



# Annual Tourism Report

**2016**  
SONOMA  
COUNTY

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# Annual Tourism Report

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## August 2016

The Sonoma County Economic Development Board (EDB), in partnership with Sonoma County Tourism, is pleased to bring you the 2016 Annual Tourism Report. The 2016 Annual Tourism Report contains three sections integrating findings on the local tourism industry. The first section contains research conducted by our research partner, Moody's Analytics. The second section of the report highlights key economic indicators produced by the California Travel & Tourism Commission and Smith Travel Research. The third section provides updated results of the EDB Annual Tourism Industry Survey.

Moody's Analytics is a leader in economic research and provides key quantitative and qualitative analysis on Sonoma County's tourism industry. Key findings from Moody's Analytics Tourism Analysis include:

- Sonoma County's tourism industry is maintaining a strong expansion. This marks the continuation of four years of growth in which tourism has outpaced the rest of the economy.
- The long-term outlook for Sonoma County tourism remains strong. The region continues to grow in recognition as a premier tourist destination, and its proximity to Bay Area attractions and airports is driving its expansion.

The California Travel & Tourism Commission provides a 'Travel Impacts by County' report each year. This report provides the latest available economic impact figures on Sonoma County and along with the most recent lodging statistics. These are the primary sources for the Tourism Industry Indicators. Key findings include:

- Key tourism indicators show that travel is booking in Sonoma County following the economic downturn beginning in 2007-2008. Destination spending, transient occupancy tax (TOT) receipts, industry earnings and local and state tax receipts are the highest that Sonoma County has seen in the last decade. Travelers are returning to Sonoma County and supporting the local economy through increased spending.
- Lodging indicators and occupancy rates also increased in 2015.

Each year the EDB conducts an annual tourism industry survey of Sonoma County business owners and executives involved in tourism. The survey focuses on complete industry strength, confidence, and opportunities. Key findings from this survey include:

- Businesses have a positive outlook for tourism in the coming year.
- More businesses expanded operations over the past year than in the year before.

Thank you for your interest in the Economic Development Board's research. For additional information, questions, comments, or suggestions please contact us at (707) 565-7170 or visit [www.sonomaedb.org](http://www.sonomaedb.org).

Sincerely,

Ben Stone  
Executive Director



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# Annual Tourism Report: Moody's Analytics Tourism Analysis

## Recent Trends

Sonoma County's tourism industry is stretching its wings after logging one of the strongest years in more than a decade. Visits to Sonoma County ramped up considerably in 2015 thanks to steady improvement in national trends as well as the release of pent-up demand in the area. All signs point to continued growth in the first months of this year. Hotel occupancy rates maintained their steady upward climb over the course of 2015, and greater demand has driven growth in per-room revenues. In response to improving business conditions, hiring by leisure and hospitality establishments has accelerated markedly, and total leisure and hospitality employment stands nearly 25% higher than its prerecession peak.

Rising disposable incomes, firming confidence, and lower energy prices are driving growth in domestic tourism, but the ironclad Bay Area economy has provided a particular boost. Soaring wage growth in the San Francisco and San Jose metro areas has increased the affordability of day trips to Sonoma wineries, and local eating and drinking establishments have also shared in the gains. Sonoma County's tourism industry also received a seasonal boost: The winter of 2016 was much milder than past winters, increasing the total number of travel days for consumers.

Real tourism spending accelerated over the course of 2015, according to the Bureau of Economic Analysis, and greater local spending on both food and accommodations suggest that Sonoma County was no exception. Bed tax revenues grew in double digits in 2015, while taxable retail sales growth is trending higher. Greater tourism spending has spurred investment by local hotel/resort operators and restaurants. The Farmhouse Inn and Restaurant in Western Sonoma County recently completed an \$8 million renovation, adding several new suites along with a spa and fitness center, and hotel developer Saggio Hills will soon break ground on a boutique bed and breakfast resort in Healdsburg.

## Macro Drivers

The U.S. economy is steadfastly advancing despite headwinds from falling energy investment and sluggish global growth. While energy and trade will drag on growth in the near term, consumers are stepping up to the plate and will do more to lift the economy over the next year. The housing market recovery is making good progress, and greater construction activity will spur growth in better-paying construction and financial services jobs. The Moody's Analytics forecast calls for the economy to advance by 2.3% this year, sustained by rising consumer spending and a more robust recovery in homebuilding.

The modest outlook for output growth stands in contrast to the white-hot labor market. The economy is adding jobs at a breakneck pace, pulling the unemployment rate below 5% even amid strong labor force growth.

On average, employers have added more than 200,000 jobs in each of the last six months, and at the current rate of job gains the remaining slack in the labor market will be absorbed by summer. The tightening labor market is already beginning to pull up wages: Average hourly earnings growth has trended upward since the fall, while the average work-week is lengthening.

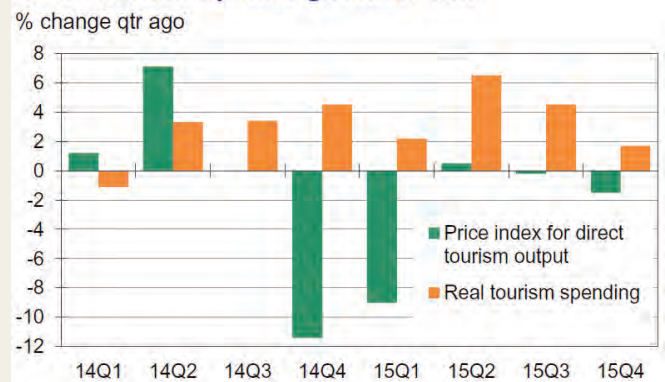
Better wage growth and improving consumer fundamentals bode well for Sonoma's tourism. Real consumer spending growth in 2015 rose at the fastest pace in a decade, and the forecast calls for an encore performance this year as wage growth firms and rising house prices lift household wealth. According to the Conference Board, the share of Americans planning a vacation in the next six months is near a five-year high. Firming wage growth and improving access to credit will clear space in household budgets for larger discretionary purchases.

Despite the hit to energy investment, low oil prices will be a net positive for the economy as a whole and for tourism in particular. Crude prices have fallen by more than 20% in the last six months, leading to significantly lower gasoline prices. Although fuel is the highest input cost in air travel for airlines, airfares tend to be sticky, so the benefits of swooning crude prices are concentrated mostly among vehicle-driving visitors. Although crude prices may have bottomed out, a rebound will be gradual, and gasoline prices will stay low during the peak tourism season in 2016.

## U.S. Tourism Industry Sees Good Times Ahead

Tourism Output Growth

### Real Tourism Spending Holds Firm



Sources: BEA, Moody's Analytics

Source: BEA, Sonoma County, Moody's Analytics

**Chart:** Though real tourism spending decelerated in the second half of 2015, the fundamentals are positive. Low oil prices explain the overall decline in tourism prices in the second half of the year, and belie strong growth in traveler accommodations such as hotels and restaurants. Rising disposable incomes and an increasing appetite for vacations will boost domestic tourism and will help spending growth. This holds true for Sonoma County; its above-average prices will be more accessible to a number of visitors thanks to lower transportation costs and accelerating income.

# Annual Tourism Report: Moody's Analytics Tourism Analysis

## Industry Drivers

Consumer confidence has ebbed slightly in recent months, but the overall trend is of steady improvement. Recent turmoil in financial markets has weighed on consumer expectations and has also tempered appetite for travel and vacations. Nonetheless, the share of Americans planning a vacation in the next six months is still close to its post-recession high at nearly 47%, according to the Conference Board. As the recent chop in financial markets settles, confidence will strengthen, and vacation expectations and tourist visits should improve in kind.

Growth in international visits to California was undeterred by the stronger dollar in 2015, but the dollar's strength will hurt chances for an encore performance. Though international visitors to Sonoma County make up only 10% of tourist visits, visitors from Canada, Mexico and overseas tend to spend more on lodging and food accommodations than domestic vacationers and thus represent an important channel for growth.

Recent trends in tourism spending at the national level are a positive signpost for tourism revenues in Sonoma County. According to the Bureau of Economic Analysis, real spending on travel and tourism came in at 1.7% in the fourth quarter of 2015, a deceleration from the third quarter. Yet, travel and tourism spending for the year was up 4.4%, up more than a percentage point from its growth in 2014. Spending on traveler accommodations is especially strong, and consumers' willingness to spend more on hotel stays will be a boon for Sonoma's smaller bed and breakfast resorts, which tend to be closer to wineries and other outdoor recreation opportunities.

Low gasoline prices will deliver a major boost to Sonoma County tourism, as most visitors, including out of state and international tourists, arrive by car. In response to falling crude oil prices, gasoline prices have fallen steeply and settled around or below \$2 per gallon for much of the past year, in contrast to close to \$4 per gallon over the course of the recovery. According to the BEA, tourism prices in the fourth quarter fell 1.5% on a year-ago basis, with lower prices for gasoline and transportation services such as auto rentals accounting for the bulk of the decline. Lower spending on gasoline will reduce the cost of tourist visits while clearing space in visitors' budgets for greater spending at local attractions and on accommodations.

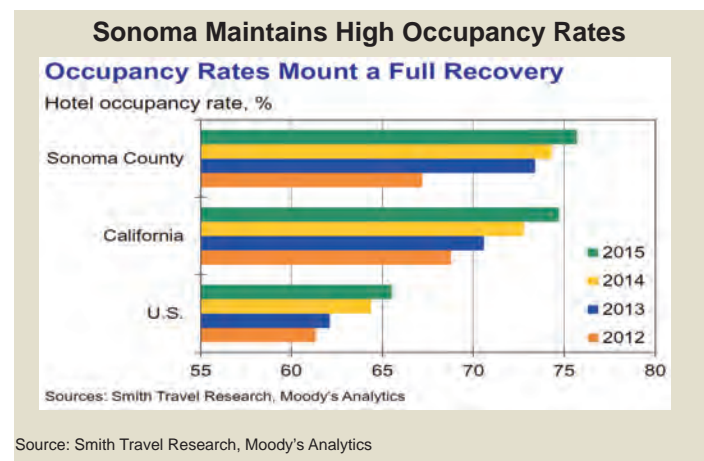
Lower airfare will be a further tailwind and will make tourist visits to the North Bay more affordable for both California residents and residents from other states. In years past, airfare has tended to be sticky, but industry analysts are predicting airfare will be 15% lower in 2016 than last year. Once crude prices start to rebound, the price increases will be passed back to consumers. But in the short term, increased air travel will lift tourist visits.

Household cash flow is back on solid ground following a rocky start to the year in the stock market, and the Moody's Analytics forecast calls for private consumption spending to come in a hair above 3% in 2016 after touching down at more than 4% in 2015. Although growth in wages and salaries has underperformed expectations, Sonoma County's likely visitors have above-average exposure to unearned income. Therefore, the belated rise in wage growth will have much smaller impact on the county than in other metro areas.

## Pricing

With tourist visits to Sonoma County on the upswing, hotels are flexing their pricing power with greater comfort. According to Smith Travel Research, average daily rates for Sonoma County hotels rose 9% in 2015 to \$149 and grew a further 6% in the first few months of 2016. Demand for Sonoma's wineries and recreation opportunities is highly elastic, as nearby counties also offer similar leisure opportunities. However, an increase in wine tourism is lifting all ships, and despite faster price growth, Sonoma hotels still hold a considerable advantage in cost compared with neighboring Napa County.

Furthermore, while recent efforts to limit hotel size and construction have been thwarted at the ballot box, opposition to large developments remains elevated. This should slow growth in supply, enabling existing hotels and bed and breakfast establishments to maintain pricing power.



**Chart:** Hotel occupancy rates continue to climb in Sonoma County and California, while room rates have recovered much of the ground ceded in the recession. Robust private sector job growth is driving an upswing in leisure travel at the national and state level, and Sonoma County is sharing in the gains. The emergence of the craft beer scene is drawing new age cohorts to Sonoma's wine country, while the featuring of Sonoma County wines at many Super Bowl events this year has increased the attractiveness the county as a premier travel destination for wine drinkers.

# Annual Tourism Report: Moody's Analytics Tourism Analysis

## Operating expenses

Labor costs will remain the primary driver of operating costs in the near term. The job market for leisure and hospitality workers is exceedingly tight. Though total leisure and hospitality payrolls are nearly a quarter higher than their prerecession peak and hiring in leisure and hospitality is clocking in north of 6%, recent data from the Quarterly Census of Employment and Wages also point to mounting wage pressures. Large wage gains support anecdotal evidence of a shortage of labor, which could be due to tighter hiring standards for immigrants.

The recent campaign to raise California's minimum wage has gained momentum following successful efforts in Seattle and other West Coast metro areas. Given that work in tourism is relatively labor intensive, a rise in the minimum wage would have a large impact on operating costs.

Falling vacancy rates for industrial space could exert upward price pressure for Sonoma County wineries that are seeking to expand their operations. The industrial vacancy rate has fallen by 2 percentage points over the past year, according to Keegan & Coppin Co., and at 5.8% stands at its lowest point in more than a decade. The long-standing increase in land set aside for preservation in Sonoma County will prevent property developers from satisfying rising demand for commercial real estate, thereby perpetuating price rises.

## Profitability

The trajectory of prices will outstrip the increase in operating costs, helping lift tourism profit margins. Recent wage growth and lower gasoline prices have done much to improve consumer balance sheets. Now that consumers are on a stronger footing, hotels are beginning to raise daily rates. According to Smith Travel Research, room rates on average in 2015 totaled \$147, 8% higher than in 2014. Furthermore, in 2015 there was no month with an average daily rate below \$100. For comparison, in 2011 there were four months with an average daily rate below \$100. Overall hotel revenues have risen 75% since 2010 and grew faster than those in neighboring Napa County over the past two years.

Sonoma's blossoming wine industry coupled with burgeoning growth in craft spirits will do much to boost profits. Sonoma wineries earn nearly four times as much from on-premise sales than through wholesale distributors. Greater on-site traffic at breweries will further aid profit margins, as breweries also earn more from local purchases than from sales at retail stores.

## Long-term Outlook

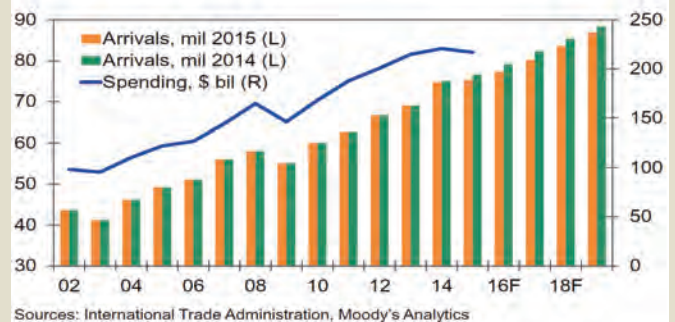
After several lean years, Sonoma County's tourism industry is back in full swing. Sonoma's wineries, natural beauty, climate, and abundant outdoor recreational opportunities support a positive longterm outlook. As the U.S. economy shifts into high gear, area vintners and tourism-related industries will benefit from favorable consumer fundamentals. Room occupancy rates and hotel revenues recovered to prerecession levels in 2015 and are poised for further gains.

Rising demand for higher-end wines will benefit not only Sonoma County producers but also the county's allure for wine-tasting, which has long been a draw for tourists. Additionally, the new popularity of craft brewing is helping to draw a different demographic to the area and is spurring alcoholic beverage sales. The outlook for consumer spending and wine demand still looks favorable longer term. The cohort born after 1995 and dubbed 'Generation Z' will soon reach drinking age and has indicated a strong preference for wine, according to a survey by Wine Intelligence. This cohort will supplement demand from millennials.

### Emerging Market Tourists Will Benefit California

#### Expectations are Lower for International Visits...

International visitors to the U.S.



Sources: International Trade Administration, Moody's Analytics

Sources: International Trade Administration, Moody's Analytics

#### Chart:

*Though international tourism to California has increased despite the strong dollar, tourist visits at the national level have fared less well, prompting a slight downgrade in the International Trade Administration's arrivals forecast through the end of the decade. The dollar weighed heavily on international tourist traffic for most of 2015, and will remain a drag for at least the next year. The greenback will rise only slightly in 2016, but the relative strength of the U.S. economy will support a strong dollar for some time to come, making further appreciation a substantial downside risk.*

# Annual Tourism Report: Moody's Analytics Tourism Analysis

## Upside Risks

As long as oil prices stay low, there will be significant lift to tourism. Savings at the pump will fuel visits to popular winetasting sites and fast-growing craft breweries. Previously, rising tourism cost data could be attributed to airfare and travel expenses. Now, the dynamic is shifting toward longer stays and more expensive lodging, resulting in more money staying in the county. Faster than expected wage growth in San Francisco and the broader Bay Area would also go far in boosting day trips to Sonoma County, while faster adoption of ride-sharing services such as Uber could deliver an additional boost by making travel more accessible.

Although the Super Bowl concluded two months ago, the sporting event raised the profile for the area as a prime wine destination. Area wines were at the forefront of many VIP parties and pregame events, increasing the likelihood of return visitors. The outlook for Sonoma County tourism will improve further if consumer and business confidence surpasses expectations, spurring more spending on leisure activities and business travel. Improvements in financial markets would also improve performance, as positive wealth effects from rising stock prices would encourage visitors to spend.

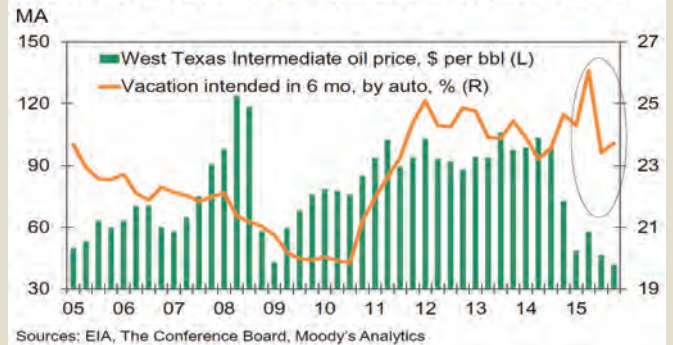
## Downside Risks

Slower than expected normalization of the U.S. dollar poses a significant downside risk and could deter budget-minded international tourists. The dollar is expected to appreciate further through 2016 before coming down the following year. Fewer international tourist arrivals to Sonoma County would reduce occupancy rates at area hotels and result in lower alcoholic beverage and restaurant spending. Efforts to curb hotel construction in Sonoma County have lost steam in recent months, but opposition to larger structures would hurt the outlook should it spur legislative action.

Drought damage to grape quality and vines could deter some oenophiles from visiting Sonoma. Though California's drought has shown signs of easing, persistent dry conditions remain a threat to winemaking and tourism alike. The El Niño weather pattern is bringing much needed rainfall this spring, but even with greater precipitation, the drought will persist and tighter water conservation rules will remain in effect. Grapevine diseases, such as Eutypa and Pierce's disease, are a greater concern and present a significant downside risk to both the quantity and quality of grapes in 2016.

## Oil Price Plunge Reverses Auto Tourism Trend

### ...But Low Gas Prices Will Lift Domestic Travel



Sources: EIA, The Conference Board, Moody's Analytics

**Chart:** The swift decline in energy prices in 2015 has boosted vacation plans and will continue to do so in the near term as summer approaches. Lower prices at the pump are increasing disposable incomes and making up for the belated rise in wage growth, supporting spending on nontravel costs such as higher-quality lodging and beverages. The cost of driving is much more favorable than that of flying and will draw more budget-minded tourists and boost occupancy rates during off-peak months this year.

Jack Kitchen-  
Moody's Analytics

### Sonoma County Tourism Industry Indicators

The Tourism Industry Indicators section is based on data prepared for the California Travel & Tourism Commission by Dean Runyan and Associates, as well as industry data from Smith Travel Research, and Sonoma County's Transient Occupancy Tax receipts. Where applicable, the data and graphs in this section have been adjusted for inflation using the U.S. Bureau of Labor Statistics Consumer Price Index.

Marin and Napa are used as comparison counties because of their similarities in offerings, size, and geographical location. The featured data is the latest available from the California Tour and Travel Commission.

#### Key Findings

- In 2015, Sonoma County destination spending, industry earnings and industry employment experienced a year-over increase from 2014 after adjusting for inflation. This follows an increase seen in 2013 over 2014. This suggests travel continues to grow as the U.S. moves out of the recession.
- In 2015, Sonoma County's year-over average daily rate (ADR) for lodging increased 9% when adjusted for inflation. This follows a 14% increase in 2014, further suggesting that travel to Sonoma County remains strong.
- Sonoma County's Transient Occupancy Tax (TOT) receipts totaled \$33 million in 2015 after adjusting for inflation. This is the highest level of TOT receipts that Sonoma County has ever received.



# Annual Tourism Report: Tourism Industry Indicators

## Destination Spending

Destination spending is the total amount spent by visitors in Sonoma County. This indicator includes all spending for accommodations, wine activities, retail, and other tourism related purchases. The most recent figures show that Sonoma County's destination spending was up 2.3% from \$1.78 billion in 2014 to \$1.82 billion in 2015.

### Destination Spending by Year

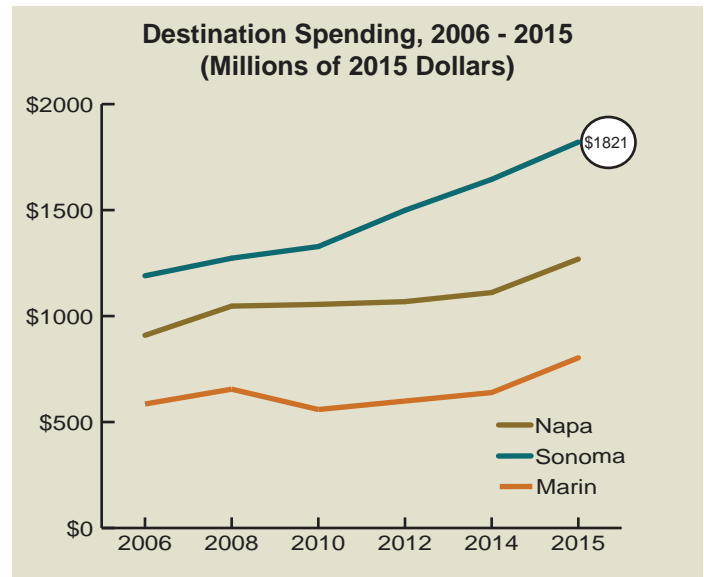
Destination spending is sensitive to the economic climate. As a result, Sonoma County experienced decreases in destination spending in both 2008 and 2009. This was a common trend as all of the competitive destinations also experienced decreases. However, 2015 figures indicate that tourism remains strong in Sonoma County as well as in other destinations.

### Destination Spending per Capita

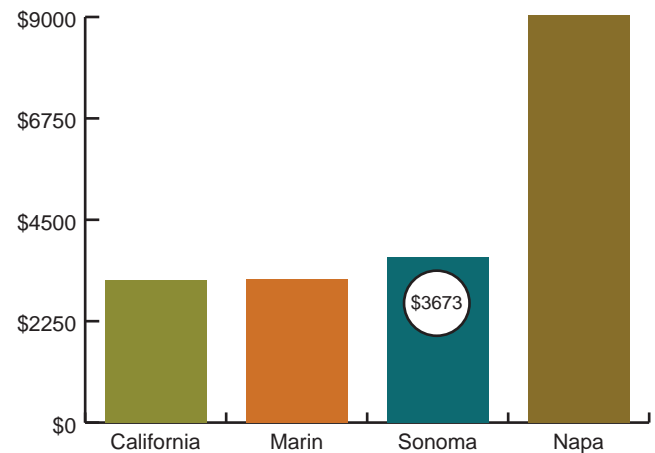
For each of Sonoma County's 495,684 residents, \$3,673 in destination spending was generated. Marin County generated \$3,181 per-capita and Napa County generated the highest per-capita spending at \$9,043. Napa County consistently has high per-capita destination spending due to its relatively small population. Sonoma County's destination spending per-capita fell short of Napa County, but outpaced the statewide average of \$3,158 per capita.

### Destination Spending Annual Real Growth Rates

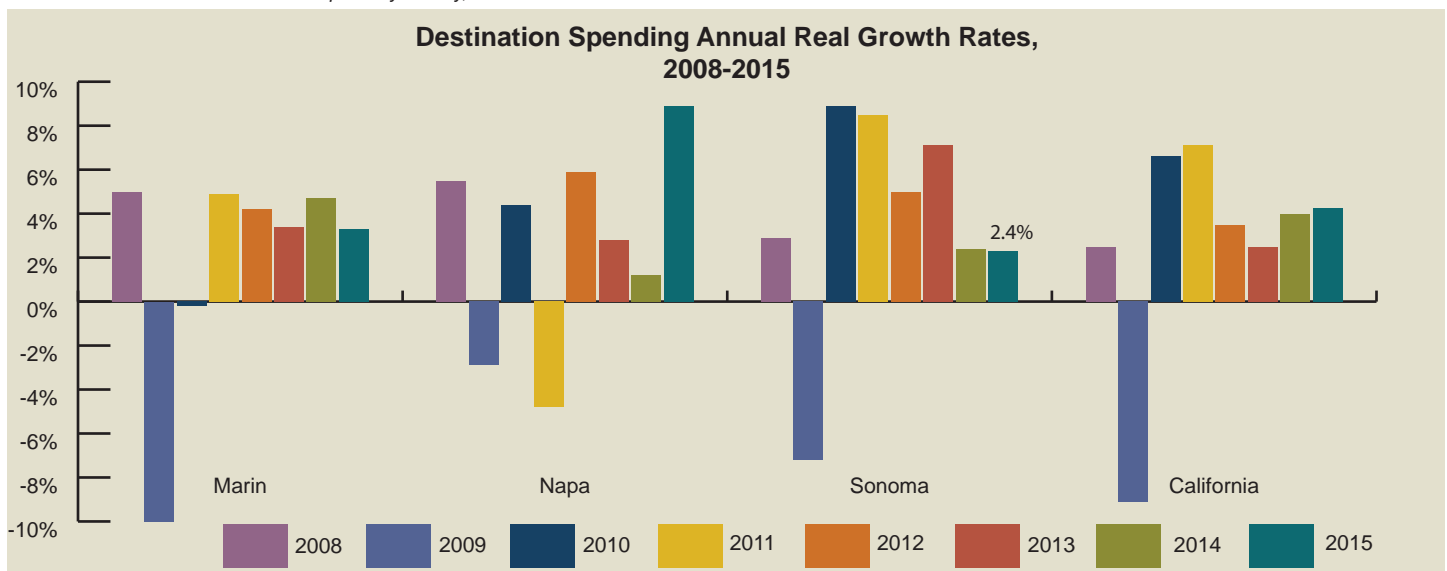
The 2.3% increase in inflation-adjusted destination spending was a positive indicator for tourism in Sonoma County, following the same increase in the year prior. These increases indicate that direct spending is on track with pre-recession levels.



### Destination Spending per Capita, 2015 (2015 Dollars)



Source for all data: California Travel Impacts by County, 2016



# Annual Tourism Report: Tourism Industry Indicators

## Destination Spending Breakdown

As in previous years, the overall distribution of commodity based visitor spending in Sonoma County is comparable to the featured competitive counties and the statewide average. However, there are several areas where Sonoma County appears to be somewhat unique.

### Distribution of Visitor Spending by Commodity

Visitors to Sonoma County devote a smaller share of their spending towards accommodations than other destinations - 21% of all spending, compared to 26% in Marin County and 28% in Napa County. Sonoma County visitors spend an approximately equal share of total spending on accommodations (21%), retail purchases (18%), and arts, recreation & entertainment (18%). They spend the largest amount on food and beverage services (29%) and on retail sales. Visitors to both Napa and Sonoma County spend more than the state average on arts, entertainment & recreation, and retail sales.

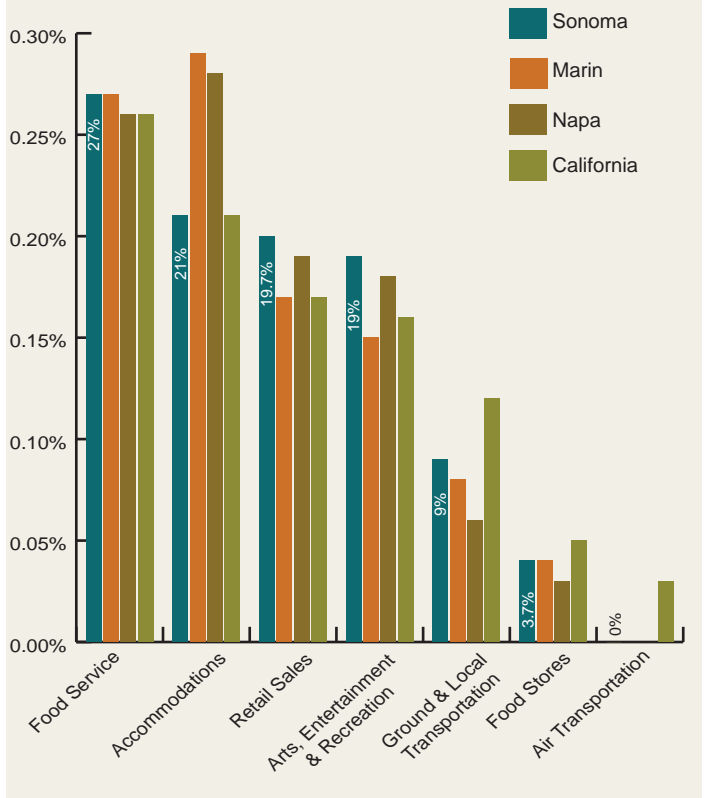
### Distribution of Visitor Spending by Accommodation

In comparison with the state and other competitive counties, a smaller share of visitor spending in Sonoma County comes from visitors who are staying in a hotel or motel (50.9% compared to 59%, 69%, and 57% for Marin County, Napa County and California, respectively). Instead, a significant share of Sonoma County visitor spending is received from day travelers (30.3%) compared to 17% for Marin, 25% for Napa and 23% for California. A comparatively larger share of spending in Sonoma County comes from visitors who stay in vacation homes (6.1%) compared to 17% for Marin, 25% for Napa and 23% for California. A comparatively larger share of spending in Sonoma County comes from visitors who stay in vacation homes (6.1%).

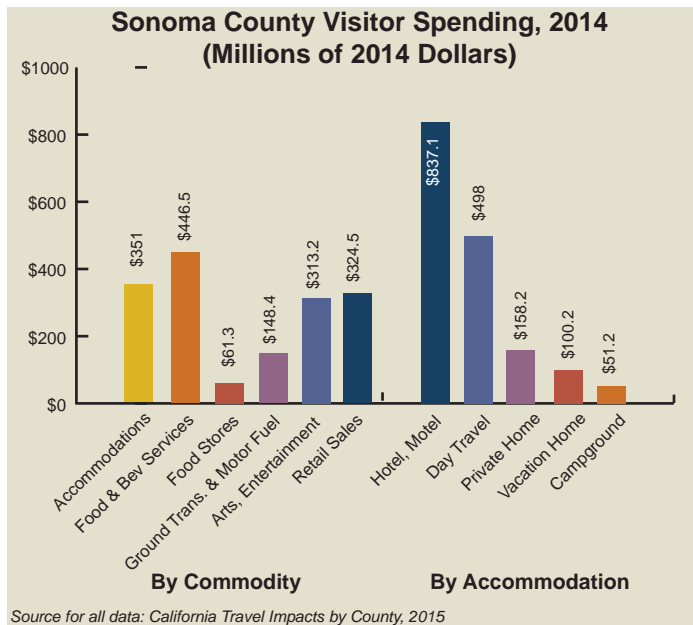
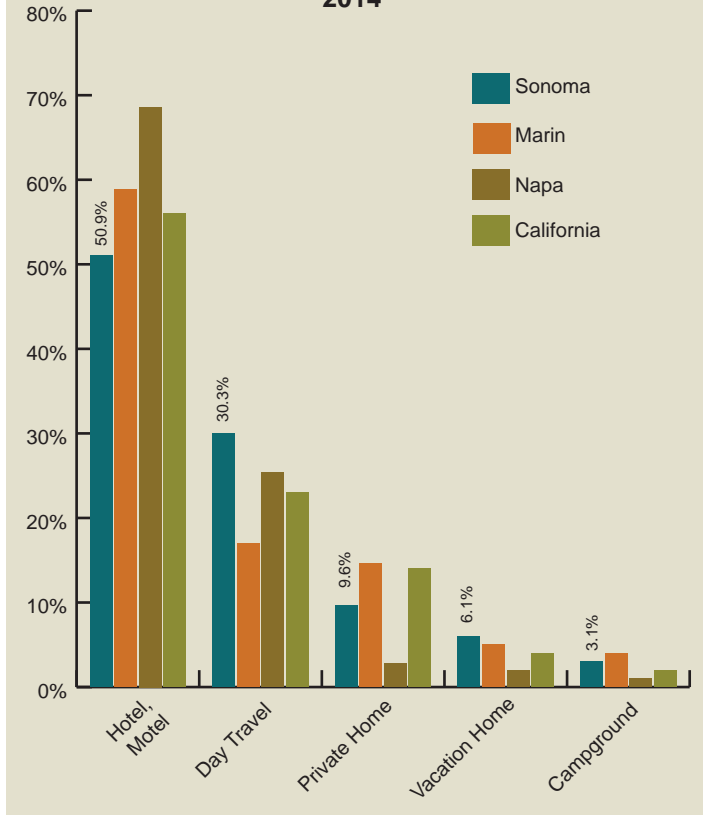
### Sonoma County Visitor Spending

With a total visitor spending equal to \$1.64 billion, the majority of the money is spent by visitors who stay at hotels or motels (\$837.1 million) and on day travel (\$498 million).

Distribution of Visitor Spending by Commodity, 2014



Distribution of Visitor Spending by Accommodation, 2014



Source for all data: California Travel Impacts by County, 2015

# Annual Tourism Report: Tourism Industry Indicators

## Industry Employment

With 19,350 jobs generated by tourist destination spending, Sonoma County ranks first against comparable counties - Napa had 13,230 tourism jobs and Marin had 7,310 tourism jobs in 2014. Sonoma County's 2014 job figures show a 2.4% increase from 2013, up from a year-over increase of 5.5% from 2012 to 2013.

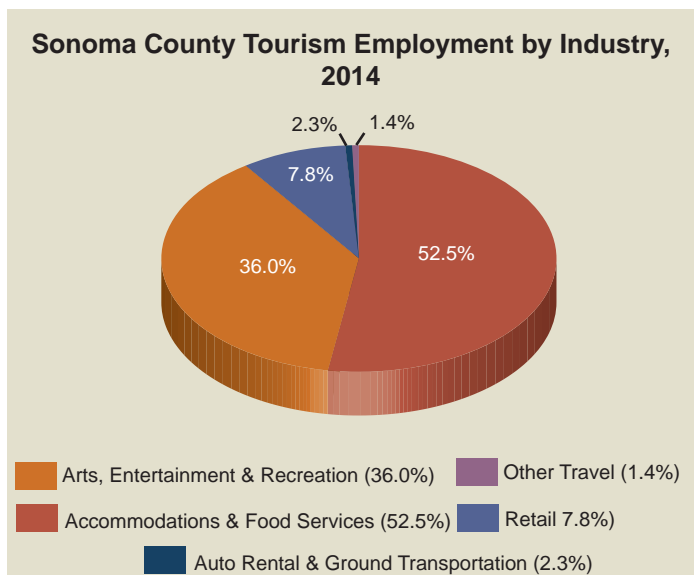
### Tourism Industry Earnings per Employee, Real Growth Rates

Partly as a result of Sonoma County's decline in destination spending in 2008 and 2009, employment levels in the tourism industry decreased in 2009 and 2010. Businesses are starting to add staff as destination spending returns to pre-recession levels. For 2014, the tourism in Sonoma County accounted for 19,350 jobs. The county employs more tourism industry employees than Napa and Marin, counties where total destination spending consistently outpaces that of Sonoma County. Industry earnings per employee grew for Sonoma as well (\$28,733). Because of Marin and Napa's smaller employment base, those counties experience higher earnings per tourism employee. Focusing on Sonoma County, growth in tourism earnings is nearing pre-recession levels.

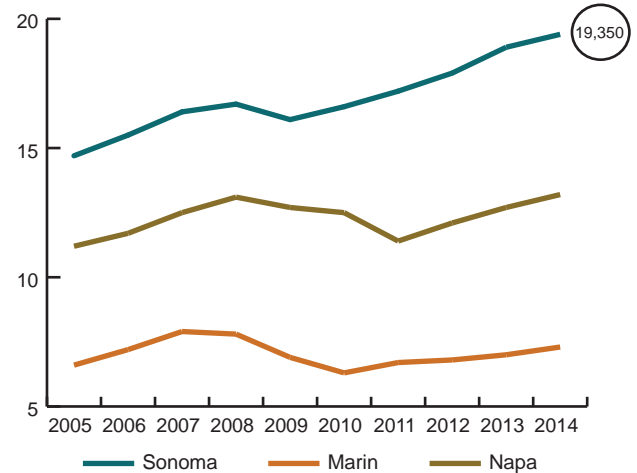
### Sonoma County Tourism Employment by Industry

Distribution of employment within Sonoma County's tourism industry is similar to previous years, with 52% of employment in accommodations & food services, 36% in arts, entertainment & recreation, and almost 8% in retail. Ground transportation and air travel (Other Travel) have also increased their share of employment at 2.3% and 1.4%, respectively.

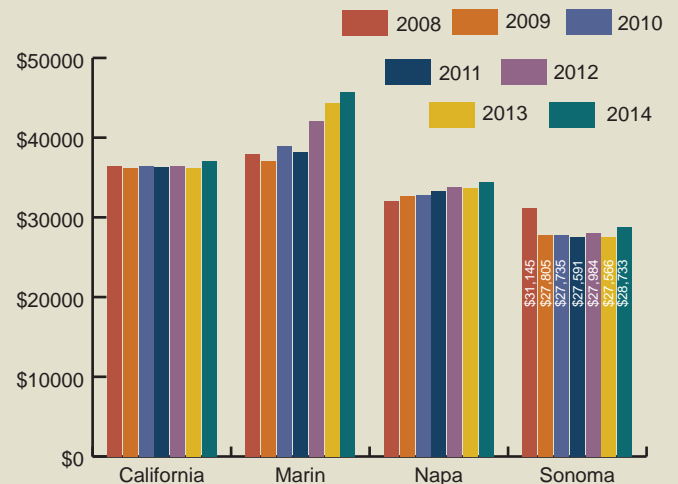
Source for all data: California Travel Impact by County, 2015



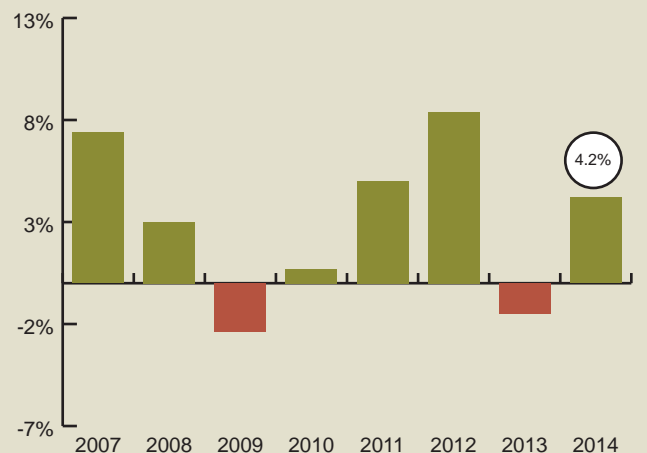
Employment Generated by Destination Spending, 2005-2014 (Thousands)



Tourism Industry Earnings per Employee, 2008-2014 (2015 Dollars)



Tourism Industry Earnings per Employee, Real Growth Rates, 2007-2014



# Annual Tourism Report: Tourism Industry Indicators

## Lodging & Hospitality Assessment

As page 4 illustrates, visitors staying in hotels and motels are the single-largest source of destination spending in Sonoma County, with an estimated \$837 million in spending in 2014 (2015 dollars). Lodging figures from 2014 show that travel to Sonoma County continues to grow following the national economic downturn, indicating that we can expect to continue seeing positive trends in destination spending.

### Annual Lodging Occupancy Rates

Sonoma County's occupancy rates stayed relatively stable amid expansion in Sonoma County's room offerings through 2007. During 2008 and 2009, however, average occupancy dropped as the recession decreased discretionary consumer spending. Occupancy rates have been steadily increasing since 2009, surpassing pre-recession levels at 74% in 2014.

### Annual Average Daily Rate (ADR)

Average daily rate (ADR) began to increase following the low seen in 2010 at \$118.92 (2014 Dollars). For 2014, the average daily rate improved to \$136.64, in line with other positive figures for travel into Sonoma County.

### Revenue per Available Room

Revenue per available room (RevPAR) for Sonoma County have been increasing since 2009. In 2013, RevPAR surpassed pre-recession levels, highlighting the strengthening tourism industry in Sonoma County.

### Real Growth Rates of RevPAR and ADR

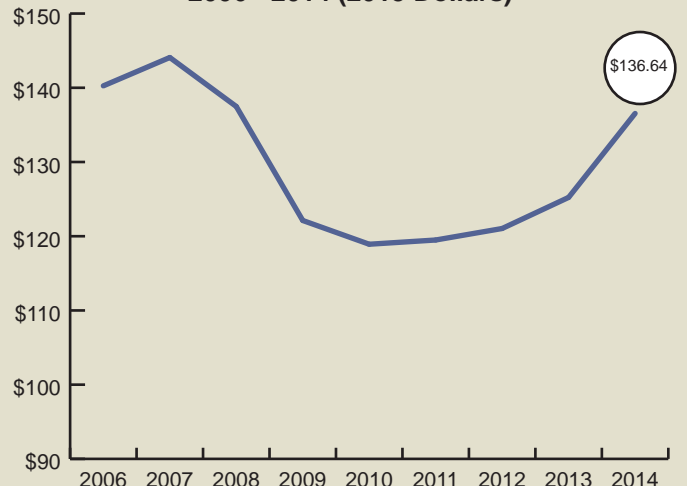
Revenue per available room and average daily rate have both increased from 2010 to 2014. As occupancy rates and average daily rate both increase, revenue per available room is expected to maintain above pre-recession levels.

Source for all data: Smith Travel Research, 2015

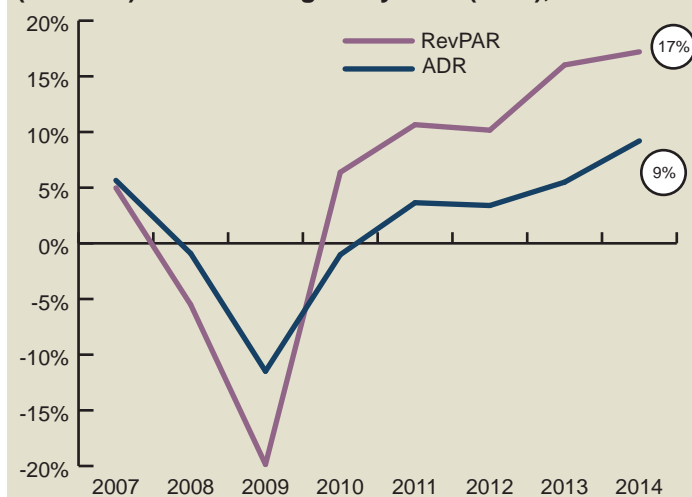
Annual Lodging Occupancy Rates, Sonoma County, 2006-2014



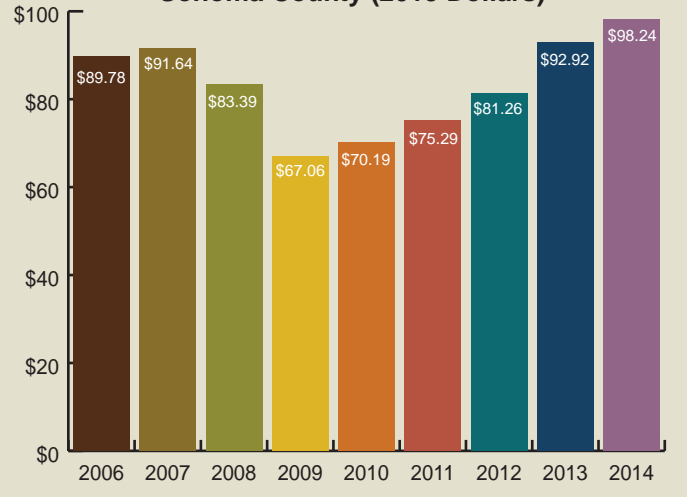
Annual Average Daily Rate (ADR), Sonoma County, 2006 - 2014 (2015 Dollars)



Real Growth Rates of Revenue Per Available Room (RevPAR) & Annual Avg. Daily Rate (ADR), 2007-2014



Revenue Per Available Room (RevPAR), Sonoma County (2015 Dollars)



# Annual Tourism Report: Tourism Industry Indicators

## Tourism-Generated Taxes

Transient Occupancy Tax (TOT) is a local tax on room rental revenue in lodging properties located in Sonoma County. The TOT rate varies between 9% and 12% from city to city.

### Annual TOT Collections

TOT revenues in Sonoma County increased 2% to \$28 million in 2014 when adjusted for inflation. TOT revenues fell in 2008 and 2009 as the recession began to negatively affect visitor traffic and spending nationwide. This downward trend has been fully reversed with 2014 TOT revenues being the highest ever in Sonoma County.

### TOT Revenue Spending Areas

TOT funds are distributed to different spending areas. The majority of TOT funds go to regional park maintenance and operation (20%), tourism marketing (19%), or are transferred to the general fund in each city or area (25%).

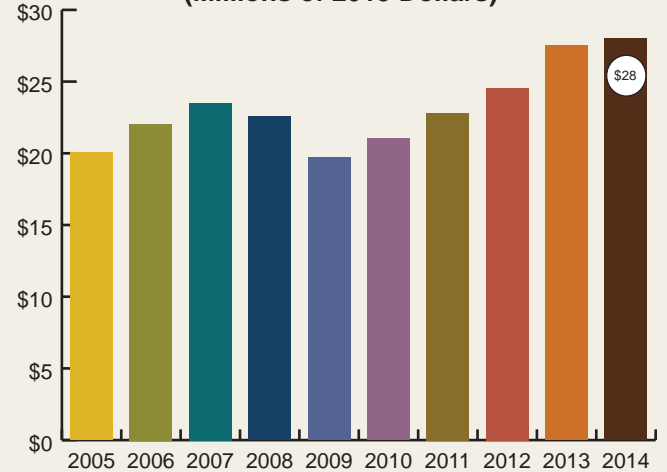
### Tax Receipts Generated by Travel Spending

Spending by day travelers and overnight visitors to Sonoma County generates a significant amount of tax for state and local governments. Total local taxes collected, including TOT, from visitors to Sonoma County were estimated at \$64 million in 2014, after adjusting for inflation. The state collected \$79 million from Sonoma County visitors in 2014, after adjusting for inflation. This is a comparable amount compared to 2013 figures.

### Percentage of Annual TOT Revenue by City

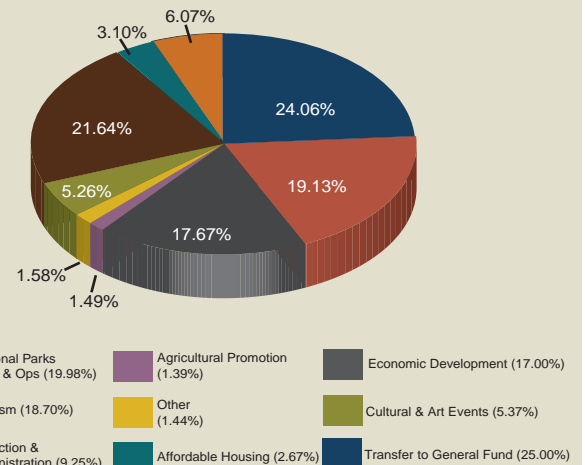
Revenues from TOT are divided between the County of Sonoma (which receives revenue from lodging properties in unincorporated regions) and the individual cities in the county. Collectively, the incorporated cities generated 61% of all revenue in 2014, while the unincorporated areas of the county generated 39%.

**Annual TOT Collections, Sonoma County 2005-2014 (Millions of 2015 Dollars)**



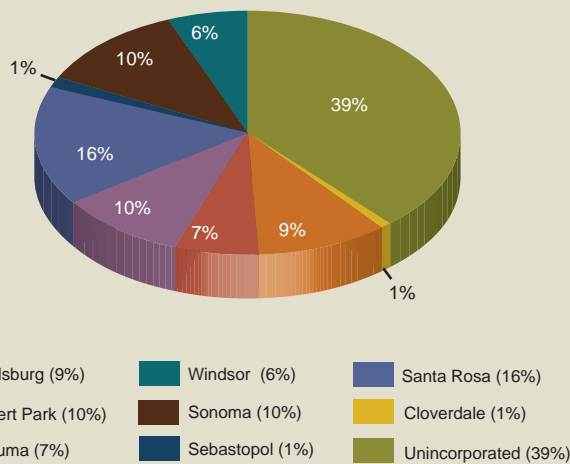
Source: Transient Occupancy Tax Reports, 2015aaa

**Fiscal year 2013 - 2014 (July - June) County of Sonoma TOT Budget Breakdown by Spending Area**



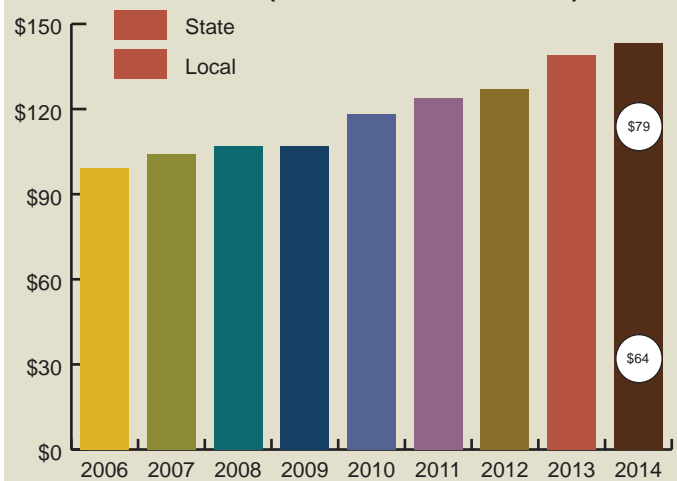
Source: Transient Occupancy Tax Reports, 2015

**Percentage of Annual TOT Revenue by City, 2014**



Source: Transient Occupancy Tax Reports, 2015

**Tax Receipts Generated by Travel Spending, 2006-2014 (Millions of 2015 Dollars)**



Source: California Travel Impacts by County, 2015

# Annual Tourism Report: Tourism Industry Indicators

## 2014-15 Airport Visitor Intercept Survey

Last year, Sonoma County Tourism, in conjunction with the Charles M. Shulz Sonoma County Airport, initiated a year-long visitor intercept survey designed to capture information on tourists visiting Sonoma County as a travel destination and to gain an understanding of their activities while in-market.

The results of this survey, which was administered bi-monthly to travelers departing from the Charles M. Shulz airport between April 2014 and May 2015, are reported below.

On average, visitors spent 4 days in Sonoma County, and had an average travel party size of 2. While in market, the average spending per travel party was \$379 per day.

### Reason for Visiting

The most common reason motivating trips to Sonoma County is visiting family and friends (36% of respondents). Another 16% of respondents indicated that their travel was specifically for business, while 15% said they were on vacation. Visitors also indicated coming for weekend getaways (11%), weddings (5%), special events including concerts and festivals (5%), and conferences or tradeshow (8%). Only 2% of travelers surveyed stated that they were just passing through the area.

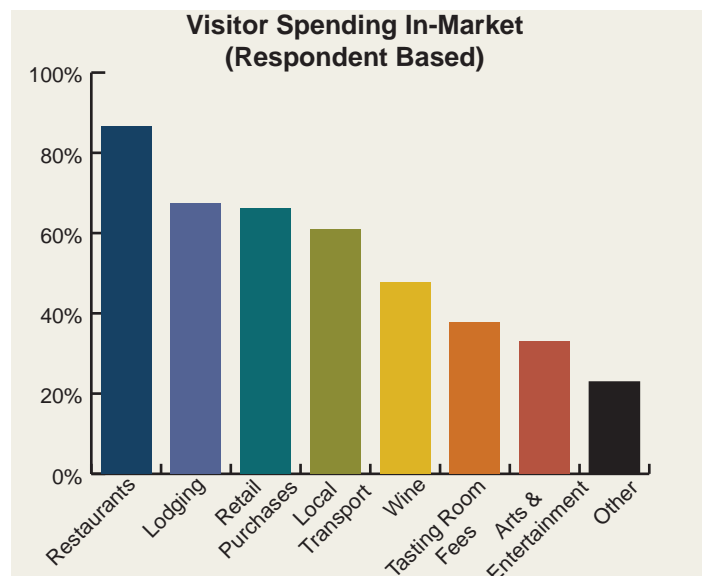
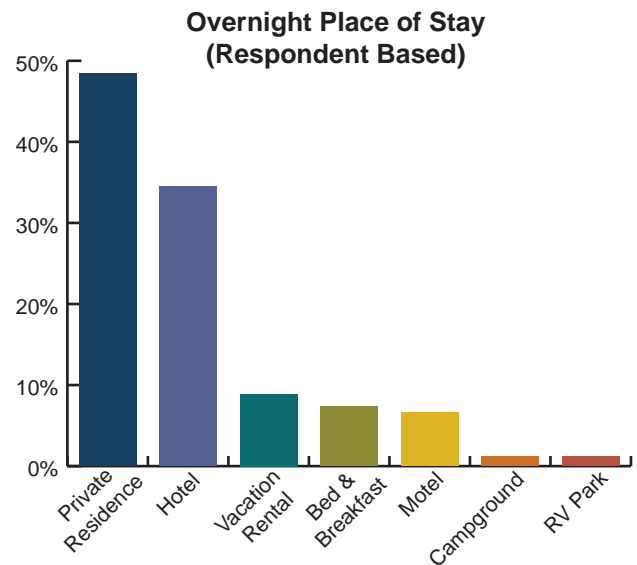
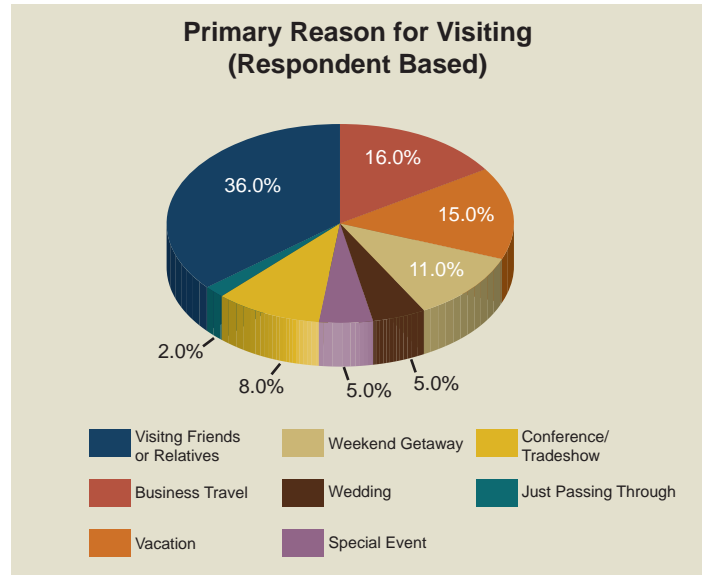
### Overnight Accomodation

Once in Sonoma County, over 48% of respondents listed that they stayed with friends or family in a private residence. More than 34% booked lodging in hotels, while nearly 9% chose to stay in a vacation home or rental, and 7.4% stayed at bed and breakfasts. Just under 7% stayed in a motel, and roughly 2% camped or utilized an RV park.

### Destination Spending Breakdown

While in market, visitors reported spending on a vareity of Sonoma County businesses and establishments. Most commonly, survey respondents indicated spending money on local restaurants (87%) and lodging (68%). Retail purchases was the next most popular activity, representing 66% of respondents. Just under 50% purchased wine, while 38% reported spending money on tasting room fees at Sonoma County wineries. A very high percent reported spending on local transportation (61%), likely caputring visitors coming from nearby areas such as San Francisco and Napa. Finally, 33% reported paying for local attractions including arts, entertainment, and sightseeing.

Source for all data: Sonoma County Airport Visitor Intercept Survey, 2015



# Annual Tourism Report

## Current Issues

### Short-Term Vacation Rentals

The short-term vacation rental market has changed dramatically in the past few years. In general, vacation rentals are classified as properties intended for permanent occupancy that are rented out for periods of 30 days or less. In Sonoma County, many of these vacation rentals are operated by professionals who manage multiple properties under a single TOT certificate.

However, an increasing number of individual owner-operated short-term rentals are appearing in Sonoma County, and are being promoted through travel websites such as VRBO.com and Airbnb.com. Within these sites, individual owners are able to solicit travelers by listing their properties as either entire-home or private room rentals, despite not being registered for TOT collection within Sonoma County.

In response to this growing issue, the Sonoma County Auditor Treasure Tax Controller conducted an interanal audit of the county's vacation owner-operator population in 2014, in order to identify the number of unregistered short term vacation rental properties.

After cross-referencing the county's registered TOT vacation rentals against those listed for Sonoma County on Airbnb.com, the audit revealed that a total of 404 properties advertised on the website fell within the borders of Sonoma County, with approximately 267 located within unincorporated areas. Looking at the properties in the unincorporated areas, it was determined that at least 54% were not registered on the county's TOT database--revealing an estimated non-filing tax gap between \$500,000 to \$1.3 million.

### The Thriving Communities and Sharing Economy Act

Earlier this year, California Senator Mike McGuire (D-2nd district) introduced Senate Bill 593, which aims to implement greater regulation on vacation rental properties in the state. Titled the "Thriving Communities and Sharing Economies Act", the bill would require online vacation rental businesses to disclose information about their listed properties to city and county jurisdictions, including addresses of host rentals, number of nights rented, and amount paid by visitors. Additionally, the bill would prohibit such businesses from facilitating any residential rentals that violate local ordinances.

If SB 593 is passed, the legislation would have a significant impact on websites such as Airbnb.com and VRBO.com, by requiring them to cooperate with city and county TOT collection efforts. Currently, the bill is awaiting a vote from the CA Senate.

## Regulatory Responses in Other Regions

### San Francisco

Recently, San Francisco enacted a law to legalize short-term rentals in the city. The law, which took effect February 1st, 2015, ends San Francisco's longstanding ban on residential rentals of less than 30 days in multi-unit buildings. However, the law imposes a number of restrictions on short-term rentals. Most importantly, rentals must be from permanent residents that have obtained permits from the city planning department to engage in short-term renting. The law specifies that short-term rentals cannot extend past an annual total of 90 days per year, and renters must pay San Francisco's 14% hotel tax. Additionally, online listing websites such as Airbnb are obligated under the ordinance to collect and remit payments for San Francisco's hotel tax.

Currently, San Francisco's Board of Supervisors has proposed amending the ordinance to cap all short-term rentals at 120 days a year, and to create and fund a new city office to register, investigate and enforce short term rental laws. As it stands now, the San Francisco Planning Department is tasked with enforcing the law. There are also efforts to include an amendment requiring online hosting sites, including Airbnb, to disclose addresses and total days rented on all listed properties. The Board of Supervisors will look to settle the proposed amendments in July of 2015.

### Portland

In January of 2015, the City of Portland approved legislation to grant enforcement tools to the Portland Revenue Bureau to require Airbnb and other online short-term rental brokers to provide the names and addresses of all listed Portland hosts. The ordinance is designed to expand enforcement powers so that the Portland Revenue Bureau can better track permit registration and lodging tax collection.

As of February 2015, only 10% of an estimated 1,600 short-term rental hosts had submitted permit applications to the city of Portland, representing an ongoing challenge to enforce compliance with the new legislation.

Source: [www.skift.com](http://www.skift.com)

# Annual Tourism Report

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## 2015 Tourism Industry Survey

### Tourism Industry Survey: Results Summary

The 2015 Tourism Industry Survey is an annual survey of Sonoma County tourism businesses performed by the Sonoma County Economic Development Board (EDB). Surveys were sent to more than 1,000 Sonoma County business owners, executives and individuals involved in the tourism sector. More than 300 respondents representing local wineries, restaurants, lodging establishments, tours & transportation, spa & wellness services and tourism-related businesses responded to questions regarding economic outlook visitor and business demographics, and marketing strategies, representing a 30% response rate, a very strong rate for a mailed survey.

The source for all data in the following section is the 2015 Annual Tourism Survey

#### Key Findings

- Businesses have a positive outlook for tourism in the coming year. More tourism businesses feel optimistic about Sonoma County's tourism industry than reported in previous years, and more businesses expanded operations over the past year than in the year before.
- Most respondents believe that Sonoma County has a high potential to attract visitors overall; and the diversity of attractions and activities, Sonoma County's scenery and climate, and the county's culinary offerings are its greatest assets besides wine reputation/culture.
- The most commonly identified opportunities for Sonoma County tourism in niche markets were Culinary Tourism, Cycling, and Eco-tourism. Craft beverages were also increasingly reported as a niche market.
- Respondents feel local government agencies can make a positive difference in the tourism industry by assisting with licensing and permits and infrastructure improvement. Promotion agencies can best assist respondent businesses through marketing, PR and media visits, and tourist industry trend reports. The majority of respondents feel that countywide and regional marketing initiatives are effective in promoting Sonoma County.



# Annual Tourism Report

## Survey Respondent Demographics

Owners and executives of more than 150 diverse tourism businesses responded to the EDB's 2014 Tourism Industry Survey. The following graphs outline the types of businesses that responded to our survey, Please note: respondents were asked to classify their own business/ operations type.

### Tourism Industry Businesses

'Lodging' and 'Winery' were the most common primary operations of responding businesses at 26% and 25%, respectively. The lodging classification of respondents is broken down further below. Businesses that classified themselves as 'other' include art galleries, museums, visitor centers and retail shops. Other respondents included businesses whose primary operations were 'tour and transportation service or support' (7.7%), 'restaurant' (14.5%), 'recreation service provider or outfitter' (4.3%), and 'spa and wellness' (3.8%). The surveyed businesses reflect the diverse strength of Sonoma County's tourism industry.

### LODGING CLASSIFICATIONS

#### 1. Full Service Lodging

Properties offering a full range of on-premises food and beverage service, cocktail lounge, entertainment, conference facilities, shops and recreational activities provided by uniformed staff on duty 24 hours. Of 'lodging' respondents, 17% indicated they were classified as full service.

#### 2. Vacation Rentals

These properties are fully-furnished condominiums, town homes or single family homes - featuring amenities such as games, beach equipment, DVD libraries, and a stocked kitchen. These properties are rented on a temporary basis to tourists as an alternative to a hotel. Of 'lodging' respondents, 24% indicated they were classified as vacation rentals.

#### 3. Bed & Breakfast

Smaller establishments emphasizing a more personal relationship between operators and guests. Guest units tend to be individually decorated. Rooms may not include some modern amenities and may have a shared bathroom. They are usually owner-operated. A continental or full hot breakfast is included in the room rate. Of 'lodging' respondents, 30% indicated they were classified as bed & breakfasts.

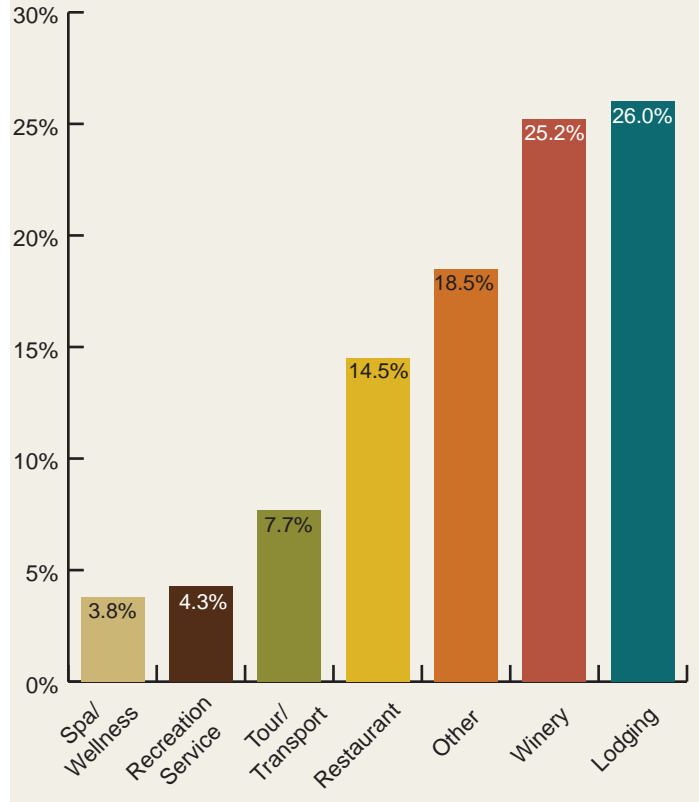
#### 4. Limited Service Lodging

Only the basic services and facilities are available and self-service aspects are predominate for limited service lodging. Commonly, a continental breakfast may be offered rather than having a restaurant on premises. Of 'lodging' respondents, 21% indicated they were classified as limited service.

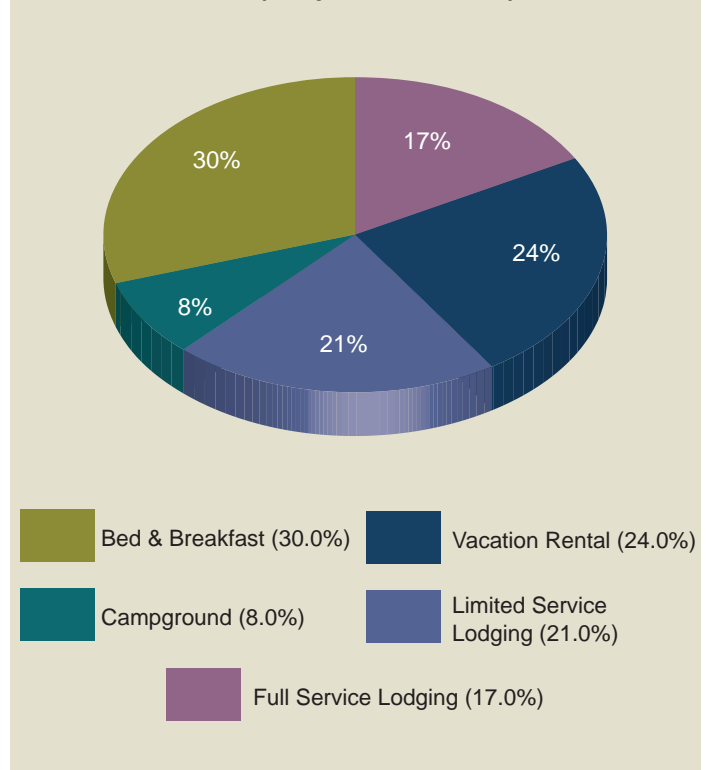
#### 5. Campground

A place useful for overnight stay in the outdoors, where an individual, family or group may camp. Consists of open pieces of ground where a camper can pitch a tent or park an RV. Some campsites have amenities including fire pits, picnic tables, utility hookups, shower facilities, and more. Of 'lodging' respondents, 8% indicated they were classified as campground.

Primary Operations of Tourism Industry Business, 2015 (Respondent Based)



Demographic Profile of Lodging Properties, 2015 (Respondent Based)



# Annual Tourism Report: Industry Survey

## Survey Respondent Demographics (cont.)

From responses given, local tourism industry businesses may be described as independent, long-established and relatively small. The following graphs outline more details about the characteristics of Sonoma County's tourism businesses.

### Number of Years in Business

The majority of respondents indicated they have been in business for more than 20 years (39%). Another 21% of the respondents have been in business for more than 11 years and 14% indicated they have been in business for 6-10 years. Finally, an increasing number of businesses have opened in the last five years than are 0-5 years old (27%). This suggests that there is continued business growth, and that the tourism business is maturing and stabilizing in Sonoma County.

### Independently Owned in Sonoma County

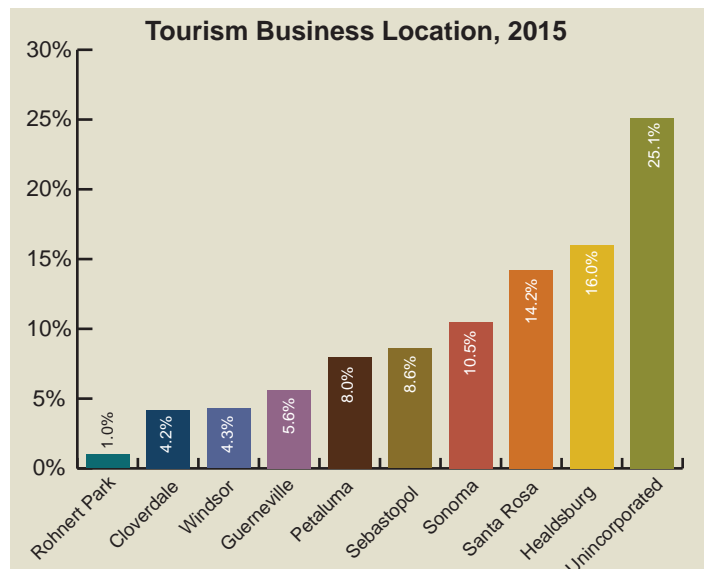
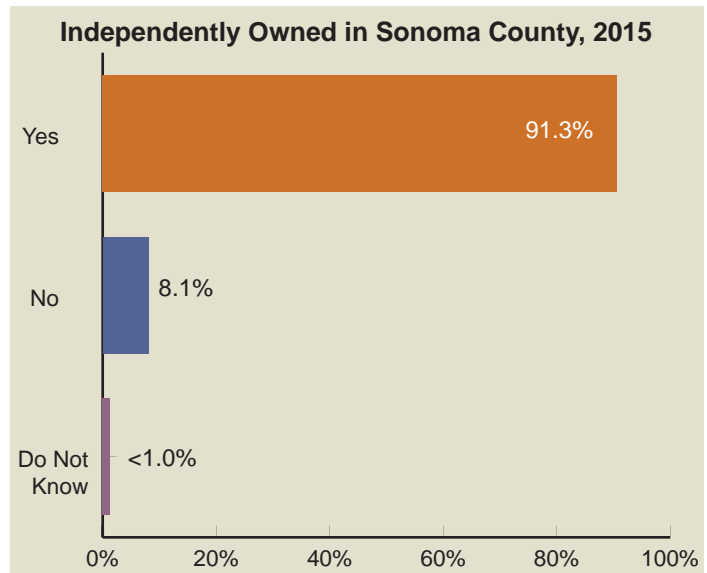
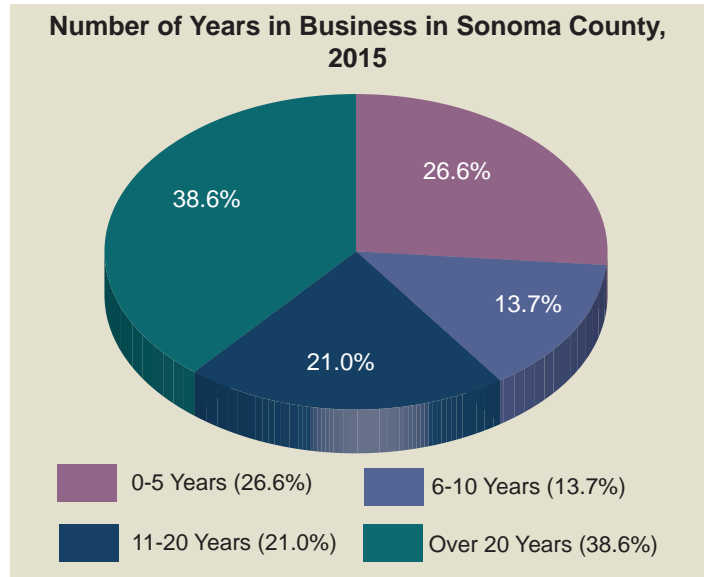
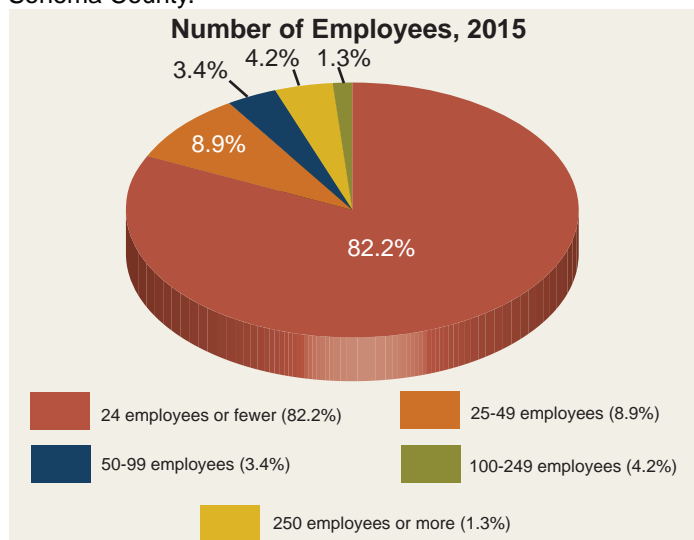
A significant percentage of businesses surveyed indicated that they are independently owned in Sonoma County (91%). Of those that are independently owned in Sonoma County, 2% indicated that they were a franchise.

### Tourism Business Location

The majority of Sonoma County's tourism-related businesses that responded are located in unincorporated county (25%), Healdsburg (16%), and Santa Rosa (14%). Other areas of the county represented by respondents include the coastal cities of Bodega Bay, Jenner and the Sea Ranch, as well as smaller towns within Sonoma County.

### Number of Employees

The majority of tourism businesses surveyed in Sonoma County employ 24 or fewer people (82.2%). On average, 47% of employees at businesses who employ 24 or fewer employees are part time or seasonal. There was a significant variance in the reported part-to-full time mix by all respondents, reflecting the diverse employment needs of different industries within Sonoma County.



# Annual Tourism Report: Industry Survey

## Industry Confidence & Outlook

Respondents were asked to indicate their perception about the tourism industry and whether they had expanded operations in the past year. Survey responses indicate that local tourism-related businesses are optimistic about the economy and travel industry.

### Tourism Industry Outlook

More than 84% of the tourism-related businesses that responded to the survey indicated that they were 'optimistic' (47%) or 'somewhat optimistic' (37%) about the tourism portion of their business in the next year. This is roughly comparable to the percentage of respondents who were optimistic about the tourism industry last year. Less than 4% of respondents indicated that they were 'concerned' (0.4%) or 'somewhat concerned' (3.0%) with the tourism portion of their business over the next year.

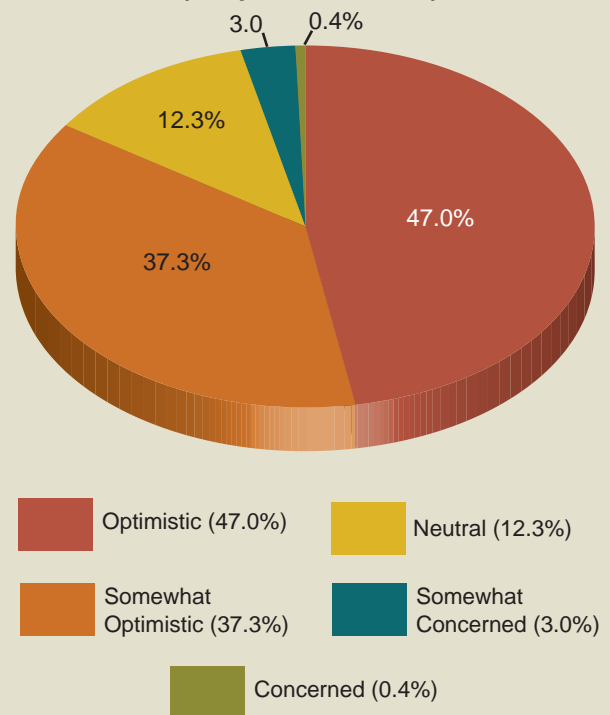
With industry optimism on the rise, this seems to have translated into the decision for businesses to expand their operations in the past year.

### Operation Expansion over Last 12 Months

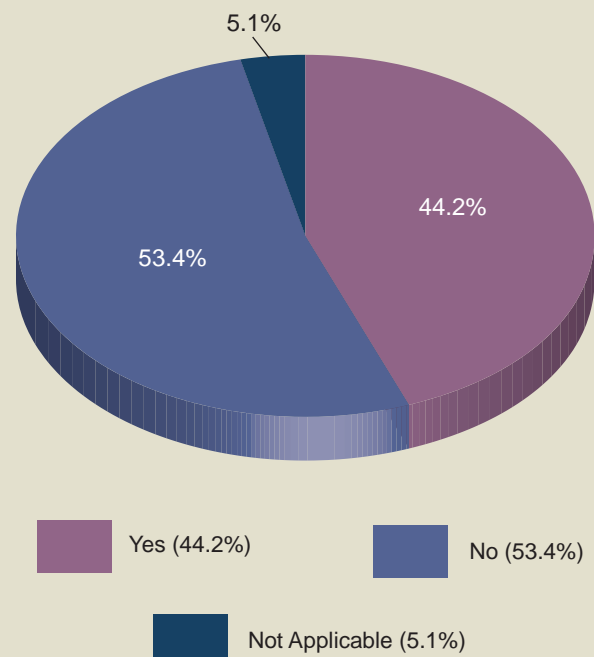
More tourism-related businesses are expanding their operations as tourism-spending returns to pre-recession levels. Of responding businesses, 44% indicated that they had expanded operations in the time between May 2014 and May 2015. Those that responded cited increased demand and traffic as the main drivers behind their growth. Conversely, the majority of businesses did not expand operations from May 2014 to May 2015 (53.4%).

As travel has continued to improve for Sonoma County, business outlook indicates that local tourism-related businesses are increasingly looking to expand, and are hopeful for sustained economic growth through the future.

**Sonoma County Tourism Industry Outlook, 2015  
(Respondent Based)**



**Percentage of Respondents that Expanded Operations over Last 12 months, 2015**



# Annual Tourism Report: Tourism Industry Indicators

## Community Service & Charitable Giving

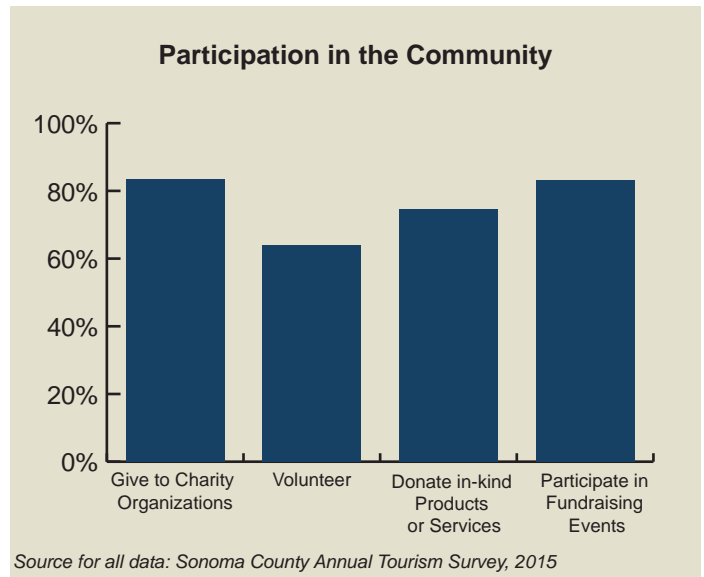
Involvement in community philanthropy is an important aspect for Sonoma County's tourism businesses. The majority of these businesses are involved in creating a positive community impact in one way or another.

### Fundraising and Charity

Over 76% of the survey respondents reported that they participated in some form of charitable giving. Of these businesses, 84% give directly to charity organizations, 64% volunteer in the community, 75% participate in fundraising events, and over 83% donate in-kind product or services.

### Support for Local Organizations

In addition to the volunteer efforts described above, Sonoma County tourism-related businesses support a number of local organizations dedicated to improving the surrounding community. While this list is not comprehensive, it gives an idea of the impact that these businesses have on Sonoma County in addition to the jobs they create.



## Organizations that are Supported by Sonoma County Tourism Businesses

Boy's & Girls Club	Chefs of Tomorrow	Youth First
Occidental Center for the Arts	Santa Rosa Rotary Club	CERES
Redwood Arts Council	Sonoma Community Center	Face 2 Face
Living Room	Sebastiani Theatre	Girl Scouts
Russian Riverkeeper	Regional Fire Departments	KRCB Radio
Russian River Rotary Club	Redwood Empire Food Bank	Stewards of the Redwoods
Guerneville School Garden	Sebastopol Education Foundation	Mentor Me Petaluma

# Annual Tourism Report: Industry Survey

## Marketing, Government & Promotional Assistance

Sonoma County's tourism industry is a diversified market of service-oriented businesses and segmented markets. The diversification results in a wide range of marketing channels and budgets to reach out to customers. There is also a variety of areas where tourism businesses feel they can be assisted by local government agencies and promotion agencies.

### Potential for Local Government Assistance

Tourism-related businesses indicated that the largest potential for government assistance to their business is concerning licensing and permitting (63%), and infrastructure improvement (60%). Respondents also indicated that local government could help them with 'other' things which include destination marketing and parking issues.

### Potential for Local Promotion Agency Assistance

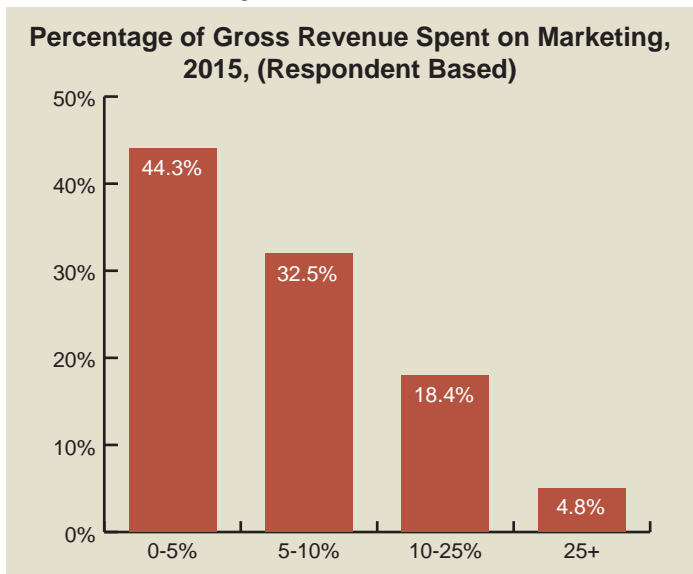
There is potential for local promotion agencies to help tourism-related businesses in several ways. 90% of respondents indicated that marketing would be helpful; 66% of respondents selected PR/ media visits; and 42% of respondents indicated they found trend reports useful.

### Marketing Tools Utilized by Tourism Businesses

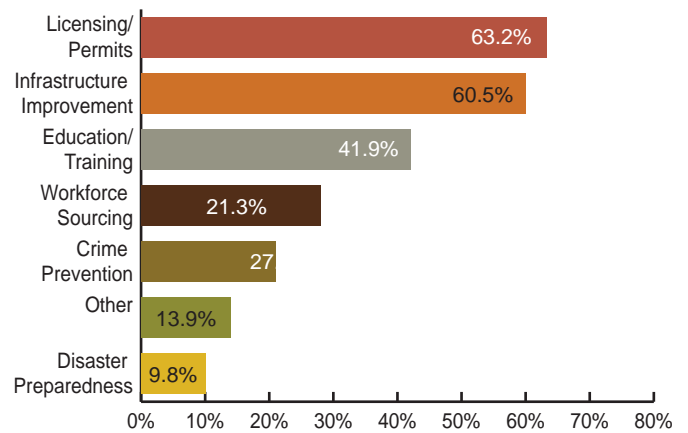
The most widely used marketing tool among tourism businesses was a business website (91%), this was followed by social media (87%) and then by word of mouth (79%). The least used marketing outlets were television (3%), national magazines (11%) and radio (17.1%).

### Percentage of Gross Revenue Spent on Marketing

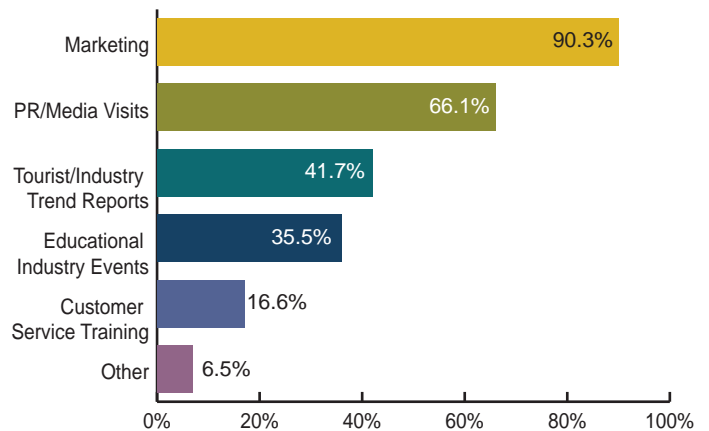
The majority of tourism-related businesses spend between 0-5% (44%) and 5-10% (33%) of gross revenue on marketing efforts. More respondents indicated spending in the 0-10% brackets than in 2013, with fewer respondents indicating that they spend between 10-25% or more than 25% of their gross revenue on marketing.



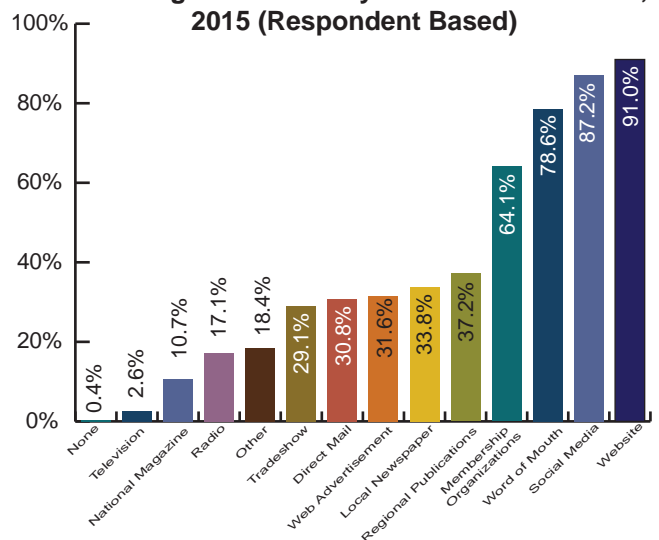
### Potential for Local Government Assistance, 2015 (Respondent Based)



### Potential for Local Promotion Agency Assistance, 2015 (Respondent Based)



### Marketing Tools Used by Tourism Businesses, 2015 (Respondent Based)



# Annual Tourism Report: Industry Survey

## Attractions & Potential Market Opportunities

Tourism-related businesses were asked to indicate what tourism assets were most attractive to potential visitors to Sonoma County and in what markets there was room for growth. Please note: respondents were asked to identify which three niche markets they felt were the biggest opportunity for Sonoma County. As a result, the percentage in the corresponding graph indicates the number of times a niche market was selected as a 'top three'.

### Potential for Attracting Visitors

85% of respondents felt that Sonoma County had a high potential to attract visitors. This was largely due to the diversity of services and attractions available to visitors and the climate and scenery. Of those who indicated otherwise, the largest concern was competition from Napa County and the Bay Area.

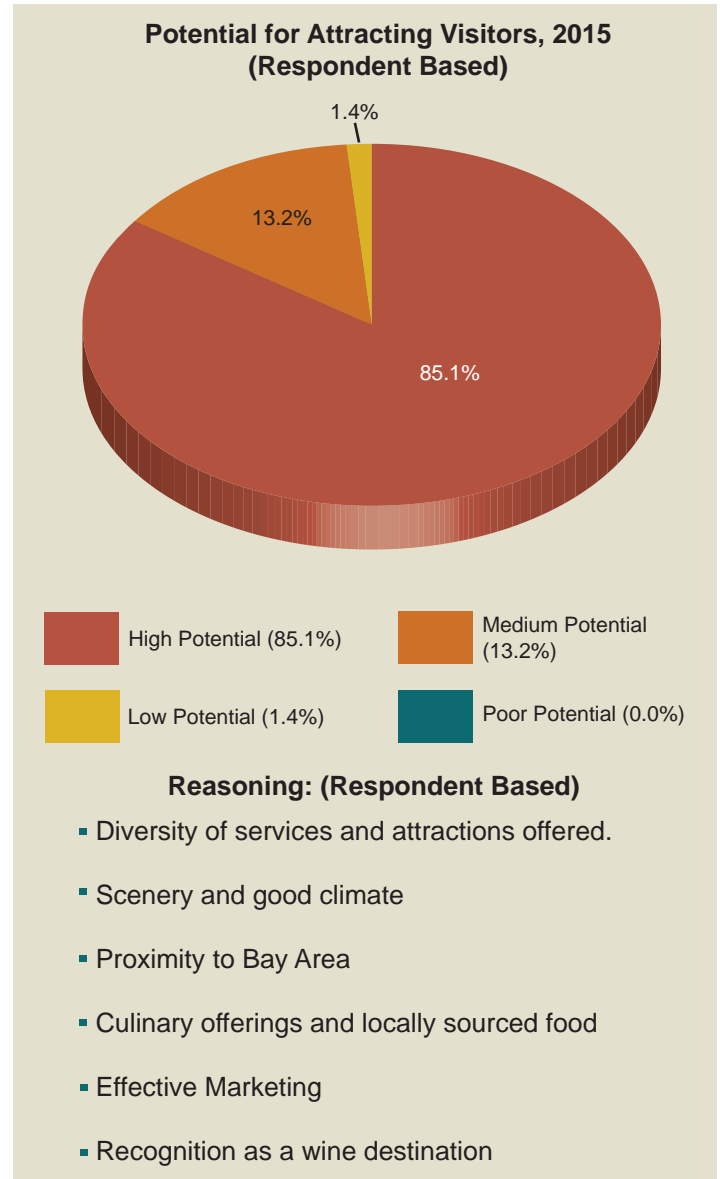
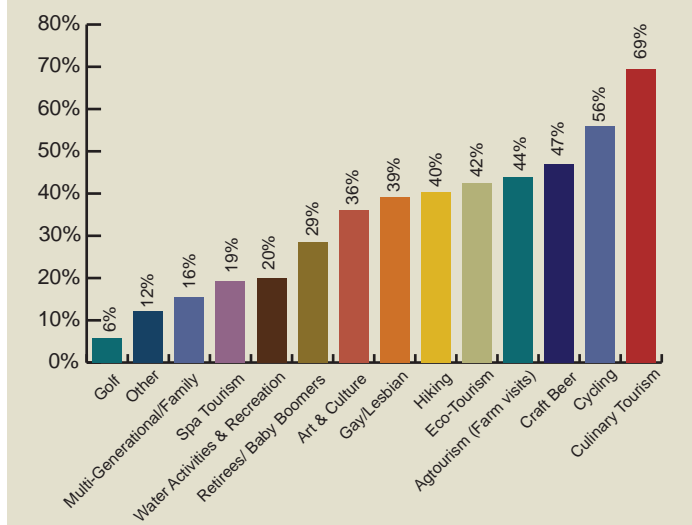
### Pull Attraction in Sonoma County

Tourism-related businesses were asked to rank tourism assets on a scale from one to five, one for a least attractive asset and five for a most attractive asset. Respondents indicated that besides wine reputation, the most attractive assets to visitors are scenery (Average rating of 4.7), culinary offerings (4.6) and outdoor recreational activities (4.4). These top-three assets remain unchanged from 2014, although the score for each category increased. Another category to note with a strong score is the Craft Beer, Cider and Spirits industry (4).

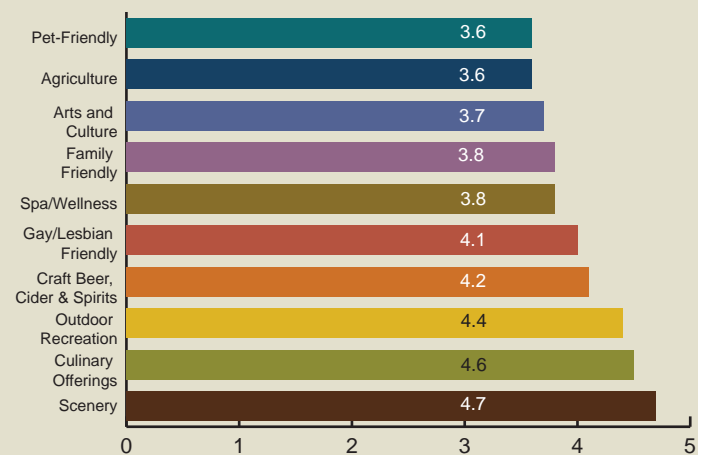
### Niche Market Opportunities for Sonoma County

Markets that tourism businesses felt would be good opportunities for Sonoma County were varied. The most reported niche market was culinary tourism (69%), followed by cycling (56%) and craft beer (47%). Respondents who indicated 'other' (12%) suggested more specific wine marketing and outdoor 'experiences'.

**Niche Market Opportunities for Sonoma County, 2015 (Respondent - Based)**



**Pull Attractions in Sonoma County, 2015 (Excludes Wine, Respondent Based)**



Note: 5 indicates most attractive and 1 indicates least attractive asset.

# Annual Tourism Report: Industry Survey

## Marketing Initiatives & Agency Involvement

Industry respondents cited many marketing opportunities to showcase Sonoma County's tourism assets. Responses indicate that there is more opportunity for businesses to collaborate with promotional agencies like Visitor Centers and Sonoma County Tourism.

### Effectivity of Marketing Initiatives

The majority of respondents indicated that tourism marketing initiatives were 'useful' for countywide marketing (40%) and 'useful' for regional marketing (30%). Very few respondents felt that regional or countywide marketing initiatives were 'somewhat useless' to 'very useless'. However, many respondents indicated suggestions to improve marketing. These included more region-specific marketing, more non-wine activity promotion, and expanding specific niche marketing.

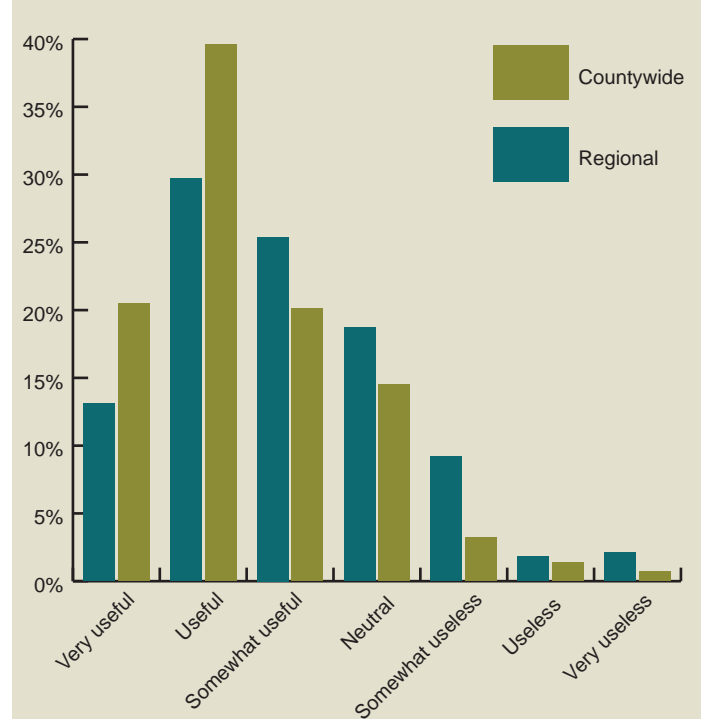
### Involvement with Sonoma County Tourism

Respondents were asked to indicate how involved they were in working with Sonoma County Tourism (SCT). The majority indicated that they are 'somewhat involved' with Sonoma County Tourism (67%). Of those who worked with SCT, a larger percentage felt that regional and countywide marketing initiatives were 'useful' than 'somewhat useless' to 'very useless'.

### Involvement with Sonoma County Visitors Centers

Respondents were also asked to indicate whether they worked with a local Sonoma County visitor center. The majority of respondents indicated that they were 'somewhat involved' in working with Sonoma County Visitor Center (41%). Of those that were not working with a Visitor Center, the majority still felt that the regional and countywide marketing efforts were 'useful'.

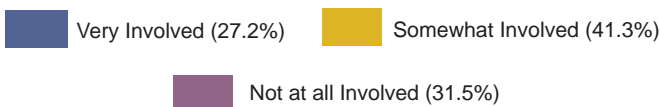
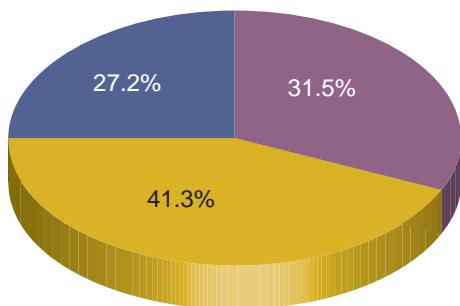
**Effectiveness of Marketing Initiatives, 2015 (Respondent - Based)**



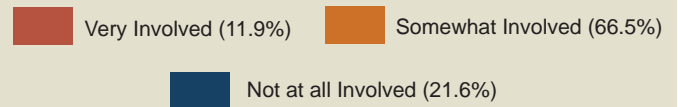
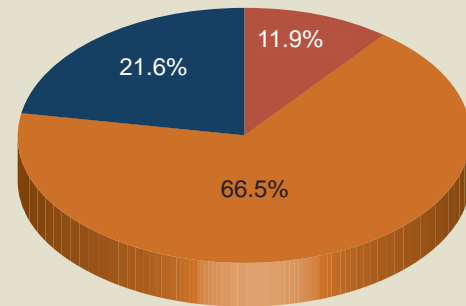
### Respondent Suggestions for Improved Marketing

- Market craft beverage sector activities
- Market regional diversity and themes throughout county
- Do more promotion of smaller tourism businesses
- Increase specific niche marketing
- Coordinate with local businesses for targeted audience attraction

**Involvement with a Sonoma County Visitor Center, 2015 (Respondent Based)**



**Involvement with Sonoma County Tourism, 2015 (Respondent Based)**



# Methodology

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The Sonoma County Economic Development Board (EDB) conducted its 2015 survey of Sonoma County tourism businesses in relation to the tourism industry. Owners and executives of more than 150 tourism businesses rated their confidence in the industry and identified changes and needs they expect at their businesses in the near future. The responses covered businesses in a broad range of tourism establishments. The survey asked tourism-centered businesses to respond to a broad array of questions about their market and marketing efforts, their visitor demographics, their expansion plans, the demographics of the industry, and their opinion on key county tourism policies. This report represents the findings from that survey as well as an analysis of those responses.

In addition to the survey responses, the Sonoma County 2015 Annual Tourism Report includes general background information for the tourism industry on a regional and national level. Statistics presented represent the most recently published data from the Travel Industry Association (TIA), [www.tia.org](http://www.tia.org), Smith Travel Research, the California Travel and Tourism Commission's California Travel Impacts by County, prepared by Dean Runyan & Associates and updated May 2014, [www.visitcalifornia.com](http://www.visitcalifornia.com), and Moody's Analytics Tourism Analysis report. The EDB used the U.S. Bureau of Labor Statistics' Consumer Price Index to adjust some data for inflation, <http://www.bls.gov/>. Lodging classifications were defined by AAA, [www.AAA.com](http://www.AAA.com). The EDB collected and compiled all TOT data from each Sonoma County jurisdiction.

Please note that all survey data contained in this report is based on the information self-reported by respondents, which was not factually verified by the EDB. The responses were then gathered into a database for analysis. Due to the fact that survey respondents may provide no responses to some questions, the category percentages indicated in the graphs for those questions may not add up to 100%. Where replies are mutually exclusive, percentages may be slightly off due to rounding. Where replies are not mutually exclusive, percentages may total more than 100%. As mentioned above, it was our intention to obtain averages that provide a general "snapshot" of various issues for the hospitality/tourism industry in Sonoma County. Accordingly, the data averages are not weighted by any factor or interest.

## Acknowledgements

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The 2015 Annual Tourism Report would not have been possible without the contributions of many individuals.

Most of the credit for this study belongs to the local businesses that participated in the survey. Their responses created the foundation upon which the tourism sector could be studied and analyzed.

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Ben Stone  
Executive Director



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