Tourism Marketing Districts
CREATING JOBS. GROWING OUR ECONOMY.

Introduction

Imagine an industry that is the backbone to nearly every local community throughout California. Imagine that because of government budget cuts, that industry lost the ability to fully market itself to its customers creating an economic tremor throughout the economy. The shaking spreads to other industries resulting in a ripple effect of lost jobs, missed opportunities, and an even further decline in state and local tax revenue. Even after the trembling stops, the aftershocks would be felt for years in multiple sectors and at every level of government.

This could have been the story of California’s travel and tourism industry — the number one travel destination in the United States. In 2010, over 200 million visitors spent $95.1 billion at local hotels, restaurants, small businesses, and tourist attractions. Their economic activity directly supported 873,000 jobs throughout the state and generated $6.1 billion in direct tax revenue. During the Great Recession, tourism actually fared much better than many other industries with travel spending increasing by 7.5 percent between 2009 and 2010.

The industry’s resilience can be directly attributed in large part to the innovative use of Tourism Marketing Districts (TMDs). Instead of relying on increasingly scarce government funding, tourism-related businesses are banding together to self-fund tourism promotion efforts. TMDs are not only providing much-needed budget relief for local governments, they are creating a virtuous cycle of activity that benefits the entire economy.

This report provides an overview of California’s TMDs including their economic impact, how they are formed and operated, and their importance to the long-term vitality of local communities throughout the state.

TMD IMPACT ON JOBS, SPENDING, AND TAX REVENUE

California TMDs spent a combined $140 million in non-tax funds for tourism promotion. Each $1 invested produced a remarkable $70 return for the economy.

<table>
<thead>
<tr>
<th>CREATING JOBS</th>
<th>GROWING OUR ECONOMY</th>
<th>PROVIDING BUDGET RELIEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>81,500 jobs in 2010</td>
<td>$8.9 billion Direct new tourism spending</td>
<td>$493 million New tax revenue for State of California</td>
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<td>$2.8 billion Personal income for workers</td>
<td>$19.9 billion Total direct, indirect, and induced tourism spending</td>
<td>$196 million New tax revenue for local governments</td>
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SOURCE: “Economic Impact of TMDs in California,” Professor Patrick Tierney, San Francisco State University, March 2012
TMDs: From Formation to Operation

TMDs can originate under one of two state laws — the “Property and Business Improvement act of 1994” or the “Parking and Business Improvement Area Law of 1989”, which was used by 58% of those surveyed. They go by many names — Tourism Marketing Districts, Business Improvement Areas, and Lodging Improvement Districts. However, they all share the same mission — to provide stable, locally controlled funding to market a specific destination area with the goal of increasing lodging occupancy and tourism activity.

TMDs are among the most democratic of all public-private partnerships. TMD members collectively manage the operations. TMDs are formed by local businesses, led primarily by the lodging industry, in collaboration with the local convention & visitors bureau (CVB). The stakeholders agree upon the assessment — typically a 1%–2.5% assessment — as well as determine how best to utilize the funding. Moreover, the assessment is not a mandatory levy on local residents. Rather, it is self-imposed by participating businesses.

These entities do not operate in the wilderness, but are instead model examples of public-private partnerships with government oversight. Once the members establish their organizational by-laws and funding structures, the TMD must then be vetted and approved by their local government. That process ensures accountability and oversight at every step of the way. The partnership with the local convention & visitors bureau provides additional oversight and makes certain that the TMD’s efforts are part of the region’s overall tourism promotion strategy.

Most TMDs are formed within a remarkably short time frame — typically just six to twelve months. The greatest challenge is not in the actual approval process, but with education and outreach to potential members. However, as TMDs continue to demonstrate their value and overall success, more businesses are becoming aware of their benefits and are voluntarily seeking to form or participate in a TMD.

The Economic Impact: A Virtuous Cycle For Communities

In order to understand the full breadth and depth of how TMDs impact our economy, Dr. Patrick Tierney, Professor of Recreation Parks and Tourism at San Francisco State University (SFSU), conducted the first-ever comprehensive study of TMDs currently operating in California. The March 2012 study evaluated data provided by twenty-one of the state’s TMDs including the six largest — Anaheim, Los Angeles, Palm Springs, Sacramento, San Diego, and San Francisco.

The results of the study reinforce just how vital California’s 65 TMDs have been to our broader economy. Combined, the state’s TMDs spent more than $125 million to market and promote their destinations in 2010. Their efforts generated $8.9 billion in new, direct spending — a remarkable $70 return for each dollar invested. TMDs also serve as a major driver

- 65 TMDs IN CALIFORNIA
- $8.9 billion IN NEW SPENDING GENERATED
- 81,500 jobs IN 2010
- $689 million IN NEW STATE AND LOCAL TAXES CONTRIBUTED
- $5.50 for every $1 spent GENERATED TAX REVENUE RETURN ON INVESTMENT
of job creation, generating more than 81,500 jobs in the state of California in 2010.

This return on investment demonstrates the **virtuous cycle**. The self-assessed contributions made by TMD businesses allows for more consistent, and in some cases even greater spending, on tourism promotion. The larger marketing budget succeeds in attracting more visitors to the destination. More visitors lead to more money spent at local hotels, restaurants, small businesses, and tourist attractions. The increased economic activity results in participating TMD members contributing even more funds back into the TMD. Those additional funds further increases marketing and promotion budgets resulting in a **virtuous cycle** of investment and reinvestment that benefits the entire economy.

That cycle extends beyond the travel and tourism ecosystem providing much needed tax revenue for budget-strapped municipalities. TMD activities generated $689 million in new tax revenue at the state and local level — $5.50 in new tax local revenue for every dollar spent — a remarkable net benefit for government.

### TMDs — Value and Opportunity

#### Budget Relief for Local Governments

A major strength of TMDs is that they provide local municipalities with even greater budget flexibility. Traditionally, the funds for tourism promotion have come primarily from the Transient Occupancy Tax (TOT) or “room tax” levied on visitors staying at local lodging. The local municipality is responsible for collecting the TOT that often goes straight into the general fund.

Ideally, all of the revenue is budgeted to the convention & visitors bureau in order to promote the destination. However, today’s budget climate has forced many municipalities to divert a portion of that funding to backfill essential services such as police and fire operations, libraries, parks, and street maintenance.

TMDs provide a complementary funding source to the TOT. In a more prosperous economy, TMDs and TOT revenue would be combined in their entirety to provide maximum value. Unfortunately, that expectation is not realistic in today’s budget climate. This is why 45 percent of TMDs were formed because of actual or potential budget reductions by the city or county.

**BOTTOM LINE:** TMDs are replacing local tax dollars as the primary funding source for convention & visitors bureaus.

#### Saving Jobs, Creating New Opportunities

The **virtuous cycle** is also creating tourism opportunities for communities that never had a formal destination marketing mechanism. For example, Temecula and Placer Valley established their TMDs without a convention & visitors bureau in place. The community’s self-funding of the TMD provided the catalyst for an entirely new focus on tourism as an economic engine. The revenue generated by the TMD provided a sustainable funding source that allowed both communities to establish convention & visitors bureaus in their region.

This also demonstrates that as more destinations begin using TMDs, other destinations are following suit. By either developing new capacity, such as in
Temecula and Placer Valley, or building upon existing resources, the increased competition will provide a statewide net benefit in overall tourism promotion in the long run.

**BOTTOM LINE:** TMDs are creating new, good-paying jobs that cannot be outsourced.

**Stable Revenue for Tourism Promotion**

Just as TMDs are important for greater budget flexibility, they have also provided remarkably stable revenue for tourism promotion. Destinations utilizing TMDs are far more likely to stay competitive in the long run over those funded solely by the room tax. This is in large part because TMD funding cannot be diverted for any use beyond the tourism priorities established by the governing body and approved by the local municipality.

Convention & visitors bureaus are also benefitting from more stable funding as well as an overall increase in their budget. Nearly two-thirds of convention & visitors bureaus that participated in the SFSU survey indicated that their budgets increased by at least 30% after formation of a local TMD.

**BOTTOM LINE:** Two-thirds of convention & visitors bureaus experienced at least a 30% budget increase.

**Strengthening Communities**

Finally, TMDs are strengthening the fabric of local communities by uniting stakeholders to promote economic development and help solve local budget issues. The nature of TMDs — from formation to governance to actual tourism promotion — is an excellent example of 21st century community building. The economic data reinforces the tangible economic benefits, but there is also the intangible and incalculable value of community members working together. TMDs are leveraging the best of both public and private sectors with the goal of creating jobs and new opportunities.

**BOTTOM LINE:** The community buy-in required to form a TMD fosters new relationships and promotes creative collaboration.

**Conclusion — Upward Momentum**

As this report illuminates, TMDs are providing both stability and new opportunity during a time of great uncertainty. Their value for strengthening local economies and unifying communities is being proven over and over again across the state. The virtuous cycle is creating upward momentum that policymakers, businesses, and residents must continue to seize upon and support. While the economic ground may continue to shift as we continue towards recovery, TMDs are providing a solid foundation upon which to strengthen our travel and tourism economy for the years ahead.

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**Tourism Marking Districts (TMDs) in California**

- Anaheim / Garden Grove
- Burbank
- Carlsbad
- Claremont
- Chula Vista
- Coronado
- Costa Mesa
- Dana Point
- Davis
- Del Mar
- Fairfield
- Folsom
- Fresno
- Half Moon Bay
- Huntington Beach
- Irvine
- Laguna Beach
- Lodi
- Long Beach
- Los Angeles
- Madera County
- Marin County
- Mariposa County
- Mendocino County
- Monterey County
- Morro Bay
- Napa Valley
- National City
- Newport Beach
- Oceanside
- Pacific Grove
- Palm Springs
- Pasadena
- Paso Robles
- Pismo Beach
- Placer Valley
- Rancho Cordova
- Redding City
- Redding Hilltop
- Richmond
- Sacramento
- San Diego
- San Francisco
- San Jose
- San Luis Obispo (City)
- San Luis Obispo (County)
- San Mateo
- Santa Barbara South Coast
- Santa Clarita
- Santa Cruz County
- Santa Rosa
- Santa Ynez Valley
- Sonoma County
- South Lake Tahoe
- Stockton
- Temecula
- Tiburon
- Torrance
- Tri-Valley
- Vallejo
- Ventura – Oxnard – Camarillo
- Walnut Creek
- West Hollywood
- Woodland

**IN PROCESS**

- El Dorado County
- Healdsburg
- Humboldt County
- Lancaster
- Santa Monica
- Sonoma

**SOURCE:** CIVITAS, UPDATED FEBRUARY 2012
San Francisco’s hotel owners and operators approved the formation of the city’s TMD in 2008. Both Mayor Gavin Newsom and the Board of Supervisor’s President, Aaron Peskin supported the formation and recognized it as an integral part of the city’s economic development. In 2010, revenue generated by the TMD was 8 percent higher than initially forecasted, an indicator of more visitors to the city.

In early 2010, the City of Fresno announced plans to eliminate its CVB due to budget constraints. Civic, government, and tourism stakeholders collaborated to establish a TMD in partnership with the neighboring City of Clovis. Because of the TMD’s success, both the Fresno and Clovis city councils approved the formation of the Fresno-Clovis Convention & Visitors Bureau. The new bureau is now marketing the area as entire “destination”.

In June of 2011, Los Angeles took a dramatic step toward promoting the city as a travel destination by establishing a TMD. In 2010, LA spent nearly $11 million on sales and marketing — less than half of the spending of other major CA cities and approximately one-eighth of Las Vegas’ marketing budget. LA Inc., the LA CVB, is anticipated to generate $11 million a year as an additional source of funding for tourism promotions.

Formed in 2008, the San Diego Tourism Marketing District (SDTMD) generated $24.5 million in 2010-2011 for tourism promotion and related projects. The funding was instrumental in attracting 30 million visitors who spent $7 billion in 2010. The district’s success also includes a $10 million per year budget savings for the City of San Diego now that the San Diego Convention and Visitors Bureau (SDCVB) is funded largely through the TMD.

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**ENDNOTES**

1. Visit California
3. SMG/Civitas (p. 8)
5. Professor Patrick Tierney, “Economic Impact of TMDs in California”, San Francisco State University, March 2012 (p. 7)
6. SMG/Civitas, “Tourism Business Improvement Districts: A Study of Tourism Business Improvement Districts in California”, November 2010 (p. 7)
7. SMG/Civitas (p. 19, 22)
9. Clough, “Local hotels back fee to fund marketing”, Fresno Bee, November 2010