



SONOMA COUNTY ANNUAL TOURISM REPORT

INDUSTRY REPORT

2018



ECONOMIC DEVELOPMENT BOARD

BOARD OF DIRECTORS

PAM CHANTER, CHAIR ▫ JORGE ALCAZAR ▫ SKIP BRAND
 TERRI DENTE ▫ TERRY GARRETT ▫ KATHRYN HECHT ▫ LINDA KACHIU
 WAYNE LEACH ▫ MICHAEL NICHOLLS ▫ MICHAEL TOMASINI
 BEN STONE, Executive Director

EDB FOUNDATION SPONSORS

FOUNDATION LEVEL



Luther BurbankSM
Savings

PRESENTING LEVEL



PREMIER LEVEL Lorem ipsum



EXECUTIVE LEVEL

- AMERICAN RIVER BANK
- COMCAST
- KEEGAN & COPPIN CO.
- MIDSTATE CONSTRUCTION
- MORGAN STANLEY
- North Bay Association of REALTORS®
- SONOMA COUNTY ALLIANCE
- SUMMIT STATE BANK
- VANTREO INSURANCE
- ZAINER RINEHART CLARKE

MEDIA LEVEL



SONOMA COUNTY BOARD OF SUPERVISORS



CONTENTS

- 4. EXECUTIVE SUMMARY
- 6. MOODY'S ANALYTICS TOURISM ANALYSIS
- 11. TOURISM INDUSTRY INDICATORS
- 19. CURRENT ISSUES
- 20. 2018 TOURISM INDUSTRY SURVEY
- 21. SURVEY RESPONDENT DEMOGRAPHICS
- 25. INDUSTRY CONFIDENCE & OUTLOOK
- 26. COMMUNITY SERVICE & CHARITABLE GIVING
- 27. INDUSTRY SURVEY
- 31. ACKNOWLEDGMENTS
- 32. METHODOLOGY & SOURCES

EXECUTIVE SUMMARY

August 2018

The Sonoma County Economic Development Board (EDB), in partnership with Sonoma County Tourism, is pleased to bring you the 2018 Annual Tourism Report. The 2018 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 2018 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

- Sonoma County's tourism industry continues to rebuild after the October 2017 wildfires. Reopening of county parks, cultural centers, and hotels will contribute to future growth.
- The long-term outlook for Sonoma County tourism remains strong, with consumer confidence at a multi-year high. San Francisco day and weekend trippers will continue to form the core contingent of vacationers.

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 steadily increasing in Sonoma County following the economic downturn beginning in 2007-2008 and the October 2017 wildfires. 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 from around the country and world are flocking to Sonoma County and supporting the local economy through increased spending.

Each year the EDB conducts an annual tourism industry survey of Sonoma County business owners and executives involved in tourism. The survey focuses on 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.
- Culinary tourism and outdoor recreation lead the way in emerging niche opportunities in Sonoma County.

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 finding its footing after an abridged season cut short by October wildfires. Although the blazes left wineries, breweries, downtown areas, outdoor trails, and other popular attractions largely unscathed, hospitality operators grappled with a wave of cancellations in the fires' wake, interrupting what was otherwise a very strong year for Sonoma County tourism. The influx of first responders and the temporary resettlement of displaced residents at county hotels partially offset the reduction in visitor spending at restaurants and retail stores, but growth in tourism revenues slowed substantially in the final months of the year.

With the 2018 high season coming to a close, the rebuilding process is well under way, and the reopening of county parks, cultural centers and hotels has coincided with a rise in hotel occupancy rates and air travel to the county. After plunging in October, arrivals at Charles M. Schulz-Sonoma County Airport have risen at a double-digit rate as more business and leisure travelers take advantage of expanded routes and increased service.

Day trips by San Francisco residents remain an important source of growth, while vacationers in the rest of the U.S. are taking advantage of rising wages and cheap airfare to visit San Francisco and the broader North Bay. However, international arrivals at San Francisco International Airport

declined slightly last year, which likely slowed inflows of international tourists into Sonoma County.

Despite less international tourism, the combination of increased domestic visitation and the surge in foreign visitors in prior years has underpinned modest capacity additions at new and existing hotels.

Macro Drivers

The U.S. economy is operating at full tilt, and the combination of federal tax cuts and fiscal stimulus will translate into even faster growth over the next few years. Broad measures of employment indicate that the labor market has fully absorbed remaining workers cast aside by the Great Recession, and the jobless rate is the lowest since the late-1990s dot-com boom. Rising house prices are supporting household wealth and spending, and increased construction activity is boosting mid-wage jobs. Business investment is rising, and employers' expectations of current and future economic conditions are sanguine.

Employers' enthusiasm is surpassed only by that of consumers. Their optimism with respect to present and future economic conditions is the highest in several decades, and more than half of those surveyed expect to take a vacation in the next six months, the highest since record-keeping began in the late 1970s. Both the availability of jobs and better wage gains

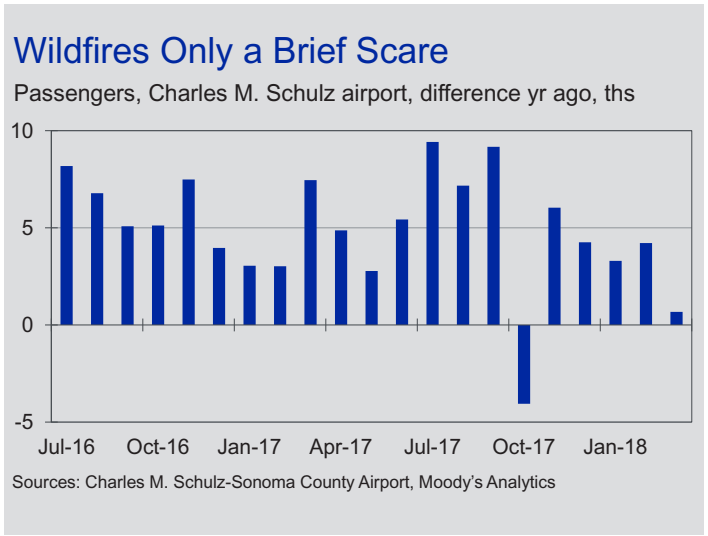


Chart: October wildfires struck at the tail end of tourist season, causing visitors to cancel flights and hotel stays in Sonoma County. Although the decline in visitors precipitated a drop in passenger traffic at Charles M. Schulz-Sonoma County Airport, arrivals and total passenger numbers rebounded strongly in the ensuing months, suggesting that the decline in tourism was short-lived. Arrivals at the airport increased by a third over the past year as United and American Airlines began service to the county, and direct flights to Denver will cut travel times for most U.S. visitors.



MOODY'S ANALYTICS TOURISM ANALYSIS

underpin consumer expectations. Diverse measures of wage growth show a broad acceleration in real wages over the past 18 months, and the taut labor market will bolster workers' bargaining power, translating into even better wage gains.

After several years of post-recession deleveraging, household debt burdens are at a multidecade low. Lower debt payments will create space in consumers' budgets for spending on accommodations and attractions even as interest rates and oil prices rise.

The recovery in oil prices will mean that vacationers in Sonoma County will pay more at the pump for gasoline and will eventually face greater costs for airfare. Although U.S. crude production has reached a new high, the recent agreement among OPEC and other oil-producing nations to extend production cuts will maintain upward pressure on prices. In the wake of the agreement, the U.S. Energy Information Administration has raised its forecast for retail gasoline prices this summer; they will reach their highest point in four years. While the Trump administration's withdrawal from the Iranian nuclear pact will add to price pressures, Moody's Analytics expects Iranian production to remain elevated through the end of this year.

Broad strength in the global economy and the gradual normalization of international monetary policy will relieve pressure on the U.S. dollar and make U.S. vacations

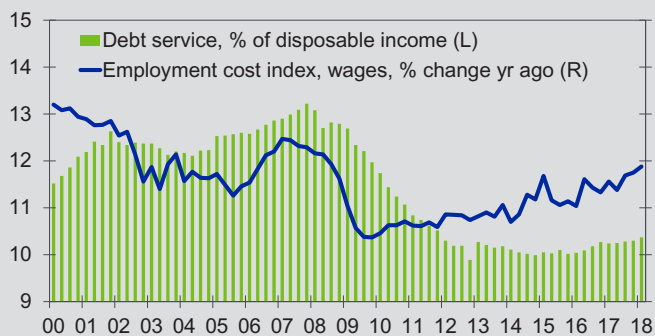
more attractive to international tourists. Despite robust growth in international air travel, non-resident air arrivals to the U.S. have declined in each of the past two years, a period marked by the sharp appreciation in the U.S. dollar. New travel restrictions put in place by the Trump administration create downside risk should they impair the perception of the U.S. as friendly to travelers, but the sanctions fall largely on countries that are not major sources of tourist visits.

Industry Drivers

Sonoma County's allure as a global destination for high-end wines, craft beer, outdoor recreation and cutting-edge cuisine will remain intact despite wildfire-related setbacks at county parks, cultural centers, hotels and downtown areas. With the recovery from the fall blazes nearly complete, the county will capitalize on a growing appetite for vacations among domestic and international visitors alike. Wineries, breweries and outdoor recreation will remain the primary draw for visitors, but growth in wellness establishments and a thriving restaurant scene will expand the visitor experience and draw a new generation of health and food enthusiasts to wine country.

The diversity of tourist draws will be a major asset. While better growth in disposable incomes will enable vacationers to spend more and extend their stays, visitors will prioritize destinations with diverse attractions and recreation opportunities

Rising Wages, and More Room to Spend



Sources: Federal Reserve, BLS, Moody's Analytics

Chart: Tax cuts and fiscal stimulus have supercharged the U.S. economy and augur further labor market tightening over the next few years. With employers still adding jobs at a breakneck pace, wages are finally rising. Better income gains will translate into greater spending on travel, accommodation, food service and recreation. Additionally, household debt burdens are the lowest they have been in two decades. Low debt payments will create additional space in travelers' budgets for discretionary purchases of high-end meals and souvenirs.

MOODY'S ANALYTICS TOURISM ANALYSIS

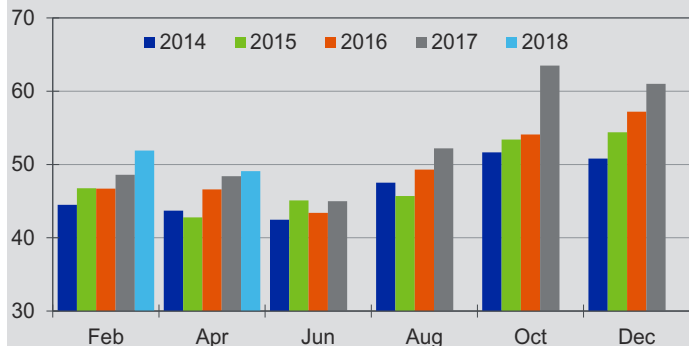
after forgoing vacations in previous years.

Rising gas prices will be a modest headwind for visitors. Despite a substantial increase in direct air travel to Sonoma County in the past two years, most visitors, including domestic and international travelers, arrive by car. However, the increase in gas prices is unlikely to be a deterrent. Sonoma County experienced a surge in tourism late last summer even as gasoline prices increased by close to a third. Airfares, which typically lag changes in jet fuel prices by as much as six months, will rise only modestly this summer but could pose a larger concern should growth in disposable incomes fail to keep pace.

International visitors made fewer trips to Sonoma County in 2017 but will flock to the area in greater numbers as the Canadian and European economies strengthen and as rising incomes in China and Southeast Asia enable more visitors to take trips to the U.S. International visitors are a small share of total Sonoma County tourists but tend to spend more and stay longer. Despite making up just a tenth of total visitors, international tourists account for a fifth of total direct tourism spending in Sonoma County. China is a small but fast-growing market for Sonoma County wines, and Chinese tourists will grow in importance as their per-capita income rises and they develop a greater taste for wine.

Americans Eye More R&R

% of Americans planning a vacation in the next 6 mo



Sources: The Conference Board, Moody's Analytics

Pricing

With hotels close to full capacity and visits to local wineries, breweries and parks on the rise, hospitality operators will retain significant pricing power. According to Smith Travel Research, the average daily rate for Sonoma County hotels through September, a period that excludes the onset of the Tubbs and Atlas fires, rose 5%, less than the same nine-month period in 2016 but still almost double the increase in average county wages. Although hotel rates will rise at a slower pace over the next few years, hotel operators will hold on to price gains.

Rising visitor traffic will bolster spending on a broad range of goods and services, underpinning price gains at tasting rooms, restaurants, breweries, and outdoor recreation firms. According to the Bureau of Economic Analysis' Satellite Accounts for Tourism, travelers are spending more on food, recreation and entertainment after years of cutbacks, and early results from the state tourism agency suggest that Sonoma is no exception to this trend.

Longer term, supply constraints will add to hotels' pricing power. Despite rebuilding efforts and the opening of several new establishments, the number of hotel rooms in the county will rise only modestly over the next few years. The extension of occupancy taxes to vacation rental websites such as Airbnb will narrow the price differential over traditional hotels and will mean most stay-over visitors will face higher prices.

Chart: The share of Americans who plan to take a vacation in the next six months is the highest since the Conference Board's survey of consumer confidence began to track this metric in the late 1970s. With consumers in high spirits, better wage gains and low debt burdens will combine to unlock pent-up demand for vacations. While rising oil prices will make vacationers pay more at the pump, better wage growth and positive sentiment will enable vacationers to stomach higher gasoline prices. Although direct flights to Sonoma are on the rise, cars trips remain the primary means of transport to the county.

MOODY'S ANALYTICS TOURISM ANALYSIS

Operating Expenses

Labor costs are the largest share of operating expenses for most hotels and tourism-oriented firms, and costs will rise over the next few years as the tight local labor market pushes up wages. According to the Quarterly Census of Employment and Wages, average weekly pay in food and accommodation services in Sonoma County has risen by a third in the past four years, compared with just 15% for county wages as a whole. Falling net migration—the result of low housing affordability and a reversal in immigration flows from Mexico—will make for an even tighter labor market this year and next, which will drive up expenses for hotels and tourism-reliant establishments alike. While California’s minimum wage hike will result in a small increase in labor costs, employers’ efforts to find and retain labor will account for the bulk of the increase in operating costs. Hotels, restaurants and wineries also face rising electricity costs, but prices per kilowatt-hour will remain well below their 2014 peak.

Profitability

Profit margins for hotels will hold their ground as rising room rates offset higher labor costs. While rising room rates have outstripped labor and other expenses over the course of the current expansion, competition from other wine-growing regions in California and the Pacific Northwest will limit hoteliers’ ability to pass on rising expenses to visitors. Competition for labor

will reverberate through other tourism-reliant industries such as restaurants, wellness centers, and outdoor recreation and adventure firms, although consumers’ greater willingness to spend on experiential travel will deliver a slight boost to margins.

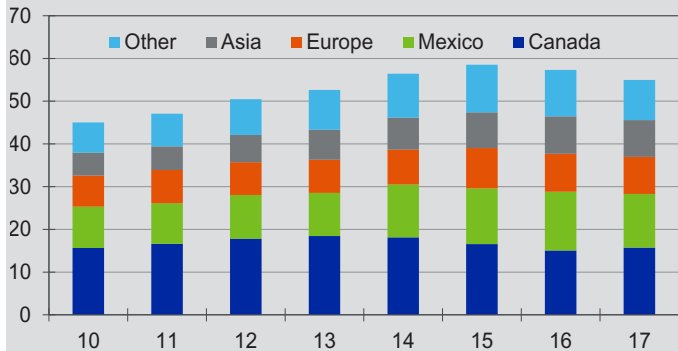
Wineries are a case in point. While flat bottle prices and grape costs will compress overall margins, vintners will be able to make up some of the difference with tasting room visits and winery tours, both of which hold the potential for price markups without a significant increase in operating costs. Wine industry surveys report a broad increase in spending on-site, even as overall visitation slows. Surging interest in craft beers, ciders, and spirits will enable local brewers to capitalize on greater interest in the production process, while increased visitor traffic at high-end restaurants and taprooms will gently pad margins.

Long-term Outlook

It is often darkest before dawn, and nationwide coverage of the wildfires that ripped through Sonoma County in October threatened to cast a pall over the pivotal tourism industry. But the oft-fretted decline in tourism has not come to pass, and visitation and spending are poised to accelerate over the next few years as the U.S. economy races ahead and consumer fundamentals strengthen, supporting greater outlays on accommodations and local attractions.

Fewer International Tourists Flock to U.S.

International tourists, YTD through Sep



Sources: National Travel and Tourism Office, Moody's Analytics

Chart: The dollar’s prior strength and a weak European economy have caused international tourism to the U.S. to decline in the past few years. Synchronous global growth and a weaker dollar will reverse this trend, reviving growth in tourist visits to San Francisco and the broader North Bay. While international travelers account for a small share of visitors to Sonoma County, they tend to stay longer and spend more than U.S. residents. Should a U.S. travel ban and rising tensions with China cause travelers in Sonoma’s major international markets to take a pass on the U.S., tourism spending would falter.



MOODY'S ANALYTICS TOURISM ANALYSIS

Although the wildfires exacted a large toll on residential properties and human life, property damage was mostly contained to residential areas, and the rise in bed tax revenues and fly-in visitors in recent months augurs well for tourism's long-run outlook. County-wide initiatives to reopen parks and key tourist sites ahead of the busy summer season are poised to bear fruit, and diverse recreation opportunities beyond the pivotal winemaking industry will appeal to individuals and families seeking to extend their stays.

Over the next few years, millennial tourists will grow in importance, and bridging the gap with millennial travelers, who prioritize experiential travel but are more budget constrained than prior generations, will prove a challenge. Although millennials consume more wine than previous generations did at the same age, they prefer blends over varietal and exhibit a preference for craft beer, ciders, and spirits over higher-priced wines.

Longer term, rising visitor traffic 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 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

Increased transportation links between Sonoma County and other travel hubs create substantial upside risk for tourism. The addition of daily flights to San Francisco and Phoenix at Charles M. Schulz airport has boosted air arrivals by close to a fifth over the past year. A new connecting flight to United's hub in Denver was approved in mid-2018, making direct flights to Sonoma County within reach for much of the country. In a similar vein, faster buildout of the Sonoma-Marin rail network would speed travel times and bring more Sonoma cities within reach of travelers to San Francisco.

Greater promotion of local arts and culture could

broaden the visitor experience and draw more visitors to extend their stays. Growth in craft beverages, restaurants and wellness centers has drawn more tourists to wine country, and the integration of concerts and art galleries could draw additional visits and spending.

Downside Risks

Supreme Court approval of the Trump administration's travel ban could deal a setback to Sonoma County tourism, as would rising trade tensions that deter visitors from China. While none of Sonoma's important feeder markets would be affected by the ban, a discriminatory immigration policy could hurt perceptions of the U.S. and cause international tourists to travel elsewhere. Rising trade tensions with China could hurt the image of the U.S. in this important market.

More restrictive immigration policy or greater enforcement of existing immigration laws poses another downside risk and could deprive the county of much-needed labor.

Finally, a larger than expected increase in oil prices creates downside risk for domestic and international travelers. Should OPEC cutbacks turn more restrictive or U.S. or Iranian production falter, rising oil prices could raise the cost of car trips and airfare for domestic and international tourists alike.

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 2017, Sonoma County destination spending, industry earnings and industry employment experienced a year-over increase from 2016. This follows an increase seen in 2016 over 2015. This suggests travel continues to grow as the U.S. economy achieves record highs.
- In 2017, Sonoma County's year-over average daily rate (ADR) for lodging increased 5.7%. This follows a 12% increase in 2016, suggesting travel to Sonoma County remains steady.
- Sonoma County's Transient Occupancy Tax (TOT) receipts totaled \$43.7 million in 2017. This is the highest level of TOT receipts that Sonoma County has ever received.

TOURISM INDUSTRY INDICATORS

DESTINATION SPENDING

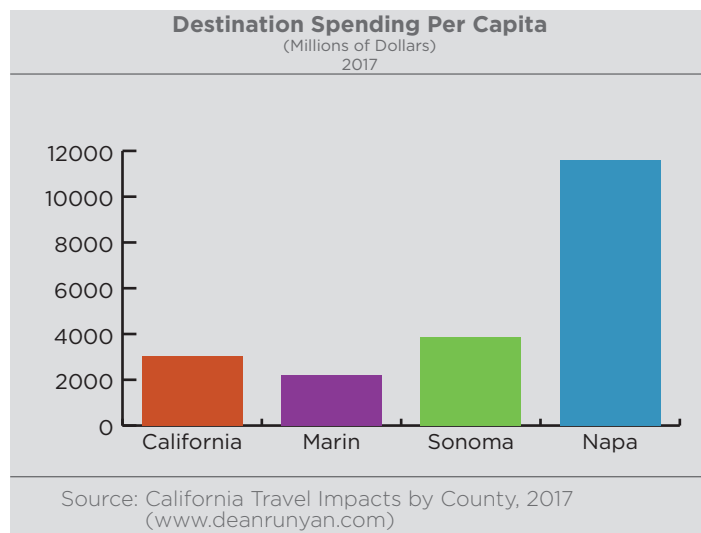
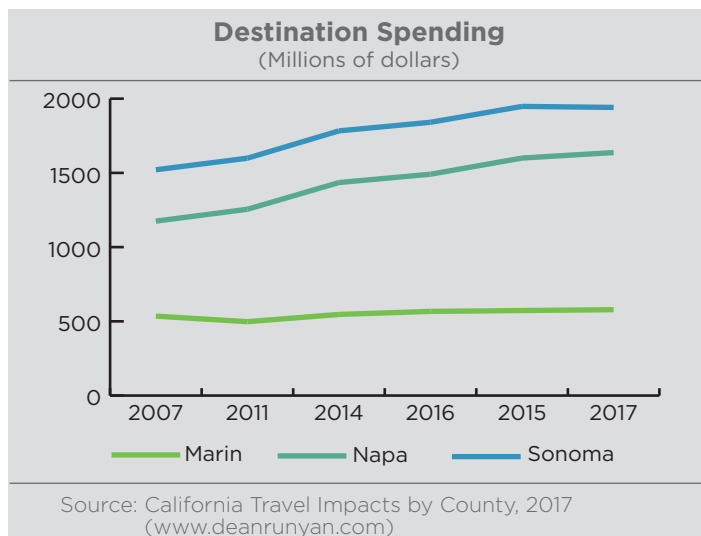
Destination spending is the total amount spent by visitors in Sonoma County. This indicator includes all spending for accommodations, wine activities, retail, and other tourism related purchases. The most recent figures show that Sonoma County’s destination spending decreased 0.4% from \$1.95 billion in 2016 to \$1.94 billion in 2017.

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, 2017 figures indicate that tourism did not decline substantially despite the impact of the October fires on travelers’ choices to visit Sonoma County.

Destination Spending per Capita

For each of Sonoma County’s 504,217 residents, \$3,849 in destination spending was generated. Marin County generated \$2,216 per-capita and Napa County generated the highest per-capita spending at \$11,612. 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 \$3,038 per capita.



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.

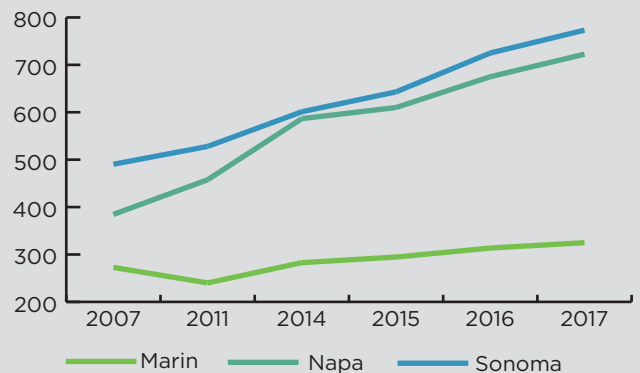
Distribution of Visitor Spending by Commodity

Visitors to Sonoma County devote a smaller share of their spending towards accommodations than other destinations - 24% of all spending, compared to 29% in Marin County and 31% in Napa County. Sonoma County visitors spend a similar share of total spending on accommodations (25%), retail purchases (18%), and arts, recreation & entertainment (16%). They spend the largest amount on food and beverage services (29%) and accommodations (25%). Visitor spending on commodities totaled \$1.93 billion.

Distribution of Visitor Spending by Accommodation

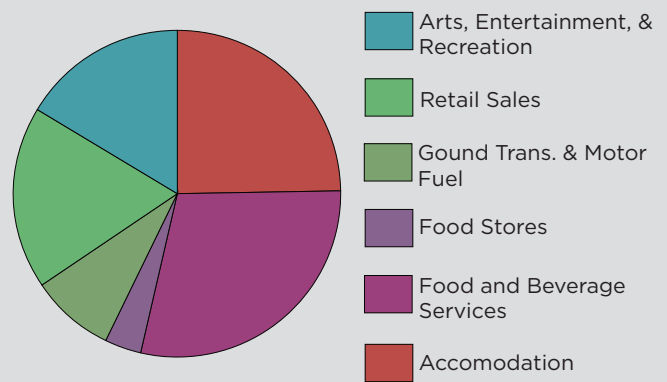
In comparison with the state and other competitive counties, a smaller share of visitor spending in Sonoma County comes from visitors who are staying in a hotel or motel (56% compared to 55% and 74% for Marin County and Napa County). Instead, a significant share of Sonoma County visitor spending is received from day travelers (28%) compared to 18% for Marin and 22% for Napa. A comparatively larger share of spending in Sonoma County comes from visitors who stay in vacation homes (4.7%).

Total Industry Earnings Generated by Travel Spending
(Millions of Dollars), 2007-2017



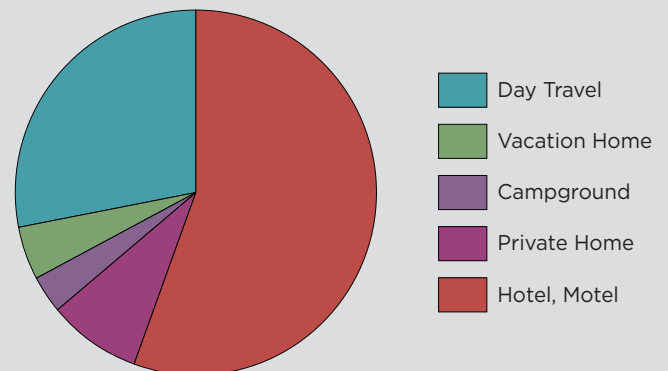
Source: California Travel Impacts by County, 2017
(www.deanrunyan.com)

Distribution of Visitor Spending by Commodity
Sonoma County, 2017



Source: California Travel Impacts by County, 2017
(www.deanrunyan.com)

Distribution of Visitor Spending by Accommodation
Sonoma County, 2017



Source: California Travel Impacts by County, 2017
(www.deanrunyan.com)

TOURISM INDUSTRY INDICATORS

INDUSTRY EMPLOYMENT

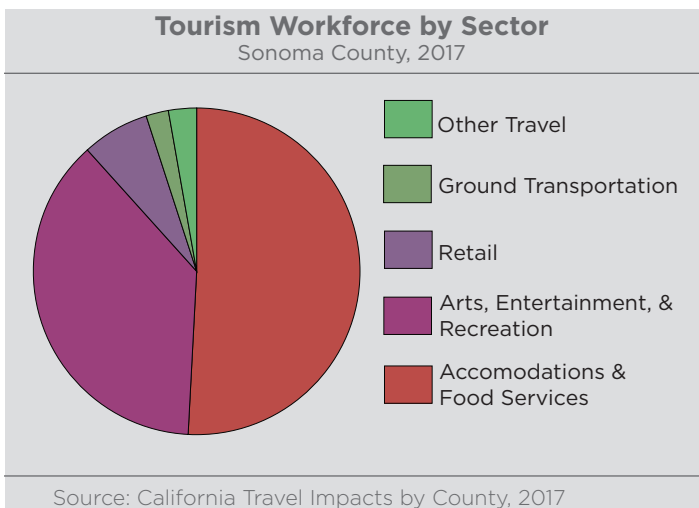
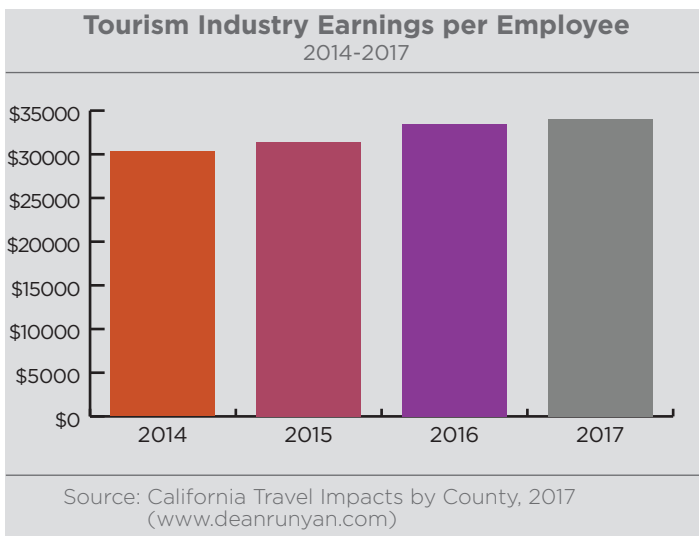
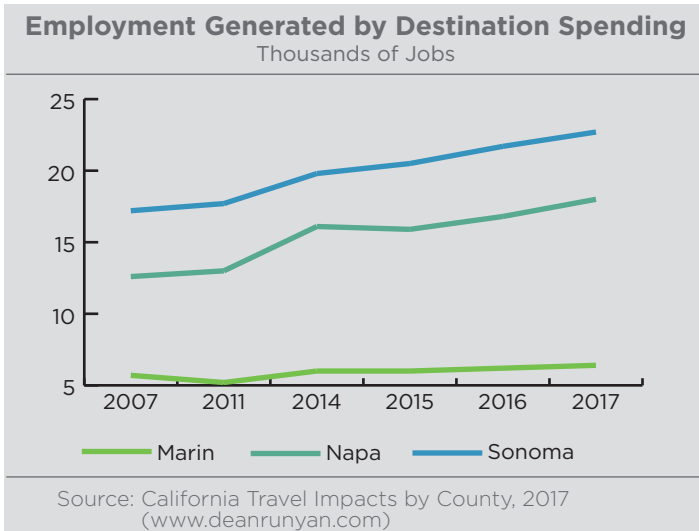
With 22,580 jobs generated by tourist destination spending, Sonoma County ranks first against comparable counties - Napa had 18,010 tourism jobs and Marin had 6,440 tourism jobs in 2017. Sonoma County's 2016 job figures show a 4.6% increase from 2015, down from a year-over increase of 5.9% from 2015 to 2016.

Tourism Industry Earnings per Employee

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 2017, travel spending in Sonoma County accounted for 22,580 jobs. The county employs more tourism industry employees than Napa and Marin, highlighting the importance of the tourism industry on the county's employment opportunities. Industry earnings per employee grew for Sonoma as well (\$34,077).

Sonoma County Tourism Employment by Industry

Distribution of employment within Sonoma County's tourism industry is similar to previous years, with 51% of employment in accommodations & food services, 37% in arts, entertainment & recreation, 7% in retail. Ground transportation and air travel (Other Travel) have also increased their share of employment at 2.3% and 2.6%, respectively.



TOURISM INDUSTRY INDICATORS

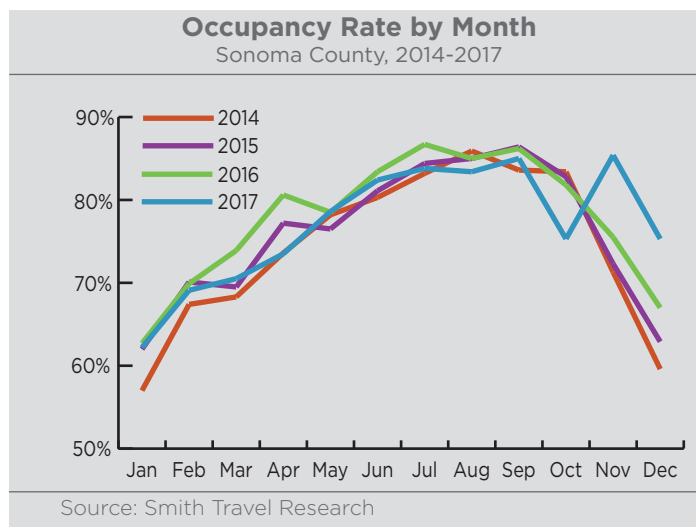
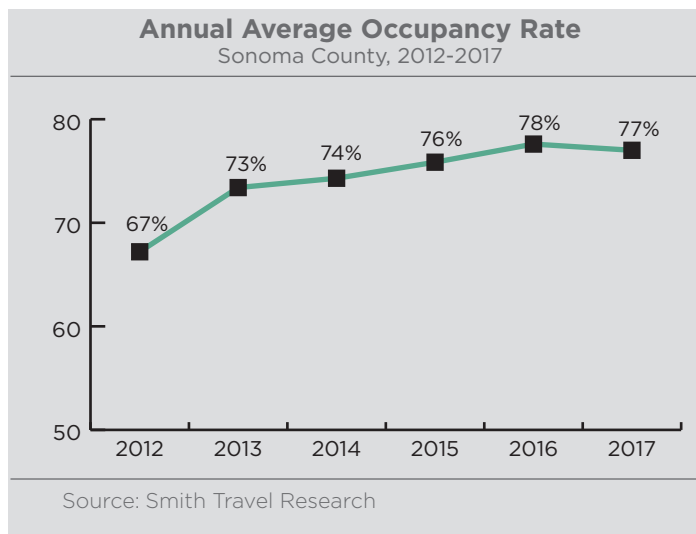
LODGING & HOSPITALITY ASSESSMENT

Total Lodging Figures

Visitors staying in hotels and motels are the single-largest source of destination spending in Sonoma County, with an estimated \$1.1 billion in spending in 2017. Many residents who lost their homes in the fires and those assisting with recovery and rebuilding spent extended periods of time in hotels and motels. This caused a rise in hotel and motel spending from locals rather than tourists.

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 76.2% in 2017. Occupancy rates increased in November 2017 as residents who lost their homes in the October 2017 fires flocked to hotels for temporary lodging. With three hotels completely destroyed and others sustaining damage, a larger-than-usual drop in occupancy rates may be expected for early 2018.



TOURISM INDUSTRY INDICATORS

LODGING & HOSPITALITY ASSESSMENT

Annual Average Daily Rate (ADR)

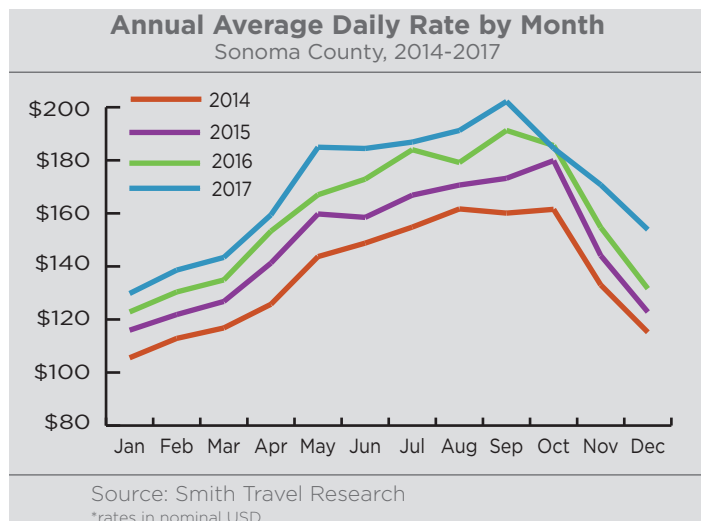
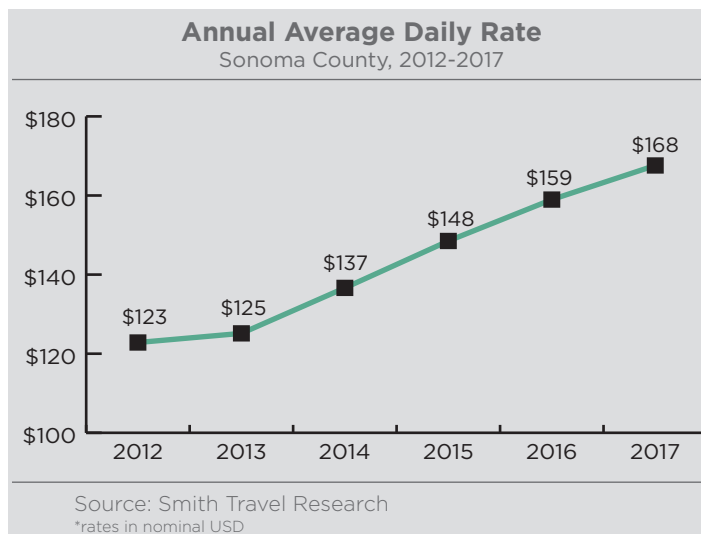
Average daily rate (ADR) began to increase following the low seen in 2010 at \$112.30 (or \$126.53 in 2017 Dollars). For 2017, the average daily rate improved to \$167.59, in line with other positive figures for travel into Sonoma County.

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 2011 to 2017. As occupancy rates decrease by less than half a percent and average daily rate increases, revenue per available room is expected to maintain above pre-recession levels.



TOURISM INDUSTRY INDICATORS

TOURISM-GENERATED TAXES

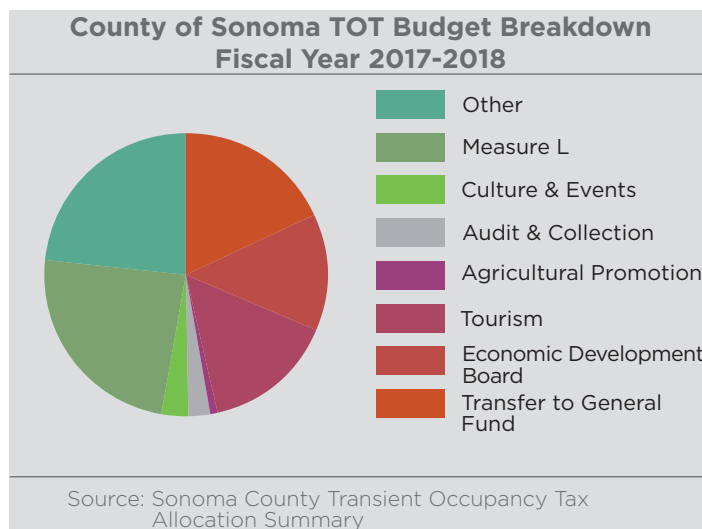
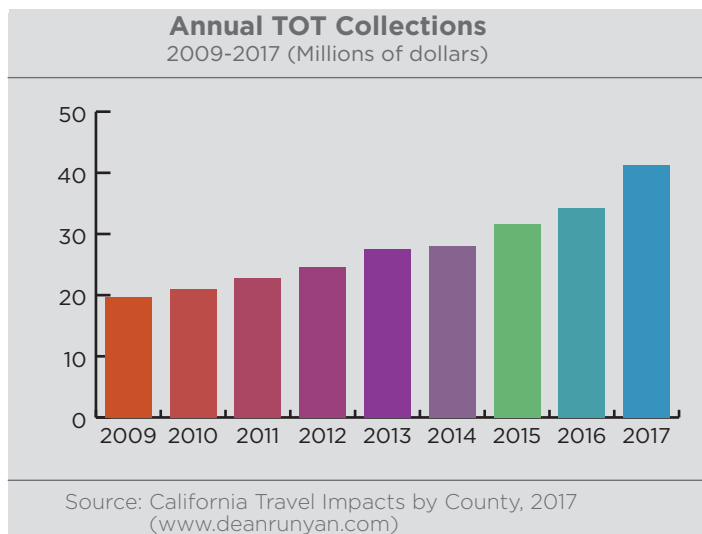
Transient Occupancy Tax (TOT) is a local tax on room rental revenue in lodging properties located in Sonoma County. The TOT rate varies between 9% and 14% from city to city.

Annual TOT Collections

TOT revenues in Sonoma County increased 16.53% from \$37.5 million in 2016 to \$43.7 million in 2017. 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 three main spending areas: General Fund Contribution (18%), Community Investment Fund (58%), and Measure L (24%). Within the Community Investment Fund, the majority of TOT funds go to Economic Development (14%) and Tourism (15%). Measure L includes road repairs; regional parks; fire and emergency services; affordable housing; general services - Veteran's buildings; tourism mitigation fund, ACTTC - Collections, and permit and resource management.



TOURISM INDUSTRY INDICATORS

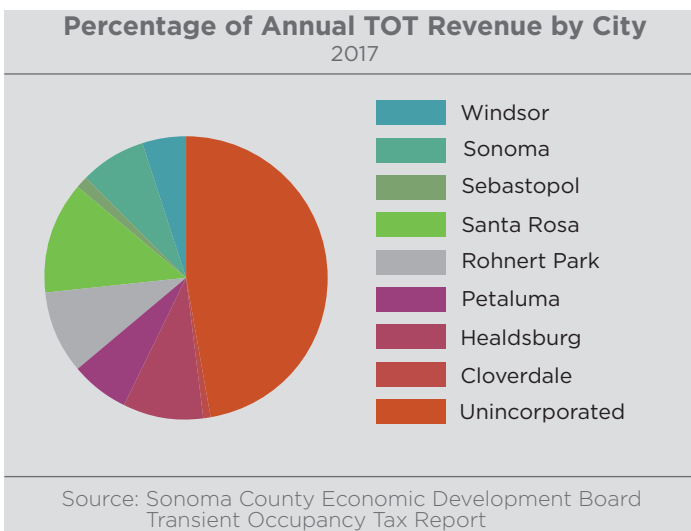
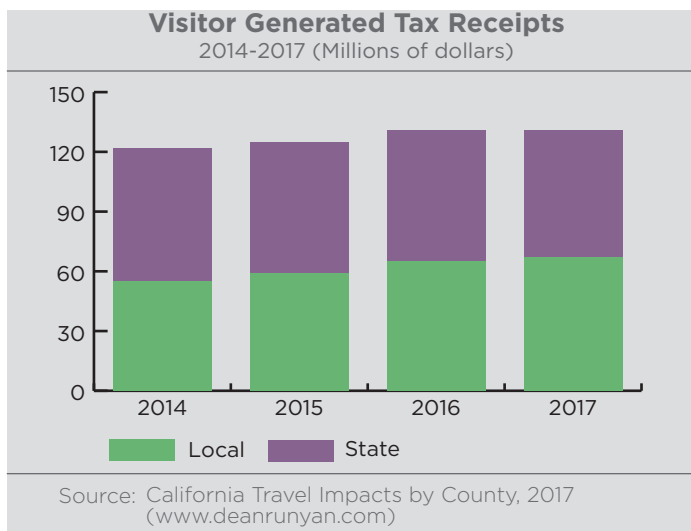
TOURISM-GENERATED TAXES

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 from visitors to Sonoma County were estimated at \$67 million in 2017. The state collected \$64 million from Sonoma County visitors in 2017. Total local and state tax collection increased by \$2 million.

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 53% of all revenue in 2017, while the unincorporated areas of the county generated 47%.



CURRENT ISSUES

SHORT-TERM VACATION RENTALS

The short-term vacation rental market continues to exhibit rapid change as this segment of the leisure travel industry becomes more acceptable to vacationers. 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. Owners are also required by ordinance to post their TOT certificate number on all online advertising websites. This has led to several program improvements to respond to this rapidly growing segment of the leisure industry. Sonoma County has approximately 2,200 registered short-term vacation rental operators. For over 20 years the County has conducted annual operator audits in order to ensure proper compliance with the Transient Occupancy Tax (TOT) ordinance. In addition, the County has engaged a vendor to analyze online advertising, e-commerce and social media sites to identify potential scofflaw operators engaged in violations relating to lodging tax collection, licensing and code compliance. As a result of these ongoing efforts, scofflaws are being referred to PRMD Code Enforcement. The TOT program collected approximately \$22mm in the fiscal year ending June 30, 2018 in the unincorporated areas of Sonoma County.

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.

2018 TOURISM INDUSTRY SURVEY

RESULTS SUMMARY

The 2018 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 27%, a strong rate for a mailed survey.

The source for all data in the following section is the 2018 Annual Tourism Survey Key Findings Businesses have a positive outlook for tourism in the coming year.

KEY FINDINGS

- More than 66% 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.
- 34% of businesses expanded their operations sometime in the past year.
- Areas with greatest desire for government assistance include helping with licensing and permits; increasing housing; and infrastructure improvement.
- Culinary tourism, craft beer/spirits/cider, and cycling were identified as the most popular niche market opportunities for Sonoma County in the upcoming year.

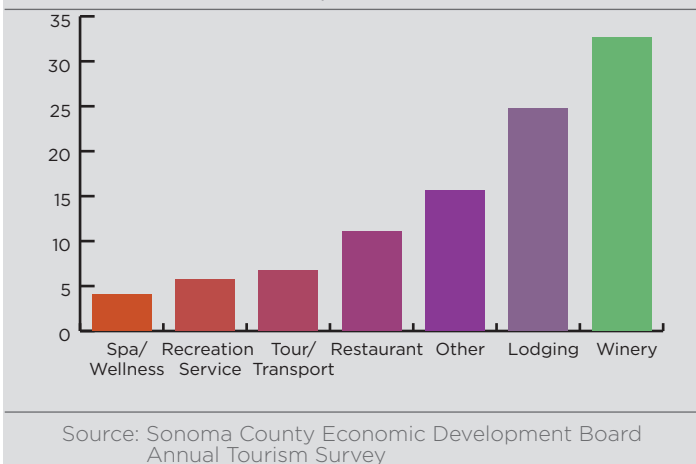
SURVEY RESPONDENT DEMOGRAPHICS

Owners and executives of more than 300 diverse tourism and hospitality businesses responded to the EDB's 2018 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 33% and 25%, respectively. The lodging classification of respondents is broken down further below. Businesses that classified themselves as 'other' include art galleries, event centers, visitor centers and retail shops. Other respondents included businesses whose primary operations were 'tour and transportation service or support' (7%), 'restaurant' (11%), 'recreation service provider or outfitter' (6%), and 'spa and wellness' (%). The surveyed businesses reflect the diverse strength of Sonoma County's tourism industry.

Primary Operations of Tourism Industry Businesses
2018 (Respondent Based)



SURVEY RESPONDENT DEMOGRAPHICS

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, 21% indicated they were classified as vacation rentals.

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, 21% indicated they were classified as bed & breakfasts.

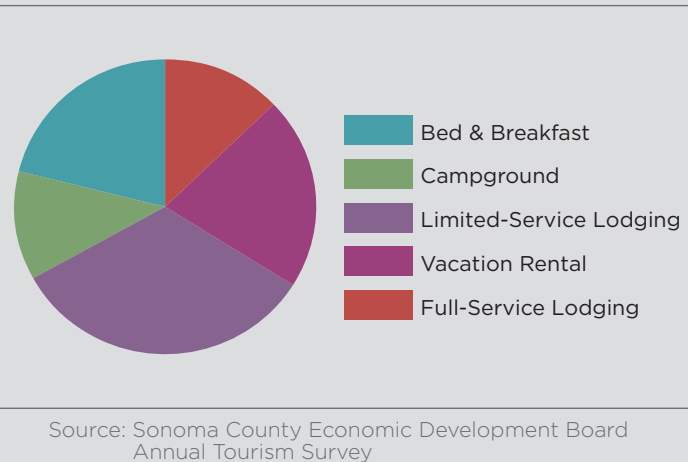
4. Limited-Service Lodging

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, 33% indicated they were classified as limited service.

5. Campground

Campgrounds consist of open pieces of ground where where an individual, family, or group can pitch a tent or park an RV. Some campsites have amenities such as fire pits, picnic tables, utility hookups, and shower facilities. Of 'lodging' respondents, 12% indicated they were classified as campground.

Demographic Profile of Lodging Properties
2018 (Respondent Based)



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.

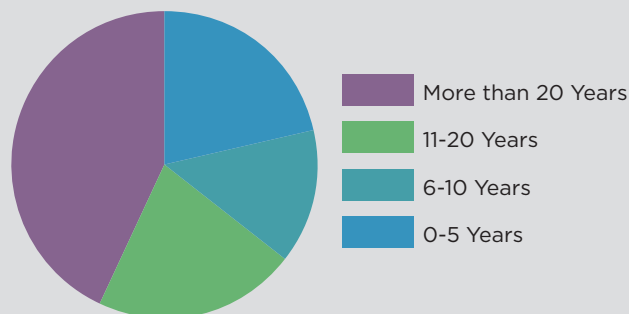
Number of Years in Business

The majority of respondents indicated they have been in business for more than 20 years (43%). Another 22% 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 (21%). 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

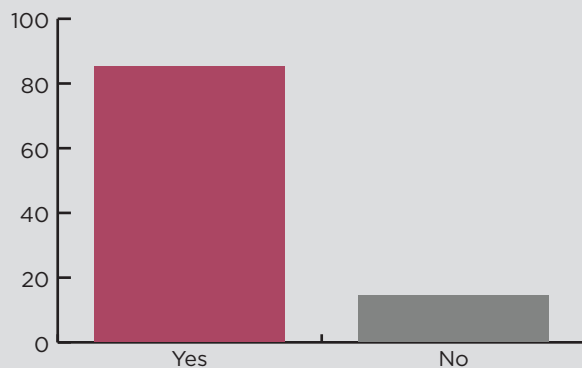
A significant percentage of businesses surveyed indicated that they are independently owned in Sonoma County (85%). Of those that are independently owned in Sonoma County, 2% indicated that they were a franchise.

Number of Years in Business in Sonoma County
2018 (Respondent Based)



Source: Sonoma County Economic Development Board Annual Tourism Survey

Independently Owned in Sonoma County
2018 (Respondent Based)



Source: Sonoma County Economic Development Board Annual Tourism Survey

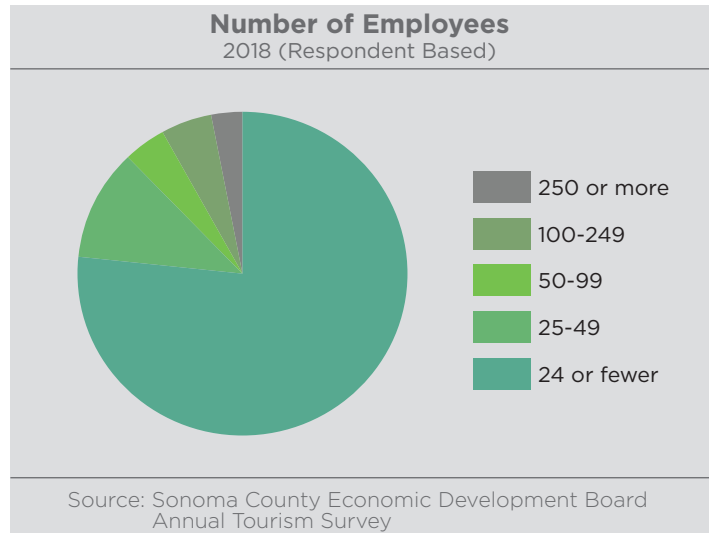
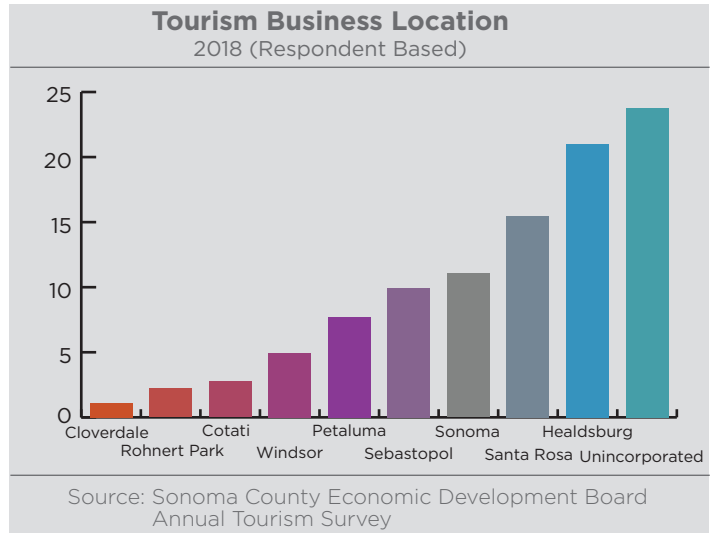
SURVEY RESPONDENT DEMOGRAPHICS

Tourism Business Location

The majority of Sonoma County’s tourism-related businesses that responded are located in unincorporated county (24%), Healdsburg (21%), and Santa Rosa (15%). Other areas of the county represented by respondents include the coastal regions 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%). 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 60% of the tourism-related businesses that responded to the survey indicated that they were ‘optimistic’ (26%) or ‘somewhat optimistic’ (36%) about the tourism portion of their business in the next year. This is slightly lower than the percentage of respondents who were optimistic about the tourism industry last year. Approximately 21% of respondents indicated that they were ‘concerned’ (4%) or ‘somewhat concerned’ (17%) with the tourism portion of their business over the next year.

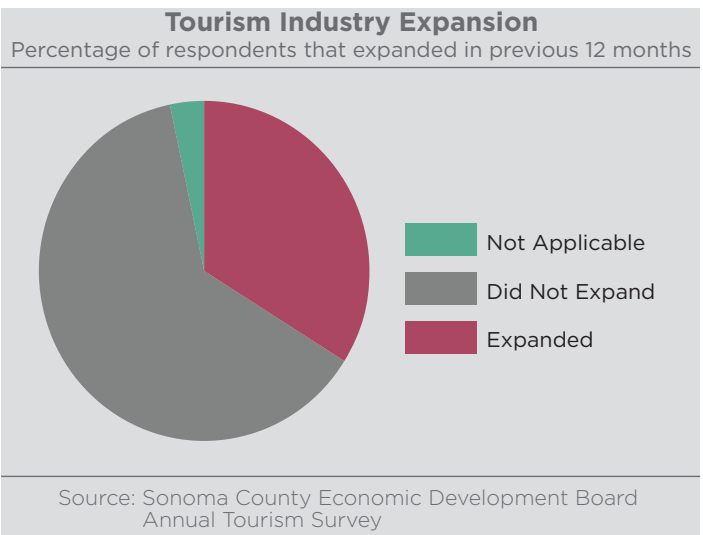
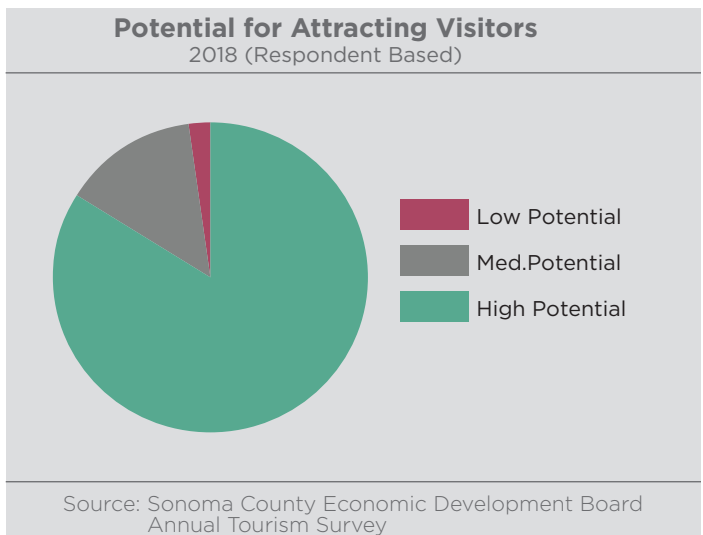
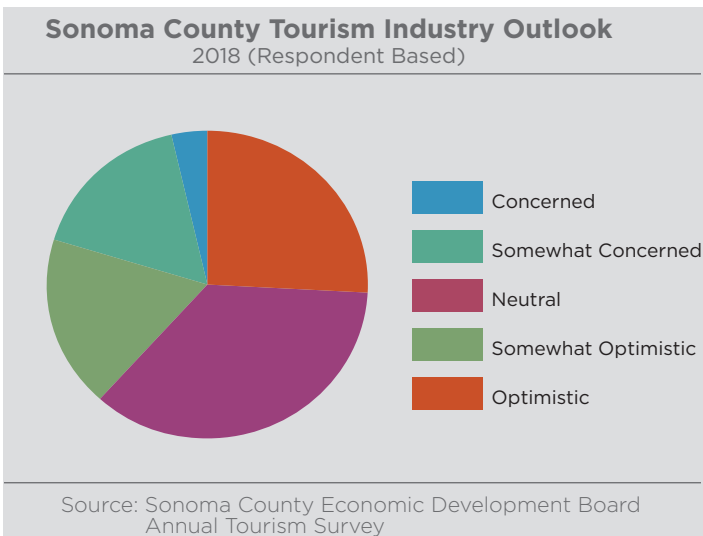
18% of respondents felt ‘neutral’ about the future of the tourism industry.

Decreased industry optimism from 2017 seems to be a reflection of the negative impact on tourism from the October 2017 fires.

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, 34% indicated that they had expanded operations in the time between July 2017 and July 2018. 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 July 2017 to July 2018 (63%).

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

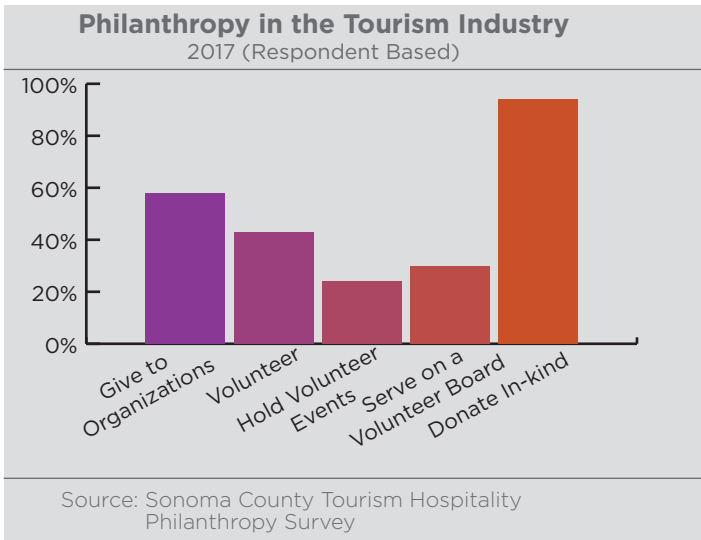
Involvement in community philanthropy is an important aspect for Sonoma County’s tourism businesses. The majority of these businesses are involved in creating a positive community impact in one way or another.

Fundraising and Charity

More than 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

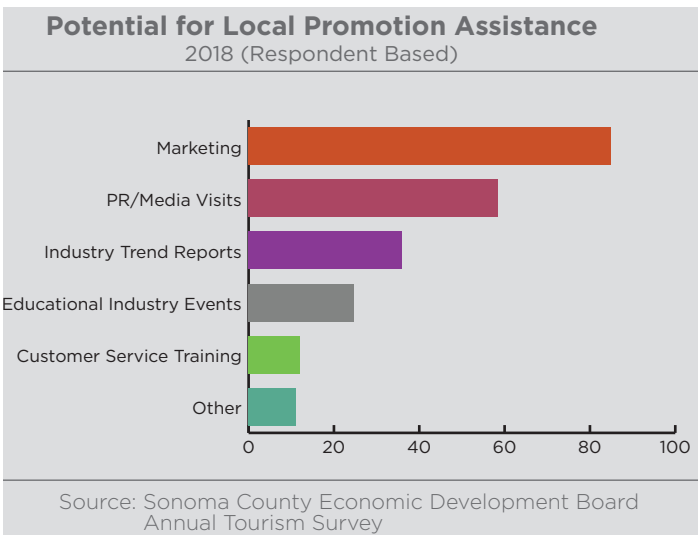
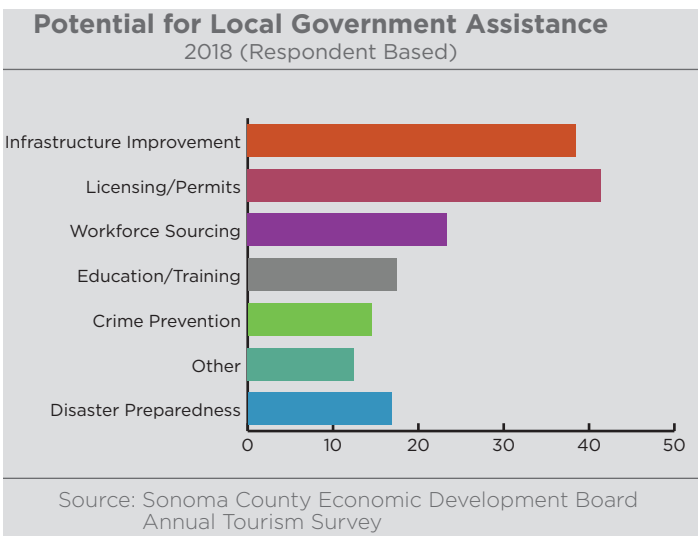
Sonoma County’s tourism industry is a diversified market of service-oriented businesses and segmented markets. The diversification results in a wide range of marketing channels and budgets to reach out to customers. There is also a variety of areas where tourism businesses feel they can be assisted by 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 (41%), and infrastructure improvement (38%). 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. 85% of respondents indicated that marketing would be helpful; 59% of respondents selected PR/ media visits; and 34% of respondents indicated they found trend reports useful.



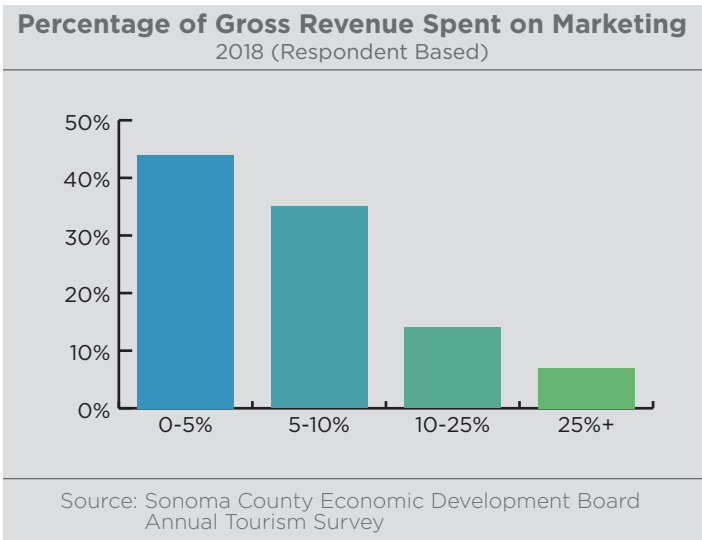
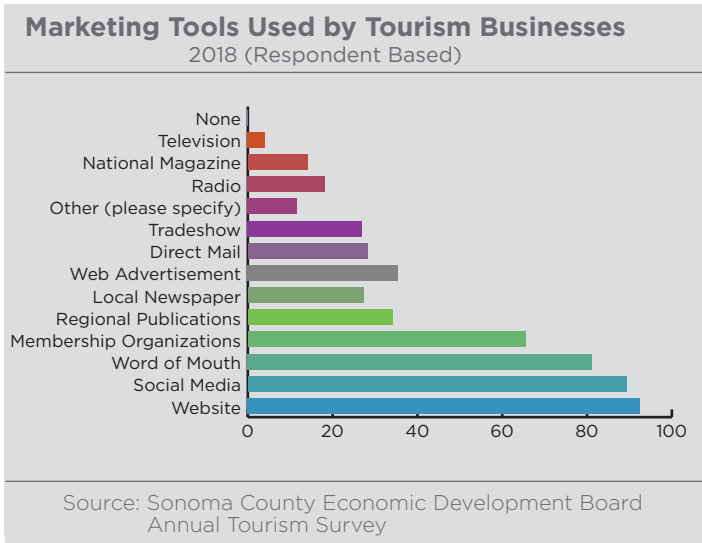
INDUSTRY SURVEY

Marketing Tools Utilized by Tourism Businesses

The most widely used marketing tool among tourism businesses was a business website (92%), this was followed by social media (89%) and then by word of mouth (81%). The least used marketing outlets were television (4%), and national magazines (14%).

Percentage of Gross Revenue Spent on Marketing

The majority of tourism-related businesses spend between 0-5% (44%) and 5-10% (35%) of gross revenue on marketing efforts. More respondents indicated spending in the 0-10% brackets than in 2017, with fewer respondents indicating that they spend between 10-25% or more than 25% of their gross revenue on marketing.



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 such as local Visitor Centers and Sonoma County Tourism.

Effectiveness of Marketing Initiatives

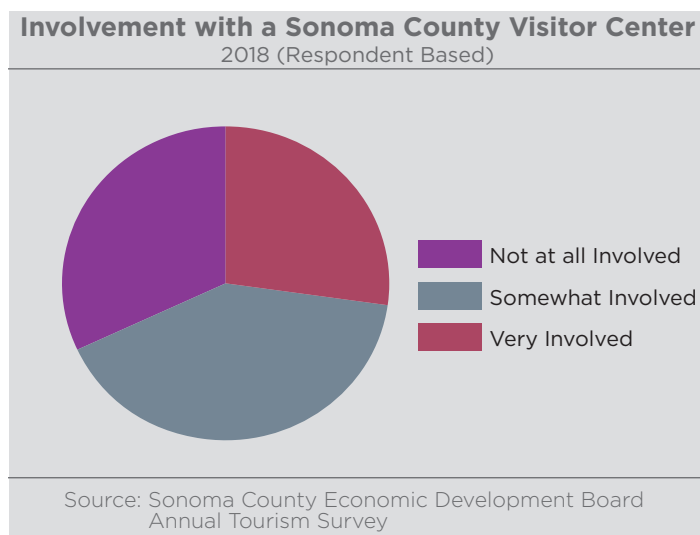
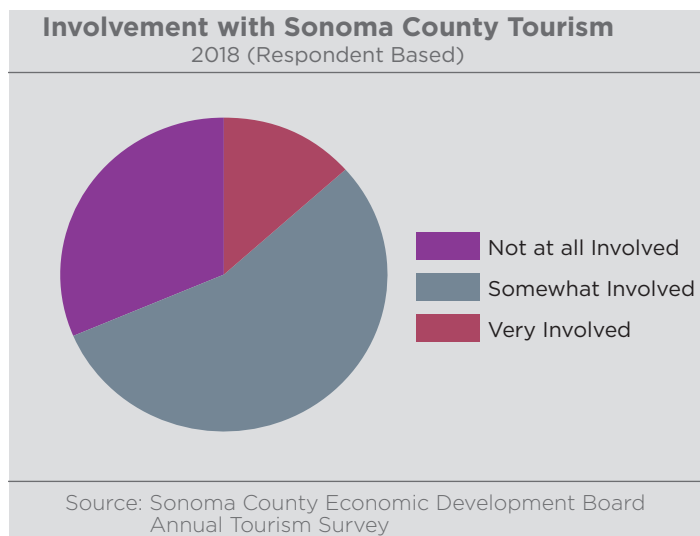
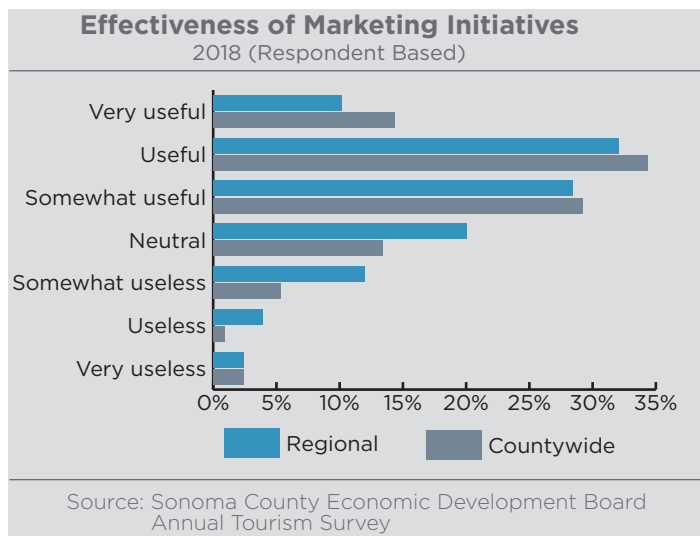
The majority of respondents indicated that tourism marketing initiatives were ‘useful’ for countywide marketing (34%) and ‘useful’ for regional marketing (32%). Very few respondents felt that regional or countywide marketing initiatives were ‘somewhat useless’ to ‘very useless’. However, many respondents indicated suggestions to improve marketing. These included more region-specific marketing, more non-wine activity promotion, more off-season 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 (55%). 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 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

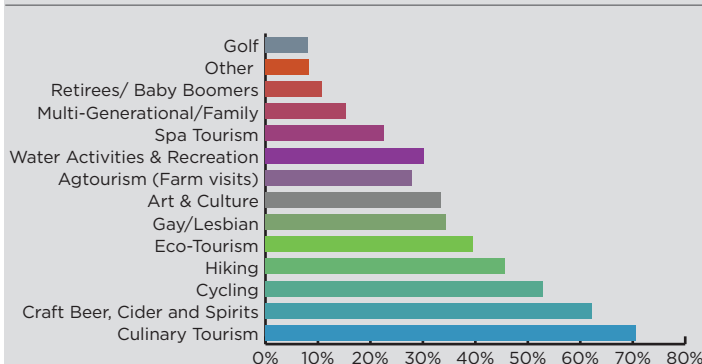
Industry participants identified several key niche markets situated for considerable growth within the county. Culinary tourism lead the way, with over 71% of respondents viewing this sector optimistically. Outdoor activities such as cycling and hiking also attracted significant interest. The tourism 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, cider, and spirits industries 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

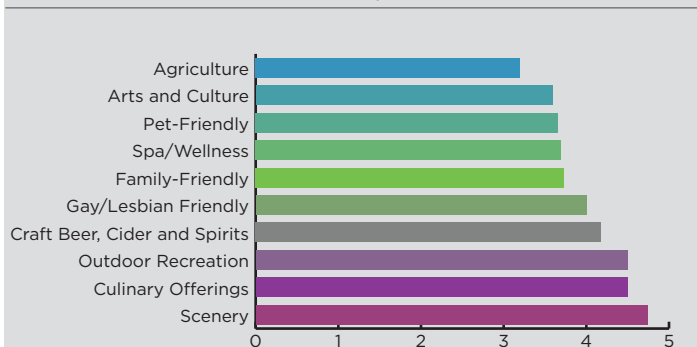
Respondents were asked to rate certain “pull attractions” (again, excluding wine) on a 1-5 scale based on their perceived attractiveness. Sonoma County’s highest-ranked attractions include its scenery, culinary offerings, outdoor recreation, and the craft beer, cider, and spirits scene. However, none 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
2018 (Respondent Based)



Source: Sonoma County Economic Development Board Annual Tourism Survey

Pull Attractions in Sonoma County
2018, Excludes Wine (Respondent Based)



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

Source: Sonoma County Economic Development Board Annual Tourism Survey



ACKNOWLEDGMENTS

The 2018 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 hospitality 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, **Laura Broderick** and **Nathan Baker**, 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 2018 survey of Sonoma County tourism businesses in relation to the tourism industry. Owners and executives of more than 357 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 2018 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 2018, www.visitcalifornia.com/doc_library/CAImp.pdf
- Moody’s Analytics 2017-18 Sonoma County Tourism Analysis Report
- The EDB used the U.S. Bureau of Labor Statistics’ Consumer Price Index to adjust some data for inflation as of December 2017, <http://www.bls.gov/>
- The EDB collected and compiled all TOT data from each Sonoma County jurisdiction



SONOMA**EDB**.ORG

707 - 565 - 7170

141 STONY CIRCLE, STE. 110, SANTA ROSA, CA 95401