CITY OF BEVERLY HILLS
STAFF REPORT

Meeting Date: July 8, 2008

To: Honorable Mayor & City Council

From: Alison Maxwell, Director Economic Development and Marketing

Subject: Responses to questions raised at the June 3, 2008 Special Council Meeting Regarding Beverly Hills Magazine and Other Chamber of Commerce Matters

Attachments: Conference and Visitors Bureau Overview of Marketing Expenditures

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INTRODUCTION

This purpose of this report is to provide Council with responses to questions that were raised at the June 3, 2008 Special Council Meeting relating to the publication of the Beverly Hills Magazine and other projects of the Beverly Hills Chamber of Commerce

DISCUSSION

On June 3, 2008 the City Council held a special meeting to discuss issues and questions regarding the publication of the Beverly Hills Magazine and other questions relating to Beverly Hills Chamber of Commerce programming.

In this report staff has endeavored to consolidate all the questions asked by City Council at the June 3rd meeting and provide responses to each below:

1) Council expressed concern over who had the right to use the phrase "The official publication of Beverly Hills" and why this phrase was used in the new Beverly Hills Magazine.

The Los Angeles Magazines Editors have reconfirmed their "mea culpa" and apologized for using the term "official magazine." They were not directed to do so and would not do so again, unless of course requested by the City for some reason.

With regard to the more general question of whether any business has the right to designate itself as the "official…of Beverly Hills," the City Attorney has advised that any advertising that is likely to deceive the public into believing that a product or service has

been endorsed by the City of Beverly Hills would be considered an unfair business practice and a violation of the California Business and Professions Code.

2) How much is being paid to LA Magazine and by whom to produce the magazine?

The Chamber reports that it paid nothing to produce the magazine and that no City money was involved in the production of the magazine.

3) Who paid for the Love BH XX advertisement?

The Conference and Visitors Bureau has confirmed that LA Magazine provided the space free of charge; and, no cash value was traded or exchanged.

4) Who receives the advertising revenue?

The Chamber of Commerce has stated that the agreement with LA Magazine allows for LA Magazine to receive the revenue from advertising sales until net profits exceed $120,000 per issue at which time the Chamber would earn a royalty on revenues above that amount.

5) Will the "unrelated business income" from Beverly Hills Magazine jeopardize the non-profit status of the Chamber of Commerce?

As the Chamber has not yet received any unrelated business income from the magazine, the City Attorney has advised that there is currently no threat to the non-profit status of the organization from the magazine. More generally, the City Attorney reports that unrelated business income earned by a 501(c)(6) organization (such as a chamber of commerce), is taxable but would not threaten the tax exempt status of the organization unless and until the unrelated business became the primary activity of the Chamber. In this case, based on the fact that the Chamber has merely licensed the name "Beverly Hills Magazine" and is not otherwise involved in the publication, based on the fact that very limited income is expected to be generated for the Chamber by the magazine, and based on the fact that the Chamber engages in a wide variety of activities to serve its mission other than Beverly Hills Magazine, it appears unlikely that the magazine would be considered the primary activity of the Chamber.

6) The Council expressed concern that the Chamber not produce publications that compete with local media.

The Chamber of Commerce has clarified that it is not publishing *Beverly Hills Magazine* but has licensed the rights for use of the name Beverly Hills Magazine

The Chamber has indicated that over many years, it has used a number of models to produce publications to market and brand the City. In addition to Beverly Hills Magazine, it produces an annual membership directory (Beverly Hills Guide), newsletters as well as web based communications. The Chamber does not believe that any of these publications compete with local media because they target different audiences and contain different editorial content.

7) What is the distribution of the magazine?

The Chamber of Commerce reports that LA Magazine will produce 40,000 copies of Beverly Hills Magazine: 15,000 for Chamber distribution; 15,000 copies to local area

hotels; 10,000 copies to be shipped in a poly bag with the July issue of LA Magazine subscribers in high demographic local area zip codes.

8) Did the City bid this project and what was the process for licensing the publishing rights?

The Chamber reports that it did not issue a formal RFP but that extensive outreach was made to the publishers of LA Magazine, Beverly Hills Courier, Angeleno Magazine and LA Confidential.

The City did not bid this project because it was not a City-funded project.

9) Is the distribution of the magazine intended to draw visitors?

The Chamber of Commerce has indicated that the intent of Beverly Hills Magazine is partially to draw visitors. However, it is also intended to elevate the brand of Beverly Hills as well as to promote businesses in Beverly Hills.

10) Members of the City Council Chamber of Commerce Committee expressed concern that they were not aware of the publication of the Beverly Hills Magazine.

In 2006/2007 City staff expressed concerns to Chamber staff (who concurred) that the LA Magazine model at the time was unclear and appeared to require too much financial support from City TOT funds. Further, the inclusion of City funds hamstrung the Chamber and LA Magazine on advertising and other policy issues.

Consequently, in early 2007 when the Chamber met with City staff and the Council Committee to discuss 2007-2008 programming, it was reported that the existing agreement with LA Magazine was coming to an end and no more City funds would be utilized towards the endeavor. However, the Chamber indicated that it felt there was marketing benefit to the City and potential royalty revenue for the Chamber from seeking an alternative publication model.

As no City funds were being used in the new endeavor, staff had no direct involvement in the project. The Chamber briefed the City periodically on the progress of the project at the monthly Mayor and Chamber Executive meetings.

<u>Other Questions Relating Chamber/CVB Budget</u>

11) The City Council noted that it appeared that the advertising budget for the CVB had been reduced year over year, while funding to the CVB had increased.

Kathy Smits, Director of the Conference and Visitors Bureau has researched this information and developed a spread sheet to show the combined marketing budget in the form of a spread sheet. This spread sheet was previously emailed to the Council Ad Hoc Committee for the Chamber Audit and is re-printed and attached to this report for Council information. The CVB indicated that the direct purchase of advertising was just one element of a broader marketing program that included media and public relations, web outreach and a variety of other marketing programs all designed to reach various markets important to the City. As such, spending in one or other categories may go up or down in any one year as strategy changes to best reach the market.

12) Council also raised questions relating to the rents and overhead paid by the CVB and EDD to the Chamber; and interdivisional fund transfers between the CVB, EDD and Chamber.

Staff recommends that many of these financial and procedural questions can be answered with greatest clarity and detail through the vehicles of the performance audit and the financial audit.

FISCAL IMPACT

None

RECOMMENDATION

Receive and file

Alison Maxwell
Approved By

CVB MARKETING EXPENDITURES

		05-06ACT	% chg	06-07ACT	% chg	07-08ACT*	% chg	08-09BUD	% chg	4 yr % chg
Total Budget		$1,902,484	---	$1,921,410	1%	$2,036,000	6%	$2,158,160	6%	13%
Advertising										
	Media Buy	$660,515	---	$550,394	-17%	$536,576	-3%	$506,878	-6%	-23%
	Agency Fees	$70,469	---	$129,667	84%	$73,342	-43%	$60,000	-18%	-15%
	Publications	$122,720	---	$61,000	---	$0	---	$0	---	---
	Misc	$1,775	---	$0	---	$0	---	$0	---	---
	SUB TTL	$855,479	---	$741,062	-13%	$609,918	-18%	$566,878	-7%	-34%
PR		$135,638	---	$95,486	-30%	$143,964	51%	$100,000	-31%	-26%
DomMktg		$101,530	---	$142,773	41%	$99,998	-30%	$110,000	10%	8%
Int'lMktg		$65,631	---	$61,460	-6%	$144,079	134%	$200,000	39%	205%
Fams		$7,910	---	$1,493	-81%	$2,076	39%	$7,000	237%	-12%
Website		$23,067	---	$18,375	-20%	$16,123	-12%	$75,000	365%	225%
Special Prog		$2,315	---	$6,600	185%	$28,247	328%	$21,200	-25%	816%
	TOTAL	$1,191,570	---	$1,067,249	-10%	$1,044,405	-2%	$1,080,078	3%	-9%
				-$124,321		-$22,844		$35,673		

NOTES:
1. Marketing Programs are integrated and fluid, allowing the CVB to take advantage of opportunities and shift funding as needed
2. Formulation of Marketing Programs is based on research and strategy sessions with hoteliers and key stakeholders
3. Year-over-year operating costs have risen (i.e. office equipment, telephone, manpower) forcing a reduction in programming

NOTES:
1. Employee added 3/1
2. Agency fees included design of Love, BH xx collateral
3. Bon Appetit and holiday funding not included in this year or other years

NOTES:
1. Shift to PR and int'l marketing
2. Special programs includes joint branding study in conjunction w/ City and Westside partnership program
*Actual through May 31

NOTES:
1. Costs of int'l marketing require additional funding
2. Deferred web improvements warrant an increase in funding