



ANALYSIS & RECOMMENDATIONS: MARKETING BASTROP AS A VISITOR DESTINATION

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ZEITGEIST CONSULTING

**DMO
PRÖZ**

801 Woodward Drive
Madison, WI 53704

608.819.6110

info@DMOproz.com



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FORWARD

Located in Bastrop County, about 30 miles southeast of Austin, the city of Bastrop is known for its rich heritage as the second oldest city in Texas. Blessed with a historic Downtown, the Colorado River and the nearby Hyatt Lost Pines Resort, the destination has also benefited from its proximity to the Lost Pines State Park.

Upon the opening of the Lost Pines Resort in 2006, meaningful funding for Destination Marketing became available through the local Hotel Occupancy Tax (HOT) levied by the City of Bastrop in its Extraterritorial Jurisdiction. As there had been only a passing interest in Destination Marketing up until that time, the City of Bastrop had not yet developed a Destination Marketing Organization (also known as a DMO or a Convention & Visitors Bureau / CVB).

With the availability of significant HOT revenues, the Bastrop Marketing Corporation (BMC) was created to provide destination marketing services for the City, under a ten-year contract that has recently expired...and temporarily extended.

By most Stakeholder accounts, the initial years of BMC saw some good and creative work on the destination's behalf. However, in the latter years of the contract, some began to criticize the work as being too Hyatt-centric. At one point, the name "Bastrop" was dropped from the destination logo and the area was simply marketed as the "Lost Pines" Region.

By 2015, when the City began reviewing the soon-to-expire contract with BMC, there were individuals in the community that began to seek the development of a DMO to replace the BMC. The City negotiated an extension of the BMC contract through 2016 and issued a RFP for a consultancy with experience in DMO structure and governance to offer guidance on the most appropriate next steps the City should take in marketing its destination.

In July 2016, the City retained DMOproz to provide counsel on what DMO structure would provide the highest ROI in the face of a rapidly changing landscape in the Destination Marketing field.

For over 20 years, DMOproz (formerly known as Zeitgeist Consulting) has specialized in Destination Marketing and Development; and the firm has worked with over 200 DMOs during that time. Founder Bill Geist is also the author of *"Destination Leadership for Boards,"* the seminal work in the field of DMO Governance.

DMOproz spent several days in and around Bastrop in September and October 2016, interviewing key industry, community and governmental stakeholders about their experiences with BMC and their expectations of a DMO. They also reviewed documentation of BMC's past and present marketing efforts over the past few years.

On the following pages, DMOproz offers analysis of the most common governance models in play across America today. Additionally, we offer thoughts on the path we believe the City of Bastrop should pursue in its efforts to enhance consumer awareness and visitor spending in the destination.

DMO Governance Models in play Across America

The structural designs utilized in attracting visitors to locales across the country are as varied as the communities employing them. While the majority of today's Destination Marketing Organizations (DMOs) are independent 501(c)(6) not-for-profit associations, there are several other structures that are successfully being employed throughout the nation.

According to a 2015 study from Destination Marketing Association International (the Destination Marketing industry's trade association), 63% of its member DMOs are organized as independent, non-profit agencies. Just 11% operate as a unit of city or county government and less than 3% exist as Divisions of another agency, such as Chambers of Commerce or Economic Development agencies. The remainder are a mix of State, Authority and Public-Private partnership models that are unique to the State in which the destination is located.

The primary options before the City of Bastrop are:

- *Develop a DMO as a department within Government*
- *Create an independent, 501(c)(6) not-for-profit DMO*
- *Contract with a Community Development agency, such as the Chamber of Commerce or Economic Development Corporation to perform DMO services*

All three of these potential organizational structures are currently in play in destinations around the United States. We could make a case for any of the above options utilizing “best practices” case studies from each structure.

Just because roughly two thirds of American DMOs are organized and operated as independent 501(c)(6) agencies, is not reason enough for the City to automatically assume that such a structure is correct for Bastrop.

For example, two of the most respected (and effective) DMOs in America are operated as units of government (Ft. Lauderdale FL and Irving TX). The DMOs in Myrtle Beach and Tulsa are also considered best in class... and they operate as divisions of their respective Chambers of Commerce. Of course, there are a number of success stories from the most common DMO organizational structure, the independent 501(c)(6) model.

More importantly, what informs a decision on the best governance model are the unique nuances at work in each destination. On the following pages, we offer an analysis of the advantages and disadvantages of each structure.

THE CASE IN FAVOR: a Government Department DMO

The advantages of designing a Destination Marketing Organization within government are found in the areas of Control and Access, providing an edge to governance when compared against other potential organizational structures.

Governance & Financial Control

As the primary (and significant) investor in its Destination Marketing effort, City officials are correct in their contention that the City is responsible for ensuring that the revenues provided to its DMO are properly and effectively applied. Indeed, no other organizational structure provides more control than that of a City Department DMO.

Easier Access to Other City Departments

Another advantage to a City Department DMO is the agency will be at the same table as several other City agencies with which it may need to interface. For example, if the DMO were to land an event that required street or park closings, banners and signage, police and emergency services availability, etc., those relationships should already be in place and easy to access. While an independent DMO could certainly maintain such relationships as well, it is rarely as easy as when management interacts with these other agencies on a weekly basis. Thus, the ability to secure City services for clients is traditionally much faster and more efficient than for a non-governmental DMO.

THE CASE AGAINST: a Government Department DMO

Opponents of the government DMO structure can counter the preceding rationales with a series of rebuttals that center around the differences between government and private sector entrepreneurship.

Sales & Marketing is not traditionally a Core Competency of Government

Government does a magnificent job at what it does best: Services. From refuse collection to street and sidewalk maintenance to police and fire protection, most local governments are exceptionally adept and efficient at these core competencies.

At the same time, government is not traditionally as experienced at operating entrepreneurially. This is what sales and marketing are...tactics designed to sell something produced by the private sector. Indeed, as noted earlier, there are examples of governmental DMOs that have become exceptional at sales and marketing. However, these success stories, boast a common trait. They are government departments that operate under a completely different set of rules, policies and compensation plans than other departments under city or county direction. Unless City government is willing to treat its DMO significantly differently than other departments, its sales and marketing efforts will likely be handcuffed by one-size-fits-all rules and procedures that govern the rest of the City.

Lack of Marketplace Agility

Moving rapidly to maximize market opportunities is not often in the DNA of government, nor should it be expected of them. The processes that are required to effectively and evenly provide services to residents are often at odds with the rapid response required in the marketplace when competing with other destinations for events or responding to social media opportunities. For this reason, a City DMO is probably the least agile format of the choices before the destination.

City Restrictions on Purchasing and Travel

In some cases, government regulations prevent several of the activities that are core to the marketing of a community to meeting, sports and event planners. Purchasing gifts or wine and other entertainment expenses for clients are often difficult, if not impossible, to do within governmental rules in some communities. While one could argue that a DMO shouldn't be paying for such things, the fact remains that the competition does (thus the client expects such treatment) and it means the DMO that doesn't will operate from a distinct disadvantage.

Some units of government across the country have also begun putting restrictions on out-of-town or out-of-State travel for their employees. If a DMO is to be successful in attracting meetings or sports groups to its destination, it must have the freedom to travel for sales calls around the State and to national and regional tradeshows to exhibit and meet potential clients. Being restricted from these activities will severely reduce the chances that the DMO will find success in landing group business for the destination.

Challenging (and Changeable) Government Oversight

The best and the brightest DMO CEOs prefer an independent governance model because it provides a central point of command-and-control (i.e., the Board of Directors). Within a governmental structure, that individual will be faced with several layers of oversight, making the position more difficult and less rewarding for the DMO professional.

In the case of Bastrop, such an individual could be required to report and answer to an Advisory Council, the Mayor, the City Council and the City Manager, the majority of which can change with an election or a Council vote. Indeed, the City of Bastrop has experienced just such a series of turn-overs. These multiple layers of oversight conspire against a government being able to secure top talent for DMO Leadership.

Sensitivity to Social Media and Fairness

Government, by its very nature, strives to be fair. In the case of a DMO, this often plays out with the government department being required to feature, market and sell every business equally. Of course, that is not what the consumer or the client wants, expects or needs from its DMO.

Especially in the case of event planners in today's evolving marketplace, the DMO is expected to offer recommendations and counsel on the best venues, hotels and restaurants to ensure that the convention or tournament is a success. Independent DMOs are far more likely to be able to place the clients' needs first, as they are not as constrained by this "fairness" concept.

In addition, the explosive adoption of Social Media and Consumer Review sites offer another challenge for a government department DMO. Responding and posting to these marketing opportunities (and critiques) is often much more difficult for government because of the concern over privacy and legal issues. Independent DMOs, while mindful of these issues, are often more able to maximize online opportunities without constantly looking over their shoulder.

Industry Perception of Government

The highly effective DMO often has deep and meaningful relationships with its private sector industry partners. For roughly half of the DMOs in America, this takes the form of a member/partnership organization in which businesses augment Hotel Occupancy Tax (HOT) funding by also investing in the work of the organization. Even for non-membership Bureaus, working partnerships with for-profit businesses create opportunities for cooperative marketing, packaging and tradeshow collaboration.

Many (but certainly not all) government department DMOs report difficulty in engaging their visitor and hospitality industry partners to enter into cooperative marketing and sales agreements. In part due to the assumption that government doesn't need or want help and input from the private sector, many businesses have a laissez faire attitude toward government DMOs. And, while not a "deal-killer" for a DMO, the government department often loses out on tens of thousands of dollars in potential private sector revenue to match government's investment in such a scenario.

These industry partner collaborations are less likely in the government department DMO for a number of reasons. The previously noted issue of fairness may cause the City DMO to refrain from offering enhanced visibility to businesses that invest in their program of work. Often, there is also a concern that competitively-sensitive information shared by a private sector business, would be divulged to others in an open records environment. And, unfortunately, there is the nagging perception by some that government just can't be trusted.

Another perception is that government is generally more forgiving about missed goals and botched programming than the private sector. Government culture is one in which dismissal for sub-standard performance happens more slowly and less frequently than in the private sector.

Whether these perceptions are right or wrong isn't the issue. What matters is that the private sector doesn't operate that way. Thus, it struggles to understand and trust a system that isn't able to reward success and eliminate those responsible for poor performance.

THE CASE IN FAVOR: An Independent 501(c)(6) Agency

The advantages of a 501(c)(6) not-for-profit Destination Marketing Organization over other structures are rooted in the concepts of governance control, industry participation and the ability to be agile in an ever changing marketplace. These advantages become more pronounced when compared against the other possible structures noted.

Governance Control

Just as we noted that control is a core strength of the governmental governance structure, so it is with the 501(c)(6) model. It's just a different kind of control. For government, that control comes in the form of having its own employees actually expend the budgeted revenues. Once collected, HOT revenues never leave the government's oversight until it's time to spend.

For a 501(c)(6), control occurs in two ways. At the Governance level, the strength lies in a singular command-and-control Board of Directors. While there may be Advisory Committees in play to assist with strategization and business decisions, the final authority for the Organization resides in a singular Board of Directors.

In addition, most 501(c)(6) DMOs operate under very specific and carefully constructed contracts for services with their municipalities. Such a legal arrangement provides control to the City which ensures they will receive the services and results they desire, as well as a clear cut set of directives for the Board to direct the CEO to accomplish. Indeed, government may actually enjoy a greater level of control than it would have over its own employees if the contract is written in such a manner that the 501(c)(6) must perform to goals or face the prospect of losing the contract in subsequent years.

Industry Support and Participation

The best DMOs have deep, productive and cooperative relationships with their partners in the visitor and hospitality industry. When the successful DMO schedules a site inspection for a tournament planner, partner businesses often jump to provide complimentary rooms, meals and services to help the DMO impress the event planner so they'll choose the destination over the

competition. Other DMOs provide cooperative advertising opportunities to their industry partners in order to generate additional revenues to expand the advertising reach and frequency for the destination.

An independent DMO can often develop more effective relationships with area businesses that support and benefit from the visitors industry because those businesses know that the DMO is 100% dedicated to their success. There is no question about competing agendas within the organization or a fear that HOT revenues could be utilized for non-tourism related activities (a common charge leveled at parent organizations by subsidiary DMOs). Visitor industry businesses are at their most engaged when working with an independent DMO structure.

Marketplace Agility

Managed like a private sector business, a 501(c)(6) DMO can more rapidly respond to changes in the marketplace than other organizational structures that operate under more layers of oversight. As long as budgetary resources are available, stand-alone DMO Boards can approve shifts to a Destination Marketing plan within days of an opportunity presenting itself...or a threat appearing on the horizon. Take, for example, a call from an advertising representative from Texas Monthly offering a half-page "remnant" ad at half-price. The offer is good for 24 hours. The independent DMO will be designed in such a way that it can act on the opportunity, where a City DMO would likely forfeit the opportunity because of the layers of approval necessary to deviate from the budget. The independent DMO will possess marketplace agility through a less cluttered form of organizational governance.

Ability to Generate Additional Revenue Streams

Many privatized DMOs have found that they are able to generate additional revenue streams that are significantly more difficult as a unit of government. On one hand, industry partners are more interested in investing in a private organization than a governmental body, as they believe their money will be maximized by an independent DMO. On the other hand, existing City regulations sometimes block many of the ways that private sector funding and support could be raised, forfeiting the opportunity to leverage public money with private funds and expand the DMO's reach.

THE CASE AGAINST: An Independent 501(c)(6) Agency

Opponents of the independent, not-for-profit DMO structure can counter the preceding rationales with a series of rebuttals that center on Control, Duplication of Efforts and the Politicization of Tourism Funding.

The City Needs More Control

One of the most common criticisms of the independent DMO is the concern by City leaders that such a structure doesn't provide them with enough control or oversight over tax revenues being invested in the organization. Making this argument stick, however, presupposes that government knows how to market the destination and is current with the latest social media methods, knows the appropriate trade shows to attend and understands the ways to successfully bid for conferences and sports tournaments.

Unnecessary Duplication of Administrative Costs

A case can be made that there are efficiencies of scale when a DMO is a subsidiary of another organization. Greatly reduced (or waived) rent, shared reception staffing, IT, office machines, etc., and shared administrative or marketing staffing are often offered as rationales for the subsidiary DMO. Therefore, the case against a 501(c)(6) would hold that these costs could be greatly reduced by maintaining the DMO "in-house."

Time Consumptive Contract Negotiations

Most DMOs rely on tourism taxes to power their programs of work. By their very nature, these taxes are levied and collected by a governmental entity. Thus, the independent DMO must negotiate with government on a regular basis for the funding it requires to market the destination. And, when a contract for services is on the table, competition from other interests in the community will likely commence.

In a government department structure, such time consumptive negotiations rarely occur. For, as a division within government, budgeting is usually a relatively straightforward affair. In most cases, budgetary line items are often picked up and carried forward from year-to-year. While there are occasionally proposals before government for a piece of the HOT, there is rarely an attempt to divert significant resources from the government department DMO because it's "in-house." An independent DMO will likely have to fight for the maintenance of its contract at renewal time.

The Need to Locally Promote the Agency

Independent DMOs must invest in local public affairs visibility and relationships in order to maintain and grow their budget. As one of a myriad of agencies competing for limited government funding, such DMOs must often create staff positions and incur costs relative to telling its story to a community that is balancing several different agendas. This sometimes requires the CEO to spend more time working the home crowd than guiding the sales and marketing efforts of the agency.

This is not necessarily a waste of resources, as local DMO visibility is important, regardless of organizational structure. However, a government DMO would not need to invest quite as much time in this effort as there is no contract to defend or renew.

THE CASE IN FAVOR: Contracting DMO Services to Another Community Agency

According to the industry's trade association (DMAI), less than 3% of their member DMOs exists as a subsidiary of another agency in their community¹. The advantages of such a structure are centered on Maximization of Resources and the ability to more easily align Destination Marketing messages between Economic and Community Development Agencies (EDCs). For some DMOs, being part of a parent organization provides enhanced access to the business community and, for a few, political cover when necessary.

Unnecessary Duplication of Administrative Costs

An argument can be made that there are efficiencies of scale with a subsidiary DMO. Greatly reduced (or waived) rent, shared reception staffing, IT, office machines, etc., and shared administrative or marketing staffing are often offered as rationales for the subsidiary DMO. An effective Chamber/EDC CEO could also argue that having a DMO CEO would be redundant as s/he could manage the affairs of both agencies, freeing up precious resources to hire additional sales and marketing professionals or extend the reach and frequency of advertising efforts.

Greater Business Community Support

Assuming the Chamber of Commerce or EDC has strong support from the business community, a DMO within the organization could enjoy a greater level of business community support by virtue of this relationship. Especially in the case of a Chamber or EDC that has a high degree of influence in the local political sphere, a subsidiary DMO would also enjoy a degree of protection against those who would hope to redeploy HOT resources or otherwise harm the DMO.

¹ 2015 DMO Organizational and Financial Profile Study (Destination Marketing Association International, Washington DC)

Unifying Economic Development Messaging

For EDCs and those Chambers of Commerce that believe their mission includes economic development, there is also the argument that having destination marketing and economic development under the same umbrella would help unify efforts and messaging for the region. While this could also be accomplished through interagency agreements to use the same ad agency, logo and/or brand, the reality is that independent agencies rarely agree to such ideas without sharing formal governance.

THE CASE AGAINST: Contracting DMO Services to Another Community Agency

While the Chamber-DMO format often works well in tourism-centric communities, any subsidiary structure carries with it governance challenges. Among these obstacles to organizational effectiveness are Revenue Reallocation, Duplicative Governance, Mission Creep and Fear of Political Retribution.

Inappropriate Revenue Reallocation

In research conducted by Zeitgeist Consulting in 2006, over 90% of DMOs that had been housed in their Chamber of Commerce before shifting to an independent model reported that the number one reason for leaving the Chamber was that it was utilizing HOT revenues designated for the DMO for non-tourism related initiatives. And, as many of today's Chambers of Commerce increasingly struggle to maintain their own private-sector membership revenue streams, such attempted reallocations of HOT within Chamber-DMO combos is becoming more prevalent.

Mission Creep

Another finding in the 2006 study was, in just under half of the cases of DMOs that had abandoned their relationship with their Chamber, being part of a parent organization often required DMO staff to regularly abandon their work in order to assist in Chamber activities. An example was often given was that, during the week of the Chamber's annual dinner, it was "all hands on deck" to assist with the event, regardless of the deadlines and goals under which the DMO sales staff were ultimately compensated. The more this redeployment of personnel occurs, the less able the DMO is to achieve the goals that have been set for the agency.

Duplicative Governance

Installing a DMO as a division of a Chamber of Commerce or an Economic Development agency carries with it the potential to cause significant governance friction between the Board of the DMO and the Board of the “parent” organization. For, regardless of how the relationship is structured, the DMO Board in this structure will never possess the “final” say on its budget, programming, management or staffing.

Nor *should* the DMO Board have the final say in such a structure. The Chamber or EDC Board has the fiduciary responsibility to its members, stakeholders and investors to ensure that all revenues and programming under its control are applied effectively. If the Board believes the DMO Board has been commandeered by special interest groups or members of the DMO staff (housed in the parent agency’s office) have created a toxic work environment for their employees, it is their responsibility to act, regardless of what the DMO Board does. This fatal flaw prevents most DMOs from working well underneath the parent umbrella.

In such a format, the DMO Board will be nothing more than advisory in nature, likely causing industry representatives to be less engaged in the success of the agency.

Member Favoritism

In the Chamber-DMO model, there is often a philosophical challenge that comes into play. Will the DMO be able to promote businesses that are not members of the parent organization? Likewise, a Chamber that does not require membership for its DMO to provide marketing visibility may face a challenge from its existing members that choose to drop their affiliation in the face of non-members receiving member benefits. While the practice of marketing only Chamber members is less common than it was just five years ago, we still see the philosophical conflict in play in several communities.

Fear of Political Retribution

Many Chambers of Commerce, as part of their core mission, are deeply involved in business community advocacy. At times, taking such positions on community issues will put the Chamber at odds with local government and political leaders.

Chambers are traditionally able to take such stands without fear of retribution, as their primary funding comes from the private sector. However, in a Chamber-DMO format, elected officials have the opportunity to strike back at the Chamber of Commerce through its contract for DMO services.

This is why the Chamber-DMO format is problematic on two fronts. On one hand, the DMO budget could be cut or eliminated as retribution for an unpopular political position taken by the Chamber. On the other, having a DMO subsidiary often causes the Chamber of Commerce to be less representative of its members for fear that a contrary position could come back to harm the DMO. As a separate entity, the DMO can stay above the fray and maintain stronger relationships with government.

FINDINGS & ANALYSIS

The best Destination Marketing Organizations are those that are designed to meet the specific needs of their community. It is for this reason that DMOproz facilitated a number of focus groups and staged individual interviews with key community and governmental leaders to develop a deeper understanding of just what kind of DMO is best suited to meet the needs of the City of Bastrop. All told, our firm had face-to-face meetings, in both individual and group sessions, with over 75 community leaders during September and October of 2016.

We also poured over an extensive collection of documentation in order to more clearly understand what past community leaders and consultants have done on the topic of destination marketing over the past decade. From this considerable base of intelligence, we offer the following analysis:

THE PAST TEN YEARS WITH THE BMC

The Bastrop Marketing Corporation (BMC) has held the contract to market the City as a visitor destination since 2006. The initial 10-year contract with BMC has ended, but was extended to December 31, 2016, to provide the City more time to determine next steps in destination marketing.

According to those throughout the community with whom we talked, the BMC's work during the first half of the contract was well received...but that the advertising became less focused on Bastrop (and more Hyatt-centric) during the past few years. Some stakeholders complained about the lack of transparency and community input in cooperatively guiding the marketing. Those close to the BMC counter that its representatives were discouraged from such reporting and interaction by certain City officials and were rarely, if ever, provided direction for their efforts.

The dissatisfaction with BMC's work became more pronounced when it substituted "Lost Pines" for "Bastrop" in many of the ads being placed. Despite the fact that research testing the new identifier found consumers responded favorably, most critics pointed out that "Lost Pines" didn't connote Bastrop and was unfamiliar to most.

Indeed, the City's contract outlined the intent of the agreement as that of "establish(ing) and enhance(ing) a brand identity for the City of Bastrop and the Bastrop Marketing Area." The singular use of the term "Lost Pines" satisfies the latter, but not the former, desire by the City.

Those close to the relationship also maintain BMC was never charged with selling or marketing the Bastrop Convention Center (no such language exists in the contract, as the Convention Center wasn't yet built in 2006).

Ultimately, there came to exist enough animosity from area hotels and businesses in regard to BMC's fairly insular approach to marketing the City that both parties appear resigned to the fact that the relationship between BMC and the City is irretrievably broken.

THE OPPORTUNITIES BEFORE BASTROP

Moving forward, the opportunities to increase visitation to the city and the region are considerable. From a geography that boasts 8 million potential visitors within a two-hour drive to the intriguing rebirth of one of the best State Parks in Texas (and all the attractions available from the Historic Downtown to the Hyatt Lost Pines Resort), Bastrop possesses the assets to compete for the Visitor Economy.

What has been missing, as of late, is a coordinated, collaborative Destination Marketing effort that goes beyond placing ads and billboards and maintaining a static website and Social Media presence. The BMC is to be commended for their work, given their lack of strategic direction over the past few years. But, destination marketing has evolved in the years since its contract was approved in 2006 to be much more sophisticated in its approach.

In our conversations with community leaders and stakeholders, we heard the following suggestions for ways to more effectively market the City and the Lost Pines region.

- Instead of “The Lost Pines Region,” the destination should be known as “Bastrop and the Lost Pines.”
- Rather than broad generalities, focus on the destination’s strengths:
 - Historic Downtown
 - Outdoor Recreation & the State Park
 - Nature and Birding
 - Arts & Culture
- Focus on encouraging “group tourism”
 - Meetings and Conferences
 - Reunions, Weddings and Girlfriend Getaways
- Communicate a message that celebrates the community’s resiliency (The Fire and the Floods)

CHALLENGES FACING BASTROP

In our conversations with community leaders and industry stakeholders, we heard the following concerns from stakeholders and community leaders that could be addressed (and potentially mitigated) with a professionally managed DMO:

- The Downtown struggles with a lot of retail turnover
 - High rent
 - Empty storefronts
 - Inconsistent hours of operation
 - Unrealistic expectations by some entrepreneurs
- Occupancy and Average Daily Rate (ADR) at Bastrop hotels is reported to be substantially down
 - 2700 new hotel rooms in Austin are preventing traditional overflow from coming to Bastrop
- Some events and festivals are struggling to survive, or have folded, primarily due to weak marketing, a lack of professional management and volunteer fatigue
- The Convention Center is not performing to initial expectations
 - Pricing and policies are not competitive
 - Need for a shuttle or adjacent hotel
 - Critical need for a convention sales professional
 - New development in Round Rock, Georgetown and Marble Falls will increase competition for the Center
- Lack of a esprit d'corps and cross-promotion between area businesses
- Bastrop Hotels have been totally disengaged in the process
- Accusations that the Hotel Occupancy Tax has been used for purposes that fall outside of State HOT statute intent
 - ROI of Tier Two funding is often questionable
 - Convention Center funding is not generating overnight stays
 - Complaints from some that the Visitors Center is focused on the Museum, not the destination
- Gentrification is pushing artists out of the Downtown
- Merchants report reduced foot traffic since billboards were discontinued

RECOMMENDATIONS

The City of Bastrop has an exciting opportunity to seize control of the promotion of its community through the creation of a Destination Marketing Association (DMO). As noted earlier in this document, there are three primary DMO governance models being utilized in the United States:

- Independent 501(c)(6) Not-for-Profit Association
- A Division or Department of City or County Government
- A subsidiary of a Community Development Agency, such as a Chamber of Commerce or Economic Development Corporation

Of the three primary governance models reviewed, we believe only one is appropriate for further discussion: Creating an independent 501(c)(6) not-for-profit agency.

WHAT WON'T WORK

Like so many decisions with which business and governments grapple, the best answer is often not the easiest answer. In the case of the future of destination marketing for the City of Bastrop, there are too many unknowns for this to be an easy A versus B discussion. The majority of the challenge comes down to the City's level of commitment to maximizing its Visitor Economy, supporting present and future hotel profitability and fortifying its business community.

As we considered all the options before the City, one by one, the following structures fell off our list:

Continuing the current arrangement. The Bastrop Marketing Corporation was an effective answer to an opportunity in 2006. Ten years later, Destination Marketing has become too important a need for the City to continue contracting with a lodging corporation to handle its promotion. In addition, management from the Hyatt Lost Pines Resort indicated no interest in renewing the arrangement.

Division of the Chamber of Commerce. This was one of the easiest calls in the process. While the Bastrop Chamber of Commerce is clearly capable of adding Destination Marketing into its program of work, Chamber leadership has clearly communicated its disinterest in assuming a contract for Destination Marketing services with the City. As other communities have found over the past decade as the Chamber-DMO model has fallen out of favor, promoting an entire destination has become extremely problematic when the parent organization's business structure is based upon a membership model.

One county-wide DMO. Likewise, there is no interest from the County's DMO to work with the City to form one entity to provide marketing services for the entire destination. While the County DMO looks forward to partnering, when appropriate, with the City's DMO, the County's philosophy of Destination Marketing and their recent successes could be jeopardized with an infusion of City HOT revenues into a single agency (with the expectation of a commensurate level of marketing) diminishing the visibility the other communities presently enjoy.

Division of the Economic Development Corporation. While not ruling out the idea of contracting with the City to provide Destination Marketing services under its auspices, the EDC is currently emerging from a fairly comprehensive structural reorganization. Though they likely would consider such a scenario if needed, we fear that adding something as challenging as developing a Destination Marketing effort from scratch to the EDC's evolving plate of responsibilities could jeopardize the success of both efforts and would be ill-advised at this time.

A City DMO. While the easiest path for the City would be to simply create a Department or Division of Tourism, it has heretofore failed to exhibit any proficiency at marketing and sales. That is not meant, in any way, to be a criticism. We also wouldn't expect the City to be proficient at oral surgery...it's simply not something cities generally do. And, without that competency, the reasons previously listed as arguments against selecting a City DMO model become more imposing.

WHAT WILL WORK

We believe the best course for the City of Bastrop and its Visitor Economy is to create and contract with a 501(c)(6) nonprofit agency to perform the duties of professional destination marketing. We believe this to be the most effective path forward for a number of reasons:

- ***The City will achieve a greater level of control over the marketing of its assets through a contract for services with a 501(c)(6) organization and an engaged Board of Directors, selected from the business, hospitality and cultural community.*** While the City may believe it has the highest level of control with a City Department Tourism Office, it really has a higher degree of control when utilizing a contract for services with an outside agency. In such a scenario, the City can clearly state its needs and expectations of an independent DMO and require those goals to be met as a condition of future contracts. And, with a nonprofit Board of Directors that actually has the authority to direct the operations of the DMO (unlike a City Board which would be merely advisory, at best) the City benefits from an engaged group of some of the best business minds in the community.
- ***A 501(c)(6) nonprofit agency will have a higher likelihood of being able to generate private sector revenue streams to enhance the impact of the public sector revenues invested in their program of work.*** As noted in our review of the advantages and disadvantages of the three primary organizational structures of DMOs in America, public-sector DMOs have historically struggled to develop complementary private sector revenue streams to enhance their sales and marketing budgets. Private sector businesses are much more likely to invest cooperative marketing funds with a 501(c)(6) agency than with municipal government.
- ***Given the recent political machinations that have impacted the conversation regarding destination marketing in Bastrop, the business community with whom we spoke was virtually unanimous that the DMO must be an independent contractor for it to gain their support and collaboration.*** The failure of the Convention and Exhibit Center to produce a meaningful number of Room Nights for area hoteliers and a discernible amount of foot traffic in the Historic Downtown District is an example of why many business people do not believe the City possesses the acumen to effectively manage its Destination Marketing. The 2007 TEEX Study, used as a rationale for the Center's

construction clearly stated that meeting revenue goals for the facility would require a significant and coordinated marketing effort. Such an effort has never been mounted, even in the face of significant losses.

It is this combination of history and the present level of governmental instability that tips the scales in favor of a 501(c)(6) structure. It is also the model a vast majority of the business community favors.

However, our support for an independent DMO comes with a number of conditions:

- 1) ***The City must agree to at least maintain the current investment of HOT revenues to the new DMO.*** If anything, Bastrop's destination marketing effort needs an infusion of additional funding...not less, if it is to produce the results desired by the city's business community.
- 2) ***The City must agree to reserve the investment of HOT revenues for those efforts, events and attractions that "directly enhance and promote tourism," as stipulated by State Statutes.*** In our discussions with Stakeholders, we heard significant concern for how HOT funds are being invested; from community events which don't generate overnight stays to capital projects which are primarily designed for residents. Clear-cut policies and formulas must be established for the future investment of these funds or the effectiveness, legality and respect for the program will be compromised.
- 3) ***The City must allow the Board of Directors of the new DMO to be self-nominating, with only a handful of appointed seats.*** According to governance guru John Carver, the highest performing Boards are those made up of individuals that want to be at the table...not those that are expected to be at the table by virtue of a political appointment. If the Tourism industry is to support its DMO, it must be assured that leaders from the hospitality and business community are setting and guiding the vision and mission of the agency. City appointments are crucial to maintain lines of communication and accountability...but not in numbers that approach a majority of Board members.
- 4) ***The contract between the City and an independent DMO must be exceptionally clear in expectations.*** If an independent DMO is to be successful, it needs to be fully aware of the expectations of the contracting body (the City). And, the City must be ensured the DMO is answerable and legally responsible for the revenues with which it is entrusted. Thus, a

detailed contract for services will need to be developed with the new 501(c)(6) agency that delineates mutually agreed upon goals and deliverables. The City will need to know that, should the new DMO fail to be more effective than the BMC, it has an option to rescind the contract and take a different course. At the same time, the DMO will clearly understand the expectations of the City and will be compelled to design a program of work that will meet and (hopefully) exceed these contracted expectations.

- 5) ***The contract between the City and an independent DMO must stipulate transparency and a schedule of regular reporting of ROI.*** One of the concerns regarding contracting with an outside agency is the lack of control of tax revenues. As noted, a clearly worded contract effectively satisfies this need. However, to ensure a level of comfort for the City, the contract should stipulate a schedule of reporting that satisfies concerns regarding its investment of HOT revenues. We recommend no less than a quarterly report of DMO productivity to the City, both in writing and in a presentation before the City Council and the community.
- 6) ***The contract between the City and an independent DMO must be multi-year in nature.*** While the contract between the City and its independent DMO should stipulate a regular schedule of productivity reporting, a contract that does not indicate an expectation of longevity will serve to limit the number and quality of experienced destination professionals interested in taking on the challenge of marketing Bastrop. A one-year contract would also limit the development of a long-range strategy to build sales and marketing relationships with media and other third-party vendors. We would strongly suggest a 3-year rolling contract that renews each year, unless there is a material challenge from the City. In this way, the new DMO can begin to build brand awareness and occupancy in a strategic manner.
- 7) ***The BMC should agree to convey all client and consumer databases, technology, research and other intellectual assets of its operation to the independent DMO.*** The client and consumer databases maintained by a DMO are the lifeblood of the agency. Unfortunately, we see no indication that the contract between the City and the BMC stipulates such data will be transferred upon the conclusion of the contract. We would certainly hope, in the interests of the destination's future success, the BMC would convey all intel and data to the new DMO.

8) ***The City must agree to not legislate business management practices of an independent DMO.*** The whole point of privatization is to enable the DMO to operate entrepreneurially. If the City contract stipulates market selection or includes restrictions regarding percentage of budget that can be deployed for certain functions or staffing levels, the advantage of independence will be seriously compromised. This concern is not without precedent. We have seen recent examples of governments attempting to withhold DMO contract approvals over concerns surrounding executive compensation levels. Performance goals should power the contract...not "how" the DMO will achieve those goals.

NEXT STEPS

In developing a 501(c)(6) Destination Marketing Organization, there are two initial tasks that will need to be instituted in tandem:

The City must name a core “Starting Board.” While the best Boards are self-selecting (with a handful of City-appointed seats), somebody has to select the first Board. To initiate the start-up process for the new agency, we recommend that the City select four individuals and a City appointee to serve as the initial body that files incorporation papers with the State of Texas and a request for Not-for-Profit status with the Internal Revenue Service. Our recommendation would be for the City to select one individual from each of the following interests as the first set of officers to do the initial work:

- Hotels and Lodging
- Dining / Nightlife
- Retail
- Arts, Culture & Heritage
- City Appointee

This will also be the group that carefully selects the rest of the Board of Directors to include additional members of the hotel community as well as representatives from Attractions, Outdoor Recreation and other At-Large seats to satisfy diversity requirements.

The officers of the “Starter Board” may continue as the officers of the full Board for the first year...or they may call for another election once the full Board has been seated. Indeed, these initial officers need not re-appoint themselves to the full DMO Board, if they only desire to serve in a start-up capacity.

Discussions about future distribution of HOT revenues. At the same time, getting a better handle on just how much revenue will be available to the new DMO will be critical to determining the expectations, goals and staffing structure of the agency going forward. While the City has employed a multi-tiered system of allocating HOT revenues that reflect costs that have been viewed as non-negotiable (e.g., the Convention & Exhibition Center, Visitor Center, etc.) and other allocations that are more discretionary (e.g., “Organization Funding” which forwards HOT revenues to groups such as the Art League, Opera House, etc.), there are still a significant number of questions that will need to be answered with increased clarity, such as:

- Will the DMO administer the Organization Fund, as has been suggested in several quarters?
- Regardless of where the Fund is administered, will it be managed using an ROI formula to insure adherence to the intent of State Statutes?
- Will the DMO be expected to assume the sales and marketing duties for the Convention & Exhibition Center, or will that responsibility remain with the Center?
- How much of the HOT Fund Reserves will be available for the start-up of the DMO?

These and several other fiscal questions will need to be successfully addressed before the Board can begin defining the strategies that will be employed and the staffing for the DMO that will be required (or possible). How the Convention & Exhibition Center will be expected to reduce its annual subsidy is possibly the most pressing of these questions. The answer has the potential to both increase HOT revenues for all organizations currently benefiting from funding and will dictate whether the DMO will need to hire a professional salesperson or dedicate itself more purely to marketing and public relations for the destination.

CONCLUDING THOUGHTS

The primary obstacle that stands between a significant increase in consumer awareness and visitor spending in Bastrop is an effective destination marketing effort.

We believe the establishment of an independent DMO is in the best interest of the City of Bastrop. If for no other reason, it will send a clear signal to the business community that the City is serious about their entrepreneurial success. At best, you'll have a newly engaged hospitality community, led by a professional destination marketer, driving new revenues into area businesses and new non-resident taxes to City coffers.

As noted in our response to the City's RFP, we stand by, ready to advise the City on next steps. And, we look forward to a time in the not so distant future that Bastrop is no longer a hidden gem, but is enjoying a significant increase in visitation and entrepreneurial job growth.

We wish to thank Mayor Ken Kesselus, members of the Bastrop City Council, Sarah O'Brien of Bastrop Main Street, and City staff for all the assistance provided in scheduling face-to-face and phone conversations over the past number of months. Thanks, too, to all the community and industry stakeholders who helped us understand the nuances and history of the destination while sharing their passion for Bastrop in our conversations.

The opportunities before the City are greater than have been recently realized. We sincerely hope that our analysis and recommendations help the destination realize its tourism birthright.

Bill Geist
DMOproz
17 December, 2016