2014 DREAM BIG INITIATIVE COMMITTEE MINUTES
California Travel and Tourism Commission – June 26, 2014, Sacramento, California

## CALL TO ORDER

The California Travel and Tourism Commission's (CTTC) Dream Big Initiative Committee was held in Sacramento, California on Thursday, June 26, 2014 at 9:00 a.m. with Chairman Michael E. Rossi (Governor's Office) presiding.

### Attendance

Committee members participating were: Chairman Michael E. Rossi (Governor's Office); Vice Chair Jot Condie (California Restaurant Association); Vice Chair Jeff Senior (Fairmont Raffles Hotels International); Commissioner Rusty Gregory (Mammoth Mountain Ski Area); Commissioner Aaron Medina (Hertz Rental Car); Commissioner Michael Colglazier (Disneyland Resort); Brian Rothery (Enterprise Holdings); Joe Terzi (San Diego Convention and Visitors Bureau); Bob Roberts (California Ski Industry Association).

## OPENING REMARKS

Chairman Michael E. Rossi (Governor's Office)

1. Recap of Spring Board Meeting (May 14, 2014): At the Spring Board Meeting, the full commission voted to move forward with funding the California Competitiveness Initiative – an opportunity that would increase CTTC's operating budget from its current $50 million to approximately $100 million, ensuring continued competitiveness with other markets such as Florida, New York and the United Kingdom. To help move this forward, the full commission also voted on a resolution for the Chair to appoint a committee, reflecting all categories of assessed businesses, to determine on behalf of the commission: a memorandum of agreement reflecting the percentages of contribution, rates and other appropriate terms to fund the California Competitiveness Initiative, prepare language for a referendum to be called by Chairman Rossi reflecting those terms and conditions and direct staff to begin preparation of regulations as necessary to implement the California Competitiveness Initiative.
2. Opposition to the Plan: Addressed the current opposition to the California Competitiveness Initiative from the California Hotel and Lodging Association. Under proposed scenario, the accommodations sector's contribution would go from 17% to 37% of the approximately $105 million Visit California base budget even though hotels as an assessable segment actually generate 63% of the assessable revenue annually. Additionally, rental cars would be contributing 56% of the $105 million budget even though, as an assessable segment, they only generate 7% of the assessable revenues annually. Therefore, the actual adjustment for a hotel under this scenario would amount to less than one tenth of one percent of the fees already passed on to the customer, even without considering the additional fees levied

directly by a hotel such as resort fees, parking fees and Internet fees. The numbers are straightforward. For an additional $6 billion in revenue, it's a 12,000% return on investment. The opposition provides math that shows an additional number being spent, but not how much is being earned.

## OPEN DISCUSSION

Joe Terzi (San Diego Convention and Visitors Bureau): Does not disagree with the economics of the proposal, and in looking at it from a destination marketing organization (DMO) standpoint, the increase in budget is needed. Historically speaking, the rates originally were set too low for all sectors in general. The increase does not amount to a huge increase in dollars, but in the hotel community's mind, the increase does make a significant difference.

Aaron Medina (Hertz Corporation): Participating in this committee and is excited as part of the "go-forward" momentum from the last meeting. In speaking with other rental car representatives, doubling their contribution for Visit California does not make sense unless a doubling of revenue will follow in just about the same amount of time.

Terzi: Believes the additional investment beyond $50 million is appropriate for the state to stay competitive with the rest of the tourism industry, and for the state's tourism industry to see additional revenue, but makes a point that the revenue will not follow the next day – will take more time.

Rossi: The percentage increase per hotel customer bill seems large, but when you look at the actual dollars and cents, it's not a significant increase – matters of cents at the most. Asked the committee if they believed in the returns on investment Visit California would provide for the investment, and said that if they don't believe the ROI, a different conversation would have to be had. Visit California creates a brand image that impacts everything we do in this state  (Shared about meeting with the corporate office at Tesla and how they mentioned the Visit California commercials).

Rusty Gregory (Mammoth Mountain Ski Area): Reminded the committee about the tremendous ROI an additional investment would have on the state and individual businesses. Strongly encouraged the members to look at the ROI and not the initial investment in order to remain competitive with other competitive destination markets.

Jeff Senior (Fairmont Raffles International): Stated that Visit California is among the best, if not the very best, destination marketing organizations that he has ever been associated with. Visit California has a demonstrated track record of being successful, and the proof is in the ROI. As Vice Chair of Marketing, he and his fellow officers went through a disciplined process in trying to decide how to obtain additional funding for Visit California, including analysis to determine what that number should be. In this research they found that less than $100 million does not optimize the program, nor does more than $100 million. Encouraged the committee to look at the long-term investment potential – in the grand scheme of things the percentages organizations invest in doesn't change, but investing in the state does make it change.

Jot Condie (California Restaurant Association): It's important to note that much of the analysis and recommendations to Visit California originated from consultants with a dispassionate view and at the direction of board leadership. Spoke to California Restaurant Association members and although consumer norms do not accept pass-throughs in the restaurant business, restaurant owners do see the value in the assessment fee. Tourism is one of the number one producers in California.

Bob Roberts (California Ski Industry Association): As a founding member of Visit California, gave a historical perspective on the organization and background on funding principals – in the beginning, spent half a million dollars in the U.K., Western Europe and South America, and out of that built an incredible program with returns of 60-70% going back to the industry. Stressed that while all tourism entities are beneficiaries, there will never be complete parity. But when a combined investment of $50-60 million is returning $6 billion, should it be a reason to not move forward?

Michael Kvarme (Weintraub Tobin and Associates): Asked the committee to verify if Visit California should be targeting $100 million as a budget number or if fees should be based on a percentage of revenue. Setting percentages would accommodate changes in the economy. Proposed that Visit California set the additional funding for a six-year term instead of the current two-year term, so rental car companies could be assured the rate would not fluctuate.

Brian Rothery (Enterprise Holdings): Said that if Visit California starts targeting a budget number, extra care should be taken by committee members and board members to not agree on a proposal that might not be approved via the referendum. At the breakout sessions in May, the rental car industry was concerned with the unlimited exposure of funds being asked to give if it was a percentage commitment vs. a dollar amount and, as the funding percentages have not been voted on, legal counsels on the rental car sides are concerned with the commitment.

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Rossi: Recommended that the committee decide on a budget and then lock it in so Visit California may remain competitive as soon as possible.

Terzi: Asked if there are caps on investment.

Kvarme: The original committee was directed to establish a cap of $250,000 dollars per business. That cap is subject to adjustment. Suggestion is that we move that cap to $500,000.

Michael Colglazier (Disneyland Resort): Firm advocate of the “Dream Big” Initiative overall. Recommended that if doubling the cap on businesses, it is modeled after other business items and an inflationary adjustment be taken into consideration. Most, if not all the companies that are hitting the cap in investment are companies that are uniquely investing in tourism to the state and businesses around them.

Terzi: Asked why an investment cap is necessary.

Caroline Beteta (Visit California): A cap was put into place because of a competitiveness issue in reporting numbers and the proprietary nature of those numbers.

Rothery: A cap is appropriate because some companies, like Disney and Universal Studios and SeaWorld, are contributing to overall tourism to California. However, to some degree, some investors can be agnostic when it comes to servicing customers. As a national or global company starts to contribute more to get people to come to California, they don’t look at it from an ROI standpoint. With the request for more investment in the state, it has become less about getting people to come to California and more about leadership in the state, whereas people who are tied to this state like boutique hotels, the Golden Gate Bridge and the Hollywood Sign have a more visceral reaction to marketing efforts. It’s about proportional politics.

Medina: Expressed that it’s not so much about the investment in the brand as it is about the dollars contributed and the real ROI on those dollars.

Beteta: California is a high propensity drive market – there is no reason to believe the additional investment would alter that. There is also a projected gain for leisure travel purposes in California vs. Arkansas, meaning California has a desirable market and if Visit California could fund it properly, could share that. Visit California has a referendum to elect new board members in the fall and could add the additional funding onto that referendum. The referendum would need 51% weighted votes to pass.

Rossi: The board, and therefore the committee, is charged with (1) setting budgets, and (2) running the new scenario like a business. Need to discuss the appropriate way to talk about the new funding proposals with the constituents so they clearly understand, emphasizing that clarity ought to be about the numbers, that math doesn't change, that the growth in expense for each client is minimal and the growth in revenue is huge for the state and all tourism-related businesses. Recommended that a proposed ballot be circulated among the committee to show what the proposal would look like to assessed and voting businesses.

Condie: Emphasized a sense of urgency to move forward with the proposal to increase funding, citing the increase in Chinese visitors as one of many reasons to start a more aggressive brand campaign.

Open discussion took place on how the vote is structured and what it looks like on the official ballot and if there is an option for a no vote.

Chairman Rossi called for a vote on assessing the industry and their organizations on the amount proposed in the Dream Big scenario proposed at the May Board Meeting (but not voted on). In a mock vote, six voted to move forward with assessing the industry and their associations on the proposed scenarios (Condie, Colglazier, Roberts, Senior, Gregory, Rossi) and three abstained from the vote until they could consult with their industry (Medina, Rothery, Terzi). Directed the committee to reconvene again after ballot language was drafted, at which point funding percentages would be voted on.

## PUBLIC COMMENT

Chairman Rossi opened the floor up for public comment. There was none.

## ADJOURNMENT

Motion by Terzi to adjourn the Dream Big Initiative Committee. Second by Rothery. Motion unanimously approved.