

**MEMO**

To: San Francisco Board of Supervisors

CC: Mayor London N. Breed, 45<sup>th</sup> Mayor of the City and County of San Francisco

From: Chris Corgas, OEWD Senior Program Manager

RE: Tourism Improvement District and Moscone Expansion Districts Annual Reports Fiscal Year 2019-20

Date: May 24, 2021

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This is a memo summarizing the performance of the Tourism Improvement District (TID) and an analysis of its financial statements (based on their audits) for the period between July 1, 2019 and June 30, 2020.

Each year the TID and MED are required to submit an annual report, and a CPA Independent Auditor's Report. The TID and MED have complied with the submission of these requirements. OEWD staff, with assistance from the Office of the Controller, City Services Auditor Division, reviewed these financial documents to monitor and report on whether they have complied with the rules per the Property and Business Improvement District Law of 1994, California Streets and Highways Code Sections 36600 Et Seq.; San Francisco's Business and Tax Regulations Code Article 15; the San Francisco Tourism Improvement District Management Corporation's management contract with the City for the TID; the San Francisco Tourism Improvement District Management Corporation's management contract with the City for the TID; MED Management District Plan approved by the Board of Supervisors in 2013.; and the Amended TID Management District Plan approved by the Board of Supervisors in 2013.

As stipulated in Section 3.4 of the Moscone Expansion District's management agreement with the City and County of San Francisco, the district may consolidate their annual reports with those of the San Francisco Tourism Improvement District. The management agreement can be found as a supporting document in Resolution# 427-13.

Also attached to this memo are the following documents:

1. TID and MED Annual Report
  - a. FY – 2019-2020
2. CPA Independent Auditors' Report
  - a. FY – 2019-2020
3. Office of the Controller, City Services Auditor Division, TID and MED review files
4. Proposed Resolution to approve the TID and MED annual reports for FYs – 2019-2020.



## Background

The TID and MED are business-based assessment districts that includes all tourist hotels operating in the City & County of San Francisco that generate revenue from tourist rooms, and which are located in the following geographic areas:

Zone 1: Tourist hotels with addresses:

- On or east of Van Ness Avenue
- On or east of South Van Ness Avenue, and
- On or north of 16<sup>th</sup> Street from South Van Ness to the Bay, including all tourist hotels east of Van Ness Avenue as if it continued north to the Bay, and north of 16<sup>th</sup> Street as if it continued east to the Bay.

Zone 2: Tourist hotels with addresses:

- West of Van Ness Avenue and South Van Ness Avenue, and
  - South of 16<sup>th</sup> Street.
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- December 16, 2008: the Board of Supervisors approved the resolution to form the Tourism Improvement District Business Improvement District to cover hotels identified in the District’s Management Plan and Engineer’s Report. Resolution # 504-08).
  - July 28, 2009: the Board approved the contract for the administration and management of the Tourism Improvement District Business Improvement District (Resolution # 323-09).
  - December 10, 2013: the Board of Supervisors approved an amendment to the District’s Management Plan to authorize monthly, instead of quarterly, assessment collection and distribution. (Resolution #441-13).
  - September 12, 2017: the Board of Supervisor approved annual reports for the Moscone Expansion District for FYs 2014 – 2016 (Resolution #336-17).
  - September 11, 2018: the Board of Supervisors approved annual reports for the Tourism Improvement District and Moscone Expansion District for FY 2016-2017 (Resolution #295-18)
  - October 29, 2019: the Board of Supervisors approved annual reports for the Tourism Improvement District and Moscone Expansion District for FY 2017-2018 (Resolution #465-19)
  - September 15, 2020: the Board of Supervisors approved the annual reports for the Tourism Improvement District and Moscone Expansion District for FY 2018-2019 (Resolution #393-20).

### **Basic Info about Tourism Improvement District BID:**

Year Formed	December 2008
Assessment Collection Period	FY 2009-10 to FY 2023-24 (July 1, 2009 to June 30, 2023)
Services Start and End Date	January 1, 2009 – December 31, 2023
Initial Estimated Annual Budget	\$27,000,000
Fiscal Year	July 1 – June 30
Executive Director	Paul Frentsos
Name of Nonprofit Owners’ Entity	San Francisco Tourism Improvement District Management Corporation

The current TID website is <http://www.sftid.com/>.

**Basic Info about Moscone Expansion District BID:**

Year Formed	2013
Assessment Collection Period	FY 2014-15 – FY 2044-45 (July 1, 2014 to June 30, 2015)
Services Start and End Date	July 1, 2013 – December 31, 2045
Initial Estimated Annual Budget	\$19,332,000
Fiscal Year	July 1 – June 30
Executive Director	Paul Frentsos
Name of Nonprofit Owners’ Entity	San Francisco Tourism Improvement District Management Corporation

The current BID website is <http://www.sftid.com/>

**Summary of Program Areas**

**Tourism Improvement District**

**Marketing and Promotions**

This service area includes, but is not limited to, the marketing and promotion of programs, oversight for marketing and promotion staff, ad creation, media placement, and startup costs related to satellite offices.

**Administration and Personnel Services**

This service area includes design, engineering, planning, and entitlements for activities and services for the expanded Moscone Convention Center and renovation/upgrades to capital improvements of Moscone Convention Center North, South, and West.

**Contingency/Reserve/Administration and City Administration/Costs of the TID/Formation Costs**

This service area is used to cover the administrative costs and expenses of the non-profit management corporation that administers the TID and reimbursement of formation costs. This includes payment of unforeseen costs and escalation for the two improvement areas listed just above; and a proportionate share of the SFTIDMC administrative and operational costs.

**Moscone Expansion District**

**Expansion/Development Activities**

This service area includes design, engineering, planning, construction, and other activities for renovations on the Moscone Convention Center.

### **Incentive Fund**

This service will provide an incentive fund to bring conventions to San Francisco during the renovations and after them.

### **Administration of MED and Operating Contingency Reserves**

This service area is used to cover the administrative costs and expenses of the non-profit management corporation that administers the TID and reimbursement of formation costs. This includes payment of unforeseen costs and escalation for the two improvement areas listed just above; and a proportionate share of the SFTIDMC administrative and operational costs.

## **Summary of Accomplishments, Challenges, and Delivery of Services**

### **TID**

#### **FY – 2019-2020**

##### **Sales and Marketing Program**

- 881,521 room nights booked
- Over 745 meetings held in San Francisco
- Attended over 27 trade shows and events
- Sales mission to Washington, DC and Chicago reaching over 257 meeting planners
- SF had 8.1 million international travelers in the first half of the fiscal year
- Representation in 14 international offices in 13 countries
- Partnered with SFO on new air service
- SF Travel hosted over 1,630 travel professionals
- Attended 17 international and domestic trade shows
- 68 new tourism programs
- Sfttravel.com had 2.2+ million unique visitors worth \$103,813,598 in economic impact

### **MED**

#### **FY 2019-2020**

##### **Moscone Expansion Incentive Fund**

- Used to attract new clients
- Retained current clients during the expansion and into the future

Moscone funds were also allocated to MED reserve for future renovations and Moscone Asset maintenance, in line with the District's Management District Plan.

## **TID and MED Annual Budget Analysis**

**OEWD’s staff reviewed the following budget related benchmarks for TID:**

- **BENCHMARK 1:** The variance between the Management Plan Budget and Fiscal Year budget, by service category.
- **BENCHMARK 2:** The variance between the budget amount and actual expenses within a fiscal year.
- **BENCHMARK 3:** Whether TID is indicating the amount of funds to be carried forward into the next fiscal year and designating projects to be spent in current fiscal year (*CA Streets & Highways Code, Section 36650(B)(5)*).

**FY 2019-2020**

**BENCHMARK 1:** The variance between the Management Plan Budget and Fiscal Year budget, by service category.

**ANALYSIS:** TID met this requirement. See table below.

Service Category	Management Plan Budget	% of Budget	FY 2019-2020 Budget	% of Budget	Variance Percentage Points
Marketing and Promotions	\$43,973,454	69.4%	\$28,315,300	98.2%	+28.8%
Administration and Personnel	\$14,071,505	22.2%	\$518,000	1.8%	-20.4%
Contingency/Reserves/Administration and City Administration Costs of the TID	\$5,276,814	8.3%	\$0	0%	-8.3%
<b>TOTAL</b>	<b>\$63,321,773</b>	<b>100%</b>	<b>\$28,833,300</b>	<b>100%</b>	

**ANALYSIS:** MED met this requirement. See table below.

Service Category	Management Plan Budget	% of Budget	FY 2019-2020 Budget	% of Budget	Variance Percentage Points
Expansion/Development Activities		86.5%	\$0.00	0.00%	-86.5%
Capital Reserve		1.0%	\$335,100	7.4%	+6.4%
Incentive Fund		9.0%	\$3,040,959	66.8%	+57.8%
Sales and Marketing Fund		1.0%	\$335,100	7.4%	+6.4%
Debt Service and Stabilization Fund		0.0%	\$0.00	0.0%	0%

Administration of the MED and Operating Contingency Reserves		2.5%	\$837,800	18.4%	+15.9%
<b>TOTAL</b>		<b>100%</b>	<b>\$4,548,950</b>	<b>100%</b>	

**BENCHMARK 2:** The variance between the budget amount and actual expenses within a fiscal year.

**ANALYSIS:** TID met this requirement. See table below.

Service Category	FY 2019-20 Budget	% of Budget	FY 2019-20 Actuals	% of Actuals	Variance Percentage Points
Marketing and Promotions	\$28,315,300	98.2%	\$21,535,500	97.7%	-0.5%
Convention Sales/Marketing Fund	\$0.00	0.0%	\$17,264	0.1%	+0.1%
Administration and Personnel	\$518,000	1.8%	\$496,026	2.2%	+0.5%
Contingency/Reserves/Administration and City Administration Costs of the TID	<b>\$28,833,300</b>	<b>100%</b>	\$0	0.0%	0.0%
<b>TOTAL</b>	<b>\$28,833,300</b>	<b>100%</b>	<b>\$22,048,790</b>	<b>100%</b>	

**ANALYSIS:** MED met this requirement. See table below.

Service Category	FY 2019-20 Budget	% of Budget	FY 2019-20 Actuals	% of Actuals	Variance Percentage Points
Expansion/Development Activities	\$0.00	0.00%	\$1,191,638	5.9%	+5.9%
Capital Reserve	\$335,100	7.4%	\$0.00	0.00%	-7.4%
Incentive Fund	\$3,040,959	66.8%	\$3,148,421	15.7%	-51.2%
Sales and Marketing Fund	\$335,100	7.4%	\$215,083	1.1%	-6.3%
Debt Service and Stabilization Fun	\$0.00	0.00%	\$14,891,570	74.1%	+74.1%
Administration of the MED and Operating Contingency Reserves	\$837,800	18.4%	\$640,829	3.2%	-15.2%
<b>TOTAL</b>	<b>\$4,548,950</b>	<b>100%</b>	<b>\$14,891,570</b>	<b>100%</b>	

**BENCHMARK 3:** Whether TID and MED are indicating the amount of surplus or deficit funds to be carried forward into the next fiscal year and designating projects to be spent in current fiscal year.

**ANALYSIS:** TID met this requirement.

<b>FY 2019-20 Carryover Disbursement</b>	
SFTA Marketing and Operations	\$ 276,671
Capital Fund	\$ 175,325
Incentive Fund	\$ 694,890
Convention Sales and Marketing Fund	-
Contingency/Reserve	\$ 606,990
<b>Total Designated amount for Future Years</b>	<b>\$ 1,753,876</b>

**ANALYSIS:** MED met this requirement.

<b>FY 2019-20 Carryover Disbursement</b>	
Development and Expansion	- \$ 5,236,850
Capital Fund	\$ 245,173
Incentive Fund	\$ 435,061
Contingency/Reserve	\$ 1,059,335
<b>Total Designated amount for Future Years</b>	<b>- \$ 3,497,281</b>

**Findings and Recommendations**

The Tourism Improvement District and Moscone Expansion District met their reporting requirements, mentioned on page 5 of the memo, under Article 15 of the San Francisco Business and Tax Regulations Code, the California Streets and Highways Code, and the organization’s management agreement with the City and County of San Francisco.

Both districts, based off their assessment models, were severely impacted by the Covid-19 pandemic and saw a drastic reduction in special assessment revenues. The formula for both districts is based on a percentage of revenue generated from hotel room purchases in the City and County of San Francisco. The lack of assessment revenue forced the Moscone Expansion District to tap its Debt Service and Stabilization fund which was designed to be drawn upon in any year when lower than expected MED collections caused MED contributions toward debt service to be lower than the sum set forth in cash flow projections. This fund was utilized this year as the Covid-19 pandemic caused such conditions to exist. Due to the pandemic’s impact on assessment revenue TID assessment fees were less than

anticipated resulting in the district expending approximately \$4.7 million more than what it collected in the FY. This amount was covered through the TID's Contingency/Reserve fund.

The TID is set to expire in 2023. The TIDMC and SF Travel followed OEWD's recommendation to begin the renewal process in FY 2019-20. A Management District Plan was submitted to the City in spring 2020. The original plan was to complete the renewal process in late 2020/early 2021 with an implementation date of January 1, 2024. Due to the Covid-19 global pandemic renewal and expansion proponents, as well as OEWD, mutually agreed to delay the process to determine how the pandemic progressed. Due to the significant impact the pandemic has had on the hospitality industry there were additional concerns about discussing special assessments during this time. OEWD and project proponents have been working since winter 2020 through summer 2021 on the renewal and expansion Management District Plan as well as implementation processes. Project proponents have hosted and continue to host informational meetings for rate payers. OEWD anticipates the renewal and expansion process will be completed in November 2021, barring any unanticipated delays. Should the district renew and expand it would begin implementation on January 1, 2024 when the current iteration of the district sunsets.

The MED has taken out a line of credit of \$5,000,000 which will come to term in 2021. OEWD recommends the TIDMC identify ways to work with their lending institution regarding payment of this loan due to the severe impacts the Covid-19 pandemic has had on the district's assessment revenue.

### **Conclusion**

The Tourism Improvement District is following all requirements placed on it by the California Streets & Highways Code, Article 15 of the San Francisco Business and Tax Regulations Code, and the District's Management Agreement with the City and County of San Francisco. The Districts continue to succeed at their primary purpose of attracting tourism and conventions to San Francisco and renovating the Moscone Convention Center.