



SONOMA COUNTY ANNUAL TOURISM REPORT

INDUSTRY REPORT

2017



ECONOMIC DEVELOPMENT BOARD

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EXECUTIVE SUMMARY

August 2017

The Sonoma County Economic Development Board (EDB), in partnership with Sonoma County Tourism, is pleased to bring you the 2017 Annual Tourism Report. The 2017 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 2017 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 five 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

- Key tourism indicators show that travel is booming 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 flocking to Sonoma County and supporting the local economy through increased spending.
- Lodging indicators and occupancy rates also increased in 2016.

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

- Businesses have a positive outlook for tourism in the coming year, seeing a high potential for growth in the industry.
- 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.



MOODY'S ANALYTICS TOURISM ANALYSIS

Recent Performance

Sonoma County's tourism industry is flourishing. Early figures on visitor spending suggest that the county welcomed a record number of tourists in 2016 and is on track to post even larger gains this year. Increased arrivals have pushed hotel occupancy rates to a two-decade high, propelling growth in per-room revenues. Rising room rates have not deterred greater spending at food stores, wellness centers and retailers. In all, visitor spending in Sonoma grew at double the state pace last year and is poised for an encore performance this year as more people make their way to county wineries, tap rooms, restaurants, spas and scenic trails.

Retail and hospitality establishments are benefiting from the buoyant Bay Area economy and firming national expansion, which has drawn an increase in both day trips and overnight stays. Thanks to steady job creation, better wage gains, and the reduced price of gasoline and airfare, residents in Sonoma's top feeder markets are spending more on leisure and travel. Soaring wage gains in the Bay Area have boosted day trips to wineries and restaurants, and visitors outside of driving distance are also flocking to the area. Increased traffic at the Charles M. Schulz Airport has attracted two new airlines over the past year, and the airport is gearing up for a \$20 million expansion of its terminal and parking to accommodate rising passenger counts.

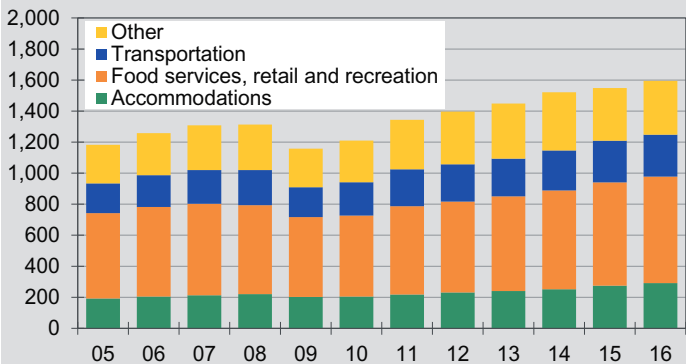
The rising tide of tourists has pushed existing hotels and leisure establishments close to capacity. New hotel construction and hotel renovations have struggled to keep up with the swelling ranks of visitors. Meanwhile, with the labor market near full employment, hospitality workers are in increasingly short supply. Still, visitors have proved more than willing to absorb the increase in room rates and other travel expenses.

Macro Drivers

The U.S. economy stands on firm ground despite rising global uncertainty. The British exit from the European Union and the surprise election of Donald Trump have done little to hold back the firming global recovery, and core economic indicators are holding steady. The labor market continues to expand even as the U.S. economy blows past full employment. Job gains are averaging around 200,000 per month, twice the amount needed to keep up with labor force growth. With multiple tailwinds at their back, consumers will continue to power the economy. Though wage gains have accelerated only recently, this trend will strengthen as businesses scramble to fill open positions and employees gain bargaining power. Better job gains and rising house and stock prices have repaired household balance sheets, and stronger wage growth will clear space in budgets for greater discretionary spending on travel and accommodations.

U.S. Tourism Spending Rides a Wave...

U.S. tourism-related sales, \$ bil



Sources: BEA, Moody's Analytics

Chart: Real U.S. tourism spending grew 3% in 2016 and is poised for even stronger gains over the next two years as the maturing expansion accelerates wage growth. Upbeat consumers will take advantage of rising disposable incomes to ramp up spending on leisure and travel. Growth in visitor spending on accommodations will outpace other expenditures as rising occupancy rates give hotels more pricing power. However, spending increases on food services and recreation will not be far behind now that visitors have the means to raise spending on leisure activities and other attractions.

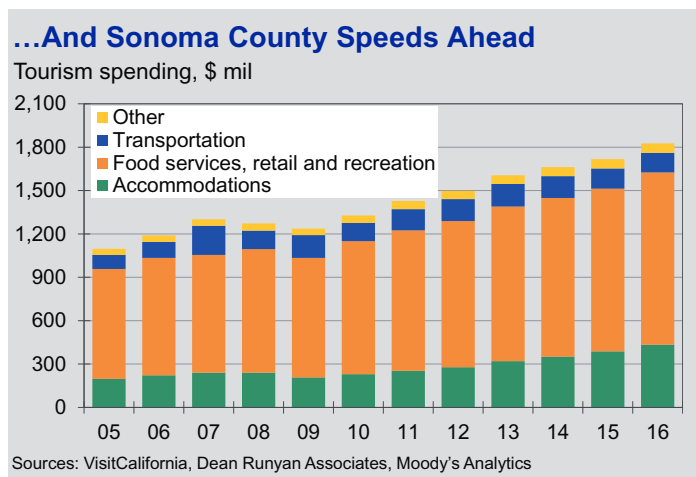


MOODY'S ANALYTICS TOURISM ANALYSIS

Sonoma County will benefit from robust consumer fundamentals. According to the Conference Board, nearly 60% of Americans reported in December that they are planning a vacation in the next six months, the highest share in four decades. Upbeat consumer sentiment is another good sign. Consumer confidence has surged over the past year and rests 14% above its prior peak. International visits are also poised to ramp up this year as the dollar appreciates more slowly vis-à-vis the Canadian dollar and Mexican peso. Nearly half of California's foreign tourists hail from North America. Nevertheless, rising costs may weigh on spending over the next few quarters. Energy costs will switch from lift to drag this year as OPEC supply cuts lend support to oil prices. The Energy Information Administration forecasts that regular-grade gasoline retail prices including taxes for the Pacific region will rise nearly 8% in 2017 and a further 0.5% in 2018. Jet fuel prices will follow the same trajectory, lifting airfare, though both will remain below their prior peaks.

Industry Drivers

Tourist visits from surrounding counties are ramping up as the booming Bay Area maintains its superior pace of growth. Job creation in San Francisco and San Jose has slowed over the past year because of tightening labor markets but is still a step ahead of the state and national averages.



With stronger gains in disposable incomes, more Bay Area residents are taking weekend trips to Wine Country. Domestic visitors outside of the Bay Area are also arriving in greater numbers. Last year, out-of-state domestic arrivals at California's airports rose 8%, while passenger counts at Sonoma's Charles M. Schulz Airport surged almost 30% over the same period. Though airfares are poised to rise over the next couple of years, rising wages will help offset the increase in transportation costs.

Pent-up demand from international visitors will be released in the next few quarters as the global economy gains muster. Foreign tourists account for a smaller share of Sonoma County's visitor mix, but this market has grown impressively of late. Notably, Chinese tourists are flocking to the area, keeping with the broader rise in Chinese tourism to the U.S., as are visitors from North America, Japan and Australia. International visitors to California are also less sensitive to the strong dollar than visitors to other U.S. destinations. According to the National Travel and Tourism Office, international air arrivals surged 6% in San Francisco during the busy summer season and held steady in Los Angeles while declining at most other major U.S. airports.

As more visitors make their way to Wine Country, hotels and other leisure establishments will continue to thrive. Hotel occupancy rates rose for the seventh consecutive year in 2016,

Chart: Mirroring national trends, tourism spending in Sonoma is roaring ahead. Rising room rates take a lot of the credit and will drive increased spending on accommodations as occupancy rates approach capacity. However, with additional tourist draws, Sonoma has distinguished itself from the rest of Wine Country. Spending on food services, recreation and even retail outperformed state and regional averages last year. This trend will continue as budding breweries, locavore restaurants and wellness activities draw in more niche markets and diversify the tourist base.

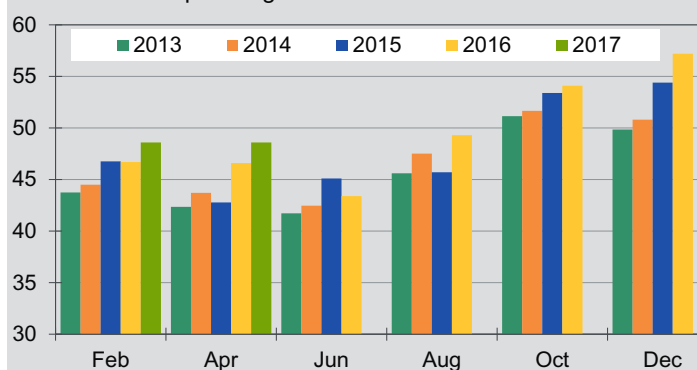
MOODY'S ANALYTICS TOURISM ANALYSIS

reaching an all-time high of 78%, while growth in room rates outperformed compared with other highly sought-after wine destinations such as Napa and Santa Barbara counties. Visitor spending is also riding a wave. According to the Bureau of Economic Analysis, real spending on tourism in the U.S. grew almost 3% last year. Rising accommodation costs generated the bulk of the gains, but spending on food services and recreation also grew modestly, and data from Visit California show that tourism spending in the state mirrored national trends, rising 2.8% in 2016.

However, visitor spending patterns over the last three years suggest that Sonoma has distinguished itself from the state and even competing wine counties with additional tourist draws. Budding wellness establishments, craft breweries and locavore restaurants complement the traditional draw of wine tastings, bringing in a greater tourist mix. Breweries in particular are growing in importance: The release of one coveted brew, Russian River's Pliny the Younger, drew 16,000 attendees over a two-week period and generated \$4.5 million for local businesses in 2016, according to county officials. Sonoma's renowned wineries will remain the county's chief attraction as casual drinkers and enthusiasts satisfy a thirst for more sophisticated wines, but growth in spending on food services and recreation will increase as local breweries gain in prestige.

Vacation Plans Are Rising

% of Americans planning a vacation in the next 6 mo



Sources: The Conference Board, Moody's Analytics

Pricing

With occupancy rates breaking records, hotels are exercising their pricing power. According to Smith Travel Research, average daily rates grew 7% in 2016 on the heels of an 8% hike the year prior. As a result, growth in visitor spending on accommodations in Sonoma has broken into double digits in recent years, outperforming that in nearby counties. Fortunately, average daily rates in Sonoma are still among the lowest of California's wine-growing regions, granting the county a considerable advantage over rival destinations.

Hotels in the area will maintain the upper hand as supply constraints mount. Growing opposition from local residents has slowed hotel construction and the issuance of permits. Developers are also having difficulty completing projects on time with construction workers in short supply. Airbnb has emerged as a notable alternative to hotels in Sonoma, but prices are comparable and rates began to rise significantly this year as occupancy taxes were extended to bookings on the site.

Operating Expenses

Labor costs will push up operating expenses for local tourism industries in the near term. Sonoma County is near full employment, and the job market for leisure and hospitality workers is exceedingly tight. Making matters worse, greater

Chart: The vast majority of Sonoma's tourists are domestic, and robust fundamentals among American consumers bode well for the industry's near future. Consumer sentiment has been resolutely high over the past year, and with income growth poised to take off, spending increases will follow suit. The share of Americans planning a vacation in the next six months reached a four-decade high in December and has been trending higher in every surveyed month this year. Visitor arrivals in Sonoma will maintain their steady climb through the peak summer months and the offseason.

MOODY'S ANALYTICS TOURISM ANALYSIS

restrictions on immigration and working visas could further limit the labor pool, disproportionately weighing on local farms and vintners that rely on immigrant labor. Worker shortages will not be the only factor driving up labor costs; California's new minimum wage law went into effect in January, requiring businesses with more than 25 employees to pay their workers a minimum of \$10.50 per hour, a 50-cent hike. Small businesses will also need to raise their minimum wage starting next year.

Rent costs will also accelerate as booming wineries and breweries look to expand their operations to meet breakneck growth in demand. According to Keegan & Coppin Co., the countywide vacancy rate for industrial space stands at 5%, a 1-percentage point drop from last year. Premium farmland is also in tight supply, and hotel construction is expanding at a glacial pace as local contractors scramble to find construction workers. Higher bed taxes and energy costs will also push up operating expenses, but to a lesser degree. While local businesses face rising energy costs, growth in gasoline and electricity prices will remain well below the mid-2014 peak.

Profitability

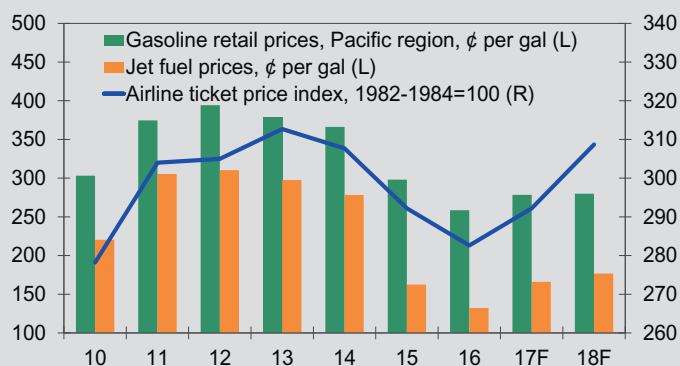
Rising operating costs will not compress margins of most leisure and hospitality industries. The stampede of visitors to Sonoma wineries, restaurants and craft breweries will enable businesses to pass on higher costs to their

customers without a resulting drop in patronage. For example, average daily rates at Sonoma's hotels have risen nearly 50% since bottoming in 2010, but even so, occupancy rates are trending higher. In all, county hotel revenues have doubled over the past seven years, according to Smith Travel Research, reaching nearly \$300 million last year.

Similarly, wineries and breweries will enjoy larger profit margins as tastings and popular drafts draw in more customers. The scarcity of retail space, growing land, and event permits will allow existing vintners and brewers to raise costs with ease. However, higher real estate costs and a tight labor supply will pressure margins for smaller establishments.

While restaurants will struggle to preserve margins, rising patronage at Sonoma eating and drinking establishments will drive net gains. Though restaurants will contend with minimum wage hikes—tipped positions are not exempt from the new rate increase—and face fierce competition from increasingly popular fast-casual eateries, more Sonoma visitors are frequenting higher-end dining options. The incorporation of local wines and other artisanal foods and beverage offerings will deepen links with wine tourism industries, enabling restaurants to tough out increasingly difficult market dynamics.

Energy Costs Shift From Lift to Drag



Sources: EIA, Moody's Analytics

Chart: Two years of low energy prices boosted tourism by making travel more affordable, but this trend will reverse course this year as OPEC supply cuts lend support to global oil prices. Still, the Energy Information Administration forecasts that gasoline prices will remain below pre-bust levels, limiting the drag on tourism in Sonoma from visitors in driving distance. Conversely, airline ticket prices are determined by supply and demand more so than jet fuel prices and will rise more swiftly over the next two years. Higher airfares will weigh on out-of-state and international arrivals.

MOODY'S ANALYTICS TOURISM ANALYSIS

Long-term Outlook

With consumers in high spirits, the long-term outlook for Sonoma County's tourism industry remains bright. Visitors will flock to the area's superior wineries and scenic trails, while budding breweries and wellness establishments will enhance the visitor experience. Food and beverage services will be a particular draw for younger generations. Millennials prefer higher-quality wines, craft beers, and local organic food, and in Sonoma, they can experience all three in one place. Generation Z, the cohort born after 1995, displays similar spending patterns, and places an even higher premium on experiences rather than consumer products. As this cohort reaches drinking age, they will complement millennials as an important source of demand for local goods and services.

Longer term, rising visitor traffic at county wineries, tap rooms, downtown areas and restaurants will make it imperative for hospitality operators to strike a balance between industry growth and calls to preserve the county's natural beauty and quality of life. Initiatives to encourage hotel development in downtown areas are a good start and could eventually draw congestion away from more rural areas where wineries and other outdoor attractions are concentrated.

Upside Risks

With Congress gearing up to pass a new budget, tax breaks inject upside risk to the forecast. For now, personal income taxes are less likely to be overhauled than corporate taxes, but even so, tax breaks would put more money in consumers' pockets, boosting visitor arrivals in Sonoma. Similarly, lower gas prices and faster than expected wage growth in the Bay Area would further lift disposable incomes, stimulating more tourism spending.

Though Sonoma is renowned for its wineries, growing recognition for the county's breweries, spas and organic eateries could draw in more niche markets. Already, the rising popularity of Sonoma's craft beers has led to exponential growth in the number of breweries.

This snowball effect may pick up speed, since craft beer customers value variety and will flock to areas with a high concentration of breweries. Furthermore, most of Sonoma's brewers have not expanded into retail markets and only serve their beers on tap at local pubs. Since fans of coveted Sonoma brews are more likely to consume beer at the source, the rising popularity of local breweries could translate into more visitor arrivals and positive spillovers for nearby restaurants.

Downside Risks

With the economy at full potential, the Federal Reserve has begun the process of normalizing monetary policy, a careful balancing act that could impair consumers if rate increases outpace wage gains. The tourism industry is cyclical by nature and dependent on the strength of the national economy, and any downturn in consumer spending would hurt local wineries, craft breweries, and other tourism-reliant establishments.

However, capacity constraints are a more imminent downside risk for Sonoma County. With hotel occupancy rates approaching 80%, price premiums will grow unchecked unless capacity rises in tandem. Stakeholders and county residents have expressed growing concern that rising tourist visits have increased crowding and congestion in rural areas and along thoroughfares. This sentiment could turn into tighter permitting legislation for hotels and resorts. The resulting price hikes would price out more budget-conscious tourists, making Sonoma's tourism industry more reliant on high-income visitors.

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 necessary, 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 2016, Sonoma County destination spending, industry earnings and industry employment experienced a year-over increase from 2015. This follows an increase seen in 2015 over 2014. This suggests travel continues to grow as the U.S. economy achieves record highs.
- In 2016, Sonoma County's year-over average daily rate (ADR) for lodging increased 11.57%. This follows a 9% increase in 2015, further suggesting that travel to Sonoma County remains strong.
- Sonoma County's Transient Occupancy Tax (TOT) receipts totaled \$37.5 million in 2016. This is the highest level of TOT receipts that Sonoma County has ever received.

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 6.3% from \$1.82 billion in 2015 to \$1.93 billion in 2016.

Destination Spending by Year

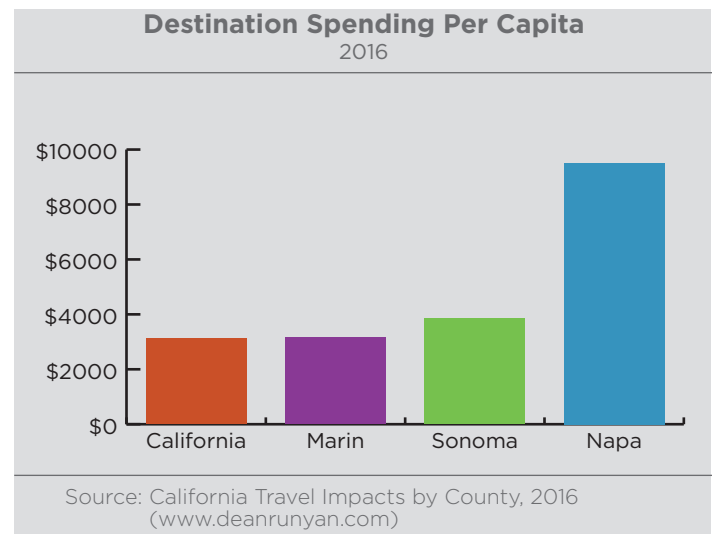
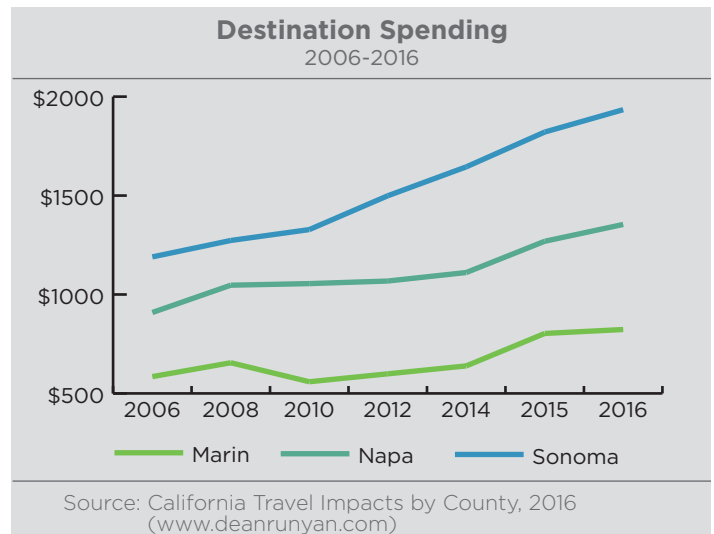
Destination spending is sensitive to the economic climate. As a result, Sonoma County experienced decreases in destination spending in both 2008 and 2009. This was a common trend as all of the competitive destinations also experienced decreases. However, 2016 figures indicate that tourism remains strong in Sonoma County as well as in other destinations.

Destination Spending per Capita

For each of Sonoma County’s 503,070 residents, \$3,836 in destination spending was generated. Marin County generated \$3,158 per-capita and Napa County generated the highest per-capita spending at \$9,958. 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 Marin and the statewide average of \$3,217 per capita.

Destination Spending Annual Real Growth Rates

The 6.3% increase in 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.



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 - 24% of all spending, compared to 26.5% in Marin County and 28.5% in Napa County. Sonoma County visitors spend a similar share of total spending on accommodations (24%), retail purchases (17%), and arts, recreation & entertainment (17%). They spend the largest amount on food and beverage services (27%) and accommodations (24%).

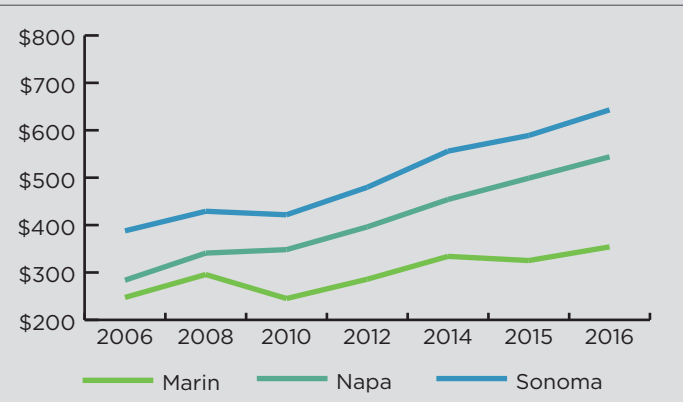
Distribution of Visitor Spending by Accommodation

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 (53.5% compared to 60%, 70.6%, and 56.4% for Marin County, Napa County and California, respectively). Instead, a significant share of Sonoma County visitor spending is received from day travelers (28.6%) 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 (6.0%).

Sonoma County Visitor Spending

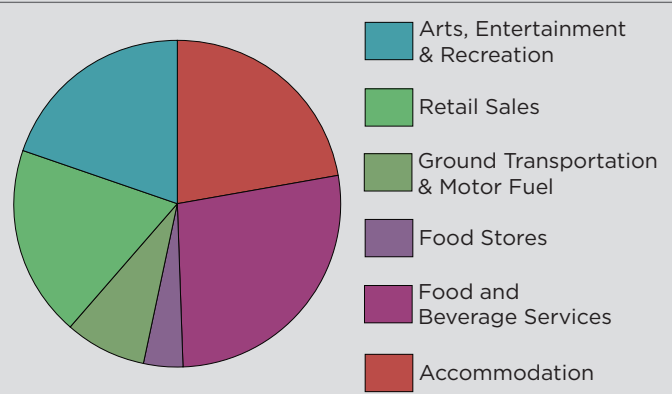
With a total visitor spending equal to \$1.93 billion, the majority of the money is spent by visitors who stay at hotels or motels (\$1.03 billion) and on day travel (\$559 million).

Total Industry Earnings Generated by Travel Spending
(Millions of Dollars), 2006-2016



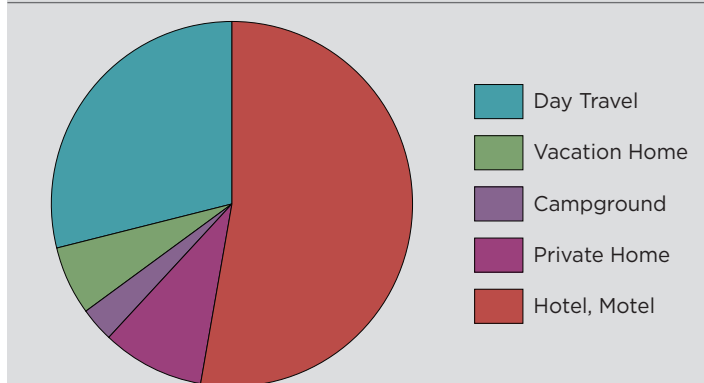
Source: California Travel Impacts by County, 2016
(www.deanrunyan.com)

Distribution of Visitor Spending by Commodity
Sonoma County, 2016



Source: California Travel Impacts by County, 2016
(www.deanrunyan.com)

Distribution of Visitor Spending by Accommodation
Sonoma County, 2016



Source: California Travel Impacts by County, 2016
(www.deanrunyan.com)

TOURISM INDUSTRY INDICATORS

INDUSTRY EMPLOYMENT

With 20,410 jobs generated by tourist destination spending, Sonoma County ranks first against comparable counties - Napa had 13,230 tourism jobs and Marin had 7,190 tourism jobs in 2016. Sonoma County's 2016 job figures show a 2.4% increase from 2015, up from a year-over increase of 5.5% from 2014 to 2015.

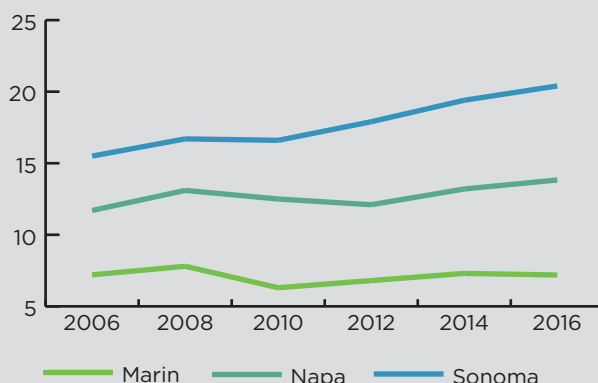
Tourism Industry Earnings per Employee, Real Growth Rates

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 2015, 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 (\$31,504). 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

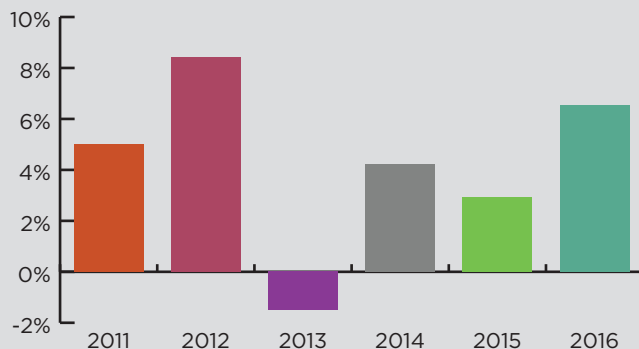
Distribution of employment within Sonoma County's tourism industry is similar to previous years, with 52% of employment in accommodations & food services, 36% in arts, entertainment & recreation, and almost 8% in retail. Ground transportation and air travel (Other Travel) have also increased their share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

Employment Generated by Destination Spending
Thousands of Jobs



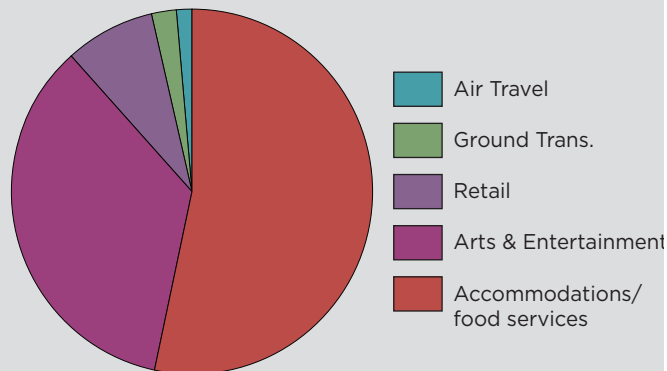
Source: California Travel Impacts by County, 2016
(www.deanrunyan.com)

Tourism Industry Earnings per Employee Growth Rates
2011-2016



Source: California Travel Impacts by County, 2016
(www.deanrunyan.com)

Distribution of Employment by Industry
Sonoma County, 2016



Source: California Travel Impacts by County, 2016
(www.deanrunyan.com)

TOURISM INDUSTRY INDICATORS

LODGING & HOSPITALITY ASSESSMENT

Total Lodging Figures

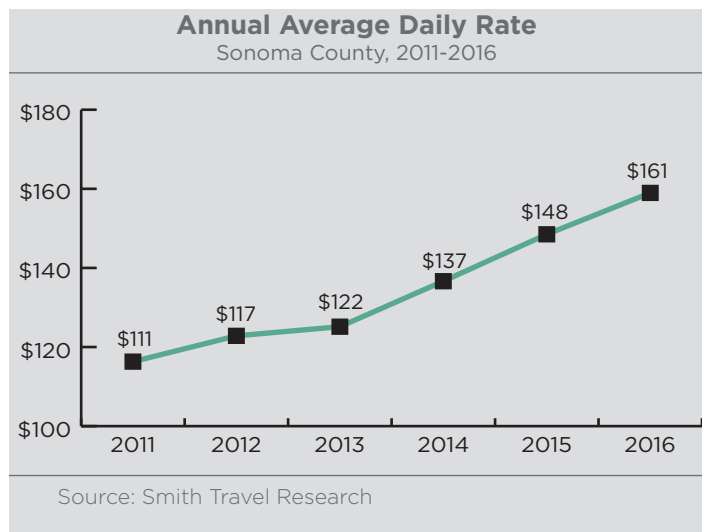
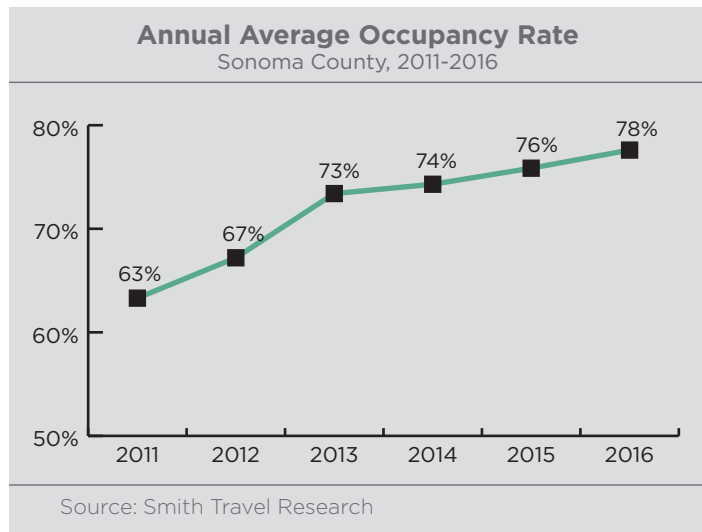
Visitors staying in hotels and motels are the single-largest source of destination spending in Sonoma County, with an estimated \$978 million in spending in 2016. Lodging figures from 2016 show that travel to Sonoma County continues to build upon the consecutive years of growth of the early 2010s.

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. Annual occupancy rates have been steadily increasing since 2009, reaching an average of 77.6% in 2016.

Annual Average Daily Rate (ADR)

Average daily rate (ADR) began to increase following the low seen in 2010 at \$112.30 (or \$123.89 in 2016 Dollars). For 2016, the average daily rate improved to \$161.33, in line with other positive figures for travel into Sonoma County.



TOURISM INDUSTRY INDICATORS

LODGING & HOSPITALITY ASSESSMENT

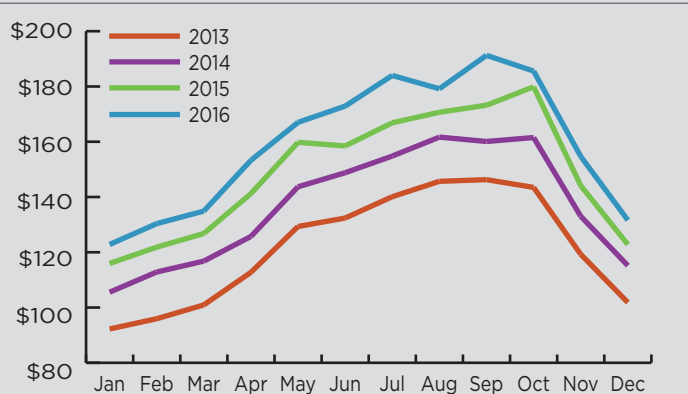
Revenue per Available Room

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

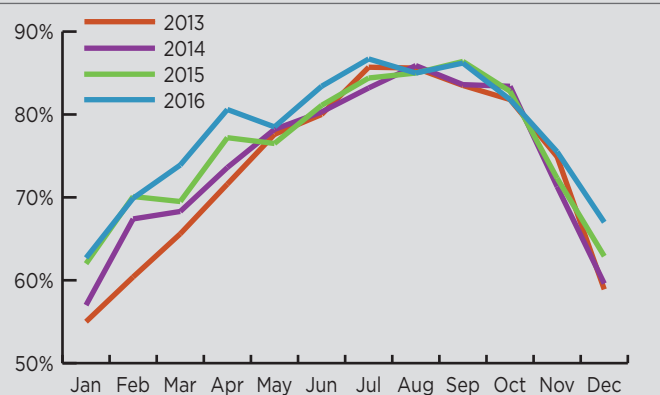
Revenue per available room and average daily rate have both increased from 2010 to 2016. As occupancy rates and average daily rate both increase, revenue per available room is expected to maintain above pre-recession levels.

Annual Average Daily Rate by Month
Sonoma County, 2013-2016



Source: Smith Travel Research

Occupancy Rate by Month
Sonoma County, 2013-2016



Source: Smith Travel Research

TOURISM INDUSTRY INDICATORS

TOURISM-GENERATED TAXES

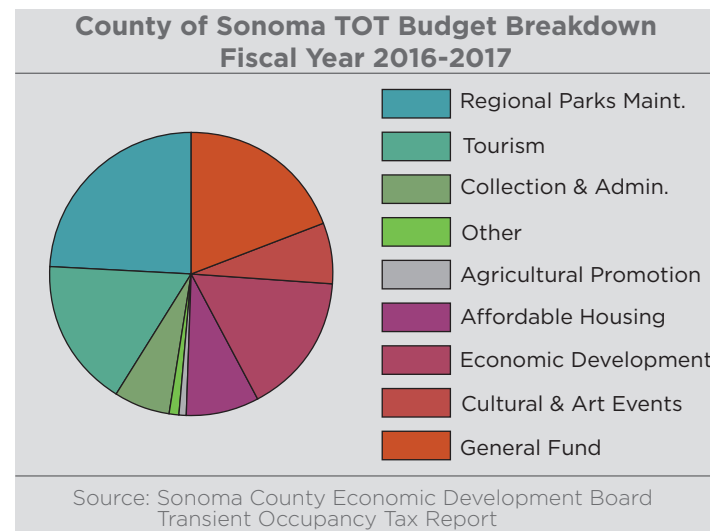
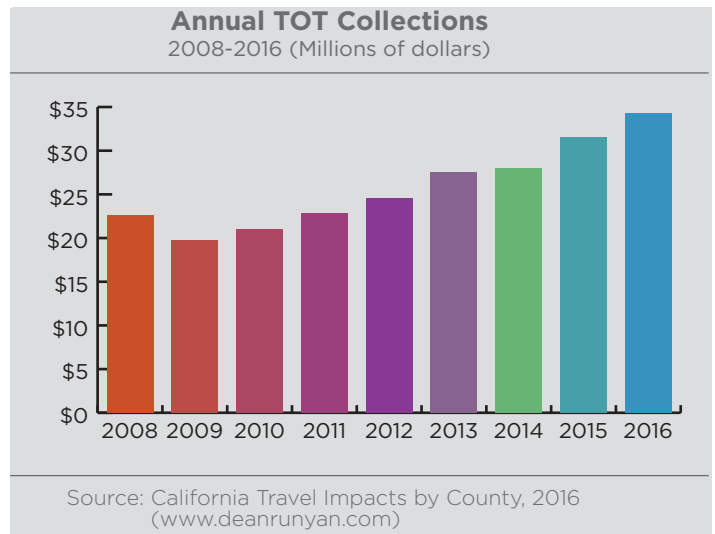
Transient Occupancy Tax (TOT) is a local tax on room rental revenue in lodging properties located in Sonoma County. The TOT rate varies between 9% and 12% from city to city.

Annual TOT Collections

TOT revenues in Sonoma County increased 11.57% from \$33.6 million in 2015 to \$37.5 million in 2016. TOT revenues fell in 2008 and 2009 as the recession began to negatively affect visitor traffic and spending nationwide. The levels have completely rebounded, with 2016 TOT revenues as 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 (24%), tourism marketing (17%), economic development (16%), or are transferred to the general fund in each city or area (19%).



TOURISM INDUSTRY INDICATORS

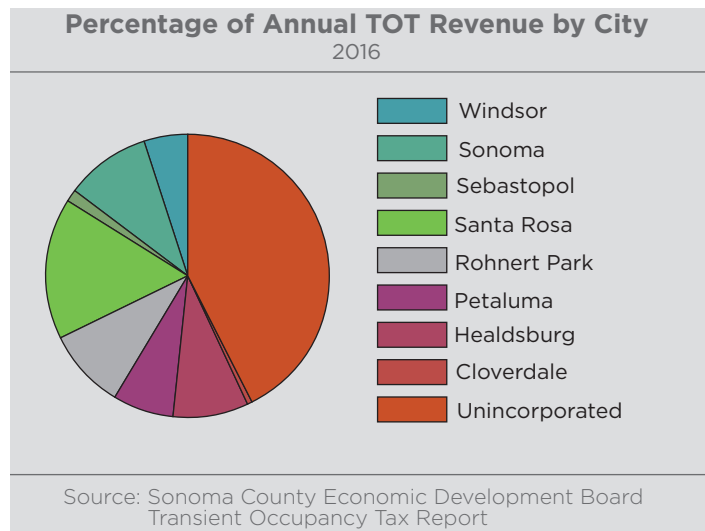
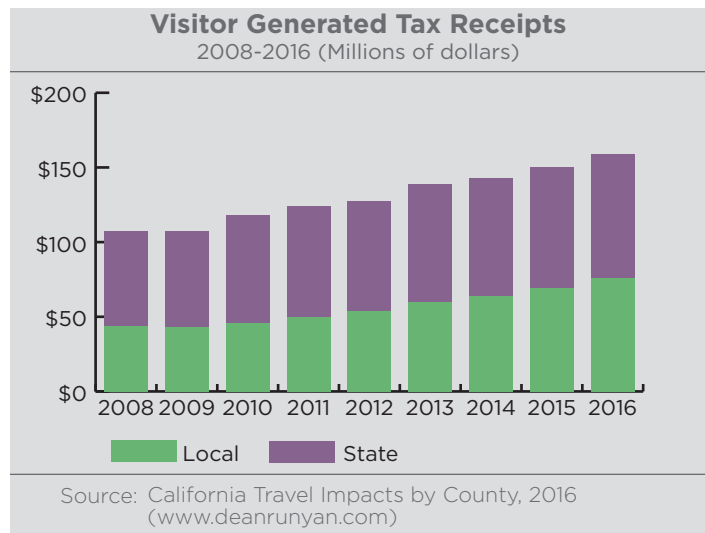
TOURISM-GENERATED TAXES

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 \$76 million in 2016. The state collected \$83 million from Sonoma County visitors in 2016. This is a \$2 million increase from 2015's number.

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 57% of all revenue in 2016, while the unincorporated areas of the county generated 43%.



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 internal 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.

REGULATORY RESPONSES IN OTHER REGIONS

San Francisco

After experiencing a wave of unregistered homes being listed on Airbnb's website, San Francisco began cutting down on this off-the-grid home-sharing influx. These illegal residences did not meet the City's short-term rental laws either because an entire home was being rented, or the space rented was not zoned residential. In response, all properties must register with the City of San Francisco as of summer 2017, a measure expected to cause a short-term increase in the price of renting such a property. Although the prices may rise, stability and consistency may ultimately attract new listings who were previously weary of an uncertain future. Failure to comply with the registration rules results in a \$1000 fine per day and future deactivation of the property. These regulations are meant to protect the limited housing supply in San Francisco and safeguard against the establishment of de-facto hotels.

New Orleans

Over 400 regulatory infractions of the ten-person maximum occupancy code in New Orleans have been issued since May 1, 2017. Nearly all of these infractions occurred near or within the main tourist hub, the French Quarter. The city's Office of Safety and Permits issued land use citations for those properties listed on Airbnb.com that are not in compliance with the regulation. Owners are then fined \$500 per day of operation thereafter with threat of their license being suspended, or revoked. A Short Term Rental Administration was created in order to oversee the safety and compliance of these properties.

2017 TOURISM INDUSTRY SURVEY

RESULTS SUMMARY

The 2017 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 350 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 response rate greater than 35%, a very strong rate for a mailed survey.

The source for all data in the following section is the 2017 Annual Tourism Survey Key Findings. Businesses have a positive outlook for tourism in the coming year.

KEY FINDINGS

- Over 70% of respondents felt a sense of optimism about the growth of tourism in the upcoming calendar year. This result builds upon the optimistic attitudes shared by industry operators in the past several year's surveys.
- 39% of businesses expanded their operations sometime in the past year.
- Help with licensing and permits and infrastructure improvement lead the way once again as the areas with most potential for government assistance.
- Culinary tourism, craft beer and outdoor recreational activities (hiking, biking, and eco-tourism) were identified as the most popular niche market opportunities for Sonoma County in the upcoming year.

SURVEY RESPONDENT DEMOGRAPHICS

Owners and executives of more than 300 diverse tourism businesses responded to the EDB’s 2017 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

‘Winery’ and ‘Lodging’ were the most common primary operations of responding businesses at 26% and 23%, 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%), ‘restaurant’ (14.8%), ‘recreation service provider or outfitter’ (6%), and ‘spa and wellness’ (2%). The surveyed businesses reflect the diverse strength of Sonoma County’s tourism industry.

LODGING CLASSIFICATIONS

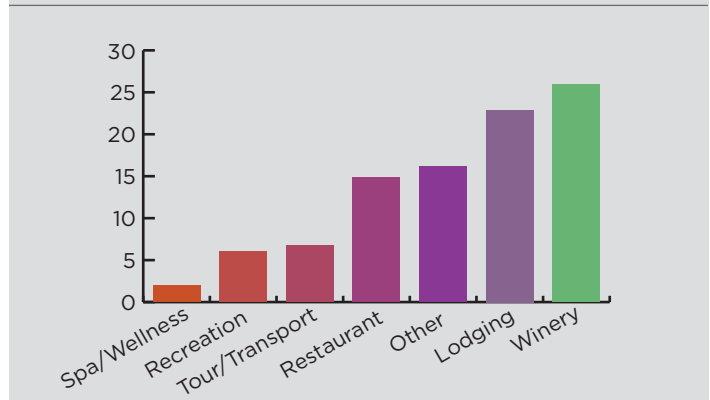
1. Full Service Lodging

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, 13% indicated they were classified as full service.

2. Vacation Rentals

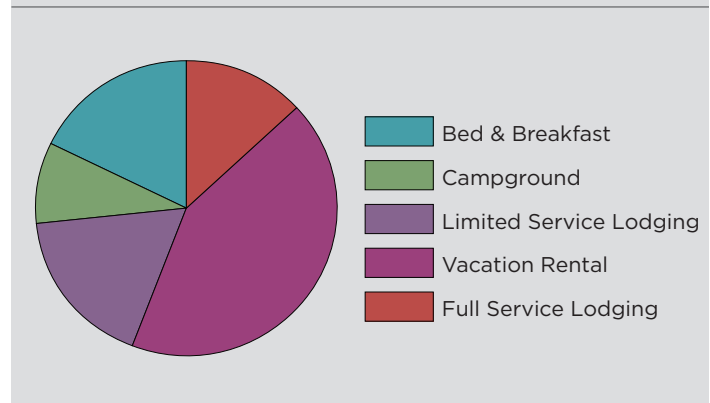
These properties are fully-furnished condominiums, town homes or single family homes - featuring amenities such as games, beach equipment, DVD libraries, and a stocked kitchen. These properties are rented on a temporary basis to tourists as an alternative to a hotel. Of ‘lodging’ respondents, 43% indicated they were classified as vacation rentals.

Primary Operations of Tourism Businesses
2017 (Respondent Based)



Source: Sonoma County Economic Development Board Annual Tourism Survey

Demographic Profile of Lodging Properties
2017 (Respondent Based)



Source: Sonoma County Economic Development Board Annual Tourism Survey

SURVEY RESPONDENT DEMOGRAPHICS

3. Bed & Breakfast

Bed & Breakfasts are smaller establishments that emphasize 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, 17.5% indicated they were classified as bed & breakfasts.

4. Limited Service Lodging

Limited service lodging offer only the basic services, facilities and self-service aspects. Commonly, a continental breakfast may be offered rather than having a restaurant on premises. Of 'lodging' respondents, 17.5% indicated they were classified as limited service.

5. Campground

A place used for overnight stay in the outdoors, where an individual, family or group can 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, 9% indicated they were classified as campground.

SURVEY RESPONDENT DEMOGRAPHICS

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

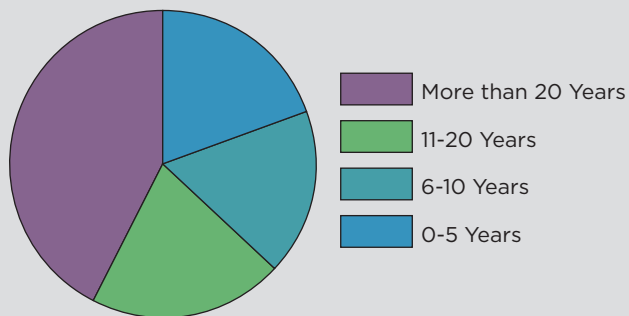
Number of Years in Business

The majority of respondents indicated they have been in business for more than 20 years (42%). Another 21% of the respondents have been in business for more than 11 years, and 18% 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 (20%). 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

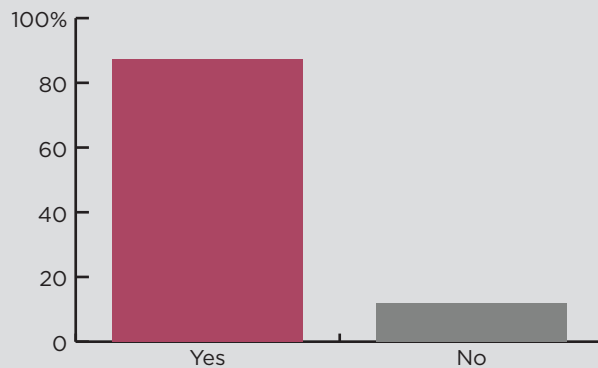
A significant percentage of businesses surveyed indicated that they are independently owned in Sonoma County (88%). Of those that are independently owned in Sonoma County, 2% indicated that they were a franchise.

Number of Years in Business in Sonoma County
2017 (Respondent Based)



Source: Sonoma County Economic Development Board Annual Tourism Survey

Independently Owned in Sonoma County
2017 (Respondent Based)



Source: Sonoma County Economic Development Board Annual Tourism Survey

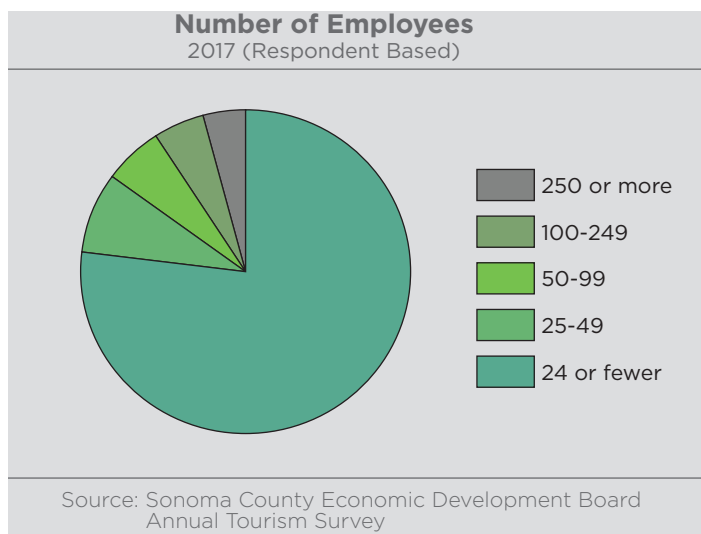
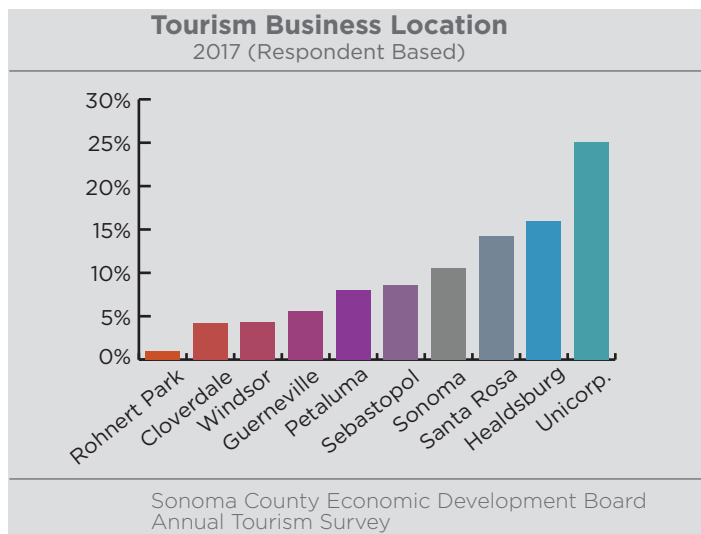
SURVEY RESPONDENT DEMOGRAPHICS

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 (77%). 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.



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 70% of the tourism-related businesses that responded to the survey indicated that they were 'optimistic' (35%) or 'somewhat optimistic' (35%) 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. Approximately 12% of respondents indicated that they were 'concerned' (1.5%) or 'somewhat concerned' (10.7%) with the tourism portion of their business over the next year.

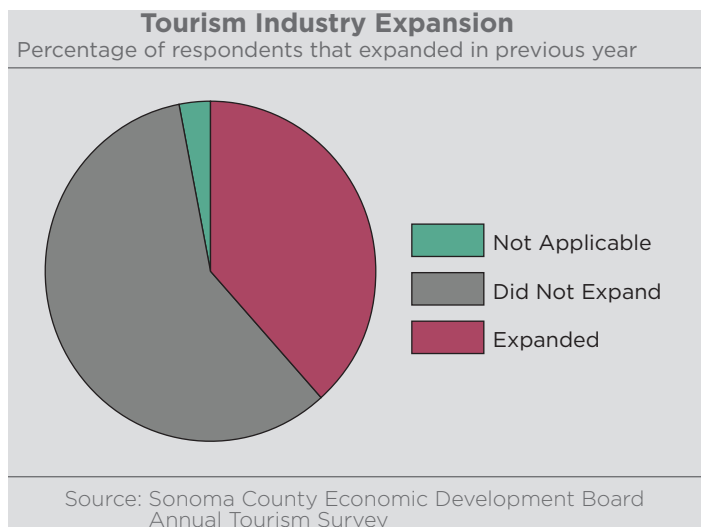
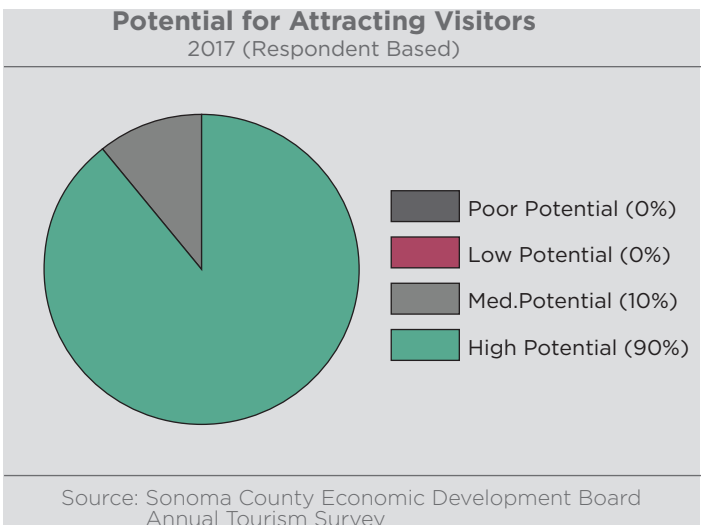
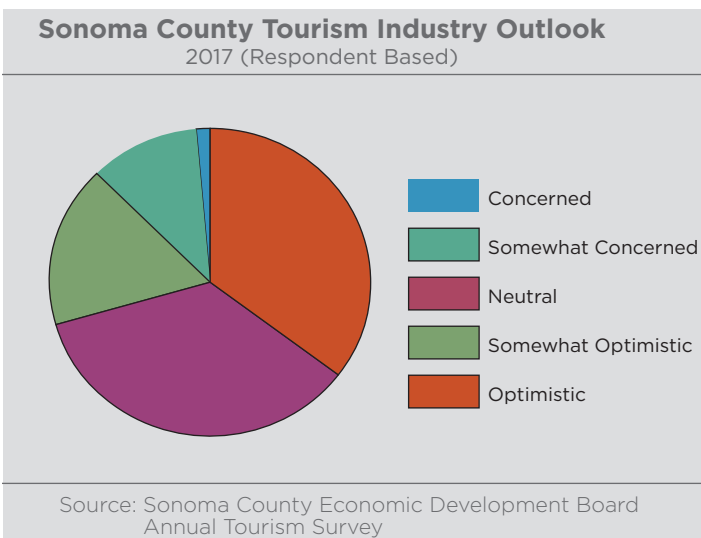
With industry optimism high, this seems to have translated into the decision for businesses to expand their operations in the past year.

18.5% of respondents felt "neutral" about the future of the tourism industry.

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, 39% indicated that they had expanded operations in the time between May 2016 and May 2017. 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 2016 to May 2017 (58.5%).

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.



COMMUNITY SERVICE & PHILANTHROPY

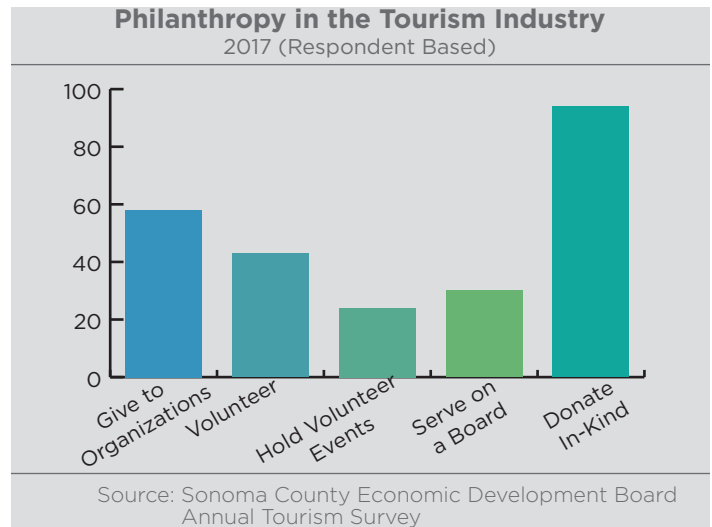
Involvement in community philanthropy is an important aspect for Sonoma County’s tourism businesses. The majority of these businesses are involved in creating a positive community impact in one way or another.

Fundraising and Charity

Over 75% of the survey respondents reported that they participated in some form of charitable giving. Of these businesses, 58% give directly to charity organizations, 43% volunteer in the community, 24% hold volunteer events, and over 94% 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 SUPPORTED BY SONOMA COUNTY TOURISM BUSINESSES

Boys’ & 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 Theater	Girl Scots
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

INDUSTRY SURVEY

MARKETING, GOVERNMENT & PROMOTIONAL ASSISTANCE

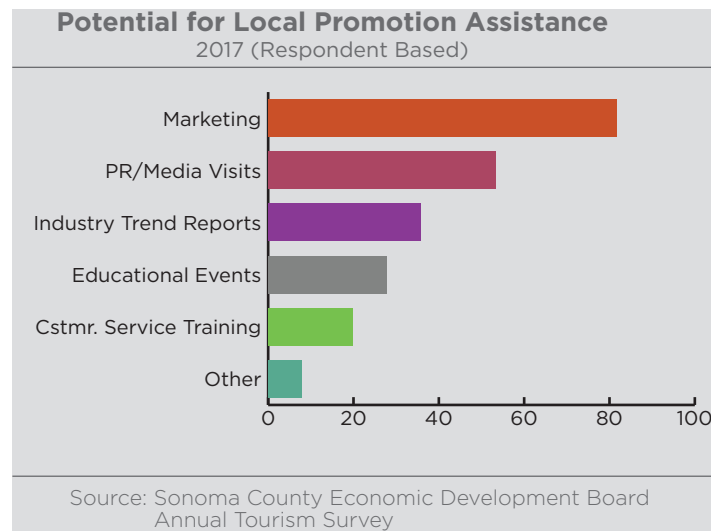
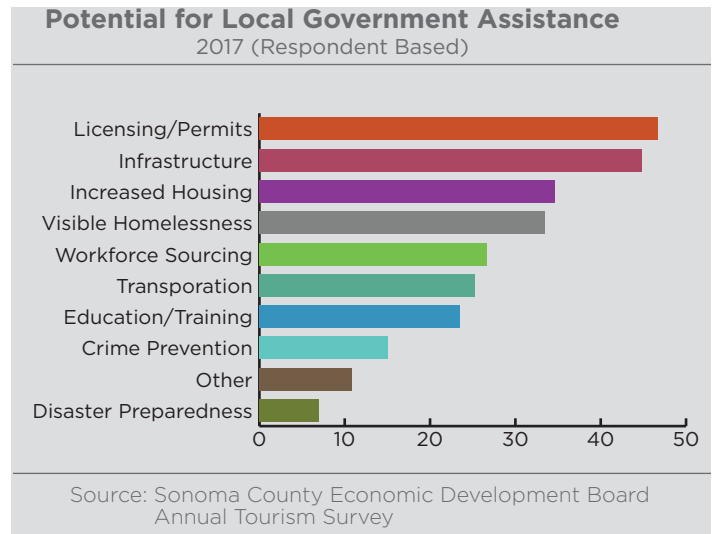
Sonoma County’s tourism industry is a diversified market of service-oriented businesses and segmented markets. The diversification results in a wide range of marketing channels and budgets to reach out to customers. There is also a variety of areas where tourism businesses feel they can be assisted by 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 (46.7%), and infrastructure improvement (44.8%). 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. 82% of respondents indicated that marketing would be helpful; 53% of respondents selected PR/ media visits; and 36% of respondents indicated they found trend reports useful.



INDUSTRY SURVEY

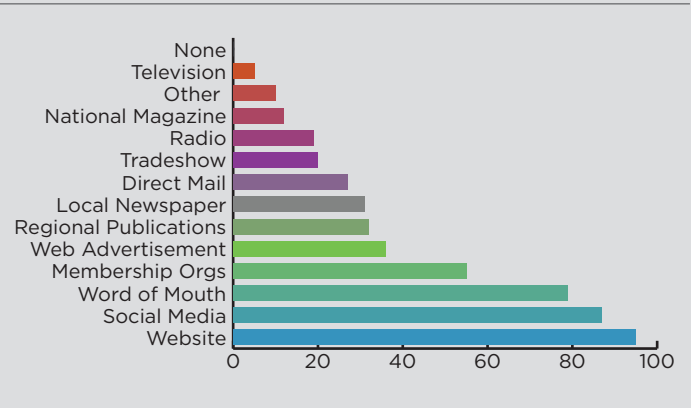
Marketing Tools Utilized by Tourism Businesses

The most widely used marketing tool among tourism businesses was a business website (95%), this was followed by social media (87%), and then by word of mouth (79%). The least used marketing outlets were television (5%), national magazines (12%) and national magazine publications (12%).

Percentage of Gross Revenue Spent on Marketing

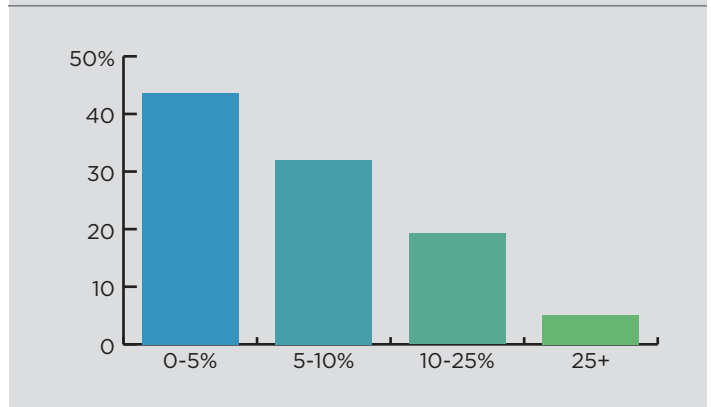
The majority of tourism-related businesses spend between 0-5% (44%) and 5-10% (32%) of gross revenue on marketing efforts. More respondents indicated spending in the 0-10% brackets than in 2016, with fewer respondents indicating that they spend between 10-25% or more than 25% of their gross revenue on marketing.

Marketing Tools Used by Tourism Businesses
2017 (Respondent Based)



Source: Sonoma County Economic Development Board Annual Tourism Survey

Percentage Gross Revenue Spent on Marketing
2017 (Respondent Based)



Source: Sonoma County Economic Development Board Annual Tourism Survey

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.

Effectiveness of Marketing Initiatives

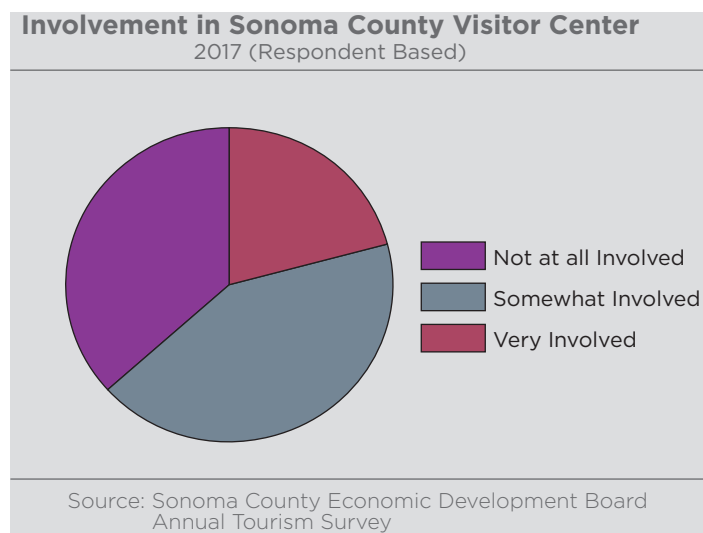
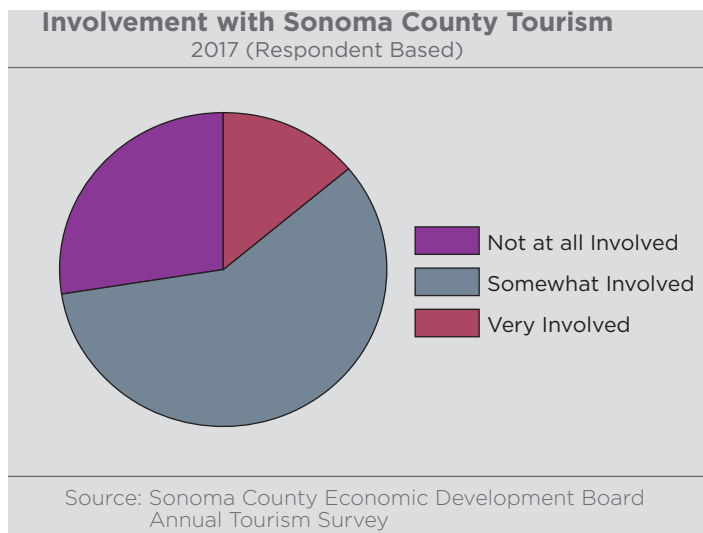
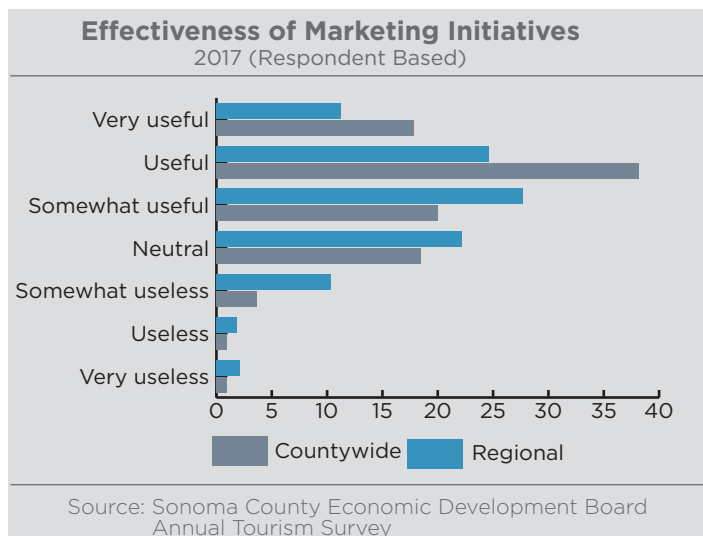
The majority of respondents indicated that tourism marketing initiatives were ‘useful’ for countywide marketing (38%) and ‘useful’ for regional marketing (35%). Very few respondents felt that regional or countywide marketing initiatives were ‘somewhat useless’ to ‘very useless’. However, many respondents 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 (59%). 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 (42%). Of those that were not working with a Visitor Center, the majority still felt that the regional and countywide marketing efforts were ‘useful’.



INDUSTRY SURVEY

MARKET OPPORTUNITIES

Respondents identified various innovative opportunities outside of the traditionally most successful tourism areas such as winery and vineyard tours.

Niche Markets in Sonoma County

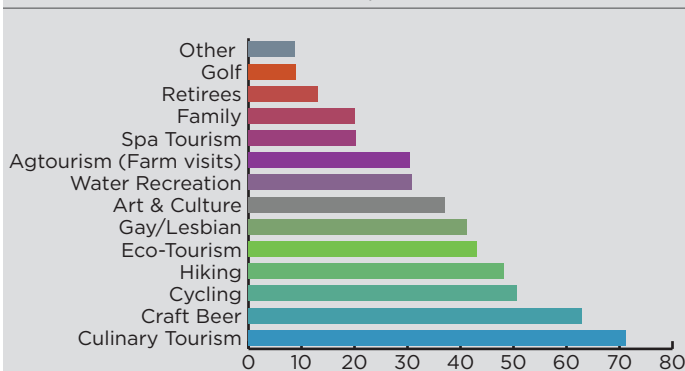
Industry participants identified several key niche markets situated for considerable growth within the county. Culinary tourism lead the way, with over 71% of respondents viewing this sector optimistically. Outdoor activities such as cycling and hiking also attracted significant interest. The tourism industry views specific tourism industries, such as eco-tourism and agtourism (e.g. farm visits), favorably as an area for potential growth. It comes as no surprise that the blossoming craft beer industry in Sonoma County was chosen as a growing niche market opportunity.

Golf, family activity, spa tourism and retiree activity were not seen as encouragingly, each attracting less than 20% of the respondent base.

Pull Attractions in Sonoma County

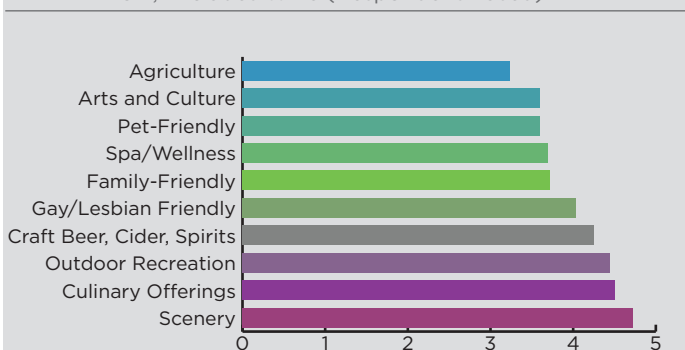
Respondents were asked to rate certain “pull attractions” (again, excluding wine) on a 1-5 scale based on their perceived attractiveness. Sonoma County’s highest ranked attractions include its scenery, culinary offerings, outdoor recreation and the craft beer, cider and spirits scene. However, none of the categories included reflected a pessimistic attitude. Even the lowest-ranked categories scored as objectively attractive opportunities with a score higher than ‘3’.

Niche Market Opportunities in Sonoma County
2017, Excludes Wine (Respondent Based)



Source: Sonoma County Economic Development Board Annual Tourism Survey

Pull Attractions in Sonoma County
2017, Excludes Wine (Respondent Based)



Note: 5: most attractive, 1: least attractive asset

Source: Sonoma County Economic Development Board Annual Tourism Survey

ACKNOWLEDGMENTS

The 2017 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.

Special acknowledgment is also due to Sonoma County Tourism for their invaluable suggestions and generous provision of statistical data on the tourism sector in Sonoma County.

Finally, **Nathan Baker** and **Maile Hartsook**, the EDB's Tourism and Hospitality Project Coordinators, were responsible for survey administration, compilation, and organization of the report, data, and survey findings. They updated and consolidated the data sources and statistics from previous years to create this comprehensive analysis, and deserve special thanks.

METHODOLOGY

The Sonoma County Economic Development Board (EDB) conducted its 2017 survey of Sonoma County tourism businesses in relation to the tourism industry. Owners and executives of more than 300 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.

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.

SOURCES

In addition to the survey responses, the Sonoma County 2017 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
- Smith Travel Research
- The California Travel and Tourism Commission’s California Travel Impacts by County, prepared by Dean Runyan & Associates and updated May 2017, www.visitcalifornia.com/doc_library/CAImp.pdf
- Moody’s Analytics 2016-17 Sonoma County 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/>
- The EDB collected and compiled all TOT data from each Sonoma County jurisdiction



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