

NEWPORT BEACH TOURISM BUSINESS IMPROVEMENT DISTRICT

ANNUAL REPORT FOR FISCAL YEAR 2020-2021

JULY 1st 2020 THROUGH JUNE 30th 2021

ORIGINATION:

Implemented beginning May 1st, 2009 through an ordinance approved by the City Council, the Newport Beach Tourism Business Improvement District (TBID) was amended effective January 29th, 2014. The amendment included a revised assessment from 2% to 3% and a renewal period of ten (10) years. The TBID is a benefit assessment district proposed to help fund marketing and sales promotion efforts for Newport Beach lodging businesses.

Under an agreement with the City of Newport Beach, Visit Newport Beach, Inc. serves as the TBID's Owner's Association and oversees its administration and coordinates its sales and marketing activities.

This is the annual report of the Newport Beach TBID for the FY 2020-2021 fiscal year and is filed with the City Clerk, according to the California Streets and Highways Code Sections 36650.

PURPOSE:

The Newport Beach TBID is responsible for representing and managing conference, meeting, and group sales efforts in partnership with the nine TBID lodging businesses. These services are designed to benefit the nine properties that will be assessed within the City of Newport Beach as well as generating additional revenue to grow the Newport Beach hotel and tourism industry. The current participating lodging businesses are as follows:

- Newport Beach Marriott Resort and Spa
- Renaissance Newport Beach Hotel
- Hyatt Regency John Wayne Airport Newport Beach
- Newport Beach Marriott Bayview
- Hyatt Regency Newport Beach
- The Balboa Bay Club and Resort
- Newport Beach Dunes Waterfront Resort and Marina
- Fashion Island Hotel
- Lido House Hotel

FY20/21 SITUATIONAL ANALYSIS:

The call to limit gatherings larger than family units in order to “flatten the curve” of COVID-19 infection hit the U.S. meeting industry hard in mid-March as stay-at-home orders spread across the United States. On March 1, Natural Products, Anaheim’s second largest convention that utilizes all of Orange County, cancelled just two days before the start of the March 3-7 dates, halting 85,000 attendees from coming into Orange County. This was the beginning of a string of cancellations in quick succession as many other organizations, corporate and nonprofit, felt they had no choice but to put the brakes on meetings and events until a clearer picture of the health and safety landscape was available. These cancellations left meeting professionals with three choices:

- Postpone: Reschedule to a date when it was hoped it would be allowed, safe and acceptable to gather.
- Pivot: Flip the meeting to a virtual format.
- Cancel: Wait until there is more certainty; or, at best, a vaccine.

A survey by Smart Meetings of 1,685 meeting planners with booked programs in the 2nd half of 2020 found that many are doing all three: moving some meetings to late 2020 or 2021, cancelling them altogether or converting them to virtual.

Just over half of planners are converting their programming to a virtual conference during the COVID-19 pandemic to accommodate the vast numbers of people not willing to travel in the short run and, in some cases, before a vaccine. As planners have been forced to master virtual-meeting technology and strategies, many have stated that streaming and charging for content is here to stay, disrupting in-person meetings in the long haul.

To return to face-to-face meetings, planners said they are looking for official standards to benchmark safety best practices in room design, elevator operation, food and beverage, additional restroom facilities and operational guidelines for things such as staggered registration and breaks. They need a clearer picture of what it means to get back to business.

The abundance of caution and go-slow approach will be the modus operandi and size of groups will decrease. In addition, the economic crisis has impacted meeting budgets by eliminating conferences that would have previously happened. With these changes in the meetings ecosystem, Visit Newport Beach will need to adjust group room nights and revenue expectations knowing that recovery will extend well into 2021.

COST BASIS:

Annual assessment rates are 3% of gross short term (less than 30 days) room rental revenue on the participating lodging businesses within the city limits of Newport Beach. Lodging business stays of longer than 30 consecutive days will not be assessed. Based on the benefit received, stays by airline personnel and government employees on government business will not be assessed. Stays at time shares will not be assessed. The renewal year for the current TBID agreement is 2024.

BUDGETED REVENUE FOR FY 20 AND FY 21:

After 10 years of consistent growth in TBID revenue, the COVID-19 pandemic has created a serious economic crisis in the hotel industry. The Newport Beach TBID's revenue budgeted for FY 2019-20 was \$4.244M. In stark contrast, its revenue for FY 2020-21 is budgeted at \$1.175M. This is a conservative budget that assumes zero revenue for July, August, September and October (revenue in those months tie to occupancy in May, June, July and August). We took into consideration that four member hotels will not likely reopen until July and Fashion Island Hotel is closed until January. Additionally, meetings and conferences were hit hardest in the hospitality sector and may remain depressed until there is a vaccine to prevent COVID-19 available. Budgets are always reviewed in January of each fiscal year by the TBID Board of Directors to determine if adjustments need to be made. There are four waves of desired spend to put in place if revenue comes in higher than expected.

FY 21 ROLL UP BUDGET:

The TBID's FY 21 budget reflects the essentials for its mission; and will rely on the use of reserves for any short-falls in revenue, particularly in July-September.

Roll Up Budget:

Total Operating Revenue	\$1,175,983
Total Operating Expenses	\$1,272,441
Total Promotional Expenses	\$49,750
Total Community Relations	\$10,000
Total Digital Marketing	\$42,044
Total Trade Show Expense	\$131,926
Total Sponsorship	\$307,075
Total Sales Initiatives	\$47,000

Non-Cash Items:

Depreciation	\$ 5,189
Amortization	\$ 26,544
FY2020 Prepaids	\$ 105,722

(These items are included in the budget above as required by law but will not use any cash resources.)

TBID SALES PROGRAM IN FY 21:

The COVID-19 pandemic has affected the TBID very directly. The TBID budget has decreased by almost 80% and, as a result, the Visit Newport Beach sales team has been reduced by three full time employees and 3 full time furloughs with indeterminate end dates. Additionally, the budget reduction will impact programming, travel and advertising for FY 21.

It's encouraging to say however, that even with these staff and program cuts, we have proven to have one of the stronger destination marketing organization's in Orange County sustaining the least amount of negative COVID impact to our DMO in the region. The Visit Newport Beach recovery team will consist of four experienced market sellers with the most critical aspects of our budget and initiatives intact.

The hope for the meetings industry is that ultimately, the very absence of face-to-face gatherings may serve to underscore and reinforce their value going forward. The entire world is now missing what they may have taken for granted in the past. Meetings will come back, though it hinges on consumer confidence to travel and meet once again.

Group meetings have always been a robust part of the hotel industry and Visit Newport Beach is committed to the process of recovery in the TBID community.

FY 21 DIRECT SALES INITIATIVES/GOALS:

COVID-19 resulted in a major hospitality and travel shutdown. The potential mid-range and long-range consequences on meetings make traditional room night goal setting impractical.

While the pandemic has certainly disrupted the forward momentum of definite room nights, Visit Newport Beach (VNB) is committed to delivering the very best support possible to the TBID member hotels. The VNB sales team has historically thrived with definitive goals and a cadence of accountability. Individuals have been tasked with obtaining accelerated room nights in years past and have been motivated to exceed them.

Recovery of group meetings is VNB's mission for FY 21 and its new goals will support the critical "leading activities" to get the best results possible.

1. Direct Sales. Dedicate prime selling time to the top accounts in the local/regional markets that are presenting themselves in credible research as the quickest to come back. True to the 80/20 rule, 80% of VNB's selling time will focus in tightly on the 20% most valuable accounts/opportunities.
2. Virtual tours. Bring the destination to the planner by using brand tools and technology to give clients the best sensory virtual experience of the destination. Use video conferencing calls with partners to have clients feel they have met the sales team in the next best way possible. Resume site tours as soon as possible.
3. Engage in industry meetings (virtual or in person). Bring VNB's best to these opportunities, representing our hotels and sponsoring where feasible.

4. Collaboration with hotels. This has always been the secret sauce of the Newport Beach TBID: a true partnership that brings combined talent, attention and resources to each opportunity. This coalition is a powerful mechanism to compete in a crowded landscape.

5. Ongoing training/Education. The VNB team is committed to learning new skills and enabling effective adaptations and innovations to stay on the cutting edge of this evolving environment.

FY 20 GOALS/PRODUCTION:

VNB typically shares the room night performance for the fiscal year ending in this report. The VNB sales team was well within reach of exceeding the FY 20 annual goal (and an internal stretch goal of 120K room nights!) prior to the COVID-19 pandemic. At the time of writing this report (May 26, 2020), 43K group rooms have canceled predominantly for meetings actualizing in Q2 and Q3 of 2020. Groups are now cancelling for Q4. At this point, there will not be a final reporting of group rooms results for FY20 as it is changing daily for the negative and no longer a relevant reflection of our efforts.

- FY 20 Group Room Night Goal: 100,000
- Actual Room Night Production as of March 10, 2020: 83,000
- Cancelled Group Room Nights since March 10, 2020: 43,000

ASSESSMENT AND BOUNDARIES:

The TBID Agreement was renewed in January 2014 extending the renewal period for ten (10) years.

ESTIMATE OF NON-ALLOCATED FUNDS CARRIED OVER FROM FY 2019-2020:

A FY 20 planned revenue surplus of \$71,150 plus an additional estimate of approximately \$828,850, created from cutting spending due to the pandemic, will be carried over to the TBID's FY 21 budget and placed in the reserve account. The new reserve balance will be approximately \$1,893,104."

AMOUNT OF ANY CONTRIBUTIONS OTHER THAN ASSESSMENTS LEVIED IN FY 2020-21:

There are no other contributions other than assessments levied.