



San Francisco Tourism Improvement District Renewal Plan Summary

Introduction and Background

In 2008, the San Francisco hotel community and the Board of Supervisors approved the San Francisco Tourism Improvement District (*TID* or the *District*), which authorized an assessment on tourist hotel room revenue. TID revenue provided a dedicated source of funds to provide specific benefits to hotels paying the assessment. SFTID funds generated additional room nights and increased income for hotels by funding promotion of the City and County of San Francisco (*City*) as a meeting and tourism destination.

In the years since, increased sales, marketing, and promotion have helped transform San Francisco's hotel room market into one of the healthiest in the country as measured by increases in average daily room rates (*ADR*) between 2009 and 2018 among the top 25 destinations.¹

Travel and tourism is San Francisco's largest industry, generating more than \$9 billion in annual economic impact². The hotel industry is a significant employment sector in the City and it relies on a robust travel and tourism industry for its survival. San Francisco vies for tourist and convention business with cities around the world.

Implementation of the TID has allowed San Francisco to compete effectively for convention and tourism business. TID funds support a variety of services, with a particular focus on sales, marketing, and promotional programs designed to generate overnight stays and visitor spending, and personnel and administration to implement these programs. The TID governing board has the legal responsibility for ensuring that TID assessment funds are spent consistent with the requirements of this management plan. The TID contracts with the San Francisco Travel Association (*San Francisco Travel*) to implement these services. All of these efforts are designed to provide specific economic benefits to hotels that pay the TID assessment.

These efforts help maintain and grow San Francisco's hotel room market for the future. Without them, the City faces the loss of market share for leisure travel, conventions, meetings, and events.

The current TID expires on December 31, 2023. This renewal, if approved, will extend the TID for a period of fifteen years, beginning on January 1, 2024 or the effective date of the renewed TID assessment proposed in this Management Plan, if later. The renewal will also expand the scope of the TID to include short-term residential rentals, which will also benefit from the TID activities and therefore would be subject to the TID assessment.

¹ A Performance Analysis of the San Francisco Tourism Improvement District, Tourism Economics, January 2020

² 2018 San Francisco City/County Travel Spending report, SF Travel, Tourism Economics, Longwood International, Destination Analysts, STR

The proposed renewal and expansion of the include provisions:

- Increasing the assessment rate by .25%, bringing the Zone 1 assessment to 1.25% and the Zone 2 assessment to 1.00%. The revenue generated from this increase would build a \$10 million incentive fund to attract and retain convention business at Moscone Center
- Adopting industry best practice and adding operational flexibility by authorizing a supermajority of the San Francisco Tourism Improvement District Management Corporation (*SFTIDMC*) Board of Directors to increase assessments by up to 1% to meet unforeseen or critical needs and costs of business attraction and retention
- Including short-term residential rental units as assessed businesses
- Modifying the *SFTIDMC* Board of Directors to include seats for a short-term residential rental host, the City Administrator, and the City Controller (representatives of San Francisco's hotel industry will continue to hold a majority of seats on the *SFTIDMC* Board)

Purpose of the District

The District will provide specific benefits to businesses operating tourist hotels and short-term residential rentals by funding (i) sales, marketing, and promotional activities; (ii) special industry events designed to attract leisure travelers, conventions, meetings and events; (iii) a buy-down fund to help attract and provide support for qualifying events at the Moscone Convention Center; (iv) staffing, administration and oversight of these programs; and (v) related administrative costs for the TID, and the establishment and maintenance of adequate contingency and reserve funds for the TID and San Francisco Travel.

Why Invest in Destination Marketing?

According to Oxford Economics³, "the visitor economy warrants investments in destination promotion:"

- As incomes rise, consumer spending on travel grows at an even faster rate. Employment in the travel economy led growth during the last economic recovery.
- Hospitality and tourism outperformed the aggregate of all other export sectors during the period studied, with employment expanding nearly 10% while all other sectors shrank 1%.
- As incomes rise and globalization continues, U.S. destinations are poised to continue to capitalize through targeted promotional investments.
- Destination marketing plays an integral and indispensable role in the competitiveness of the visitor economy by pooling resources to provide the scale and marketing infrastructure to promote a place to national and international markets. One of the benefits of coordinated marketing facilitated by a Destination Marketing Organization (*DMO*) is the ability to have a stable organization and funding base to support destination marketing. As a result, *DMOs* are able to efficiently leverage the brand, infrastructure, and relationships that have been built over time. No one business, no matter how large, can achieve the combined global and domestic reach needed to compete in an increasingly crowded field of attractive destinations.

³ Destination Promotion: An Engine of Economic Development, Oxford Economics for Destinations International, 2014

- The study further states that the diversity and quality of the U.S. product, both for leisure and meetings travel markets, positions U.S. destinations to drive further growth through targeted sales, marketing, and promotional investments such as the programs and activities funded by this assessment and developed and implemented by San Francisco Travel.

Destination promotion also provides the scope and strategic vision that support a wide array of individual businesses. Any single business may not capture sufficient share of a visitor's spending to justify marketing to attract visitors to a destination, or the business may have to market itself narrowly. For example, an individual hotel could market the attractiveness of a destination, but it would only benefit from those additional visitors who not only choose the destination, but also choose that particular hotel. Likewise, a person who operates a short-term residential rental may invest in marketing a specific unit, but acting alone may lack the incentive or resources to market the City as a destination. In other words, at the level of an individual business, the returns on an investment in marketing to attract visitors to a destination can be less compelling. However, when viewed at the level of all of the businesses in the destination that pay the assessment, investment in effective, focused destination marketing results in strong economic benefits that are specific to tourist hotels and short-term residential rentals.

DMOs such as San Francisco Travel also play a role in furthering the strategic potential of the visitor economy. DMOs can take a long-term view of the development of the destination, and pursue tactics to help develop a local visitor economy that will provide long-term benefits to tourist hotels and short-term rentals.

In summary, destination promotion helps expand the visitor economies in ways that are consistent with local priorities, building the types of opportunities that are a critical part of economic development.

Overview

The San Francisco Tourism Improvement District is an assessment district that provides specific benefits to hotels that pay the assessment by funding sales, marketing, and promotional efforts on their behalf. The TID was formed in 2008 and is set to expire at the end of 2023. The member businesses now wish to extend the TID for an additional 15 years, beginning January 1, 2024, and to expand the TID to also include short-term residential rentals. The table below summarizes key aspects of the renewed TID.

<i>Location:</i>	The renewed TID will include all tourist hotels and short-term residential rentals (collectively, “tourist rooms”) in the City and County of San Francisco. The District is divided into two geographic areas (<i>Zones</i>). Businesses in Zone 1 are generally located closer to the heart of San Francisco’s principal meetings, tourism, and transportation infrastructure, and pay a higher rate of assessment than businesses in Zone 2.
<i>Services:</i>	The renewed TID will provide specific benefits to tourist hotels and short-term residential rentals by funding targeted sales, marketing, and promotional activities. Those activities are designed to generate additional revenue from increased room nights, rates, and related guest spending at hotels. The TID will continue to contract with San Francisco Travel to provide these services.
<i>Budget:</i>	The annual budget for the first year of the District’s Renewed Term (commencing January 1, 2024) is anticipated to be approximately \$51,401,000. This budget assumes a return to pre-pandemic levels of activity. The budget will fluctuate year-to-year based on assessment collections, which are dependent on room sales, room rates, and occupancy.
<i>Cost:</i>	The assessment rate will be 1.25% of gross revenue for tourist rooms in Zone 1, and to 1% in Zone 2. The TID Board of Directors, acting by supermajority, will have the authority to raise assessment rates by not more than 1% if additional funds are needed to meet unforeseen or critical needs and costs of business attraction and retention.
<i>Duration:</i>	The renewed District will begin imposing assessments on gross revenue from tourist rooms beginning January 1, 2024, or the effective date of the renewed TID assessment proposed in this Management Plan, if later. The term of the renewed District will be 15 years after the Commencement Date.
<i>Management:</i>	The City and County of San Francisco will contract with the existing TID owners’ association, the non-profit San Francisco Tourism Improvement District Management Corporation, which in turn will contract with San Francisco Travel Association to provide the day-to-day operations and carry out the services as provided for in this Management District Plan. A majority of the TID Board of Directors shall consist of representatives of hotels that pay the TID assessment. The TID Board shall also include a representative of short-term residential rental businesses.

Assessed Businesses; Zones; Boundaries of the District

This will be a business-based district, which will include all tourist hotels and short-term residential rentals operating in the City & County of San Francisco, and which are located in the following geographic areas:

Zone 1: Tourist hotels and short-term residential rentals with addresses:

- On or east of Van Ness Avenue
- On or east of South Van Ness Avenue, and
- On or north of 16th Street from South Van Ness to the Bay, including all tourist hotels and short-term residential rentals east of Van Ness Avenue as if it continued north to the Bay, and north of 16th Street as if it continued east to the Bay.

Zone 2: Tourist hotels and short-term residential rentals with addresses:

- West of Van Ness Avenue and South Van Ness Avenue, and
- South of 16th Street.

