with respect and enthusiasm.

Heather Hoell | Executive Director, Yerba Buena Alliance

The Yerba Buena neighborhood includes 11 hotels, the Convention & Visitors Bureau, and Moscone Center. It is considered by many to be San Francisco's welcome mat. The Yerba Buena neighborhood depends on the success of the city's tourism industry and improving Moscone Center is critical to ensuring the ongoing success of our neighborhood. On behalf of the Yerba Buena neighborhood's diverse residents and businesses I urge you to support the TID.

Dan Kelleher | General Manager, San Francisco Marriott

Expansion of Moscone Center is critical. We have had several expansions in the past, without which we would be challenged to attract just the business we have today. But we are up against cities like San Diego, who are taking their convention center from 1.3 million to 2.3 million sq ft, compared with our current space of 1.2 million sq ft. Funding for an expansion is very important for future business. I represent most of the hotels in zone 1 and support the pass of this measure.

Jim Gerney | General Manager, Hotel Kabuki

On behalf of Joie de Vivre hospitality, representing one of the largest employers in San Francisco, we unanimously support the TID. I also represent the hotels in zone 2, where there is overwhelming support.

Mike Hardeman | Business Manager, Sign, Display and Local Craft - Local 510

Sign, Display and Local Craft - Local 510 members, and also a wide variety of trades and unions, work not only in Moscone Center but also within hotels. This well-trained and educated union is accepted by hotels and the work keeps this city's economy going. With the economic downturn facing the country, this is a good way to keep these well-trained people employed. We thank the Supervisors for their work supporting this industry, it's a great economic industry for the city. Let's show it the respect that other cities do.

Rodney Fong | President, The Wax Museum at Fisherman's Wharf

Fisherman's Wharf Community Benefit District has been fantastic. It's helped clean up the wharf, provided safety, and, most importantly, has unified the community. The TID will provide that same unification, which is much needed if we are to remain competitive.

Jerry Simmons | Managing Director, Hyatt Regency San Francisco

As conde nast says San Francisco is the #1 city to visit in America, but we need to make sure we support this issue if we want to continue to grow. On behalf of all my colleagues we are 100% behind this issue and we think the TID assessment is our view into a positive future.

Kevin Westlye | Executive Director, Golden Gate Restaurant Association

The Golden Gate Restaurant Association sits on the TID task force and is in full support of this effort. Many restaurants in San Francisco have been effected by the economic downturn and need every opportunity they can to protect their businesses and their employees' jobs. We think this is a good example of an industry trying to take care of its own and we urge you to support it.

Contact:

For more information on the proposed SF TID, you can view the web site at www.onlyinsanfrancisco.com/tid

You may also call Joe D'Alessandro at the San Francisco Convention & Visitors Bureau at (415) 227-2698, Rick Swig, Chair of the SF TID Steering Committee at (415) 541-7722 or Marco Li Mandri/New City America, SF TID Consultant, at (888) 356-2726.

