



Annual Tourism Report

2014
SONOMA
COUNTY



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Annual Tourism Report

August 2014

The Sonoma County Economic Development Board (EDB), in partnership with Sonoma County Tourism, is pleased to bring you the 2014 Annual Tourism Report. The 2014 Annual Tourism Report contains three sections integrating findings on the local tourism industry. The first section contains research conducted by our research partner, Moody's Analytics. The second section of the report highlights key economic indicators produced by the California Travel & Tourism Commission and Smith Travel Research. The third section provides updated results of the EDB Annual Tourism Industry Survey.

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

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

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

- Key tourism indicators show that travel is returning to Sonoma County following the economic downturn beginning in 2007-2008. Destination spending, transient occupancy tax (TOT) receipts, industry earnings and local and state tax receipts are the highest that Sonoma County has seen in the last decade. Travelers are returning to Sonoma County and supporting the local economy through spending.
- Lodging indicators and occupancy rates also increased in 2013.

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

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

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

Sincerely,



Ben Stone
Executive Director



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Annual Tourism Report: Moody's Analytics Tourism Analysis

Recent Trends

Sonoma County's tourism industry is maintaining a strong expansion. Although leisure/hospitality payroll growth has stalled since reaching an all-time high in June, this does not account for Indian casinos, which are categorized under local government. The new Graton Resort & Casino directly employs around 2,000 workers, and including those workers implies tourism related payrolls in February were up 10% from a year earlier, rather than a mere 1%. This marks the continuation of three years of growth in which tourism has outpaced the rest of the economy.

Sonoma is benefiting from sustained improvement in Bay Area tourism. Although national spending on tourism grew by a relatively slight 4% in 2013, the Bay Area is becoming an increasingly attractive tourist destination. San Francisco and Napa have outperformed the national average, with leisure/hospitality payrolls around 4% higher than a year earlier. Tourism indicators have decelerated but demonstrate further growth. Air traffic increased at Charles M. Schulz-Sonoma County Airport by 5% in February from a year earlier, while passenger traffic at San Francisco International Airport, the primary gateway for air travel to the Bay Area, rose 11% in December from a year earlier. Hotel occupancy is exhibiting a strong upward trend, with revenue per available room in Sonoma County up 27% in January from a year earlier, according to PKF Consulting. Overall in 2013, hotel occupancy rose 9% and the average daily room rate rose 5%.

Macro Drivers

Although a severe winter has suppressed job gains, strong fundamentals in the U.S. economy will promote steady expansion in 2014. Record-breaking snowfalls and cold temperatures led to weak job creation in December and January, especially in construction and transportation. However, these numbers do not reflect true macroeconomic conditions; businesses are profitable, household debts are low, and a stronger banking system is providing greater access to credit. These all contribute to an optimistic outlook for the remainder of the year, with monthly job gains expected to hover around 200,000 and annual GDP growth projected to exceed 3% for the first time since before the Great Recession. GDP growth will accelerate further in 2015, reaching 4% for the first time since 2000.

Most risks to the forecast are to the downside, however. Political turmoil overseas especially in emerging markets, could lead to disappointing yields for U.S. investors that turned to the developing world to avoid the effects of quantitative easing. In addition, much of the credit growth that has occurred in emerging markets in recent years was speculative, and political instability and fiscal mismanagement could suppress or even halt gains in China, India or Brazil.

The revised forecast calls for household survey employment to rise by nearly 3 million jobs over the course of 2014, removing the labor market as a primary source of weakness. The unemployment rate will fall below 6.5%. The labor force participation rate is no longer decreasing, and expanding job opportunities will cause some reversal in the previous decline, as some workers with marginal attachment to the labor market return. With the labor market tightening, real earnings growth will experience sustained improvement for the first time in four years.



Chart: Leisure/hospitality will be a major driver of Sonoma County's recovery in 2014 and the county's later expansion. The new Graton Resort and Casino, owned by the Graton Rancheria tribe, employs 2,000 workers who, while categorized as local government employees by the Bureau of Labor Statistics, have contributed significantly to payroll growth in tourism-related industries. Not only is gambling an increasingly prominent tourist draw, but Sonoma's wineries are gaining visitors as their reputations grow. Tourism gains in the Bay Area in general are above the national average.

Annual Tourism Report: Moody's Analytics Tourism Analysis

Industry Drivers

Many of the obstacles to confidence have receded in recent months, and consumer confidence is expected to rise steadily through 2014. A year of sequestration and last fall's federal government shutdown led consumers to doubt the ability of the federal government to provide stability and security in the U.S. economy. Since that time, however, Congress passed a budget with bipartisan support, and debt limit brinkmanship appears to have ended. Following the federal government shutdown, the Conference Board Consumer Confidence Index fell by close to 10 points, but it has risen since and will likely surpass its 2013 peak by summer.

Although overall consumer confidence is rising, future expectations remain restrained. In contrast to the perception of the present situation, measured expectations have declined overall since June 2012, and in February the index for the current outlook surpassed future expectations. At least part of the weakness in expectations in February is attributable to jobs reports that grew more disappointing during the winter. However, if jobs recover through the spring as they are expected to, the consumer outlook should grow less pessimistic.

Vacation expectations surpassed prerecession levels in 2013. According to the Conference Board, 43.5% of consumers expect to take a vacation in the next six months. This is roughly equal to year-ago levels, indicating that the surge in vacation expectations over the previous two years may be leveling off. But risks are skewed to the upside: Over the past three years, consumers have demonstrated greater optimism in October through December and weaker expectations in February through June.

Household net worth rose quickly in 2013, surpassing its prerecession peak. Much of this growth was due to expansion of financial assets as financial markets steadily increased. Real estate net worth also contributed to the strong gains in household net worth, posting 25% gains in each of the last two years. In addition, the tightening labor market will help boost wages.

Crude oil prices will be softer in 2014, but increased demand for air travel will support high ticket prices. The West Texas Intermediate benchmark oil price is projected to fall 2% from its average in 2013. Gasoline prices are projected to remain roughly flat, but air carriers should enjoy slightly cheaper fuel costs. Increased demand for air travel will push up net ticket prices, however. According to the Federal Aviation Administration, the number of airline passengers will rise steadily, but the number of flights has remained fixed. Increased competition for seats will result in climbing prices.

The growth rate of private consumption will accelerate and is expected to exceed 4% by the end of 2014.

In addition, consumption of energy and food is growing at a slower rate than other categories, allowing a shift toward spending on discretionary categories including tourism.

The solid economic fundamentals of Sonoma County remain important for tourism growth. Consumer-dependent industries have made up for weak public sector performance, and a tightening labor market will support incomes, increasing demand for the restaurants and retailers that also draw tourists. The county's economy is on firm footing, but high prices keep Sonoma County inaccessible to many less-skilled workers, which will produce just average performance in the coming year.

Pricing

Pricing power has returned for hospitality firms. No longer needing deep discounts to attract customers, hotels are increasing room rates amid rising room occupancy rates. Slow growth in available hotel rooms in recent years is fueling the sensitivity of rates to increasing demand.

Hotel occupancy surpassed its prerecession peak in the summer, with the strongest demand in higher-end hotels.

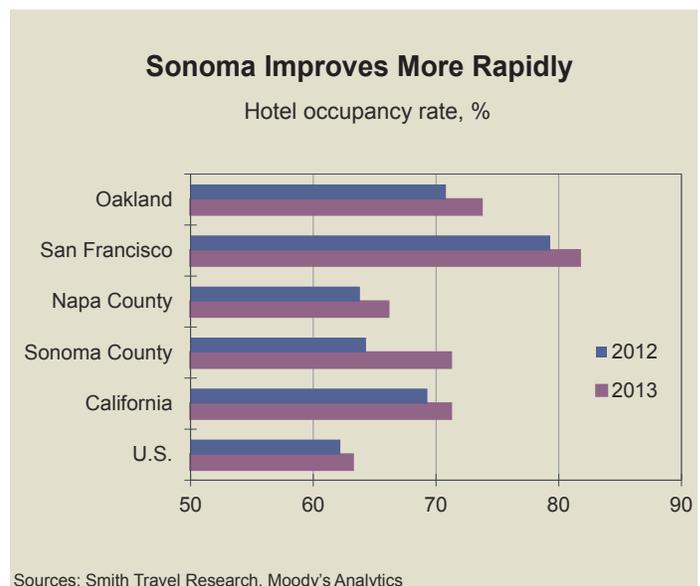


Chart: The rebound of leisure/hospitality payrolls is reflected in rapidly improving occupancy rates amid rising room rates. A temporary moratorium on new-hotel construction in the wake of prior over-building has enabled demand to catch up with supply. Permitting for new hotels resumed in 2012. Revenue per available room on Sonoma's hotels rose 15% in 2013. Hotel demand will be further lifted by Sonoma's major tourist draws: wineries, gambling, and its location bordering Napa, the bay, the San Francisco metro area, and the Pacific Ocean.

Annual Tourism Report: Moody's Analytics Tourism Analysis

Pricing (cont.)

According to STR, the busiest nights were midweek, suggesting that much of the demand for hotels is from business travelers. However, weekend demand also rose, indicating greater leisure travel as well. As hotels move toward maximum capacity, pricing will respond even more strongly to greater demand. Prices will increase close to 2% on food consumed outside the home in 2014. Demand is also expected to produce a 2.5% increase in the national price of alcoholic beverages, a boon to Sonoma County's large wine tourism industry. Despite a large grape harvest, inventories are balanced and wineries will likely be able to raise prices and increase profitability.

Operating expenses

Growth in low-wage industries, including leisure/hospitality, will push up labor costs. Although labor market slack has suppressed wage growth nationally, expansion of low-wage industries will lead to higher wages in leisure/hospitality.

Increased demand for commercial real estate is driving up rents. According to Keegan & Coppin Co., retail vacancy rates in the fourth quarter fell from year-ago numbers but remained mostly steady from the previous quarter. As the commercial real estate market tightens, rental costs will rise steadily. High land costs in Sonoma County will act as a barrier to construction of new commercial real estate, preventing suppliers from meeting demand and producing continued price increases.

Profitability

Price growth this year will outpace rising costs, helping the industry's bottom line. According to data from Smith Travel Research, Sonoma County's average hotel occupancy rate jumped 7 percentage points from 2012 to 2013, reaching 71%. Although the increase in average daily rates was relatively muted, with only a 5% increase from 2012, the combination of higher occupancy and higher rates raised revenue per available room by one-sixth from the previous year. Average revenues remain far below the prerecession peak, however. Reduced hotel building over the last few years and continued growth in demand will allow occupancy rates to remain high even as the steep post-recession discounting comes to an end.

Despite excellent grape harvests over the past two years, inventories are considered to be balanced. Rising demand will allow for modest price increases, with faster growth at the higher end of the market. The popularity of wine-tasting has lifted tourism in both Sonoma County and neighboring Napa, while the Bay Area in general has proven a potent tourist draw, with the rise in tourism-related payrolls greatly outpacing the state and national averages. The new casino has added a major tourist attraction to Sonoma County's array of restaurants, theatres, wineries, casinos, golf courses, equestrian facilities and ocean-related activities. Strong near-term demand will boost profits.

Long-term Outlook

The long-term outlook for Sonoma County's tourism remains positive. The region is growing in recognition as a premier tourist destination, and its proximity to Bay Area attractions and airports will support expansion. Construction at Charles M. Schulz–Sonoma County Airport will add capacity and reduce reliance on traffic through San Francisco. The Graton Resort & Casino will ensure that gambling is a major attraction for regional tourists, supporting thousands of jobs. Increased access to highspending tourists from Asia, who represent a growing share of U.S. tourist traffic, will boost tourism spending in California.

An ever-increasing number of oenophiles and improving brand recognition for Sonoma will ensure that Sonoma's wineries become an even more potent tourist draw, also attracting business to local hotels and restaurants. The rising popularity of cooking and food reality shows and the highlighting of the California wine region as a premier artisan food destination also contribute to an increasingly positive outlook for tourism. Wine consumption is increasing among millennials, meaning the pool of potential visitors will expand as incomes for this cohort rise over the coming decades.

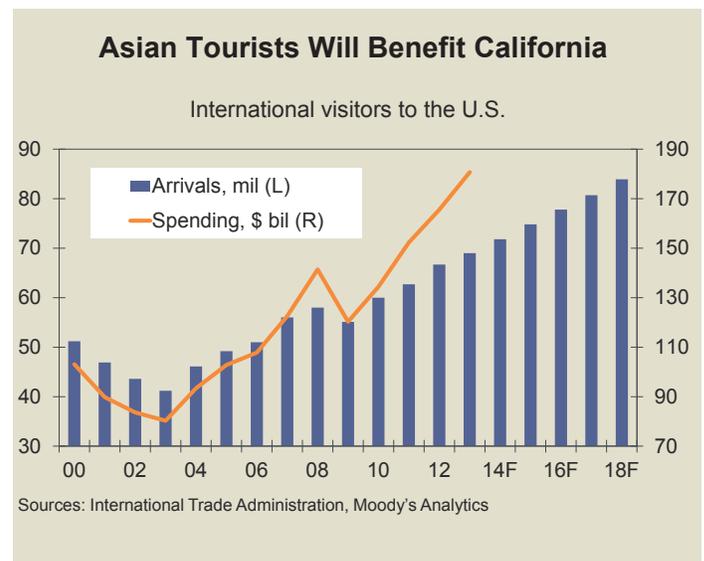


Chart: Sonoma County is poised to take advantage of rising international tourism to California. The number of foreign visitors to the U.S. was 19% higher in 2013 than in 2008, and spending per visitor has recovered after tumbling in 2009 because of the global downturn. California, along with other West Coast destinations, has benefited from the rapid increase in Asian tourists, especially from China. The number of Chinese tourists to the U.S. is expected to more than double over the next five years, to account for more than 10% of arrivals from non-NAFTA countries.

Annual Tourism Report: Moody's Analytics Tourism Analysis

Upside Risks

Sonoma's attempts at raising brand recognition for area wines have the potential to boost wine-related tourism. A new law requires all wines from Sonoma County to carry "Sonoma" on the label. If this succeeds in improving the reputation of Sonoma County wines as similar legislation has done for Napa wines, there will be faster growth in out-of-area tourists coming to Sonoma to sample its wineries. Greater improvement in the job market for young adults and lower-end consumers would benefit Sonoma County. Although the county caters to higher-end patrons as well, it enjoys a competitive advantage in affordability over nearby Napa.

Better than expected business spending over the coming year could produce even stronger outcomes for Sonoma County. Business optimism has yet to fully recover from global and domestic economic shocks last year, and caution continues to be exercised in budgeting for gatherings and face-to-face meetings. The recent increase in business travel spending has resulted more from higher costs than increased travel, according to the Global Business Travel Association.

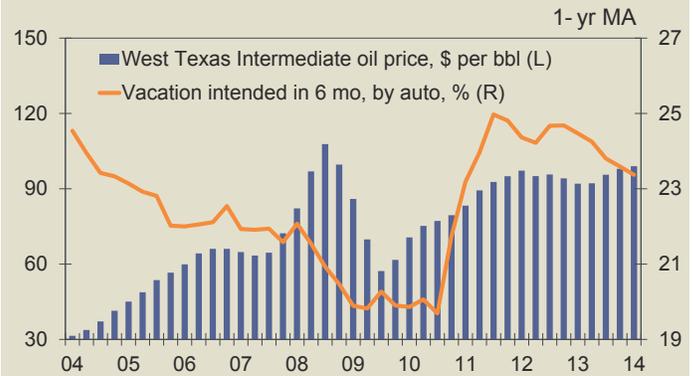
Downside Risks

Despite a generally positive outlook, there are a number of downside risks that could derail growth for tourism-related industries in Sonoma County. A renewed European debt crisis, potentially including the exit of several economies from the euro zone, could hurt tourism in a similar fashion as did the financial crisis of 2008 and the subsequent Great Recession. Though the U.S. financial system has been relatively immune to Europe's economic and financial woes, banks and other financial institutions would be affected by a worldwide decrease in liquidity that a breakup of the euro would entail, damaging business and consumer confidence, increasing risk aversion, and reducing business and vacation travel.

Tourism from Asia, and China in particular, represents a fast-growing international segment of wine consumers that is especially important in California. Thus, the possibility of a more pronounced slowdown in Asian growth represents another risk for Sonoma County's visitor-dependent industries. An explosion of airports to service China's burgeoning population centers has put international travel closer to the country's expanding ranks of middle- and upper-income households, but it also increases the sensitivity of the tourism outlook to any disruption in Asian growth.

Further declines in immigration could disrupt labor flows in Sonoma County. According to the Pew Research Center, net migration from Mexico to the U.S. halted in the aftermath of the U.S. housing crisis, partly because of declining birthrates and increasing economic opportunities in Mexico. Combined with stronger border enforcement and a more pronounced anti-immigration stance in many states, the flow of foreign workers at hotels and restaurants may be slow to respond to increasing demand, placing strain on employers.

Oil Price Growth Poses Risk to Auto Tourism



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

Chart: The uncertainty surrounding oil prices is one of the main downside risks for the county. The number of people planning to take a vacation by auto rebounded in 2010 from a low level during the recession but has since been trending downward. Domestically, a large number of visitors travel to Sonoma County by car, often in addition to a visit to San Francisco. Rising oil prices would likely dissuade some people from making the trip. Car travelers are more sensitive to oil price shocks because of both the direct pain they feel at the pump and the fact that their plans are more easily adjusted.

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Tourism Industry Indicators

Sonoma County Tourism Industry Indicators

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

Santa Barbara 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 2012, Sonoma County destination spending, industry earnings and industry employment experienced a year-over increase from 2011 after adjusting for inflation. This follows an increase seen in 2011 over 2010. This suggests travel is returning to Sonoma County following the economic downturn.
- In 2013, Sonoma County's year-over average daily rate (ADR) for lodging increased 3.5% when adjusted for inflation. This follows a 1.3% increase in 2012, further suggesting that travel is returning to Sonoma County.
- Sonoma County's Transient Occupancy Tax (TOT) receipts totaled \$27.5 million in 2013 after adjusting for inflation. This is the highest level of TOT receipts that Sonoma County has ever received.

Annual Tourism Report: Tourism Industry Indicators

Destination Spending

Destination spending is the total amount spent by visitors in Sonoma County. This indicator includes all spending for accommodations, wine activities, retail, and other tourism related purchases. The most recent figures show that Sonoma County's destination spending was up 9% from \$1.47 billion in 2011 to \$1.6 billion in 2012.

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, 2012 figures indicate that tourism is making a strong comeback in Sonoma County as well as in other destinations.

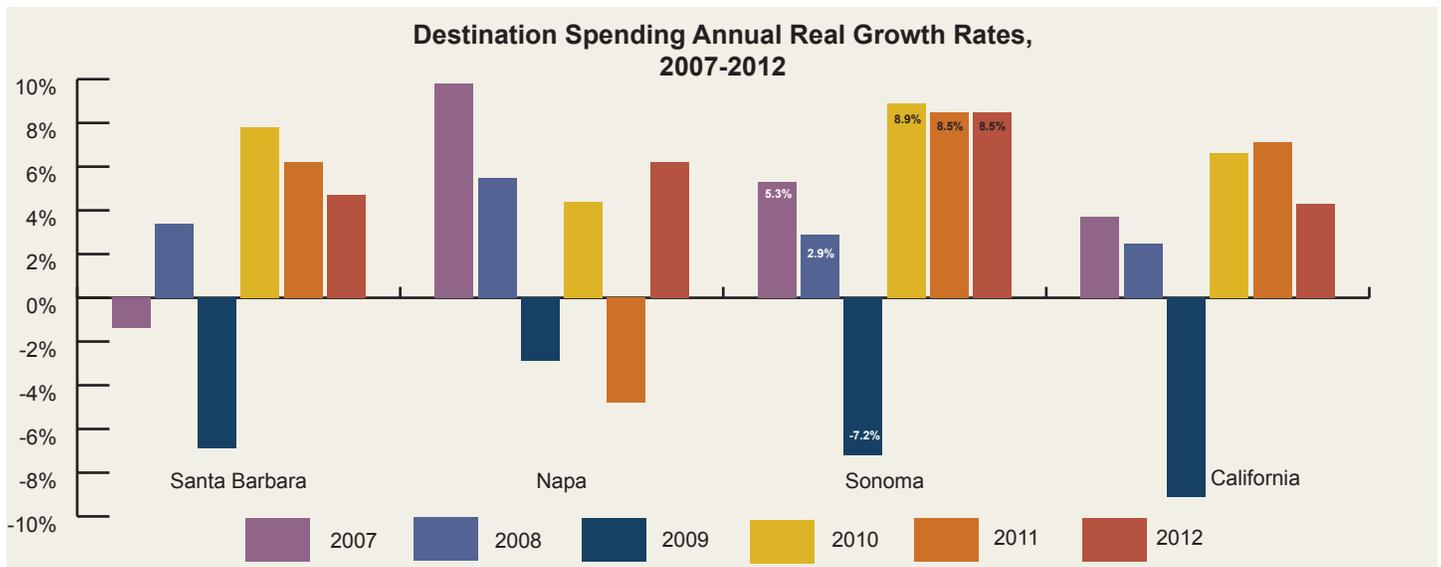
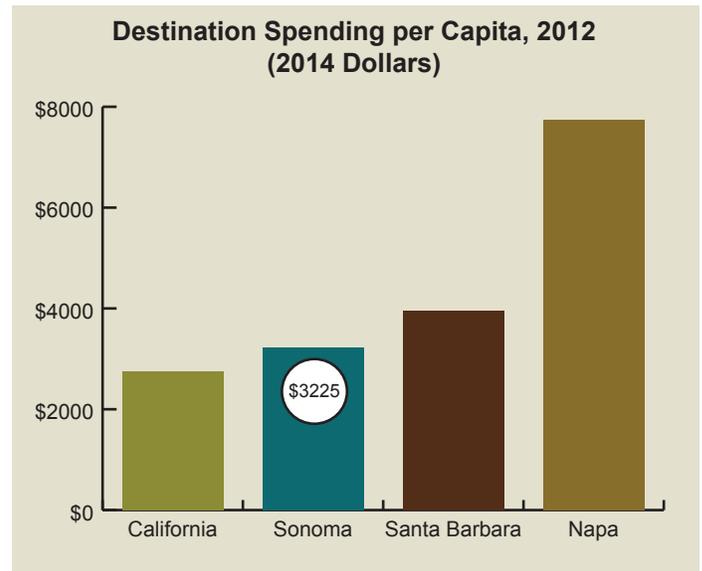
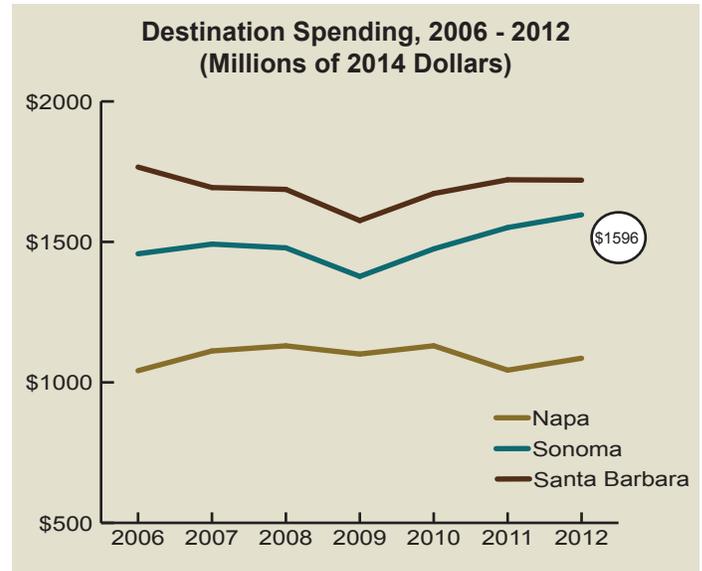
Destination Spending per Capita

For each of Sonoma County's 495,025 residents, \$3,225 in destination spending was generated. Santa Barbara County, with a population of 435,697 generated \$3,947 per-capita and Napa County generated the highest per-capita spending at \$7,738 for each of its 140,326 residents. 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 and Santa Barbara Counties, but outpaced the statewide average of \$2,744 per capita.

Destination Spending Annual Real Growth Rates

The 8.5% increase in inflation-adjusted destination spending was a positive indicator for tourism in Sonoma County, following the same increase in the year prior. These increases indicate that direct spending is on track with pre-recession levels. This growth also outpaced that of Santa Barbara and Napa County, as well as the California average for 2012. Early statewide 2013 figures indicate that this positive trend will continue.

Source for all data: California Travel Impacts by County, 2014



Annual Tourism Report: Tourism Industry Indicators

Destination Spending Breakdown

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

Distribution of Visitor Spending by Commodity

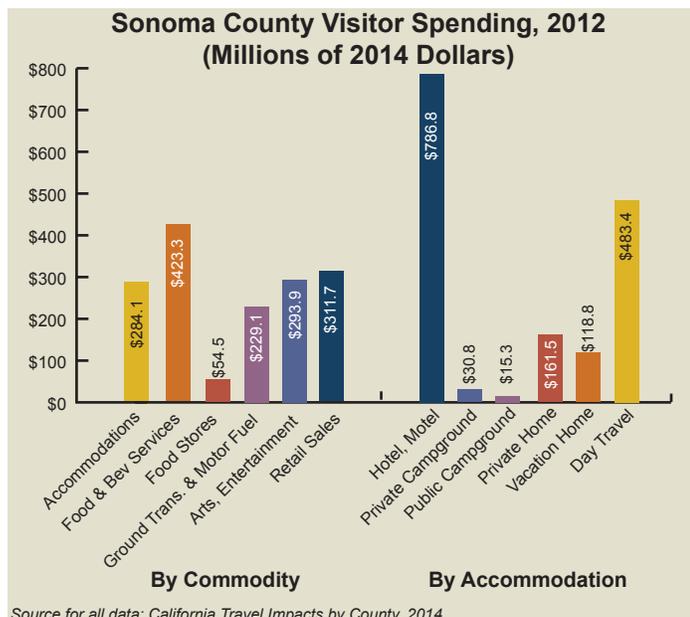
Visitors to Sonoma County devote a smaller share of their spending towards accommodations than other destinations - 17.8% of all spending, compared to 24% in Santa Barbara County and 25.7% in Napa County. Sonoma County visitors spend an approximately equal share of total spending on accommodations (17.8%), and arts, recreation & entertainment (18.4%). They spend the largest amount on food and beverage services (26.5%) and on retail sales (19.5%). Visitors to both Napa and Sonoma County spend more than the state average on arts, entertainment & recreation, and retail sales.

Distribution of Visitor Spending by Accommodation

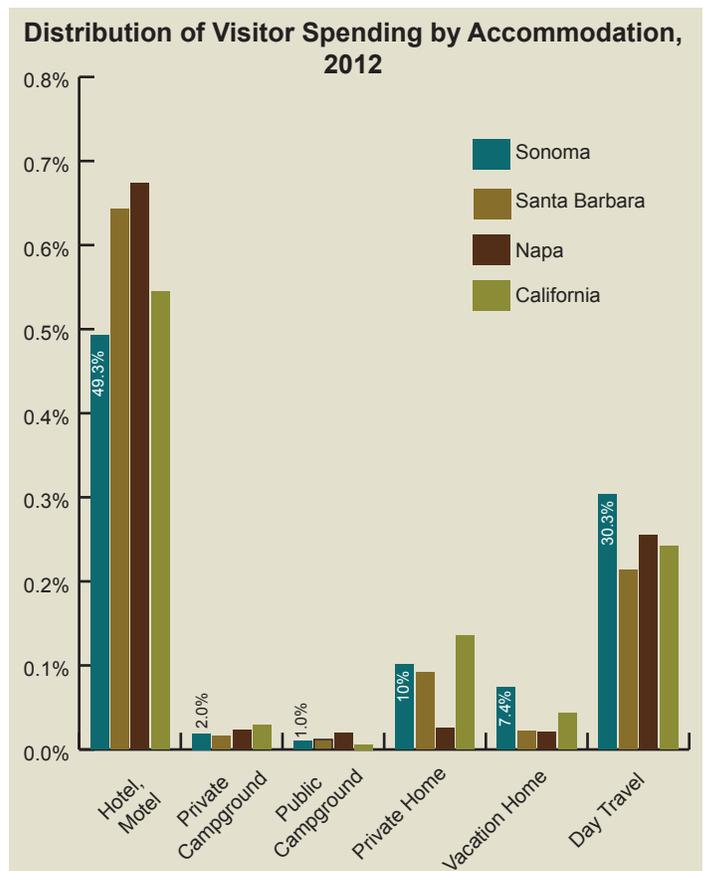
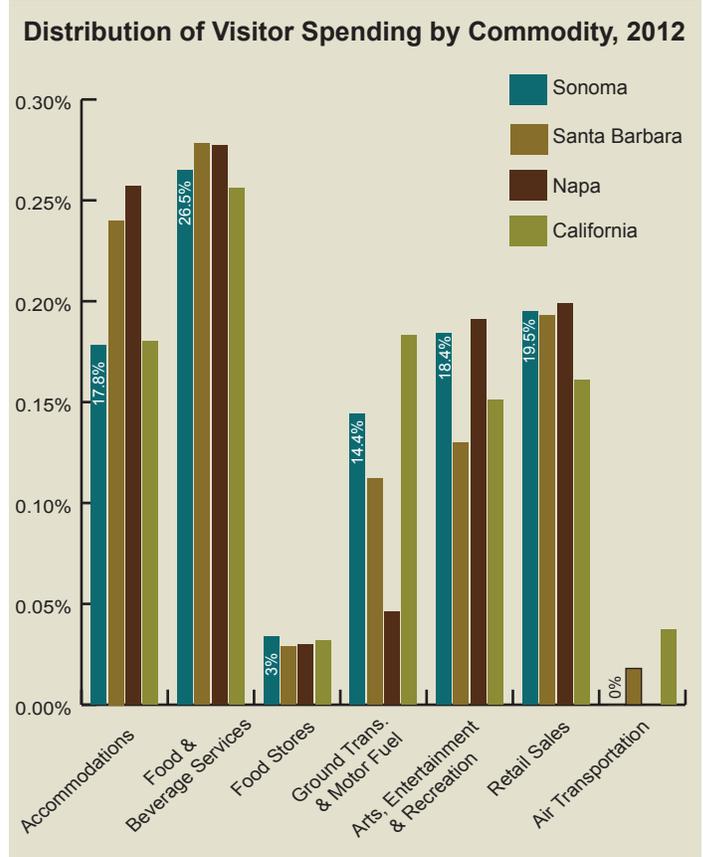
In comparison with the state and other competitive counties, a smaller share of visitor spending in Sonoma County comes from visitors who are staying in a hotel or motel (49% compared to 64%, 67% and 55% for Napa County, Santa Barbara County and California, respectively). Instead, a significant share of Sonoma County visitor spending is received from day travelers (30.3%) compared to 25.5% for Napa, 24% for California and 21.4% for Santa Barbara County. A comparatively larger share of spending in Sonoma County comes from visitors who stay in vacation homes (7.4%).

Sonoma County Visitor Spending

With a total visitor spending equal to \$1.6 billion, the majority of the money is spent by visitors who stay at hotels or motels (\$786.8 million) and on day travel (\$483.4 million).



Source for all data: California Travel Impacts by County, 2014



Annual Tourism Report: Tourism Industry Indicators

Industry Employment

With 17,700 jobs generated by tourist destination spending, Sonoma County ranks first against comparable counties - Napa had 12,100 tourism jobs and Santa Barbara had 16,700 tourism jobs in 2012. Sonoma County's 2012 job figures show a 4.7% increase from 2011, up from a year-over increase of 2.3% from 2010 to 2011.

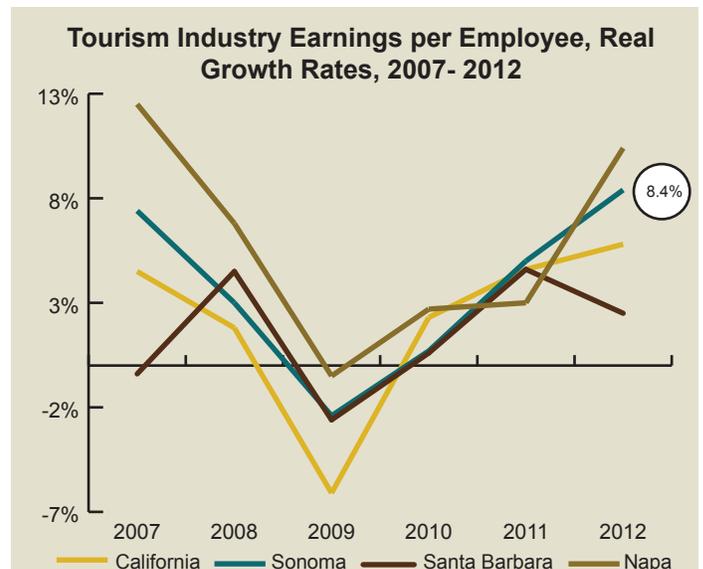
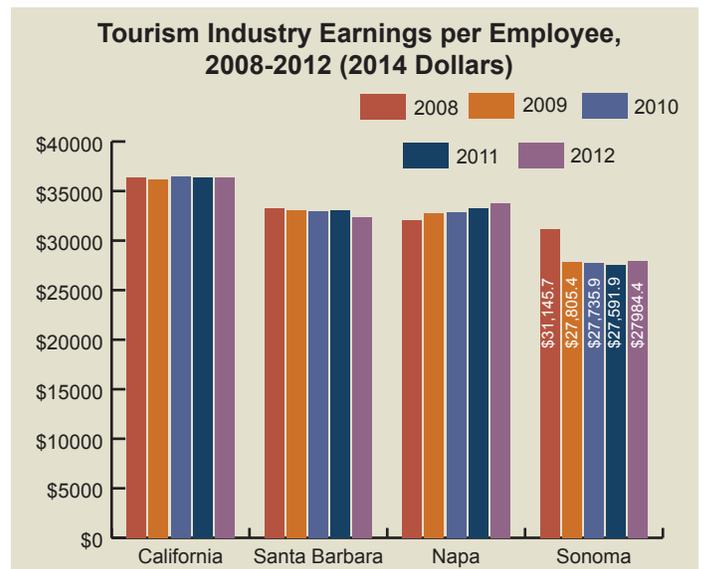
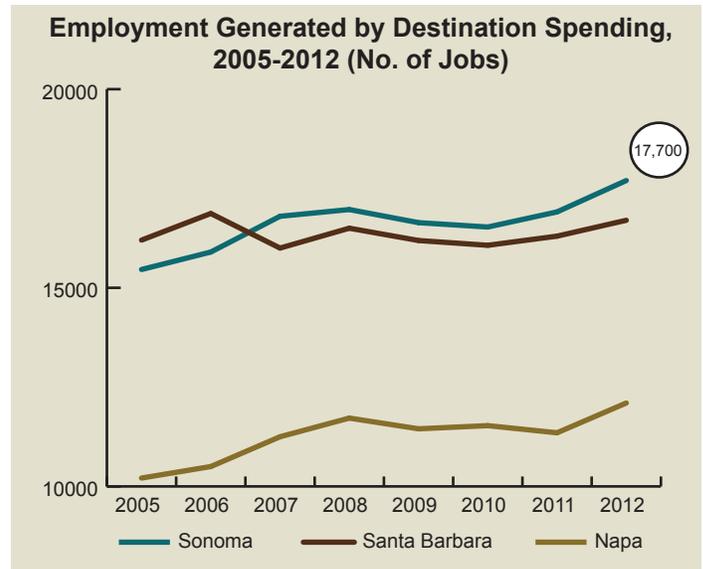
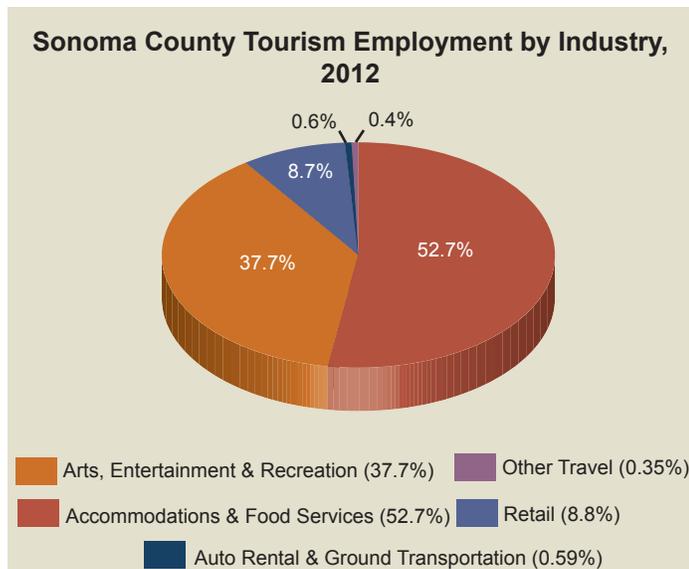
Tourism Industry Earnings per Employee, Real Growth Rates

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. Jobs supported by the tourism industry have surpassed their peak level seen in 2007, with tourism-related job growth increasing by 4.7% in 2012. The county still employs more tourism industry employees than Napa and Santa Barbara, counties where total destination spending consistently outpaces that of Sonoma County. Due to discrepancies in growth between inflation-adjusted industry earnings (8.4%) and industry employment (4.7%), earnings-per-employee increased just 1.4% in 2012. California experienced only a slight change in earnings-per-employee in 2012 (0.02%), while Napa County saw only a small increase (1.5%) and Santa Barbara County experienced decreased earnings-per-employee (-2.1%).

Sonoma County Tourism Employment by Industry

Distribution of employment within Sonoma County's tourism industry is similar to previous years, with 52.7% of employment in accommodations & food services, 37.7% in arts, entertainment & recreation, and 8.7% in retail. In the coming years, air transportation is expected to be a new source of employment, due to the expansion of air services to Sonoma County.

Source for all data: California Travel Impact by County, 2014



Annual Tourism Report: Tourism Industry Indicators

Lodging & Hospitality Assessment

As page 4 illustrates, visitors staying in hotels and motels are the single largest source of destination spending in Sonoma County, with an estimated \$786.8 million in spending in 2012 (2014 dollars). Lodging figures from 2013 suggest that travelers are returning to Sonoma County following the national economic downturn, indicating that we can expect to continue seeing growth in destination spending.

Annual Lodging Occupancy Rates

Sonoma County's occupancy rates stayed relatively stable amid expansion in Sonoma County's room offerings through 2007. During 2008 and 2009, however, average occupancy dropped as the recession decreased discretionary consumer spending. Occupancy rates have been steadily increasing since 2009, surpassing pre-recession levels at 73% in 2013.

Annual Average Daily Rate (ADR)

Average daily rate (ADR) began to increase following the low seen in 2010 at \$118.92 (2014 Dollars). Despite a 3.64% increase in 2011 and a 3.4% increase in 2012, Sonoma County's ADR still remains lower than the previous high of \$144.08 (2014 dollars) during 2007.

Revenue per Available Room

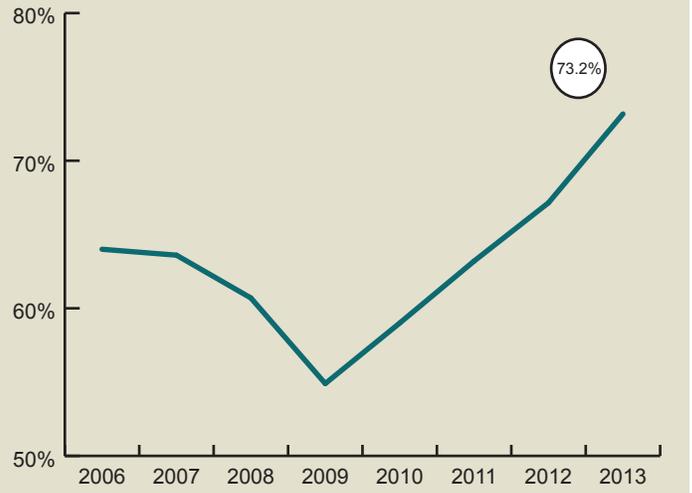
Revenue per available room (RevPAR) for Sonoma County have been increasing since 2009. In 2013, RevPAR surpassed pre-recession levels, highlighting the strengthening tourism industry in Sonoma County.

Real Growth Rates of RevPAR and ADR

Revenue per available room and average daily rate have both increased from 2010 to 2013. As occupancy rates and average daily rate both increase, revenue per available room is expected to maintain above pre-recession levels.

Source for all data: Smith Travel Research, 2014

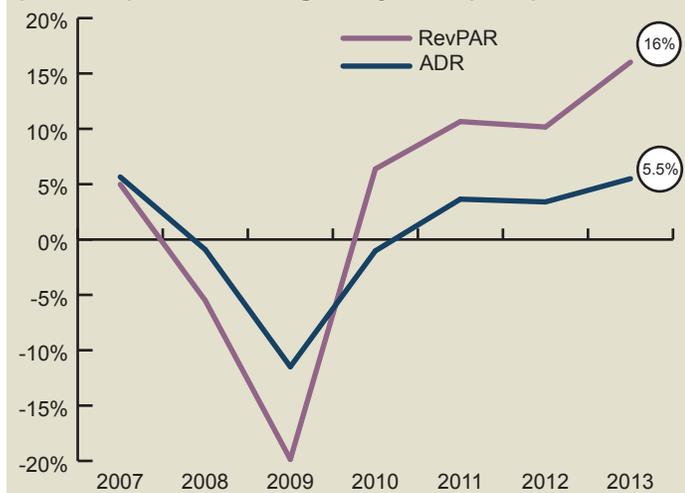
Annual Lodging Occupancy Rates, Sonoma County, 2006-2013



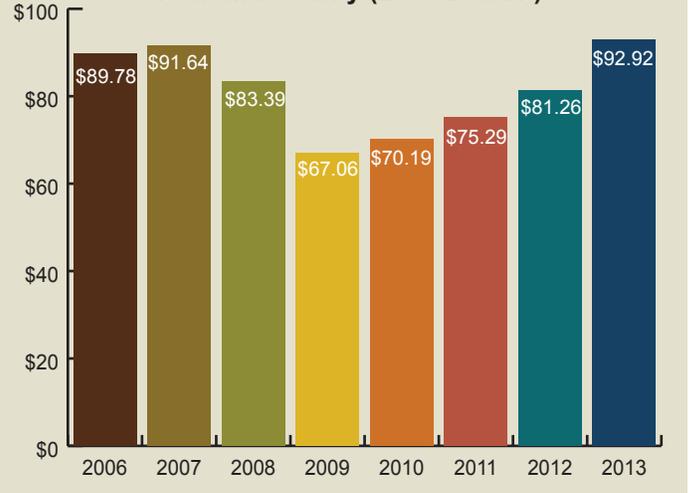
Annual Average Daily Rate (ADR), Sonoma County, 2006 - 2013 (2014 Dollars)



Real Growth Rates of Revenue Per Available Room (RevPAR) & Annual Avg. Daily Rate (ADR), 2007-2013



Revenue Per Available Room (RevPAR), Sonoma County (2014 Dollars)



Annual Tourism Report: Tourism Industry Indicators

Tourism-Generated Taxes

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

Annual TOT Collections

TOT revenues in Sonoma County increased 12% to \$27.5 million in 2013 when adjusted for inflation. TOT revenues fell in 2008 and 2009 as the recession began to negatively affect visitor traffic and spending nationwide. This downward trend has been fully reversed with 2013 TOT revenues being the highest ever in Sonoma County.

TOT Revenue Spending Areas

TOT funds are distributed to different spending areas. The majority of TOT funds go to regional park maintenance and operation (21.6%), tourism marketing (19.1%), or are transferred to the general fund in each city or area (24.1%).

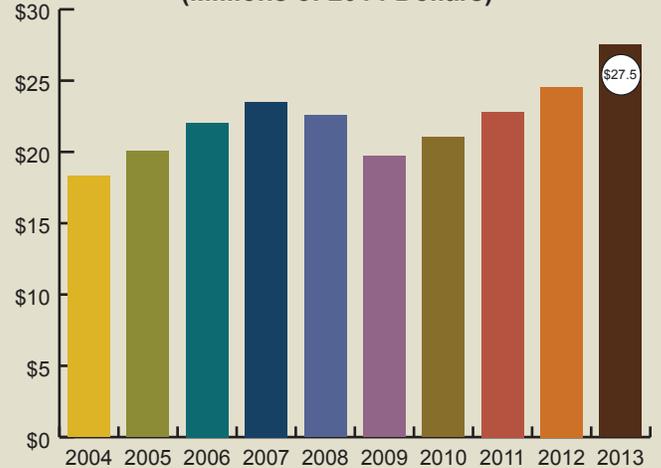
Tax Receipts Generated by Travel Spending

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 \$35.2 million in 2012, after adjusting for inflation. The state collected \$65.3 million from Sonoma County visitors in 2012, after adjusting for inflation. This is a slight increase from 2011 figures.

Percentage of Annual TOT Revenue by City

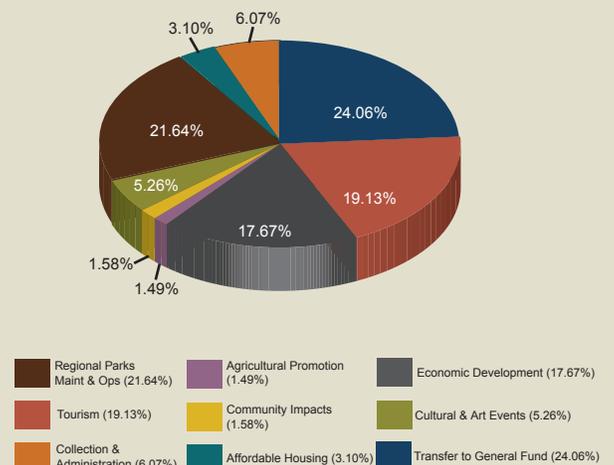
Revenues from TOT are divided between the County of Sonoma (which receives revenue from lodging properties in unincorporated regions) and the individual cities in the county. Collectively, the incorporated cities generated 61% of all revenue in 2012, while the unincorporated areas of the county generated 39%.

Annual TOT Collections, Sonoma County 2004-2013 (Millions of 2014 Dollars)



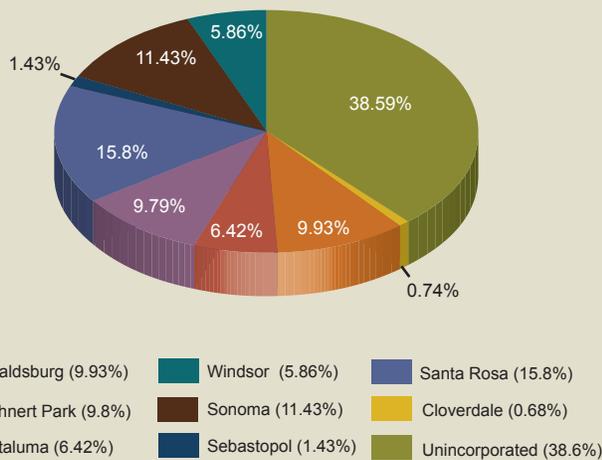
Source: Transient Occupancy Tax Reports, 2014

Fiscal Year 2012 - 2013 (July - June)
County of Sonoma TOT Budget Breakdown by Spending Area



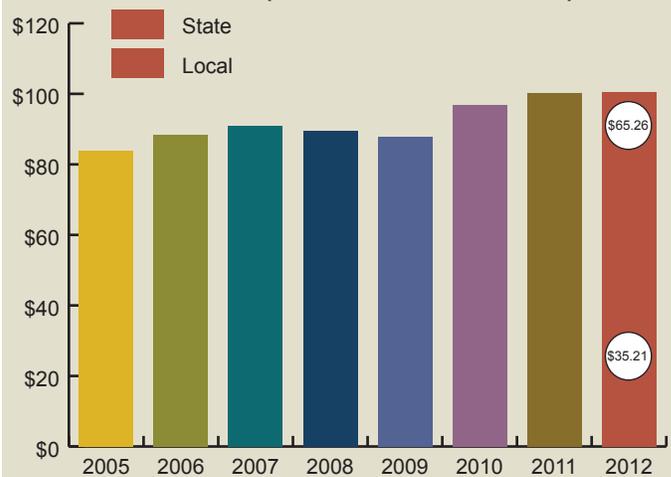
Source: Transient Occupancy Tax Reports, 2014

Percentage of Annual TOT Revenue by City, 2013



Source: Transient Occupancy Tax Reports, 2014

Tax Receipts Generated by Travel Spending, 2005-2012 (Millions of 2014 Dollars)



Source: California Travel Impacts by County, 2014

Annual Tourism Report

Emerging Trends

This page identifies any emerging trends in tourism that are relevant to Sonoma County. The purpose for identifying these trends is to provide insight into issues that will become increasingly significant for Sonoma County's tourism industry in the future.

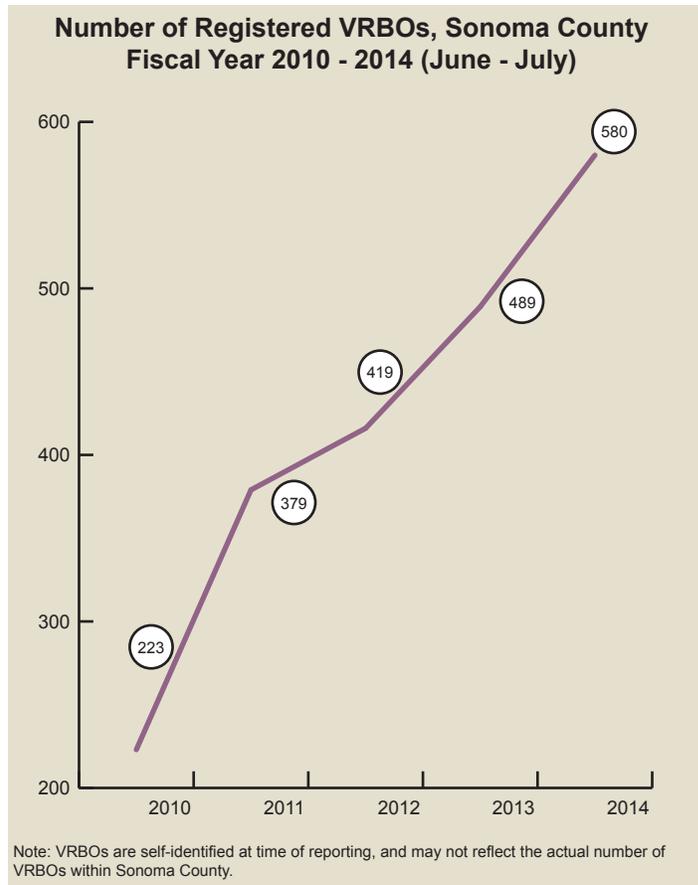
Short-Term Vacation Rentals

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.

The County of Sonoma Auditor-Controller's office now faces the task of identifying and notifying these vacation rentals of local ordinances regarding transient occupancy taxes. Currently, the Auditor-Controller's office is in the process of auditing all known vacation rentals by owner in Sonoma County. At the time of this report there are 580 vacation rentals by owner-operator registered for TOT collection. Searches on VRBO.com and Airbnb.com indicate that there may be more than 1,000 such property rentals in existence in Sonoma County.

Sonoma County joins hundreds of destinations across the country that are encountering the shift in distribution and consumption of short-term vacation rentals. How these will affect established lodging properties remains to be seen, just as the reaction of various local governments will be varied. This is a trend worth watching.



Annual Tourism Report

2014 Tourism Industry Survey

Tourism Industry Survey: Results Summary

The 2014 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 150 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 15% response rate, a strong rate for a mailed survey.

The source for all data in the following section is the 2014 Annual Tourism Survey

Key Findings

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

Annual Tourism Report

Survey Respondent Demographics

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

Tourism Industry Businesses

'Other' and 'Winery' were the most common primary operations of responding businesses at 40.9% and 44.3%, respectively. The lodging classification of respondents is broken down further below, and had a response rate of another 30.4%. 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' (7.8%), 'restaurant' (7.0%), 'recreation service provider or outfitter' (5.2%), and 'spa and wellness' (3.5%). 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, 14.3% 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, 25.7% indicated they were classified as vacation rentals.

3. Bed & Breakfast

Smaller establishments emphasizing a more personal relationship between operators and guests. Guest units tend to be individually decorated. Rooms may not include some modern amenities and may have a shared bathroom. They are usually owner-operated. A continental or full hot breakfast is included in the room rate. Of 'lodging' respondents, 22.9% indicated they were classified as bed & breakfasts.

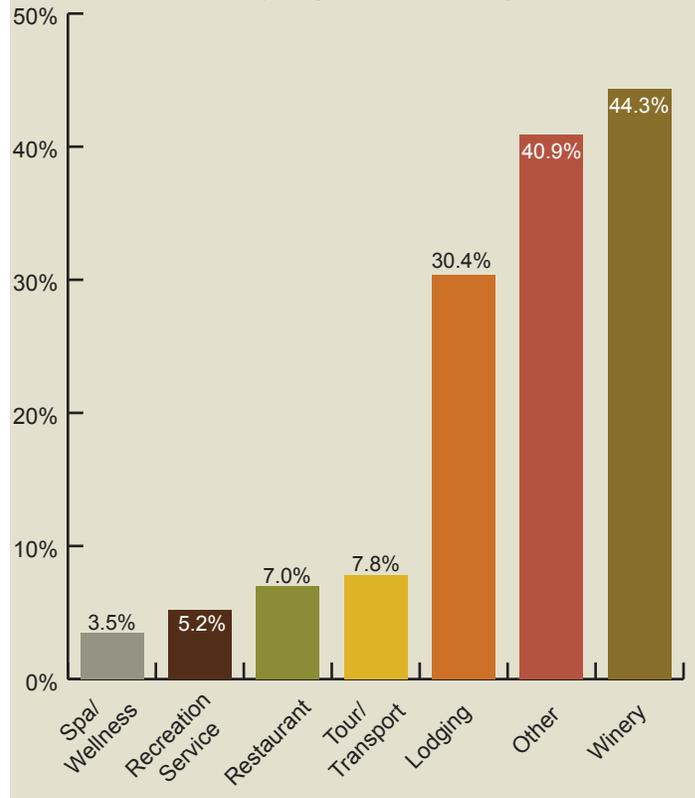
4. Limited Service Lodging

Only the basic services and facilities are available and self-service aspects are predominate for limited service lodging. Commonly, a continental breakfast may be offered rather than having a restaurant on premises. Of 'lodging' respondents, 20.0% indicated they were classified as limited service.

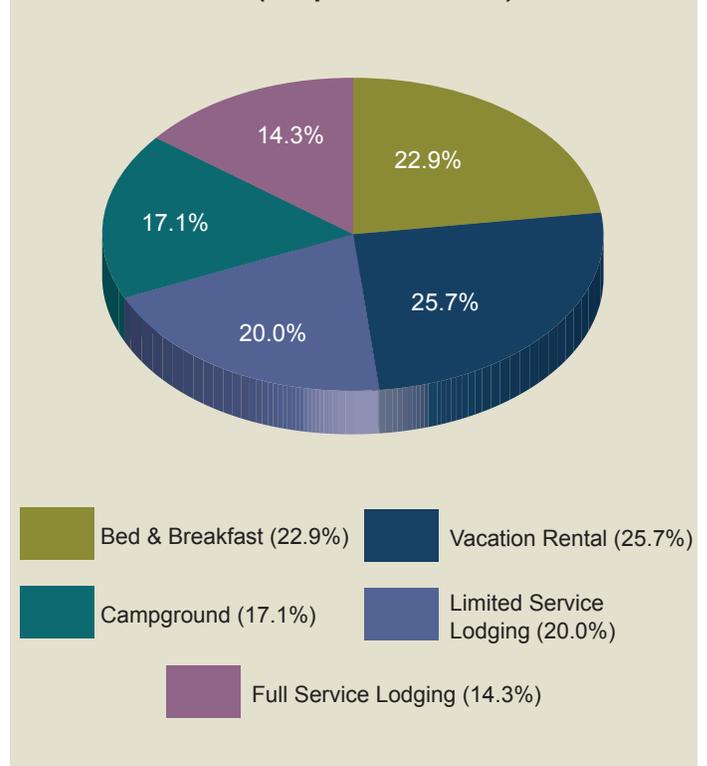
5. Campground

A place useful for overnight stay in the outdoors, where an individual, family or group may camp. Consists of open pieces of ground where a camper can pitch a tent or park an RV. Some campsites have amenities including fire pits, picnic tables, utility hookups, shower facilities, and more. Of 'lodging' respondents, 17.1% indicated they were classified as campground.

Primary Operations of Tourism Industry Business, 2014 (Respondent Based)



Demographic Profile of Lodging Properties, 2014 (Respondent Based)



Annual Tourism Report: Industry Survey

Survey Respondent Demographics (cont.)

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

Number of Years in Business

The majority of respondents indicated they have been in business for more than 11 years. Almost half of the respondents have been in business for more than 20 years (46%) and 27% indicated they have been in business for 11-20 years. Fewer businesses have opened in the last five years than are 6-10 years old (10.5% and 16.5%, respectively). This suggests that there is room for growth, and that the tourism business is also maturing and stabilizing in Sonoma County.

Independently Owned in Sonoma County

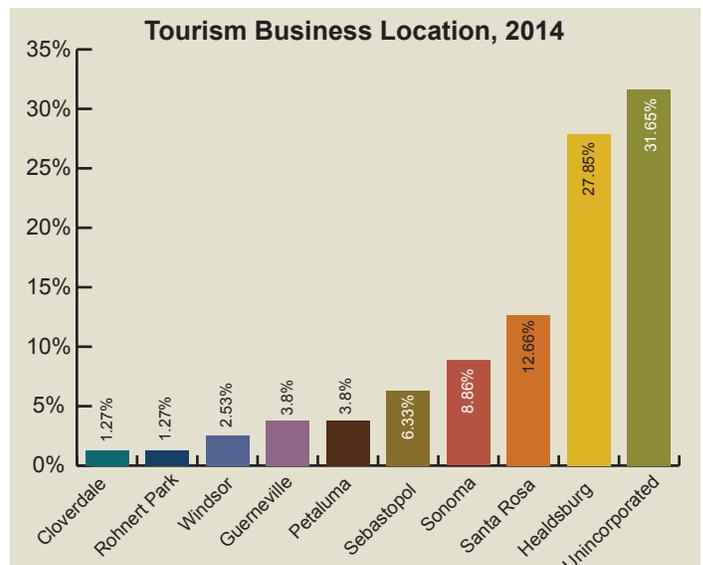
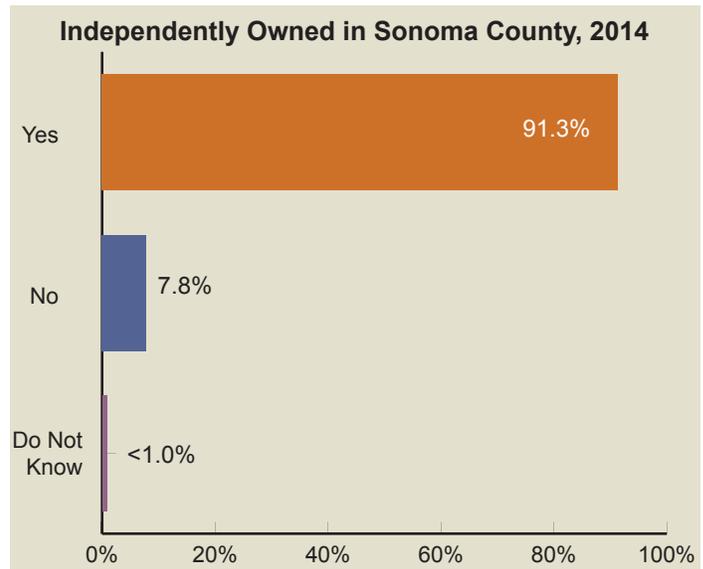
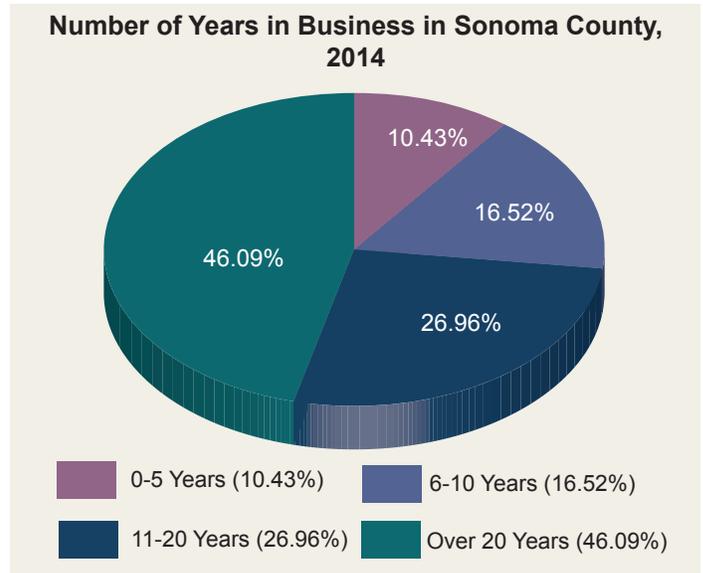
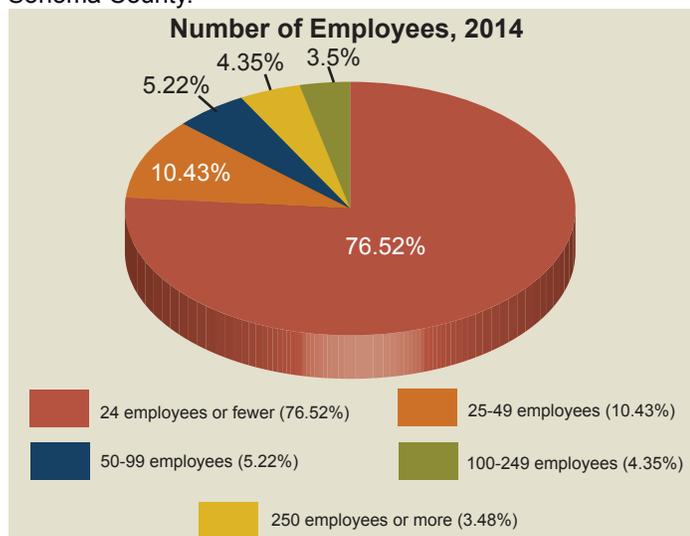
A significant percentage of businesses surveyed indicated that they are independently owned in Sonoma County (91%). Of those that are independently owned in Sonoma County, 8.2% indicated that they were a franchise.

Tourism Business Location

The majority of Sonoma County's tourism-related businesses that responded are located in unincorporated county (31.7%), Healdsburg (27.9%), and Santa Rosa (12.7%). 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 (76.5%). On average, 41% of employees at businesses who employ 24 or fewer employees are part time or seasonal. There was a significant variance in the reported part-to-full time mix by all respondents, reflecting the diverse employment needs of different industries within Sonoma County.



Annual Tourism Report: Industry Survey

Industry Confidence & Outlook

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

Tourism Industry Outlook

More than 89% of the tourism-related businesses that responded to the survey indicated that they were 'optimistic' (51%) or 'somewhat optimistic' (38%) about the tourism portion of their business in the next year. This is an increase over the percentage of respondents who had some hope for the tourism industry last year. Less than 5% of respondents indicated that they were 'concerned' (0.1%) or 'somewhat concerned' (3.5%) with the tourism portion of their business over the next year.

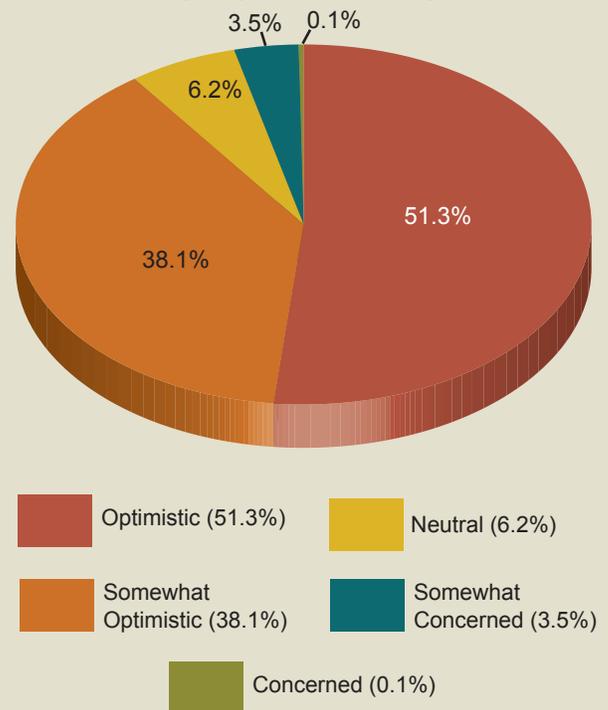
With industry optimism on the rise, this seems to have translated into the decision for businesses to expand their operations in the past year.

Operation Expansion over Last 12 Months

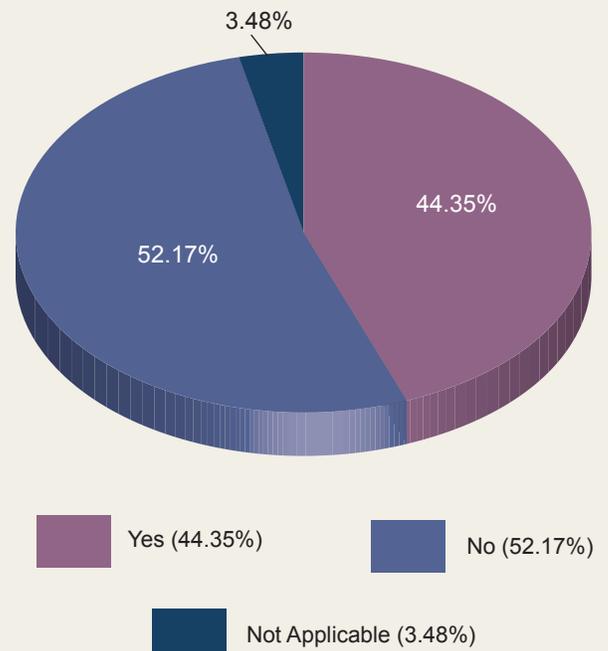
More tourism-related businesses are expanding their operations as tourism-spending returns to pre-recession levels. Of responding businesses, 44.4% indicated that they had expanded operations in the time between May 2013 and May 2014. Those that expanded indicated that they were already starting to see an increase in business and spending and were responding to new demand. The majority of businesses did not expand operations from May 2012 to May 2013 (52.2%). Those that did not expand indicated concern over the future of the general economy; citing issues over lack of economic resources such as financing, and not enough demand for their products.

Compared to the percentage of respondents that expanded over the same 2012-2013 time period, 14% more respondents indicated that they have expanded over the last 12 months (2013-2014). As the travel and tourism sector rebound in upcoming years coupled with increased optimism, it is likely that tourism businesses will continue to expand their operations.

Sonoma County Tourism Industry Outlook, 2014
(Respondent Based)



Percentage of Respondents that Expanded Operations over Last 12 months, 2014



Annual Tourism Report: Industry Survey

Marketing, Government & Promotional Assistance

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

Potential for Local Government Assistance

Tourism-related businesses indicated that the largest potential for government assistance to their business is concerning licensing and permitting (72%), and infrastructure improvement (62%). 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

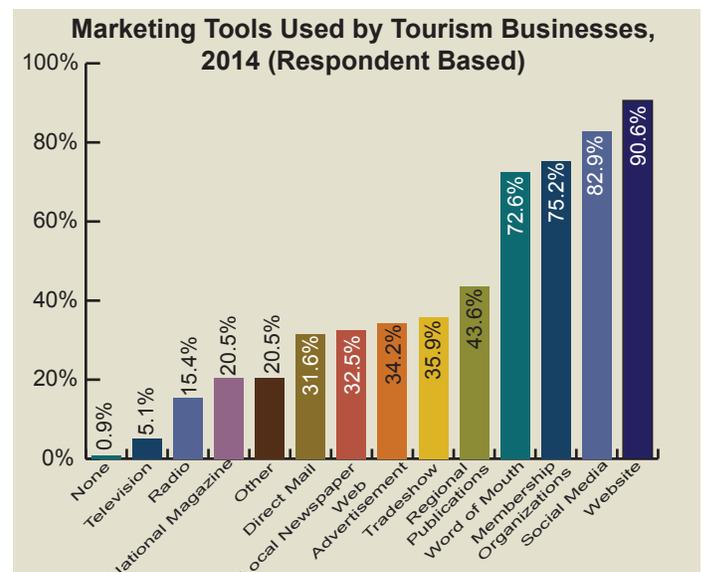
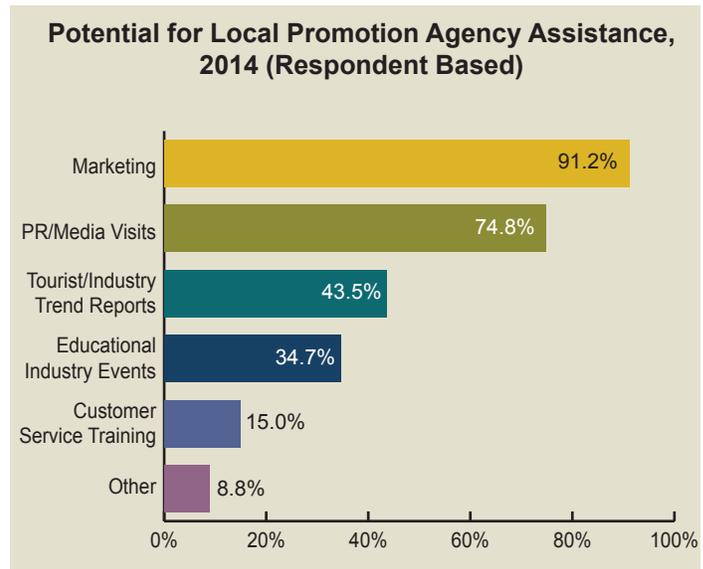
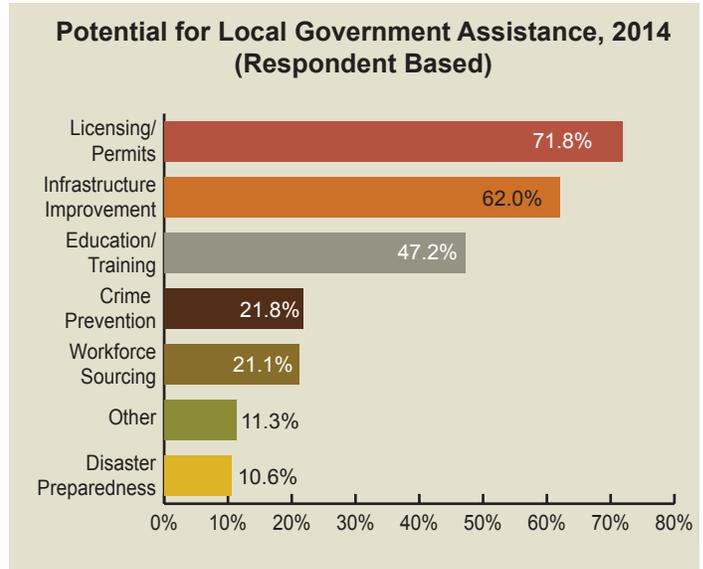
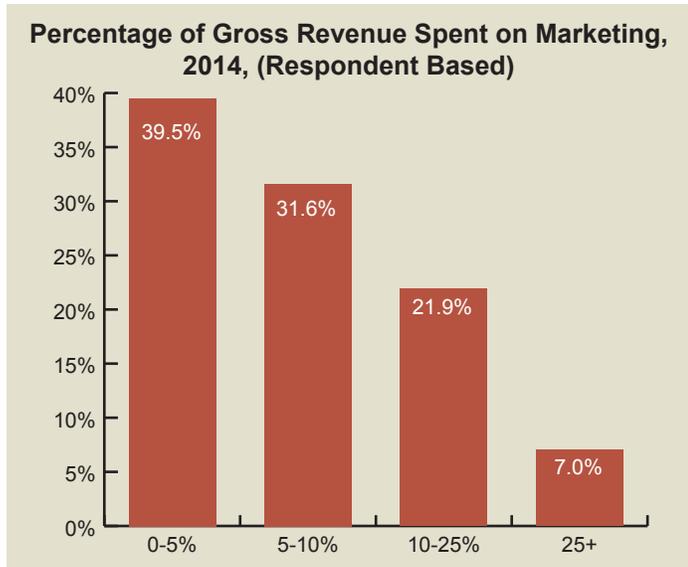
There is potential for local promotion agencies to help tourism-related businesses in several ways. 91% of respondents indicated that marketing would be helpful; 75% of respondents selected PR/ media visits; and 44% of respondents indicated they found trend reports useful.

Marketing Tools Utilized by Tourism Businesses

The most widely used marketing tool among tourism businesses was a business website (91%), this was followed by social media (83%) and then by membership organizations (75%). The least used marketing outlets were television (5%), radio (15%) and national magazines (21%).

Percentage of Gross Revenue Spent on Marketing

The majority of tourism-related businesses spend between 0-5% (40%) and 5-10% (32%) of gross revenue on marketing efforts. More respondents indicated spending in the 0-10% brackets than in 2012, with fewer respondents indicating that they spend between 10-25% or more than 25% of their gross revenue on marketing.



Annual Tourism Report: Industry Survey

Attractions & Potential Market Opportunities

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

Potential for Attracting Visitors

86% of respondents felt that Sonoma County had a high potential to attract visitors. This was largely due to the diversity of services and attractions available to visitors and the climate and scenery. Of those who indicated otherwise, the largest concern was competition from Napa County and the Bay Area.

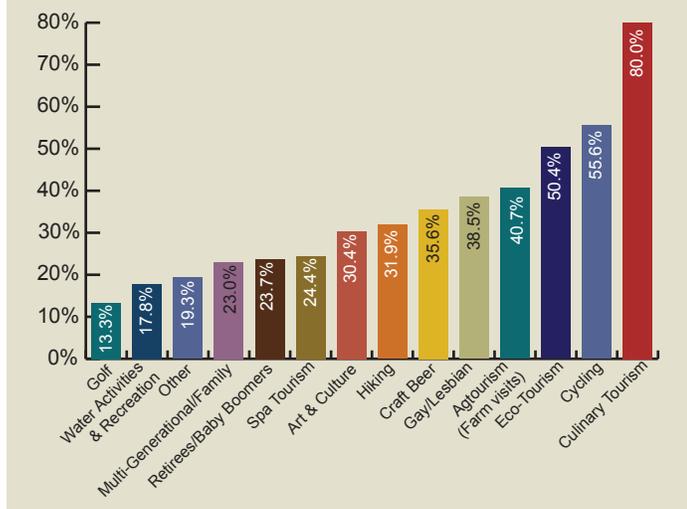
Pull Attraction in Sonoma County

Tourism-related businesses were asked to rank tourism assets on a scale from one to five, one for a least attractive asset and five for a most attractive asset. Respondents indicated that besides wine reputation, the most attractive assets to visitors are scenery (Average rating of 4.7), culinary offerings (4.6) and outdoor recreational activities (4.4). These top-three assets remain unchanged from 2013, although the score for each category increased. A new category to note with a strong score is the Craft Beer, Cider and Spirits industry (4).

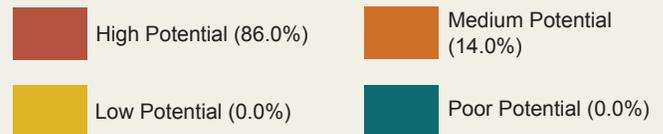
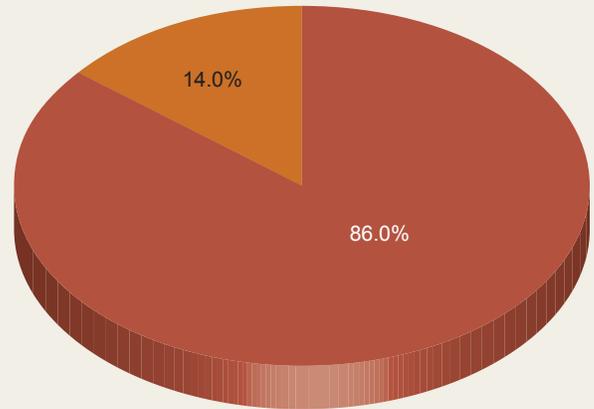
Niche Market Opportunities for Sonoma County

Markets that tourism businesses felt would be good opportunities for Sonoma County were varied. The most reported niche market was culinary tourism (80%), followed by cycling (56%) and eco-tourism (50%). Respondents who indicated 'other' (19%) suggested more specific wine marketing and outdoor 'experiences'.

Niche Market Opportunities for Sonoma County, 2014 (Respondent - Based)



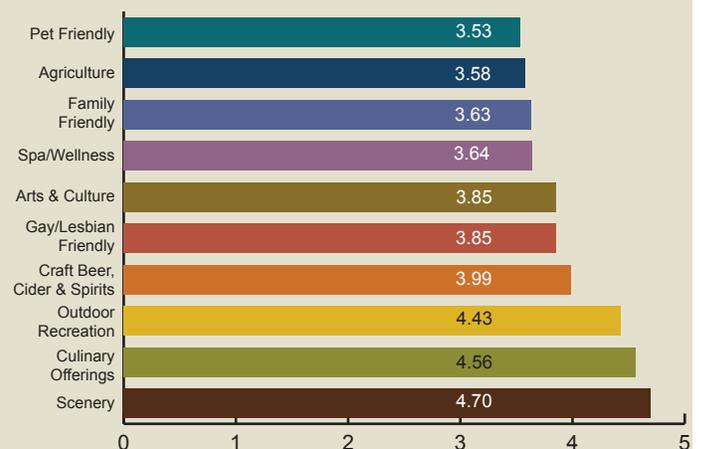
Potential for Attracting Visitors, 2014 (Respondent Based)



Reasoning: (Respondent Based)

- Diversity of services and attractions offered.
- Scenery and good climate
- Proximity to Bay Area
- Culinary offerings and locally sourced food
- Effective Marketing
- Recognition as a wine destination

Pull Attractions in Sonoma County, 2014 (Excludes Wine, Respondent Based)



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

Annual Tourism Report: Industry Survey

Marketing Initiatives & Agency Involvement

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

Effectivity of Marketing Initiatives

The majority of respondents indicated that tourism marketing initiatives were 'useful' for countywide marketing (42%) and 'useful' for regional marketing (31%). Very few respondents felt that regional or countywide marketing initiatives were 'somewhat useless' to 'very useless'. However, many respondents indicated suggestions to improve marketing. These included more region-specific marketing, more non-wine activity promotion, and expanding specific niche marketing.

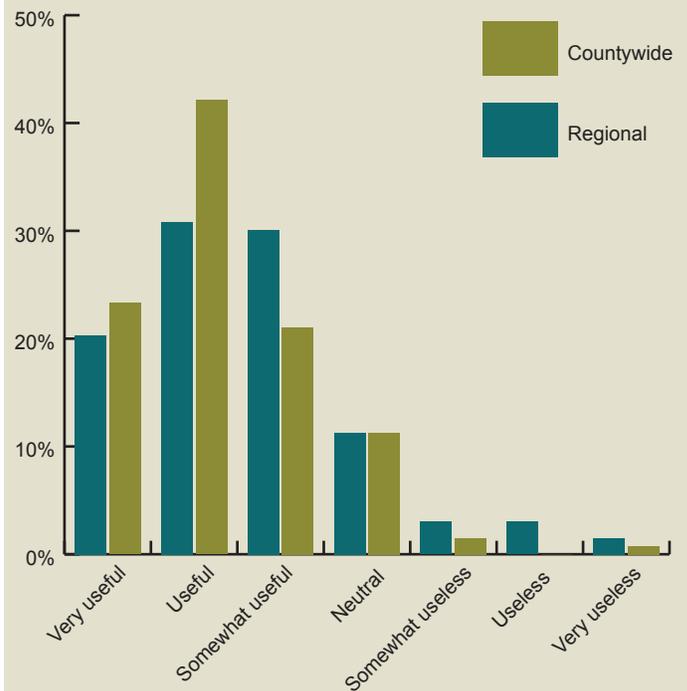
Involvement with Sonoma County Tourism

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

Involvement with Sonoma County Visitors Centers

Respondents were also asked to indicate whether they worked with a local Sonoma County visitor center. The majority of respondents indicated that they were 'somewhat involved' in working with Sonoma County Visitor Center (43%). Of those that were not working with a Visitor Center, the majority still felt that the regional and countywide marketing efforts were 'useful'.

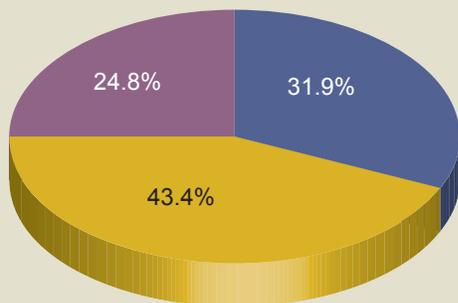
Effectivity of Marketing Initiatives, 2014 (Respondent - Based)



Respondent Suggestions for Improved Marketing

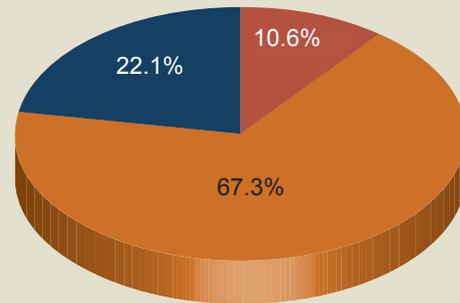
- Market non-wine activities
- Market specific regions and locations within the county more heavily
- Do more promotion of smaller tourism businesses
- Increase specific niche marketing
- More marketing promotions in airplane magazines, airports

Involvement with a Sonoma County Visitor Center, 2014 (Respondent Based)



Very Involved (31.9%) Somewhat Involved (43.4%)
Not at all Involved (24.8%)

Involvement with Sonoma County Tourism, 2014 (Respondent Based)



Very Involved (10.6%) Somewhat Involved (67.3%)
Not at all Involved (22.1%)

Methodology

The Sonoma County Economic Development Board (EDB) conducted its 2014 survey of Sonoma County tourism businesses in relation to the tourism industry. Owners and executives of more than 150 tourism businesses rated their confidence in the industry and identified changes and needs they expect at their businesses in the near future. The responses covered businesses in a broad range of tourism establishments. The survey asked tourism-centered businesses to respond to a broad array of questions about their market and marketing efforts, their visitor demographics, their expansion plans, the demographics of the industry, and their opinion on key county tourism policies. This report represents the findings from that survey as well as an analysis of those responses.

In addition to the survey responses, the Sonoma County 2014 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 2014, www.visitcalifornia.com, and Moody's Analytics Tourism Analysis report. The EDB used the U.S. Bureau of Labor Statistics' Consumer Price Index to adjust some data for inflation, <http://www.bls.gov/>. Lodging classifications were defined by AAA, www.AAA.com. The EDB collected and compiled all TOT data from each Sonoma County jurisdiction.

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

Acknowledgements

The 2014 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 acknowledgement is also due to Ken Fischang and Tim Zahner at Sonoma County Tourism for their invaluable suggestions and generous provision of statistical data on the tourism sector in Sonoma County.

Finally, Hanna Berglund, Tourism Project Coordinator with the EDB, contributed a significant amount of time and effort to the report through surveying administration, compilation, and organization of the report, data, and survey findings. Hanna Berglund updated and consolidated the data sources and statistics from previous years to create this comprehensive analysis, and deserves special thanks.

Ben Stone
Executive Director

With acknowledgement and appreciation to key local businesses that support economic development in Sonoma County

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