



DATE: September 11, 2023

TO: Honorable Mayor and Members of the City Council through City Manager

FROM: Ingrid Alverde, Director of Economic Development & Open Government

SUBJECT: Resolution Declaring the City of Petaluma's Intention to Renew the Petaluma Tourism Improvement District Which Will Collect a Transient Occupancy Tax of 2% of Room Rates from Local Hotel Stays to Pay for Marketing and Promotion Expenses to Increase Hotel Stays in Petaluma

RECOMMENDATION

It is recommended that the City Council adopt a resolution that declares the City of Petaluma's intention to renew the Petaluma Tourism Improvement District which will collect a transient occupancy tax of 2% of room rates from local hotel stays to pay for marketing and promotion expenses to increase hotel stays in Petaluma.

BACKGROUND

In 2018, Petaluma established a tourism improvement district, levying a 2% tax on all hotel room rates. The revenue from this initiative funds marketing and promotional efforts to secure a larger share of Sonoma County's travel market. This is in a bid to boost local hotel bookings and tap into the spending power of Petaluma's visitors. The Petaluma Tourism Improvement District (District) set up a board and partnered with the Downtown Association to oversee fund collection and program management. As part of the District, a destination development fund was established, whereby 17% of the total revenue is used by the City to enhance areas attractive to tourists.

From January 2019 to December 2022, the District collected a total of \$2,177,686 in additional Transit Occupancy Taxes (TOT). Out of this, \$64,290 went to the City for program administration and another \$363,745 funded destination development initiatives. The pandemic era was especially challenging for hotels due to travel restrictions and shutdowns, leading to a significant decrease in hotel tax revenues. The District wasn't spared from this downturn. However, they used their resources to advocate for safe travel and promoted destinations accessible by flight. The destination development scheme funded several creative and successful programs, like the Downtown Association, the Downtown Streets Team, and efforts to remove graffiti.

The District's promotional endeavors have proven successful, especially in the realm of social media. The Visitor program's Facebook page saw a 40% increase of followers with over 1,515,010 views and their Instagram followers grew by more than 13,000 with a reach of 157,656. Additionally, the District bolstered its outreach, releasing a weekly newsletter and conducting monthly marketing briefings. Special events, like "Santa's Riverboat Arrival", the updated "Visit Petaluma" website, and the annual guides highlighting Petaluma's attractions, businesses, and events, were all completed by the District. Recent

growth was hindered by the pandemic, but with the crisis now behind us and an uptick in Petaluma's hotel accommodations, the District anticipates a more significant surge in local hotel bookings.

DISCUSSION

Petaluma hoteliers have formally petitioned (see Attachment 2) to extend the program, originally set to end on December 31, 2023, by an additional 10 years. This tax is a self-assessment that permits local hoteliers to levy taxes on room stays, with the revenue being reinvested into marketing and promoting visitor travel. Except for its extended duration, the program will remain unchanged. The District will impose a 2% tax on all hotel stays. From this collected amount, 3% will be given to the City for administrative costs, 17% will be allocated for destination development programs, and the remainder will be used for marketing and promoting Petaluma visitor programs.

The District collected an annual average of \$437,412 in TOT over its first 4 years. The District estimates that it could collect as much as \$650,000 going forward. In the past, the City contracted with the Petaluma Visitor Program to pay them \$248,000 in City TOT to pay for visitor promotions. That contract is no longer necessary, saving the City approximately \$992,000 over the last four years. In addition, the City also received \$363,745 as a share of the new revenue to be invested locally to improve Petaluma as a destination. Much of those funds paid for services that improve our downtown.

Petaluma is one of three cities in Sonoma County that have their own tourism district. Sonoma County also has a regional tourism district that Petaluma also contributes to. Below is a breakdown of TOT assessments in each city in Sonoma County. City TOT refers to the amount of TOT collected and used by each City for citywide services. The County District is a tourism district established countywide and is collected in most but not all cities. The City District refers to the cities that have districts like the one we are proposing to extend. The total TOT collect in most cities adds up to 14% but for Cloverdale and the City of Sonoma that collect 12%.

Jurisdiction	City TOT	County District	City District	Total
Cloverdale	10%	2%		12%
Healdsburg	14%			14%
Petaluma	10%	2%	2%	14%
Rohnert Park	12%	2%		14%
Santa Rosa	9%	2%	3%	14%
Sebastopol	12%	2%		14%
Sonoma	10%		2%	12%
Windsor	12%	2%		14%
County Unincorp.	12%	2%		14%

The details regarding how the revenue will be collected and used are described the District Management Plan (Attachment 3). This document also explains a procedure through which the District can be dissolved if lodging business owners, responsible for fifty percent or more of the assessment, choose to protest and initiate the termination process for the District.

The renewal process of the District involves several hearings. After this hearing, a public hearing to accept public testimony and consider an ordinance is planned for October 2, 2023. If introduced, staff would bring the Ordinance back for a second reading and final approval on November 6, 2023.

PUBLIC OUTREACH

This agenda item appeared on the City’s tentative agenda document on September 11, 2023, which was a publicly noticed meeting.

In addition, the Property and Business Improvement District Law of 1994 requires a public meeting, a public hearing, mailed notices to the businesses within the District. The public meeting will be the October 2, 2023 City Council meeting and the public hearing will occur during the November 6, 2023, City Council meeting.

COUNCIL GOAL ALIGNMENT

Promote Petaluma as a destination for both locals and visitors – Support and leverage promotion efforts of the Petaluma Tourism Improvement Districts.

CLIMATE ACTION/SUSTAINABILITY EFFORTS

Destination development funds could support future sustainability efforts, particularly in the downtown area.

ENVIRONMENTAL REVIEW

The proposed action is statutorily exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with CEQA Guidelines Section 15273 (Rates, Tolls, Fares, and Charges) as the renewal of the District involves the establishment, modification, restructuring, or approval of rates and charges, as identified and analyzed in the Plan, including rates and charges to obtain funds for meeting operating expenses, purchasing or leasing supplies, equipment or materials, meeting financial reserve needs and requirements and/or obtaining funds for capital projects necessary to maintain service within existing service areas. Additionally, renewing the District is categorically exempt pursuant to CEQA Guidelines Section 15061(b)(3) because there is no possibility that their adoption will have a significant effect on the environment.

FINANCIAL IMPACTS

If extended, the City will receive approximately \$20,400 annually to pay for administrative expenses and \$115,600 annual to pay for destination development improvements.

ALTERNATIVES

Do not declare the intention to renew the District and do not extend the District.

ATTACHMENTS

1. Resolution
2. Petitions
3. District Management Plan

