



CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 5A
November 4, 2021

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Scott Catlett, Finance Director/Treasurer
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**SUBJECT: OVERVIEW OF HISTORICAL FUNDING PROVIDED TO VISIT
NEWPORT BEACH**

SUMMARY:

Visit Newport Beach, Inc. (VNB), a non-profit organization (under IRS code §501 (c)(6)), is the Destination Marketing Organization for Newport Beach. VNB operates under an agreement with the City that directs VNB to provide specific services to the City and community using transient occupancy tax (TOT) revenues. VNB also serves as the owners' association to the Newport Beach Tourism Business Improvement District (TBID) under a separate agreement with the City and administers the TBID's sales and marketing programs.

The City's agreement with VNB requires the City to pay 18% of all TOT collected from hotels, motels, and vacation rentals to VNB to support their operations. For fiscal year 2020-21, the latest complete fiscal year recorded, the City realized a gross total of \$20.4 million in TOT for both hotel and residential TOT. Of that amount, the City paid VNB a total of \$3.7 million, or 18%, resulting in a net total of \$16.8 million to the City. The expenditure of an additional \$1.7 million of TBID funds was overseen by VNB during FY 2020-21.

RECOMMENDED ACTION:

Receive and file.

DISCUSSION:

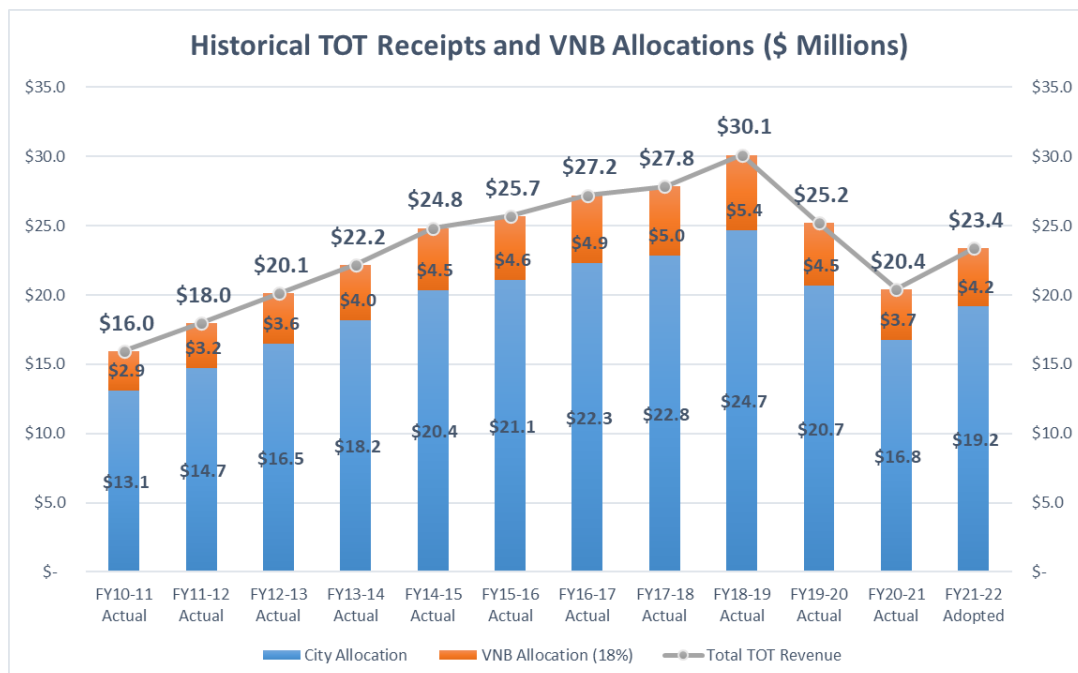
The transient occupancy tax (TOT) is imposed in most cities in the United States, including 419 California cities. The tax is imposed on travelers when they rent

accommodations in a hotel, motel, or other short-term lodging for a period of 30 days or less. The tax rate varies by location and is collected by the property operator and remitted to the city or county. The highest rate in California is 15 percent and the lowest is four percent. Under Newport Beach Municipal Code (NBMC) Section 3.16, transients who rent a room or space for 30 days or less shall pay a tax of nine percent of the rent charged by the operator. In addition, under NBMC Section 3.28, transients who rent a room or space for 30 days or less shall pay a fee of one percent of the rent charged by the operator resulting in an overall TOT rate of 10%.

History of the City's Relationship with VNB

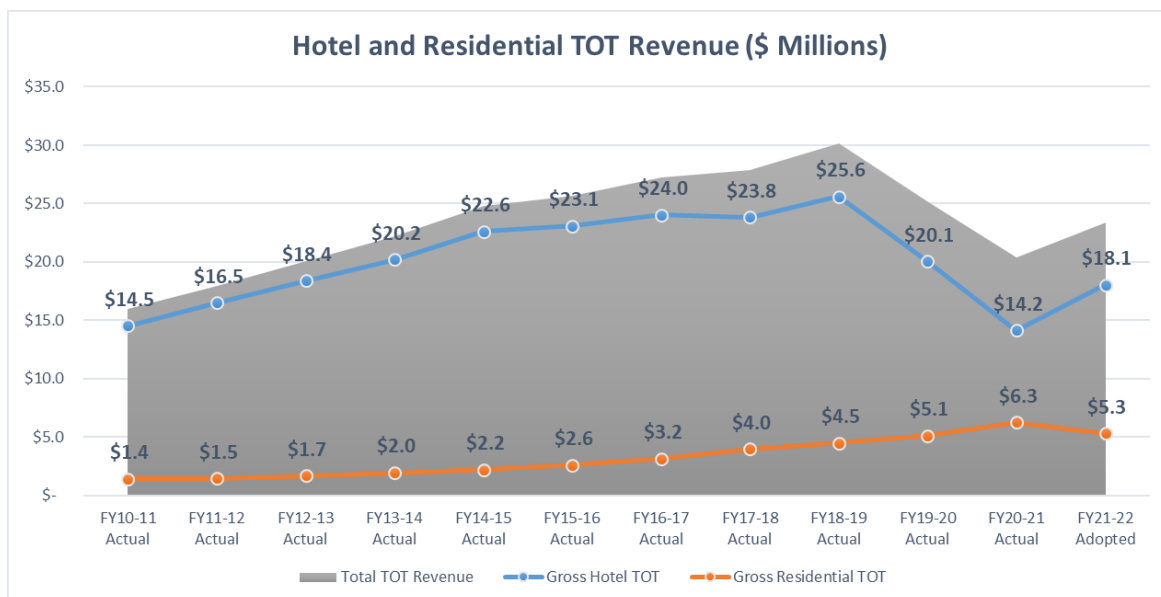
The City's agreement with VNB originally dates back to May 2004 and was subsequently amended in March 2009. The City and VNB entered in a new agreement for tourism promotion, branding and marketing services on September 24, 2011. The current tourism promotion agreement generally directs VNB to carry out marketing activities and inform prospective tourists and visitors of the city's recreational, cultural, shopping and dining opportunities and hotels. It also calls for the development and implementation of specific marketing programs designed to increase business and visitor trade in Newport Beach. In turn, the agreement directs the City to pay to VNB 18% of all TOT collected of the amount collected from hotels, motels, and vacation rentals to support their operations each fiscal year.

During fiscal year 2020-21, the City realized a gross total of \$20.4 million in TOT for both hotel and residential operators. Of that amount, the City paid VNB a total of \$3.7 million, or 18%, resulting in a net total of \$16.8 million to the City (see table below). The amount paid to VNB has ranged between \$2.9 million in FY 2010-11 to a high of \$5.4 million in FY 2018-19, the last full year prior to the COVID-19 pandemic.



A summary of actual TOT receipts and VNB allocations between FY 2010-11 and FY 2019-21 can be found in Attachment A. TOT was the City's most severely impacted revenue source as the pandemic unfolded, as most major hotels within the City were temporarily closed towards the end of March 2020 and many didn't start reopening until late May or early June 2020. Also, short term rentals were not allowed to operate in the City from early April 2020 until May 20, 2020. All but one hotel are now operational, and recent tax receipts indicate several hotels are reporting their highest monthly tax receipts ever.

The compound annual growth rate for commercial hotel and residential TOT between FY 2010-11 and FY 2018-19 is 7.3% and 15.5%, respectively. As is shown in the chart below, residential TOT receipts have been growing at a much higher rate than commercial hotel TOT receipts. We believe this higher revenue trend for residential TOT is due to overnight visits in short-term rentals from regional travelers looking for a quick trip close to home, as well as general growth in the short-term rental market across the country.



VNB serves as the owners' association to the TBID under a July 1, 2009, management agreement with the City and administers and implements the TBID's sales and marketing programs. The TBID was formed pursuant to the Property and Business Improvement District Law of 1994, Streets and Highways Code Sections 36600 et seq. at the request of the original member lodging businesses. The annual assessment rate for the member hotels is 3.0% of gross short-term (i.e., stays of 30 calendars days or less) room rental revenue. The TBID was renewed by the City Council on January 28, 2014, for a 10-year term through January 31, 2024.

In June 2018, the Management District Plan was amended and now includes the following major hotels as voluntary members of the TBID:

Balboa Bay Club and Resort
Fashion Island Hotel (currently closed)
Hyatt Regency John Wayne Airport Newport Beach
Hyatt Regency Newport Beach
Lido House Hotel
Newport Beach Marriott Bayview
Newport Beach Marriott Hotel & Spa
Newport Dunes Waterfront Resort & Marina
Renaissance Newport Beach Hotel

The City of Newport Beach collects the member assessments on behalf of the TBID and retains 0.25% of 1% of the total assessments collected to reimburse the City for administrative costs associated with the TBID. In FY 2019-20, VNB oversaw the expenditure of approximately \$4.3 million of TBID funds. In FY 2020-21, only \$1.7 million was received due to the impacts of the COVID-19 pandemic.

Presentation by the VNB Board Chair and President & CEO

In addition to the historical background information provided in this report Debbie Snavelly, Board Chair and General Manager of the Newport Beach Marriot Hotel & Spa, and Gary Sherwin, President & CEO of Visit Newport Beach will be present at the Finance Committee meeting to deliver a presentation covering the programs undertaken by VNB using the revenues received from the 18% share of the City's TOT revenues and the TBID assessments.

Conclusion

Staff recommends that the Finance Committee receive and file this report.

Prepared and Submitted by:

/s/ Steve Montano

Steve Montano
Deputy Finance Director

Attachment:

A. TOT Receipts/VNB Allocations FY11-FY21