



**CITY OF BEVERLY HILLS  
STAFF REPORT**

**Meeting Date:** April 22, 2010  
**To:** Honorable Mayor & City Council  
**From:** Alison Maxwell, Director Economic Development and Marketing  
**Subject:** Transient Occupancy Tax (TOT) Policy for Funding Tourism and Marketing Programs.  
**Attachments:** 1994 Staff report and Ordinance

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**INTRODUCTION**

This item provides City Council with an opportunity to review its current policy regarding the allocation of Transient Occupancy Tax (TOT) for the purposes of funding tourism and marketing programs.

**DISCUSSION**

For approximately sixteen years, the City has maintained a policy of funding its tourism and marketing programs from a specific allocation of the TOT, known informally as "2% TOT for Marketing." The City collects a total of fourteen percent (14%) TOT based on gross room sales from the City's hotels. Two (2) of the fourteen percent (14%) i.e. one seventh of the total TOT, has been the basis of calculation for funding for tourism and marketing in Beverly Hills – hence, "2% TOT for Marketing".

This report will provide City Council with a synopsis of the history to this policy. It will also provide information on the current tourism and marketing budget, as well as the 2010-2011 projected tourism and marketing budget and predicted expenditure demands on that funding.

City Council is being asked to review its current TOT policy and provide direction to Staff on whether to retain the current policy or modify it as part of the upcoming budget adoption process. This will enable staff to better prepare budget presentations for the range of programs currently funded from the "2% TOT for Marketing."

**History**

In the early 1990's the City Council took a number of actions that increased the TOT from eleven percent (11%) to twelve percent (12%) and from twelve percent (12%) to fourteen (14%). These actions were taken first by the adoption of two ordinances, and subsequently ratified via a ballot measure. The recent history of TOT decisions by City Council are as follows:

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1986 – City Council increased TOT from 7% to 11% by ordinance and ratified by a ballot measure in 1988.

1991 – City Council increased TOT from 11% to 12% by ordinance.

Both the 1986 and 1991 increases were for General Fund budget purposes.

1994 – City Council increased the TOT from 12% to 14% by ordinance. The stated purpose of the 1994 increase, as outlined in the January 18, 1994 staff report, was to provide additional funding for "...an advertising program promoting Beverly Hills and the major hotels as a travel destination." This increase was supported and recommended by a consortium of hotels, businesses, Chamber and Council members who were working together to look at ways to enhance funding to market Beverly Hills.

1996 – A ballot measure was approved that ratified both the 1991 and the 1994 increases. The measure was approved as a General Tax, not a Special Tax – which would have otherwise required a four-fifths majority. As such, the language of the ballot measure did not memorialize the Council's approved direction as outlined in the 1994 staff report to utilize the additional tax specifically for marketing. However, the City Council has continued to make tourism and marketing budget allocations based on the 1994 policy.

Prior to the adoption of the 1994 ordinance, funding for CVB destination marketing program had been approximately \$580,000 and was provided by the General Fund. The new funding from the "2% TOT for Marketing" provided approximately an additional \$1,444,000 for marketing and promotional programs.

For many of the last sixteen years, TOT revenue rose steadily allowing a commensurate expansion of City-funded tourism and marketing programs, in addition to the work of the CVB. However, fiscal year 2008-2009 saw a dramatic reduction in TOT revenue which caused reductions in base funding for tourism and marketing programs in 2009-2010. For 2010-2011, TOT revenues are expected to decline another 6.6%. Naturally, this will affect not just the tourism and marketing budget, but the City budget as a whole.

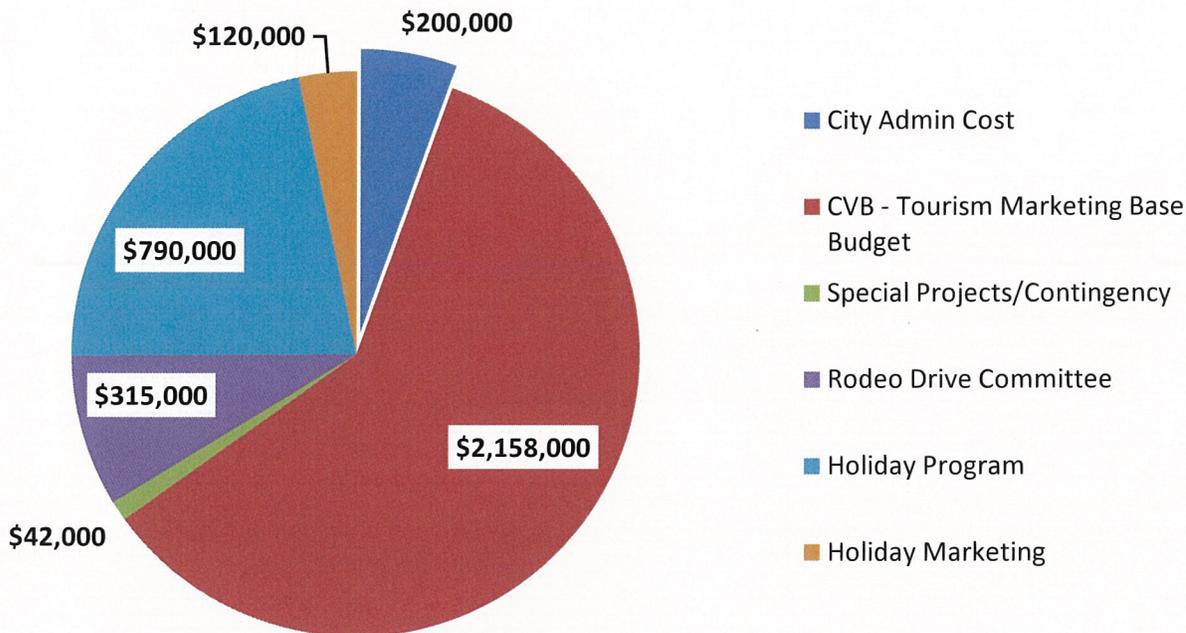
As such, before proceeding to develop budget presentations for funding recipients (CVB, Rodeo Drive, Holiday Program etc), staff is requesting Council to take an opportunity to affirm or modify its 1994 policy on the "2% TOT for Marketing" prior to final presentation of the City's budget in May.

Following is a chart of the current 2009-2010 tourism and marketing approved budget and program allocations. Also, outlined below is a chart of the projected tourism and marketing budget that would be incorporated into the City's budget barring different direction from City Council. For the purposes of this presentation, the chart assumes a straight line reduction in all programs of 6.6%. However, staff anticipates bringing recommendations from the Marketing Strategic Plan to the City Council in May along with the CVB 2010 work plan. At this point Council may opt to make strategic funding decisions that would affect these programs. Therefore, the 6.6% reduction per program is offered as a place holder to represent the decrease in anticipated TOT revenue.

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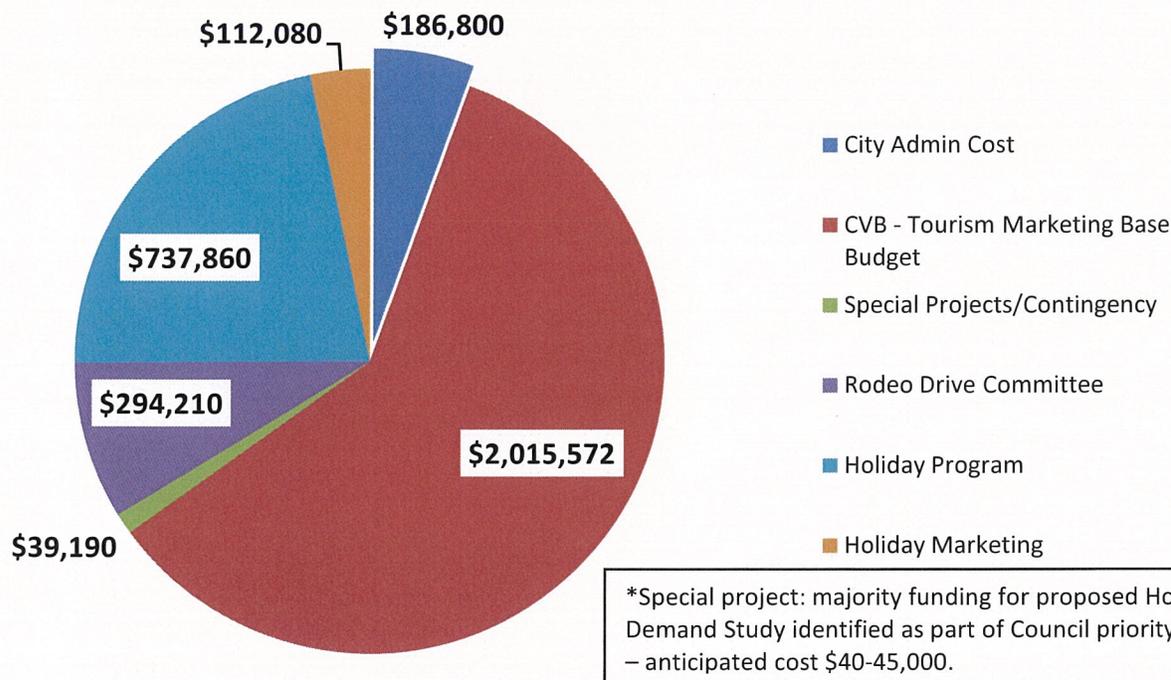
**Current 2009-2010 Tourism and Marketing TOT Budget and Program Allocations**

**Total 2% TOT Budget: \$3,625,000**



**Draft 2010-2011 Tourism and Marketing Budget and Possible Program Allocations  
– Using straight line 6.6% reduction to match revenue projections**

**Total 2% TOT Budget Anticipated: \$3,385,712**



\*Special project: majority funding for proposed Hotel Demand Study identified as part of Council priority setting – anticipated cost \$40-45,000.

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## **FISCAL IMPACT**

**2009-2010 - revenue projections:** as of March 2010, the City's Administrative Services Department is predicting lower TOT revenues than were anticipated at the start of the fiscal year. The City's 2009-2010 adopted budget assumed TOT revenue of \$25,375,000 (tourism and marketing portion - \$3,635,000). Current projections are assuming total TOT revenue of \$23,200,000 (tourism and marketing portion - \$3,314,286). If current projections hold true, which will not be known until the final whole-year TOT revenues are received in late summer 2010, the City may find it has spent approximately \$310,714 in excess of the "2% TOT for Marketing" policy. At this time, there is approximately \$35,000 remaining un-encumbered in the tourism and marketing program, which could be held toward reducing that possible delta.

From a recent historical perspective, total TOT revenues have been as follows:

2007-2008 Adopted Budget: \$23,495,500	Actual: \$29,101,920
2008-2009 Adopted Budget: \$29,677,700	Actual: \$24,001,879

**2010-2011 - revenue projection:** At the time of printing, the total projected TOT is anticipated to be \$23,699,984 of which tourism and marketing funding would be \$3,385,712 (representing one seventh of the total projected TOT). If Council elects to continue its policy of allocating 2% of the gross hotel revenues (one seventh of actual TOT collected) to fund tourism and marketing programs, this amount would be included in the City budget. Staff would bring back recommendations for funding individual programs during the budget deliberation period.

It should be noted that during the budget adoption process for 2009-2010, the City Council directed that approximately \$200,000 of tourism and marketing funds (Holiday Program) be re-allocated to the Community Assistance Grant Program, which had been reduced.

In determining the TOT tourism and marketing budget, it is important to keep in mind that organizations such as the CVB are 100% funded by the City and have base operating obligations continuing from July 1<sup>st</sup>. So it is generally anticipated that funding direction from council and subsequent contracts are completed by mid-June to ensure that payroll and other such operational costs can be met on time. Staff will be making presentations on these programs in late May or early June.

## **RECOMMENDATION**

1. Staff requests City Council to review and affirm, or modify, its policy of providing 2% of the hotel gross receipts provided through TOT (or one seventh of total TOT received) for funding tourism and marketing programs.



Alison Maxwell, Director Economic  
Development and Marketing

Approved By

# Attachment 1



**CITY OF BEVERLY HILLS  
CITY COUNCIL  
AGENDA STATEMENT**

ITEM NO: D-1  
MEETING DATE: 1/18/94  
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**TITLE:** AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF BEVERLY HILLS INCREASING THE TRANSIENT OCCUPANCY TAX FROM TWELVE PERCENT TO FOURTEEN PERCENT AND AMENDING THE BEVERLY HILLS MUNICIPAL CODE

**SUBMITTING DEPARTMENT:** Office of the City Manager

**ATTACHMENTS:** Ordinance

**STAFF RECOMMENDATION:** It is recommended that the City Council adopt the ordinance.

*MS*  
CITY MANAGER APPROVAL

**INTRODUCTION**

This is to request City Council adoption of the ordinance increasing the Transient Occupancy Tax (TOT) from 12% to 14%. The ordinance goes into effect upon adoption.

**BACKGROUND**

Representatives from the City Council, Chamber of Commerce, Visitors Bureau and major local hotels have been meeting this past year to develop the concept and funding options for an advertising program promoting Beverly Hills and the major hotels as a travel destination. The group agrees on the need for positive promotion and recommends that the City increase TOT from 12% to 14% to fund the program.

State law allows the City to increase TOT and do so without a vote of the public as long as the money is being collected for a general public purpose. However, the City can express an intent to identify resources annually for this type of promotion, with the actual allocation of General Fund revenues (which includes the TOT funds) being made one year at a time. Representatives of the major hotels in the City support this proposal and request

**City Council Agenda Statement**  
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that the City endorse the use of the funds to promote the hotels as a destination.

The hotel representatives have also asked that a Steering Committee, composed as follows, be established by the City Council to oversee the planning and implementation of this advertising campaign:

- General Managers of the four largest Beverly Hills hotels
- One other hotel General Manager on an annual rotating basis
- Mayor and Vice Mayor
- President of the Chamber of Commerce
- President of the Visitors Bureau
- Two other members at-large selected by the Committee (Fred Hayman and Warren Ackerman have agreed to serve in this role)
- The City Manager and Manager of the Visitors Bureau would serve the Committee as ex officio members

The Executive Committee of the Chamber has endorsed this concept.

Upon adoption of the ordinance, the Steering Committee is prepared to come forward with a recommendation on selecting professionals to design the campaign. The Steering Committee will review the alternatives and recommend a full program, with budget and schedule. Final approval of the budget would be necessary annually by the City Council.

**FINANCIAL ANALYSIS**

A total of \$6,867,143 Million in TOT (at 12%) is projected for Fiscal Year 1993-94. That equates to over \$572,000 for each percent of TOT. Assuming there is no price sensitivity, a two percent increase would generate an additional \$1,144,000 in TOT over the first year. By increasing the overall promotion budget, is also likely that "coop" advertising will be available from private travel-related companies. Funding will also increase

**City Council Agenda Statement**  
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when the Beverly Hills and L'Ermitage (now Lowell) Hotels re-open.

**RECOMMENDATION**

It is recommended that the City Council adopt the ordinance, appoint the Steering Committee and endorse the approach for selection of the promotion profession.

TE030091.DOT (8/92)

MC03AS94.DOC

## ORDINANCE NO. 94-O-2189

## AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF BEVERLY HILLS INCREASING THE TRANSIENT OCCUPANCY TAX FROM TWELVE PERCENT TO FOURTEEN PERCENT AND AMENDING THE BEVERLY HILLS MUNICIPAL CODE

THE CITY COUNCIL OF THE CITY OF BEVERLY HILLS DOES ORDAIN AS FOLLOWS:

Section 1. Section 3-1.303 of Article 3 of Chapter 1 of Title 3 of the Beverly Hills Municipal Code is amended to read as follows:

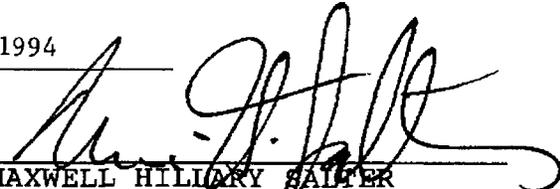
**"Sec. 3-1.303. Tax imposed.**

For the privilege of occupancy in any hotel, each transient shall be subject to and shall pay a tax in the amount of fourteen percent (14%) of the rent charged by the operator. Such tax shall constitute a debt owed by the transient to the City, which debt shall be extinguished only by payment to the operator or to the City. The transient shall pay the tax to the operator of the hotel at the time the rent is paid. If the rent is paid in installments, a proportionate share of the tax shall be paid with each installment. The unpaid tax shall be due upon the transient's ceasing to occupy space in the hotel. If for any reason the tax due is not paid to the operator of the hotel, the Director of Finance Administration may require that such tax shall be paid directly to the City."

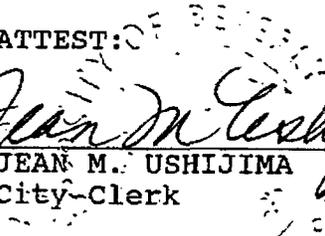
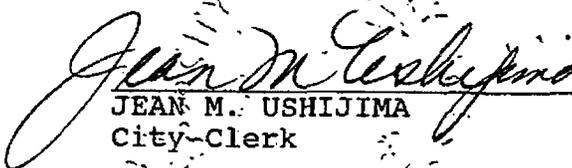
Section 2. The City Clerk shall cause this ordinance to be published at least once in a newspaper of general circulation printed and published in the City within fifteen (15) days after its passage, in accordance with Section 36933 of the Government Code, shall certify to the adoption and publication of this ordinance, and shall cause this ordinance and its certification, together with proof of publication, to be entered in the Book of Ordinances of the Council of this City.

Section 3. Pursuant to Government Code Section 36937, ordinances relating to taxes for the usual and current expenses of the City may take effect immediately. This ordinance shall go into effect at 12:01 a.m. on February 1, 1994.

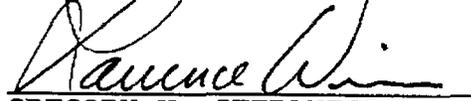
ADOPTED: January 18, 1994

  
MAXWELL HILARY SALTER  
Mayor of the City of  
Beverly Hills, California

ATTEST:

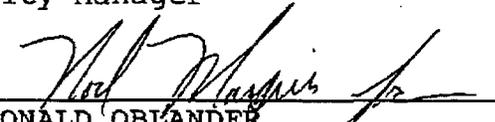
  
 (SEAL)  
JEAN M. USHIJIMA  
City Clerk

APPROVED AS TO FORM:

  
GREGORY W. STEPANICICH  
City Attorney

APPROVED AS TO CONTENT:

  
for MARK SCOTT  
City Manager

  
DONALD OBLANDER  
Director of Finance  
Administration

12/17/93