



Annual Tourism Report

2011
SONOMA
COUNTY

EDB
Sonoma County
Economic Development Board

Sonoma County
Tourism Bureau

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June 2011

The Sonoma County Economic Development Board (EDB), in partnership with the Sonoma County Tourism Bureau, is pleased to bring you the 2011 Annual Tourism Report. The 2011 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 Economy.com. The next section of the report highlights key economic indicators produced by the California Travel & Tourism Commission and Smith Travel Research. The last section provides updated results of the EDB Annual Tourism Industry Survey.

Moody's Economy.com is a leader in economic research and provides key quantitative and qualitative analysis on Sonoma County's tourism industry. Key findings from Moody's Economy.com 2011 Annual Tourism Update Include:

- Leisure and hospitality payrolls have started to rebound. Sonoma County is outperforming both the nation and the state, reflecting the faster comeback in the county's distinctive higher-end and speciality tourism.

- The long term outlook for Sonoma County's tourism industry is good. The region is growing in recognition as a premier tourist destination, and its proximity to Bay Area attractions and airports will continue to support growth.

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:

- Figures showed that destination spending, industry earnings and industry employment experienced a year-over decrease from 2008 after adjusting for inflation.

- Lodging indicators and occupancy tax rates also decreased in 2010. However, the 2010 year-over decrease is smaller than that of the previous year. Additionally, early 2011 data suggests travel is returning to Sonoma County.

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 relatively positive outlook for tourism in the coming year, and 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

EDB
SONOMA COUNTY
ECONOMIC DEVELOPMENT BOARD

Recent Performance

Sonoma County's tourism industry has entered recovery after a difficult recession. Although growth is still relatively modest, there has been a definite improvement in the industry for more than a year. The European debt crisis disrupted the recovery at the beginning of 2010, but since then, tourism has experienced stable gains in employment. Leisure/hospitality payrolls in February were up 1.2% from a year earlier. Through the recession, tourism in Sonoma County declined less severely than the economy as a whole and has mostly outperformed during the recovery.

Tourism indicators improved throughout 2010, and most showed a particularly strong second half. Air traffic through Charles M. Schultz-Sonoma County Airport (STS) grew 1.5% from 2009 to 2010, but that growth was back-loaded—growth in January and February has been 18% ahead of last year. A $2.4 million expansion of STS's passenger terminal opened in July. San Francisco International Airport (SFO) is showing even stronger trends. Passenger traffic was up 4.7% for 2010, including 6.3% growth in international passengers. International visitors to Sonoma County travel largely through SFO, so growth there is a positive sign for the area.

Hotel occupancy is showing strong trends as well. According to data from Smith Travel Research, Sonoma County's hotel occupancy rate was 49.6% in February, up by 6 percentage points from a year before. The county experienced some of the strongest growth of any area in California. Even better news for most hotels is that room rates are stabilizing. The average daily rate went from $76.57 to $77.25 over the same period. The small overall change masks the strong growth on both sides of the ratio. Room revenue was up 15.6%, and rooms sold were up 14.6%. County hotels are experiencing some of their best price growth in more than two years.

Conditions for tourism industries have improved beyond hotels. Nationwide, tourist spending on food and beverages, recreation and enter-tainment, and shopping was up for the year and growth accelerated throughout 2010, indicating that consumers are beginning to increase their discretionary spending.

Macro Drivers

The U.S. economic recovery gained ground in 2010. Recent revisions to real GDP growth show that the economy grew at a 3.1% annualized rate in the fourth quarter of 2010. The economy has been expanding since the third quarter of 2009. The European fiscal crisis caused slower growth in the middle of the year, but the economy was back on track by year's end. Despite being out of recession for more than a year, the recovery is still relatively fragile, although it is gaining strength.

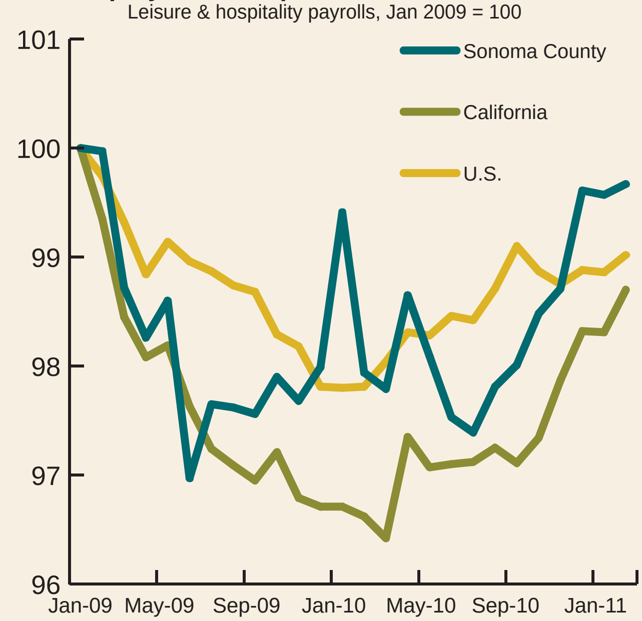
U.S. policymakers are watchful of the recovery, instituting an additional stimulus when it appears that growth might go off-track and maintaining relatively loose monetary policy to keep credit flowing. The U.S. economy is expected to grow 3.5% in 2011, accelerating to 4.1% growth in 2012 before slowing slightly in 2013 to 3.8%.

The job market has seemingly turned the corner, but past job losses were severe, and full employment is still some ways off. Since bottoming in September, almost 1.3 million jobs have been added to payrolls, but that still leaves a deficit of about 7.5 million from the previous employment peak. Hiring has been driven by manufacturing, professional services, and healthcare. Since census effects faded in the fall of 2010, government employment has been a weight on growth. Across much of the country, local and state governments have either already cut budgets or are in the process of cutting their budgets. Layoffs have hit public employment and are likely to continue through much of 2011. In contrast, private employment should take off in 2011, as firms recover from the effects of the recession and look to grow revenue.

Unemployment figures will lag job creation because many residents who are sitting on the sidelines will rejoin the search for work as more jobs become available. This will track weakness in the consumer sector, with the unemployment rate projected to peak in the second or third quarter of 2011. However, real personal income growth will accelerate beginning in 2011 and continue into 2013, providing some cushion for consumers who have managed to spend despite weak income growth.

Employment Responsive to Macro Conditions

Leisure & hospitality payrolls, Jan 2009 = 100



Sources: BLS, Moody's Analytics

Leisure and hospitality payrolls have started to rebound. Sonoma County is outperforming both the nation and the state, reflecting the faster comeback in the county's distinctive higher-end and specialty tourism. The industry remains sensitive to changes in the macro and global outlooks. The European fiscal crisis led to a drag on payrolls, and should anything disrupt the recovery, employers will not hesitate to resume cuts. A sufficient labor supply will also be necessary to continue the upward trend; otherwise, onerous labor costs could slow growth.

Industry Drivers

Consumer confidence has improved but appears to be a lagging indicator in this recession. Sentiment has brightened since the darkest days of the recession, but according to the Conference Board and University of Michigan surveys, it still is not much higher today than during the low points of previous, less severe recessions.

Households are in better shape in terms of their nest eggs as stock and equity prices have regained strength, but household net worth was still down about 13.6% in the fourth quarter of 2010 from its cyclical high. House prices remain a concern, although stress at the higher end of the market is lessening. Large numbers of foreclosure sales are driving house prices lower, while the upper end of the market has stabilized. However, construction and sales are weak, and households are still feeling constrained by potential wealth losses from further house price declines.

Real estate weakness has not prevented consumers from spending. Real personal consumption expenditures are above their prerecession peak and fourth quarter annualized growth was 4%—the best since 2006. Consumption will slow somewhat in 2011, particularly for spending on food services and accommodation, but will remain positive.
In February, 45% of consumers reported that they planned to take a vacation in the next six months, according to the Conference Board. This is well above cyclical lows but below the 10-year high reached in December.

Consumers are clearly still unsure of the recovery, but most are moving forward with their plans despite this. The unrest in the Middle East has renewed fears among consumers about having to devote a larger portion of income to gas and other energy expenses.

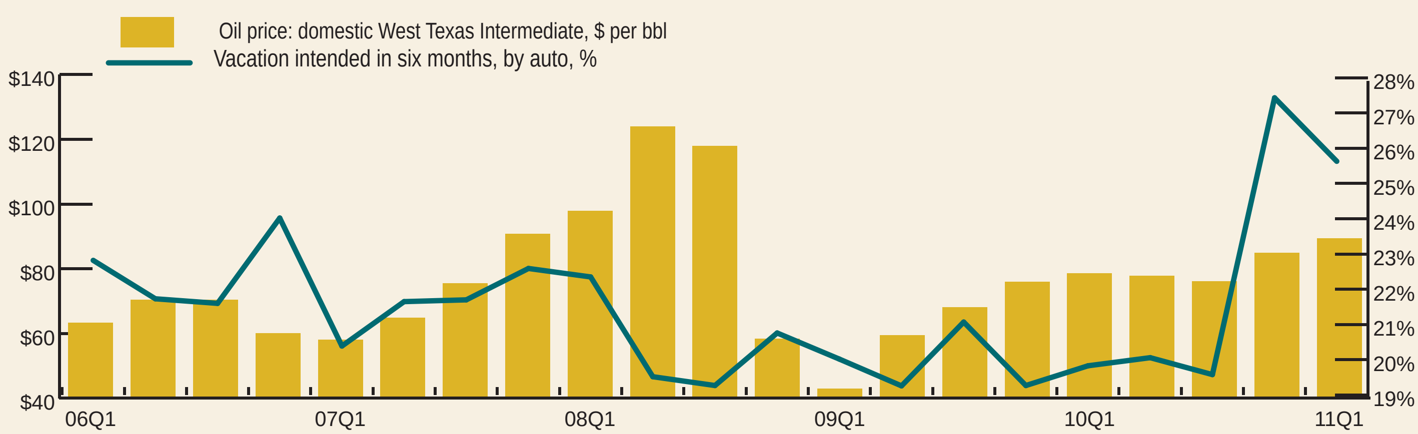
Higher oil prices will increase travel costs for vacationers who fly or drive considerable distances, reducing the amount they will spend during their stay in Sonoma County. Both WTI and Brent spot crude prices have risen, averaging more than $100 per barrel in March on fears of Middle East unrest. The oil market is tight enough for prices to respond to fears despite very little loss of supply.

West Texas Intermediate crude oil is now expected to average $97.80 per barrel in 2011, a rise of almost $20 over the 2009 average price. indicate that firms are planning to grow and expand over the next six months to a year. Prices should pull back somewhat by the end of 2011, as most Middle Eastern countries seem to want to keep supply lines open.

Businesses also appear nervous about the Middle East unrest, but not to the extent of consumers. Most businesses that survived the recession have emerged from it in very good position. Expenses are trimmed and revenue flows are at least stable. Most measures of business sentiment, including regional NAPM surveys, Manufacturers Alliance surveys, and the National Federation of Independent Businesses small business survey,

Many retailers and restaurants draw overlapping business from tourists and local residents, and Sonoma County's endogenous economic con-ditions play an important role in tourism's performance. The county is gradually crawling out of recession, led by rebounding tech industries. However, poor state and local government finances are hindering public sector employment. As a result, the county's economic performance in the near term will keep local demand for retail and restaurants stable at best.

Oil Price Poses Risk to Auto Tourism
06Q1 - 11Q1



Source: Federal Reserve Bank of St. Louis, The Conference Board

The uncertainty surrounding oil prices is one of the main downside risks for the county. The number of people planning to take a vaca-tion by auto rebounded in the fourth quarter of 2010 from a very low level during the recession. Domestically, a large number of visi-tors 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 more easily adjusted nature of their plans.

Pricing

Pricing power seems to be returning for firms. Deep discounting has become less necessary, and given the greater flexibility most firms have with their inventories, supply is being kept carefully in line with demand. In addition, low growth in available hotel rooms will make prices more responsive to demand increases over the coming year.

Nationwide, Moody's Analytics forecasts prices for food consumed outside of the home to increase by 1.8% this year. But the local industry should outperform, given the strength of food tourism in Sonoma County, and restaurants should fare better as consumers make a return to quality dining experiences.

Operating Expenses

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Profitability

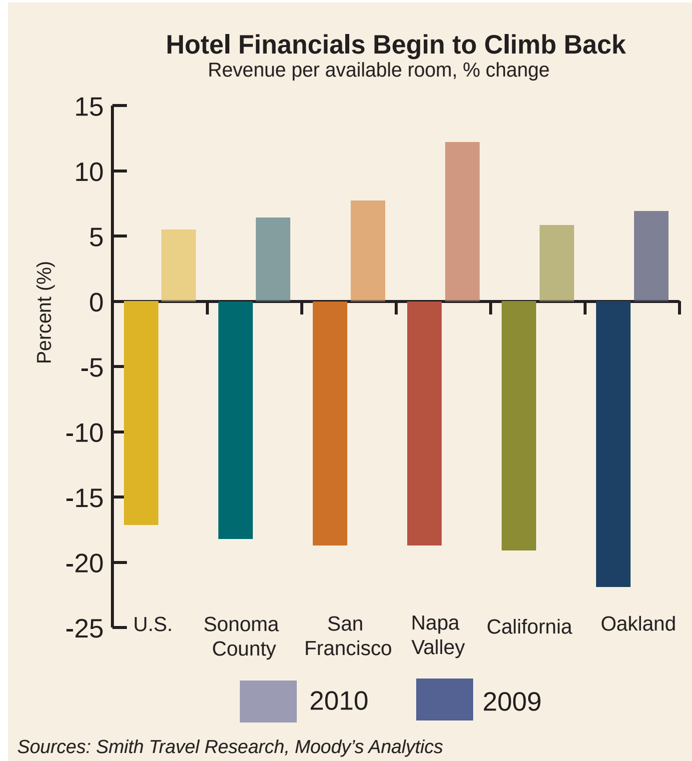
The profit outlook is much improved for 2011 and 2012. Room revenue grew 6.7% in 2010 compared with 2009, according to Smith Travel Research, while rooms available only grew 0.3%. This means that revenue per available room grew at a healthy 6.4%, one of the higher growth rates for California. Although below Napa's 12.2% increase, it represents a large improvement from 2009's decline of 18.2%. Both the number and the comparison to Napa, indicate that the high-end consumer group is driving the improvements. Those with jobs are expected to do well over the next year, boosting profitability for Sonoma's high-end market.

Higher food prices will squeeze restaurants' margins slightly. They will be hard pressed to pass the full extent of increased food costs on to their customers during a period of still-soft demand. However, food accounts for only one-third of restaurant expenses, and limited growth in labor and real estate costs will help preserve balance sheets.

Extreme summer and fall weather resulted in a large drop in the wine grape harvest, limiting the inventories of 2010 wines and helping to es-tablish a floor for high-priced wines produced in the county following two years of discounting. Off-premise sales of wine bottles priced $20 or more jumped 16% in January from a year earlier, reflecting consumers trading up, as it outpaced the total 4% increase.

Long-term Outlook

The long-term outlook for Sonoma County's tourism industry remains positive.



The rebound of leisure and hospitality payrolls is reflected in growing revenue per available room. Sonoma County is outperforming both the state and nation and is trending with other regional tourism areas. Weak hotel construction has been a boon for existing entrepreneurs, as they have been able to grow revenue with a limited number of rooms coming on line. The number of hotels in foreclosure has not increased since the first quarter of 2010, although 13 remain in default. A permit for hotel construction has not been issued since 2008.

The region is growing in recognition as a premier tourist destination, and its proximity to Bay Area attractions and airports will continue to support growth. Direct air access is a plus, although additional service would improve the county's attractiveness. Moreover, the strong popularity of wine and the wine-related culture and its expanding link between local food offerings and health and wellness activities underpin the positive fundamental outlook for the industry. The growing popularity of shows such as Iron Chef and Top Chef and the highlighting of the California wine region as a premier artisan food destination also contribute to an increasingly positive outlook for tourism.

Demographic trends are also favorable, with some of the fastest-growing states within driving distance and increased access to international tourists from Asia and South America. Wine consumption is growing among the "millennial" generation now aged 15 to 32, and the pool of potential visitors will grow as incomes for this cohort steadily increase.

Upside Risks

Greater improvement in the job market for younger and lower-end consumers would benefit Sonoma County. Although the county certainly caters to the higher end as well, it derives a benefit in affordability relative to nearby Napa.

Sonoma County would also benefit from faster growth in agri-tourism. Wine and food education tours represent a growing industry, and given the acceleration in the local food and organic food movements, the county's wide range of offerings would have extra appeal.

Better than expected business spending over the coming year could lead to a better outcome for Sonoma County. Business optimism increases are relatively widespread, in contrast to prior curbs on expenses that precluded gatherings and face-to-face meetings. Given the exceptionally low level of business spending over the past few years, firms may begin to loosen the purse strings, causing business spending in the county to grow faster than anticipated.

Downside Risks

Given the relatively positive outlook for the economy and the fragility of the recovery to this point, there are a greater number of downside risks, which could possibly derail expected growth.

At a macro level, oil price spikes represent one of the greatest downside risks. Although most Middle Eastern countries appear to be making every effort to maintain supply lines and Saudi Arabia is vowing to increase production if needed, the situation still contains a large degree of uncertainty. Almost all of the major Middle Eastern oil-producing countries have experienced some disturbances. If there are major supply disruptions, the U.S. could be thrown back into recession, and the drag on tourism would be great.

Given the nature of the recent Japanese earthquake and the threat of sovereign default among numerous European nations, international tourism could be substantially hindered in the near term. Although Japan would not likely have a large negative direct effect on the U.S. economy, its ties to other Asian nations are great, particularly China and South Korea. Japanese tourists are among the most numerous to California, and China represents a fast-growing segment of wine consumers and tourists. Thus, any disruption to Asian growth represents a downside risk for the county's tourism industry.

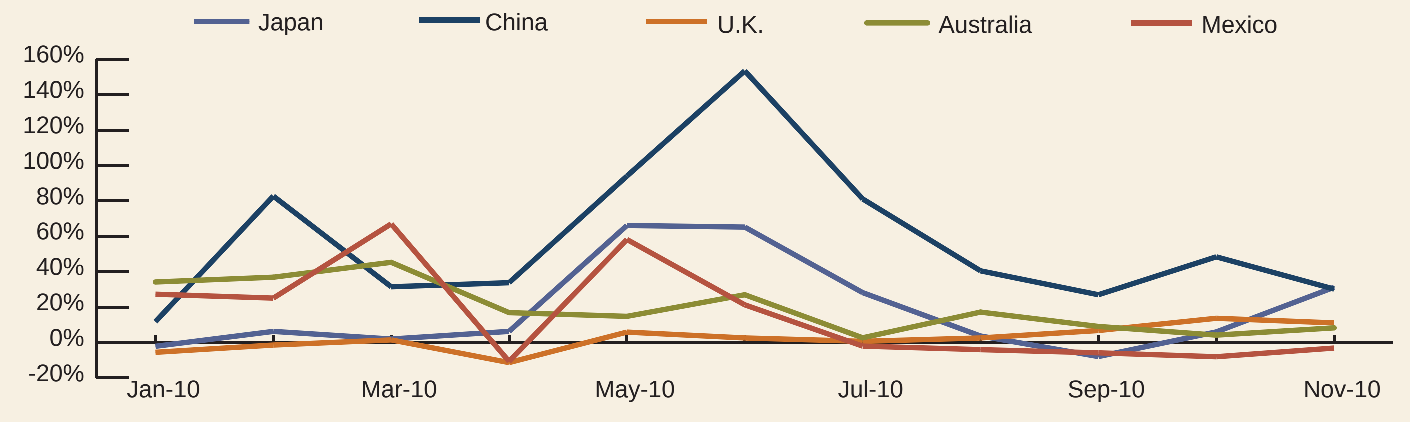
Immigration crackdowns could also disrupt labor flows in Sonoma. The baseline forecast is for a loose labor market, with plenty of supply, which would keep labor costs low. But if federal employer sanctions and deportations grow and hiring of willing leisure and hospitality workers becomes more difficult, labor shortages could lead to increased labor costs. This would hinder a return to profitability for hotels.

Produced by
Addison Franz
April 2011, Moody's Analytics

About Moody's Analytics

Moody's Analytics helps capital markets and credit risk management professionals worldwide respond to an evolving marketplace with confi dence. Through its team of economists, Moody's Analytics is a leading independent provider of data, analysis,modeling and forecasts on national and regional economies, fi nancial markets, and credit risk.

Sonoma Vulnerable to Disruptions in Asia
California port-of-entry non-residential arrivals, year over % change



Source: California Travel and Tourism Commission

Global disruptions could be disproportionately harmful to Sonoma County. Last year, much of the rebound was driven by an influx of visitors from developing Asia, where the recovery had been particu-larly strong, although by the end of 2010 even European growth had picked up. The recent earthquake in Japan and the continuing sovereign default risk in Europe could dampen this momentum. Asian economies have more direct dependence on the Japanese economy, while the stronger euro zone economies might be dragged down by the renewed debt weakness or worries.

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. 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

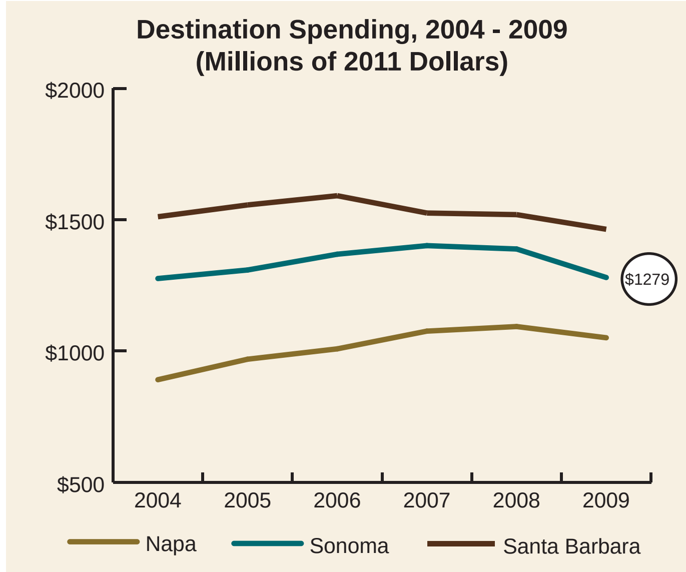
- In 2009, Sonoma County destination spending, industry earnings and industry employment experienced a year-over decrease from 2008 after adjusting for inflation. However, the decrease was less than 2008’s year-over data. This suggests travel is slowly returning to Sonoma County following the economic downturn.

- In 2010, Sonoma County’s year-over average daily rate decreased 2.5% when adjusted for inflation. This is a smaller decreases then 2009’s year-over data.

- Sonoma County’s Transient Occupancy Tax receipts totaled $20.4 million in 2010 after adjusting for inflation.

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 inflation adjusted figures show that Sonoma County's destination spending was down 7.0% from $1.38 billion in 2008 to $1.28 billion in 2009.

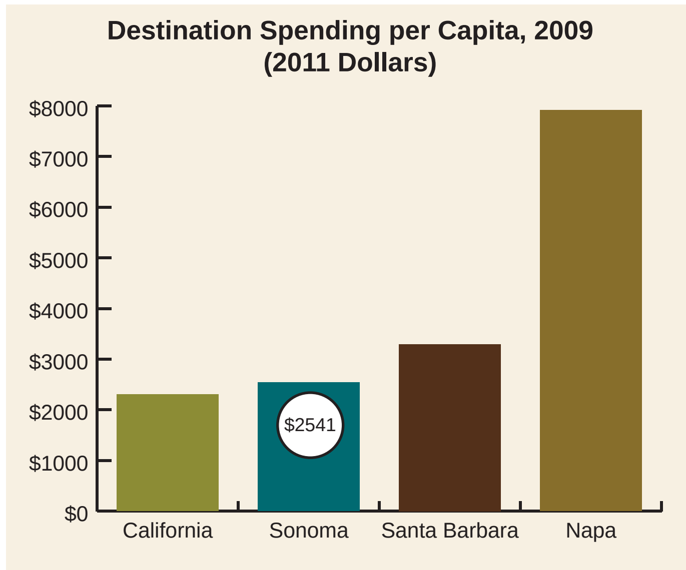


Destination Spending

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. While Sonoma County's destination spending dropped to pre-2005 levels, it maintained its relative position between Santa Barbara County and Napa County.

Destination Spending per Capita

For each of Sonoma County's 490,310 residents, $2,541.90 dollars in destination spending were generated. Santa Barbara County, with a population of 432,567 generated $3,294.70 per capita and Napa County generated the highest per capita spending at $7,193.60 for each of its 138,484 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 $2,306.30 per capita.



Destination Spending Annual Real Growth Rates

The 7.82% decrease in destination spending was the second year-over-year decrease in destination spending since 2002. The decline in destination spending was a common trend in numerous counties in California for the second year in a row. In 2009, Sonoma County's inflation adjusted destination spending was below the state decrease of 9.76% but was a larger decrease than Santa Barbara County and Napa County.

Source for all data: California Travel Impact by County, 2010

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 - 16.8% of all spending, compared to 22.9% in Santa Barbara County and 23.7% in Napa County. Sonoma County visitors spend an approximately equal share of total spending on accommodations (17%), and arts, recreation and entertainment (19%). They spend the largest amount on food and beverage services (27%) and on retail sales (20.5%). Visitors to both Napa and Sonoma County spend more than the state average on arts, entertainment and recreation and retail sales.

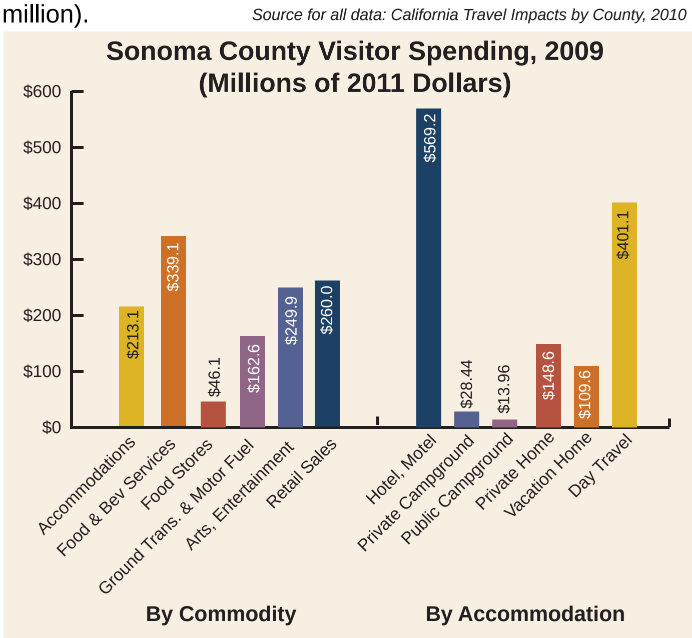
Distribution of Visitor Spending by Accommodation

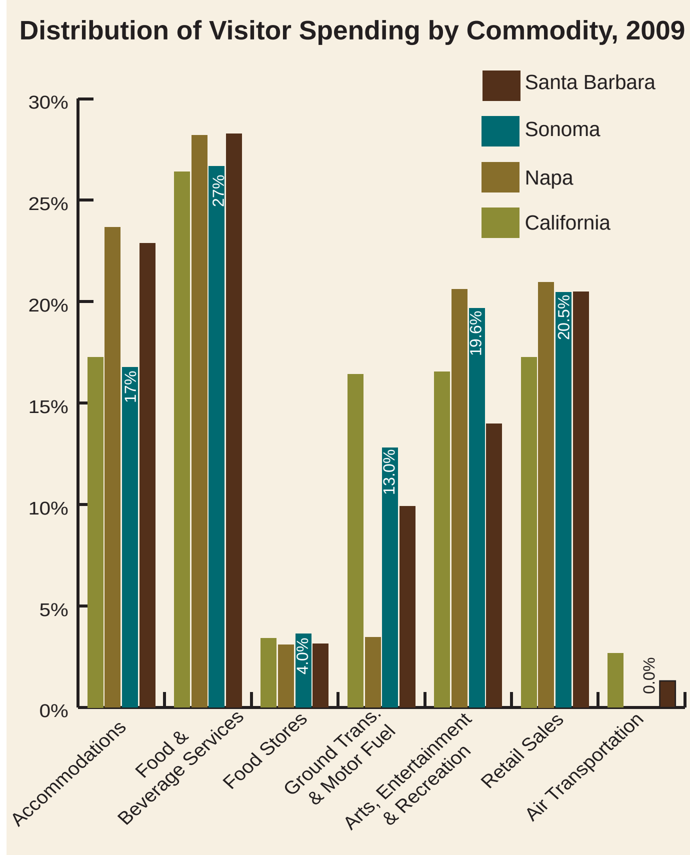
In comparison with the state and other competitive counties, a smaller share of visitor spending in Sonoma County comes from visitors who are staying in a hotel or motel (44.8% compared to 66.7%, 62.2% and 54.2% for Napa County, Santa Barbara County and California, respectively). Instead, a significant share of Sonoma County visitor spending is received from day travelers (31.6%) compared to 26.3% for Napa, 24.8% for California and 22.5% for Santa Barbara County. A comparatively larger share of spending in Sonoma County comes from visitors who stay in vacation homes 98.6%.

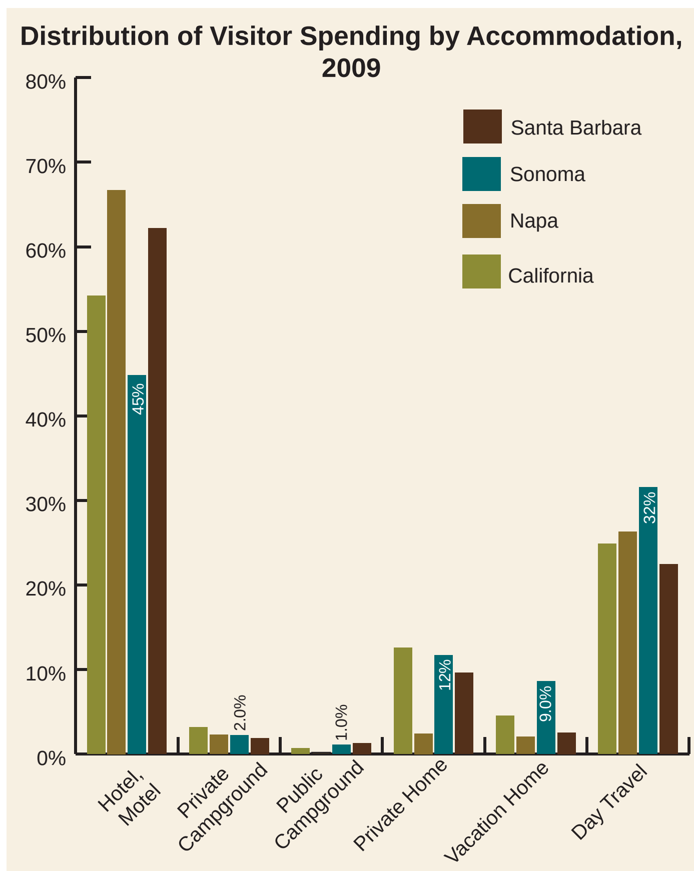
Sonoma County Visitor Spending

With a total visitor spending equal to 1$.27 billion, the most money spent is spent by visitors who stay at hotels or motels ($569 million) and on food and beverage services ($339 million).

Source for all data: California Travel Impacts by County, 2010







Industry Employment

With 16,640 jobs generated by tourist destination spending, Sonoma County ranks first against comparable counties - Napa had 11,470 tourism jobs and Santa Barbara had 16,000 tourism jobs in 2009. Sonoma County's 2009 job figures show a 2.0% decrease from 2008, down from a year-over growth of 1.0% from 2007 to 2008.

Tourism Industry Earnings per Employee, Real Growth Rates

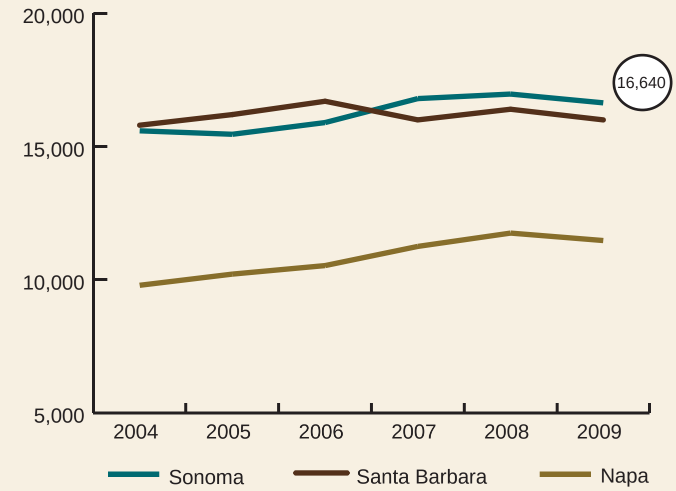
Partly as a result of Sonoma County's decline in destination spending in 2008 and 2009, employment levels in the tourism industry decreased in 2009. Because of Sonoma County's significant increases in destination spending from 2006 and 2007, the County still employs more tourism industry employees than Napa and Santa Barbara, a county in which total destination spending consistently outpaces that of Sonoma County. Due to discrepancies in growth between inflation-adjusted industry earnings (-1.5%) and industry employment (-1.9%), earnings per employee increased 0.5% in 2009. Santa Barbara and Napa Counties also saw an increase in earnings per employee in 2009 (0.3% and 2.8%, respectively), while the statewide average decreased 0.2%. California's decrease in earnings per employee is largely attributed to a disproportionately significant decrease in tourism industry jobs (-5.1%) relative to real industry earnings (-5.2%).

Sonoma County Tourism Employment by Industry

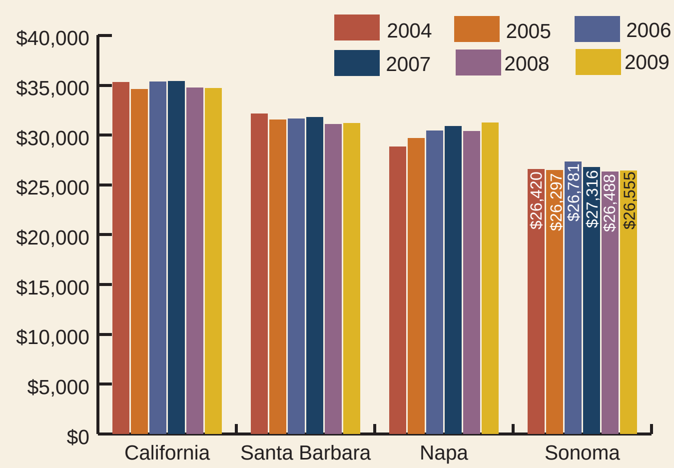
Distribution of employment within Sonoma County's tourism industry is similar to previous years, with 51.8% of employment in accommodations & food services, 38.8% in arts, entertainment and recreation, and 8.3% in retail. In the coming years, air transportation is expected to be a new source of employment, due to the opening and expansion of air services to Sonoma County.

Source for all data: California Travel Impact by County, 2009

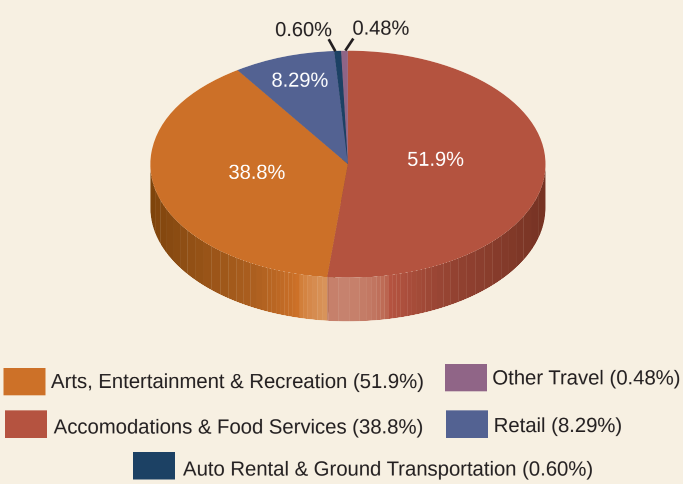
Employment Generated by Destination Spending, 2004-2009 (No. of Jobs)



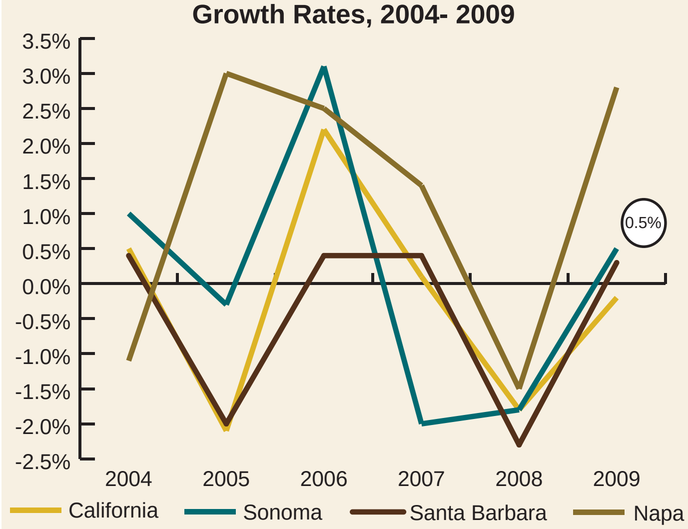
Tourism Industry Earnings per Employee, 2004-2009 (2011 Dollars)



Sonoma County Tourism Employment by Industry, 2009



Tourism Industry Earnings per Employee, Real Growth Rates, 2004- 2009



Lodging & Hospitality Assessment

As page 8 illustrates, visitors staying in hotels and motels are the single largest source of destination spending in Sonoma County, with an estimated $569.2 million in spending in 2009 (2011 dollars). Figures from 2010 indicate that we can expect a growth in destination spending from 2009 to 2010 as lodging indicators suggest travelers are returning to Sonoma County following the national economic downturn.

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. The 2010 annual average occupancy rate (60%) indicates that travelers are returning to Sonoma County.

Annual Average Daily Rate (ADR)

Average daily rate (ADR) continued to decrease from the record set in 2007 of $135.00 (2011 dollars). However the decrease from 2009 to 2010 was smaller than from the decrease between the previous two years.

Revenue per Available Room

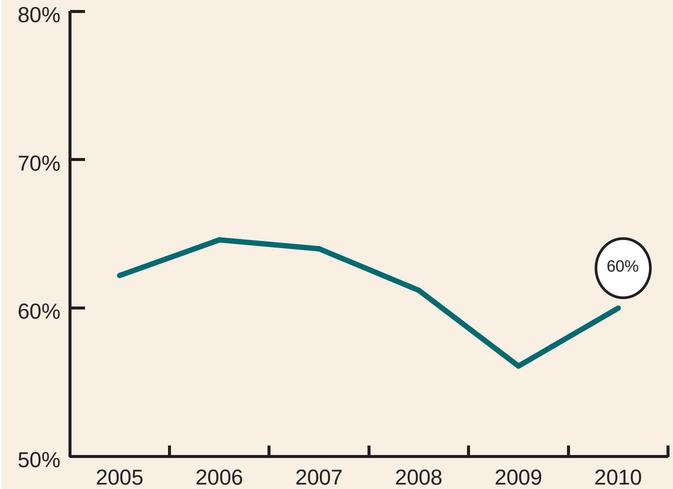
Revenue per available room (RevPAR) for Sonoma County increased in 2009. While it has not reached the high levels of 2007 and 2008, RevPAR grew 4% from $65.50 in 2009 to $68.30 in 2010.

Real Growth Rates of RevPAR and ADR

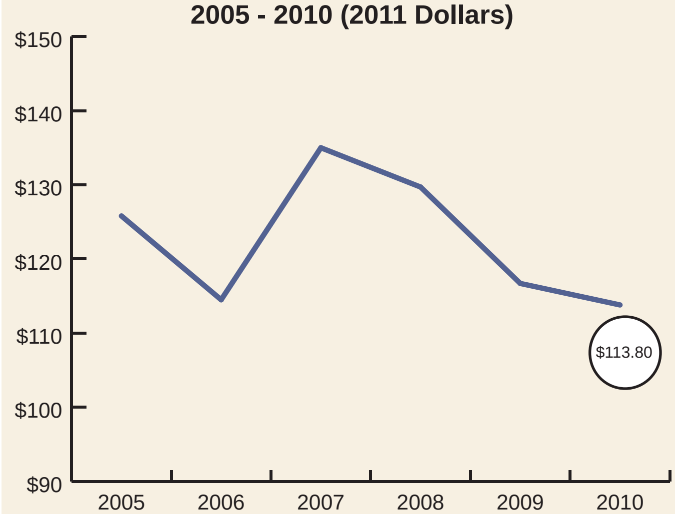
Revenue per available room increased from 2009 to 2010, while average daily rate experienced a decrease. This indicates that lower average daily rates have been offset by increases in occupancy to maintain, or increase, previous revenue per room standards.

Source for all data: Smith Travel Research, 2010

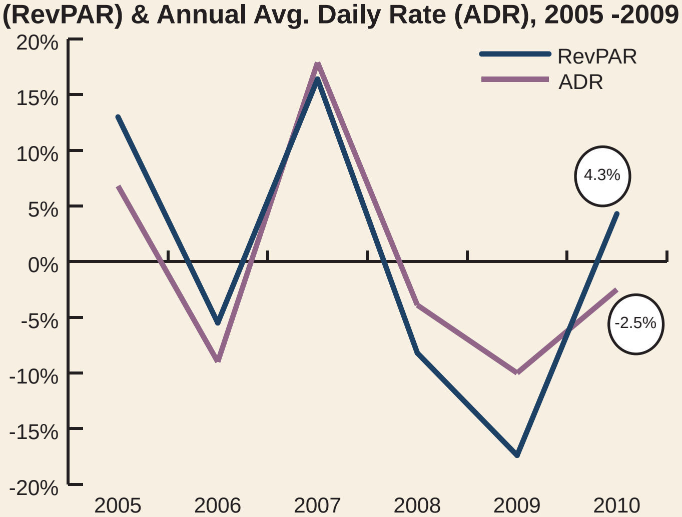
Annual Lodging Occupancy Rates, Sonoma County, 2005-2010



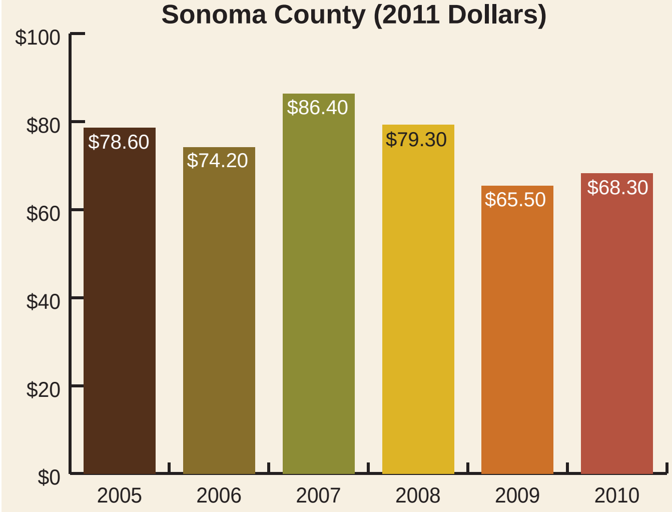
Annual Average Daily Rate (ADR), Sonoma County, 2005 - 2010 (2011 Dollars)



Real Growth Rates of Revenue Per Available Room (RevPAR) & Annual Avg. Daily Rate (ADR), 2005 -2009



Revenue Per Available Room (RevPAR), Sonoma County (2011 Dollars)



TOT Revenue Updates & Spending

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

Annual TOT Collections

TOT revenues in Sonoma County increased 11.0% to $20.4 million in 2010 when adjusted for inflation. Beginning in quarter 2 (calendar year) of 2008, cities and unincorporated areas began experiencing stagnant and decreased year-over growth as the recession began to negatively affect visitor traffic and spending nationwide. Figures from 2010 suggest that travel is rebounding..

TOT Revenue Spending Areas

TOT funds are distributed to different spending areas. The majority of TOT funds go to regional park maintenance and operation (27%), tourism marketing (18%), or are transferred to the general fund in each city or area (22%).

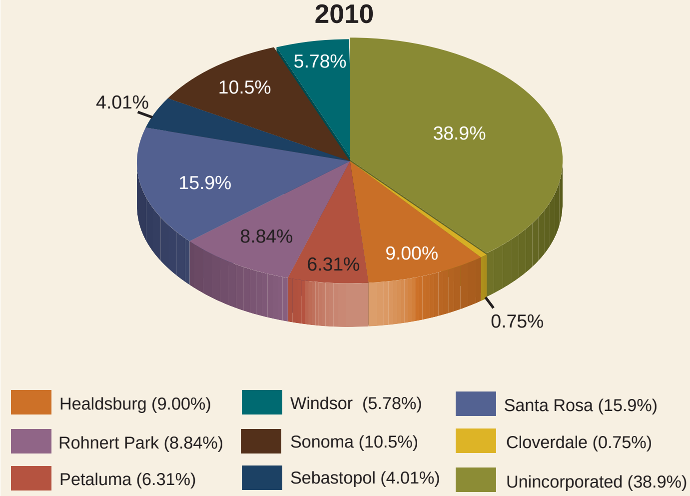
Tax Receipts Generated by Travel Spending

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 $26.8 million in 2009, after adjusting for inflation. The state collected $57.1 million from Sonoma County visitors in 2009, after adjusting for inflation. This is a 0.77% decrease from 2008 figures. This is a smaller decrease than the difference between taxes collected from 2007 to 2008 suggesting travel is returning.

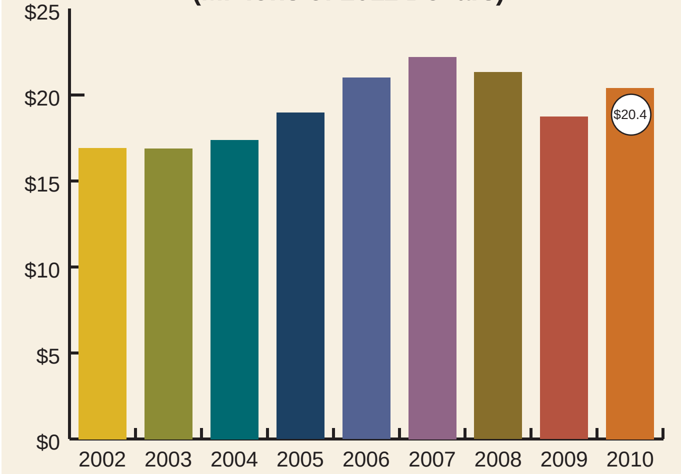
Percentage of Annual TOT Revenue by City

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 60% of all revenue in 2010, while the unincorporated areas of the county generated 40%.

Percentage of Annual TOT Revenue by City, 2010

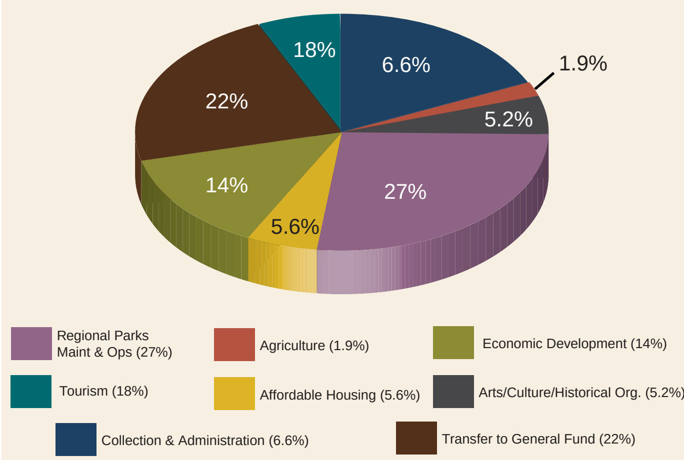


Annual TOT Collections, Sonoma County 2002-2010 (Millions of 2011 Dollars)



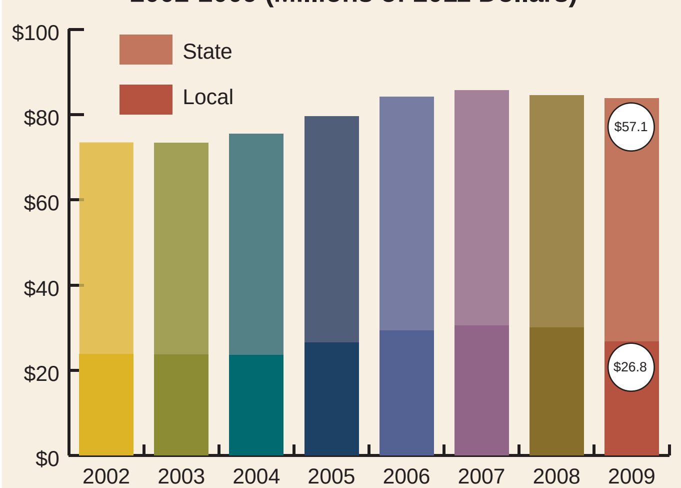
Source: Transient Occupancy Tax Reports, 2010

Sonoma County TOT Revenue Spending Areas, Fiscal Year 2010-2011



Source: Transient Occupancy Tax Reports, 2010

Tax Receipts Generated by Travel Spending, 2002-2009 (Millions of 2011 Dollars)



Source: Smith Travel Research, 2010

Tourism Industry Survey: Results Summary

The 2011 Tourism Industry Survey is an annual survey of Sonoma County tourism businesses updated by the Sonoma County Economic Development Board (EDB). Over 260 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.

The source for all data in the following section is the 2011 Annual Tourism Survey conducted in April and June 2011 by the Economic Development Board.

Key Findings

- Businesses have a relatively positive outlook for tourism in the coming year, 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, and Sonoma County's scenery and climate are its greatest assets besides wine reputation/ culture.

- The most commonly identified opportunities for Sonoma County tourism in niche markets were Cycling, Eco-tourism/ Agritourism and International Tourism.

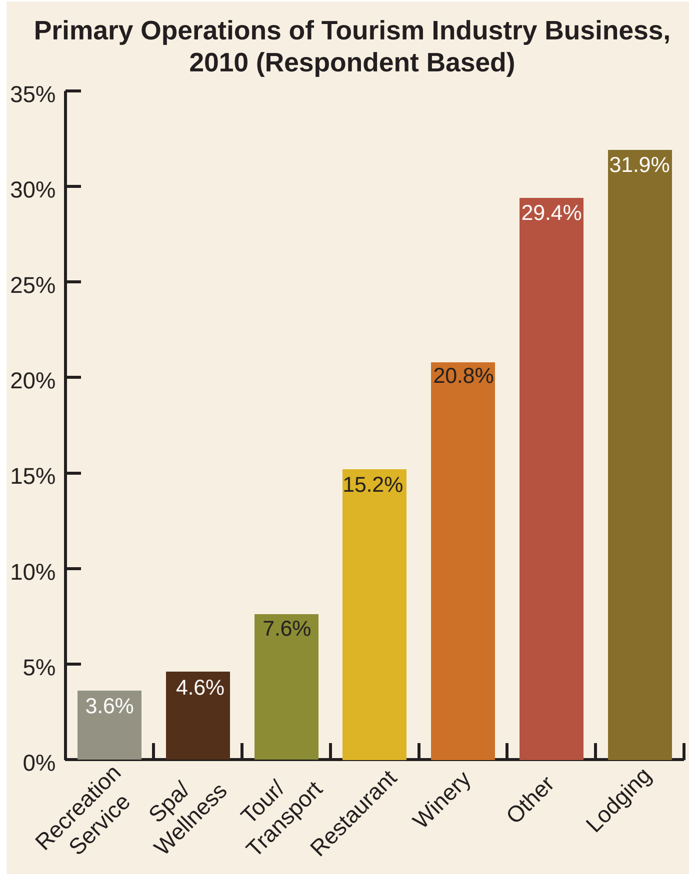
- Respondents feel local government agencies can make a positive difference in the tourism industry by assisting with licensing and permits and providing workforce education and training. Local promotion agencies can best assist respondent businesses through marketing, PR and media visits and tourist industry trend reports.

Survey Respondent Demographics

Owners and executives of more than 250 diverse tourism businesses responded to the EDB's 2011 Tourism Industry Survey. The following graphs outline the types of businesses that responded to our survey, Please note: respondents were asked to classify their own business/ operations type.

Tourism Industry Businesses

'Lodging' and 'Other' were the most common primary operations of responding businesses at 31.9% and 29.4%, respectively. The lodging classification of respondents is broken down further below. Businesses that classified themselves as 'other' include art galleries, museums, visitor centers and retail shops. Other respondents included businesses whose primary operations were 'winery' (20.8%), 'restaurant' (15.2%), 'tour and transportation service or support' (7.6%), 'spa and wellness' (4.6%), and 'recreation service provider or outfitter' (3.6%).The surveyed businesses reflect the diverse strength of Sonoma County's tourism industry.



Lodging Classifications

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, 25% indicated they were classified as full service.

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 - rented on a temporary basis to tourists as an alternative to a hotel. Of 'lodging' respondents, 27% indicated they were classified as vacation rentals.

Bed & Breakfast

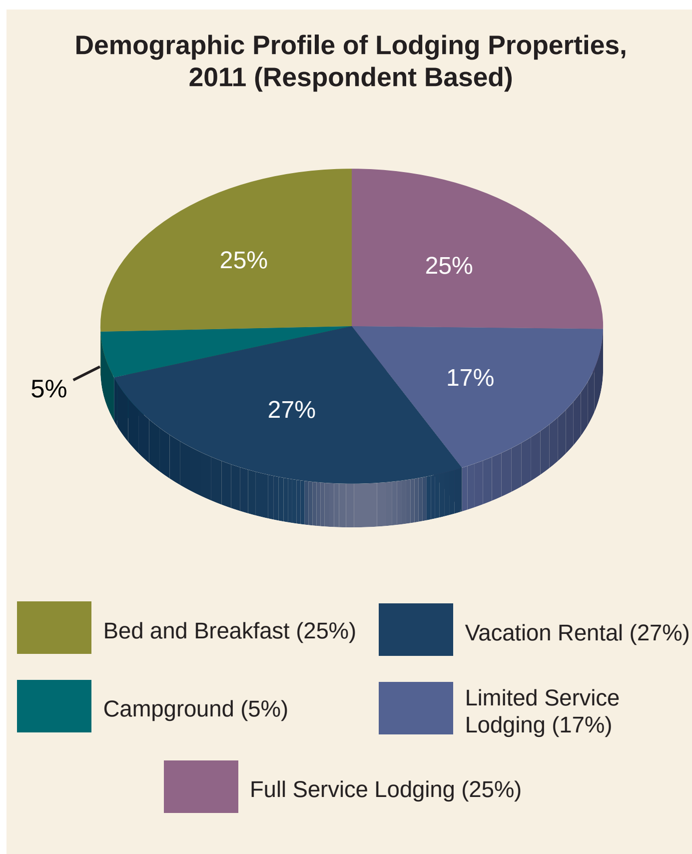
Smaller establishments emphasizing a more personal relationship between operators and guests. Guest units tend to be individually decorated. Rooms may not include some modern amenities and may have a shared bathroom. They are usually owner-operated. A continental or full, hot breakfast is included in the room rate. Of 'lodging' respondents, 25% indicated they were classified as bed & breakfasts.

Limited Service Lodging

Only the basic services and facilities are available. Self-service aspects are predominate. Commonly, a continental breakfast may be offered rather than having a restaurant on premises. Of 'lodging' respondents, 17% indicated they were classified as limited service.

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, 5% indicated they were classified as campground.



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

A significant percentage of respondents indicated that they have been in business for more then 20 years. Almost equal numbers of businesses have either opened in the last 5 years (19%), been open for 6-10 years (21%) or have been open anywhere from 11-20 years (19.5%). This suggests that there is room for growth but tourism business is also sustainable in Sonoma County.

Independently Owned in Sonoma County

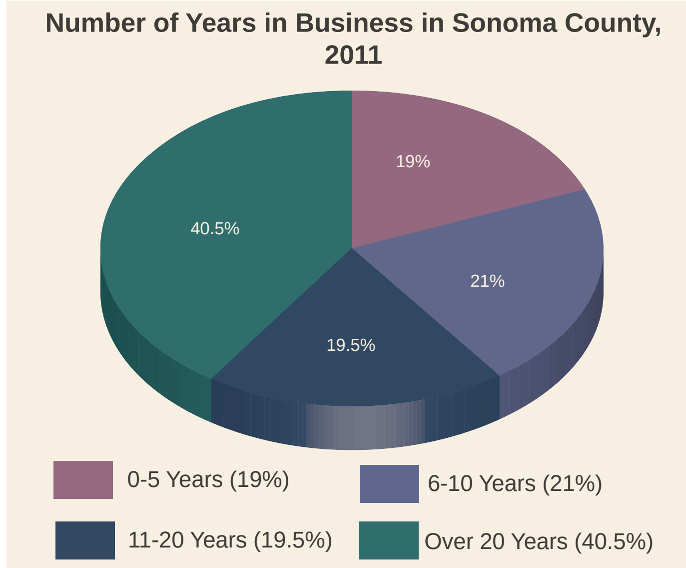
The majority of businesses that responded to the tourism survey indicated that they are independently owned in Sonoma County (88.3%). Of those that are independently owned in Sonoma County, 6.8% indicated that they were a franchise.

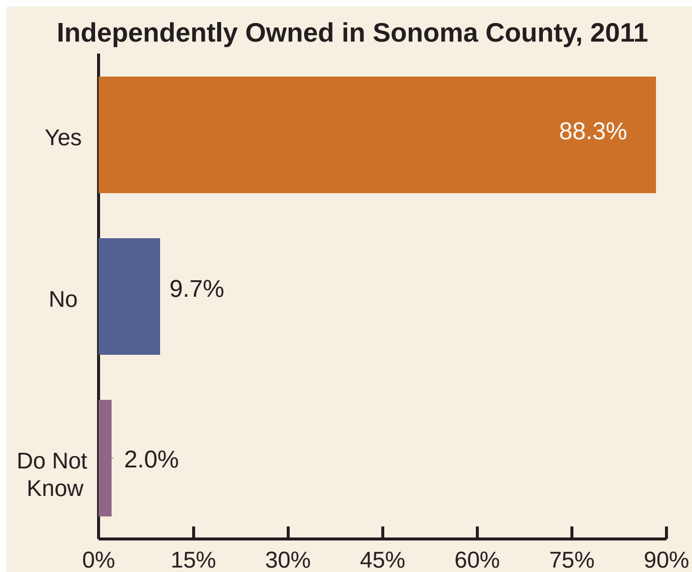
Tourism Business Location

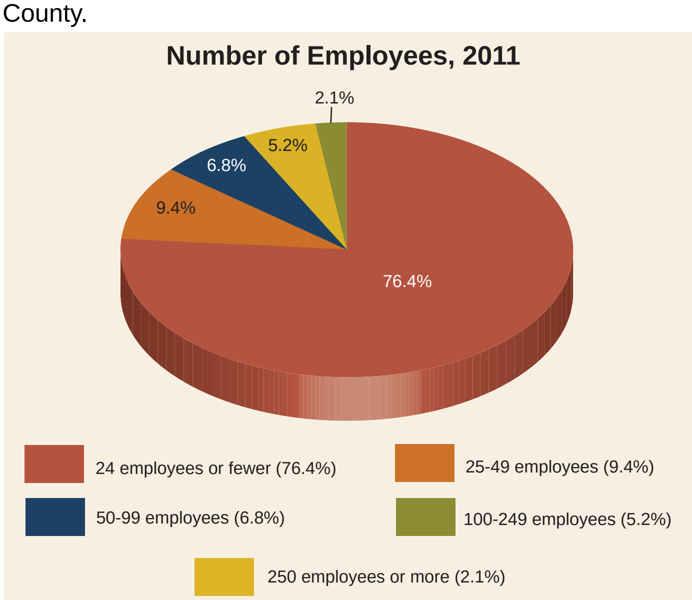
The majority of Sonoma County's tourism related businesses that responded are located in Santa Rosa (28.70), Unincorporated areas in the county (23.5%), and Sonoma (10.43%). Other areas of the county include coastal cities like Bodega Bay, Jenner and the Sea Ranch, as well as smaller towns within Sonoma County.

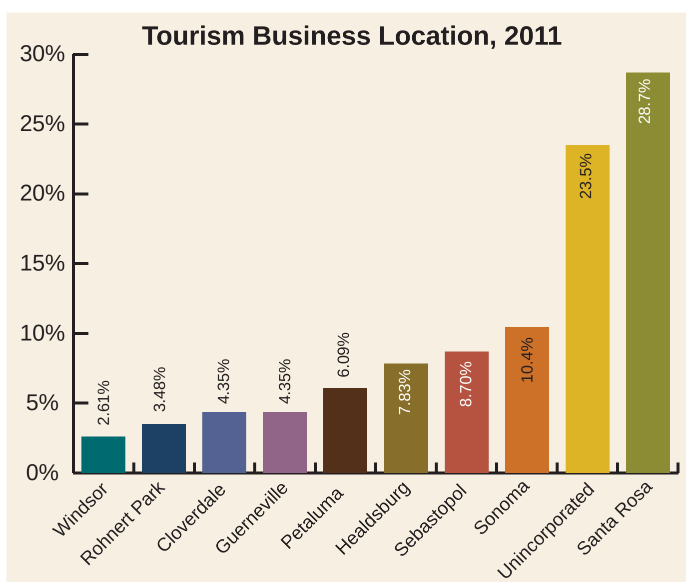
Number of Employees

A vast majority of tourism businesses in Sonoma County employ 24 or fewer people (76.4%). On average, 50% of employees at business who employ 24 or fewer employees are part time. 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.









Visitor Origins & Traveler Type

Each year Sonoma County hosts millions of visitors. These visitors are a catalyst for local economic vitality, contributing more than $1.2 billion in 2009 to the area's economy. Sonoma County's award-winning wineries, spa experiences and miles of scenic Pacific Ocean coastline draw both domestic and international visitors.

Sonoma County Domestic Visitor Origins

According to survey respondents, the majority of Sonoma County's domestic visitor origin is 'Other U.S.A.' - i.e. not California or other regions listed - (24.2%), and San Francisco (20.22). Respondents also indicated that a large percentage of visitors were from 'Other California' which includes California cities not listed (11.5%).

Sonoma County International Visitor Origins

Respondents were also asked to indicate the top three origins of international visitors they observed. Europe, Canada, and United Kingdom were the most reported top three origin points at 68.3%, 53.7%, and 54.9%.

Sonoma County Traveler Type

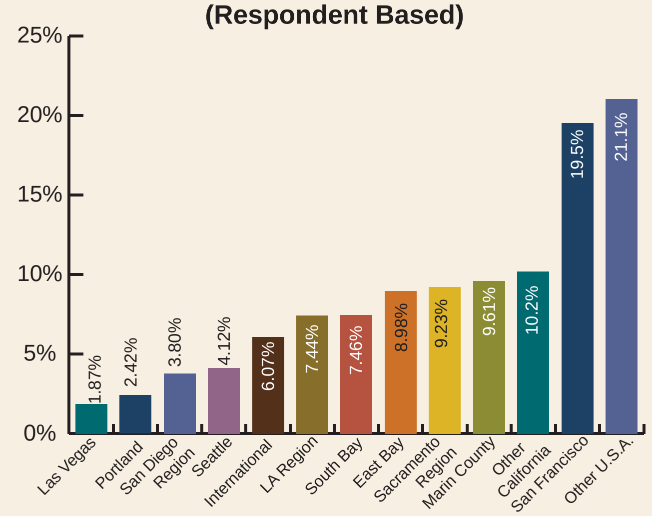
Tourism related businesses reported that the majority of visitors were leisure travelers (69.6%) followed by "Other" travelers who did not fall into any of the listed categories (30.48%). Meeting attendees accounted for the smallest group of visitors (9.96%).

Age Profile of Sonoma County Visitor

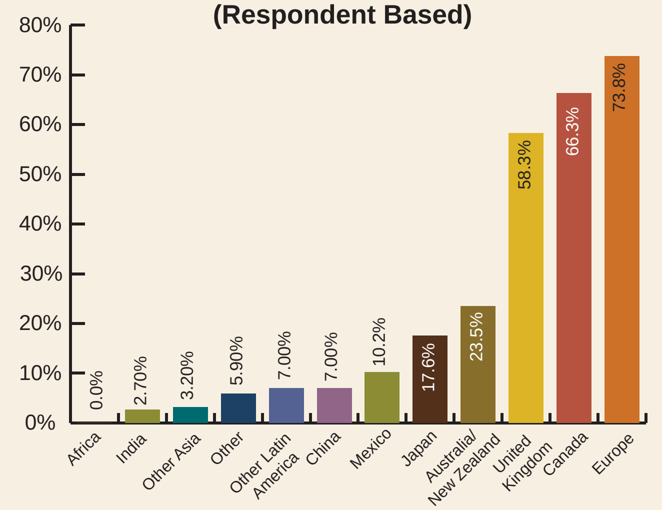
The majority of visitors to Sonoma County fall into the 41-50 years age group (31.3%), followed by visitors in the 51-60 years age group and then by visitors in the 31-40 years age group (22.5%). The smallest group of visitors to the County are those under 20 years of age, suggesting that family groups travel to Sonoma County less commonly.

*Please note: age group, traveler type and domestic visitor origin percentages indicate the average percentage of visitors who fell in that category reported by respondents.

Sonoma County Domestic Visitor Origins, 2011 (Respondent Based)

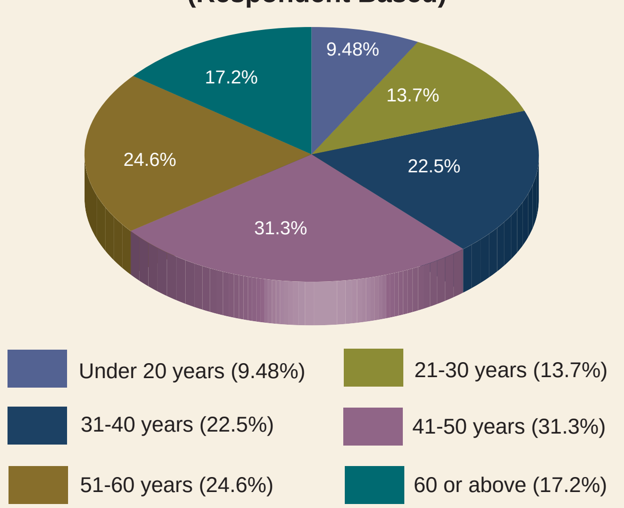


Sonoma County International Visitor Origins, 2010 (Respondent Based)

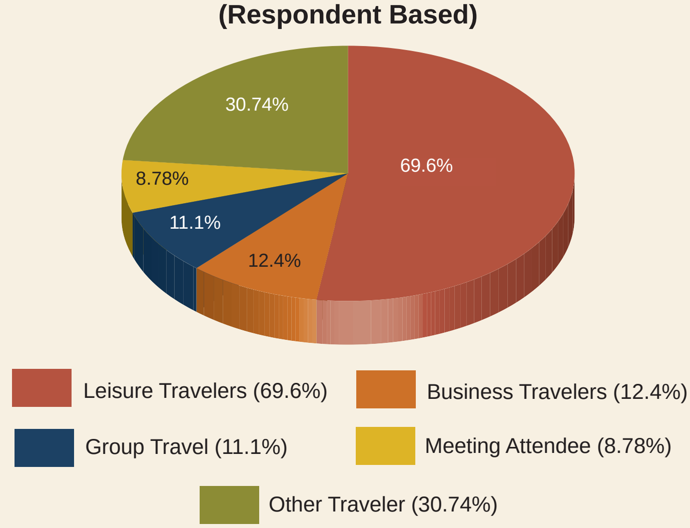


*Percentage indicates the number of times a destination was selected as a top three visitor origin.

Age Profile of Sonoma County Visitor, 2011 (Respondent Based)



Sonoma County Traveler Type, 2011 (Respondent Based)



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 but have been cautious in the recovery.

Tourism Industry Outlook

Almost 70% of the tourism- related businesses that responded to the survey indicated that they were 'optimistic' (28.9%) or 'somewhat optimistic' (39.2%) 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 15% of respondents indicated that they were 'concerned' (5.2%) or 'somewhat concerned (9.3%) with the tourism portion of their business over the next year.

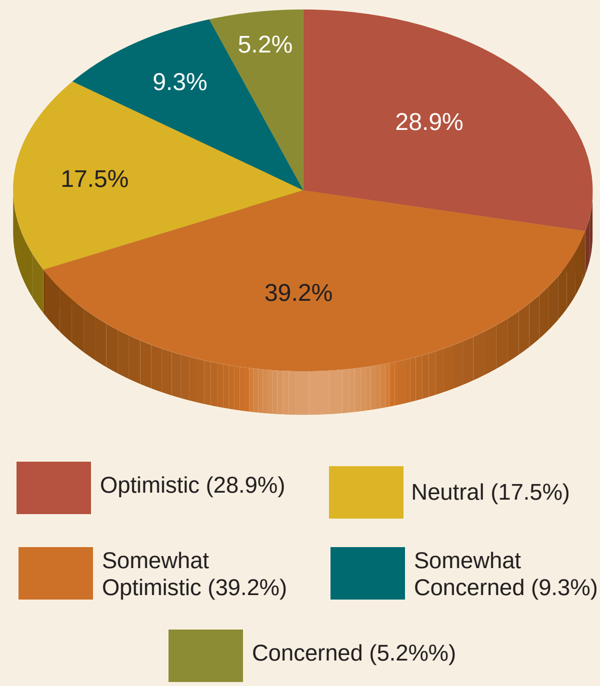
While industry optimism seems to be on the rise, this seems to have only minimally affected the decision for businesses to expand their operations in the past year.

Operation Expansion over Last 12 Months

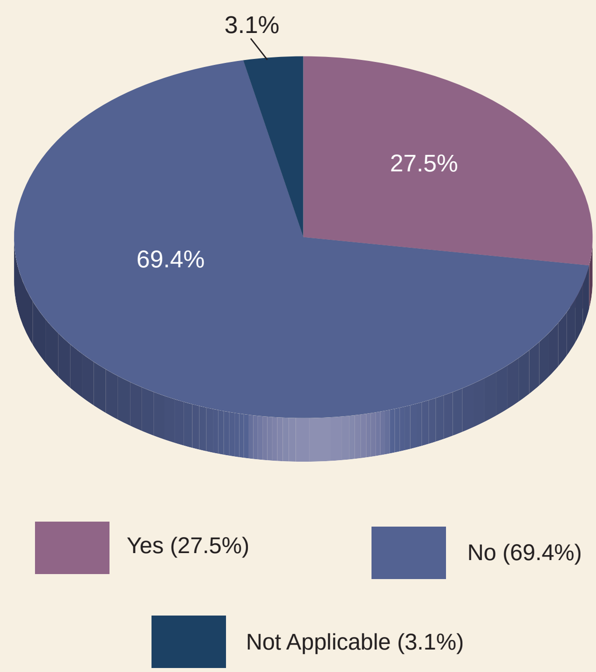
Tourism-related businesses did expand their operations despite the economic downturn. Of responding businesses, 27.5% indicated that they had expanded operations in the time between June of 2010 and June of 2011. Those that expanded indicated that they anticipate an increase in demand of their good or service in the near future, or that they were already starting to see an increase in business and spending. The majority of businesses did not expand operations from June 2010 to June 2011 (69.4%). Those who did not expand indicated concern over the economy and tourism, or lack of economic resources like financing.

It is possible that tourism businesses will expand their operations in the coming year or two in response to the economic recovery, and increased travel expected in summer and fall 2011.

Sonoma County Tourism Industry Outlook, 2011 (Respondent Based)



Percentage of Respondents that Expanded Operations over Last 12 months, 2011



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 (72.6%), and education and training (53.4%). These concerns remain unchanged from 2010. Almost 21% of respondents also indicated that local government could help them with 'other' things which include destination marketing, less taxes, and more county unity.

Potential for Local Promotion Agency Assistance

The potential for local promotion agencies to help tourism related businesses exist in marketing (93.0%) and PR/ media visits (67.6%) and 41.0% of respondents indicated they found trend reports useful.

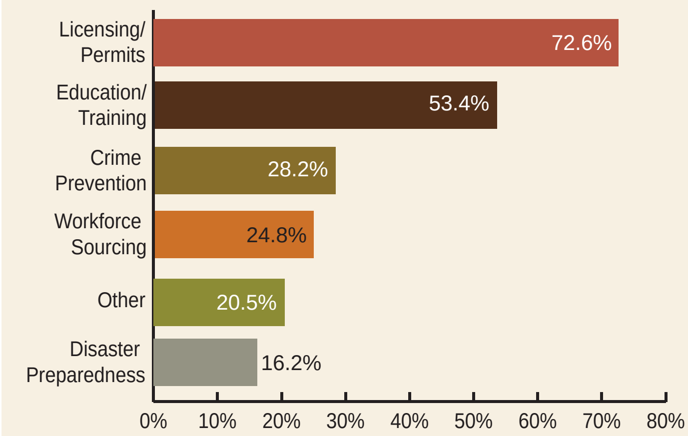
Marketing Tools Utilized by Tourism Businesses

The most widely used marketing tool among tourism businesses was a business website (89.8%), this was followed by social media (74.5%) and then by membership organizations (51.0%). The least used marketing outlets were television (7.1%), national magazines (13.8%) and radio (18.4%).

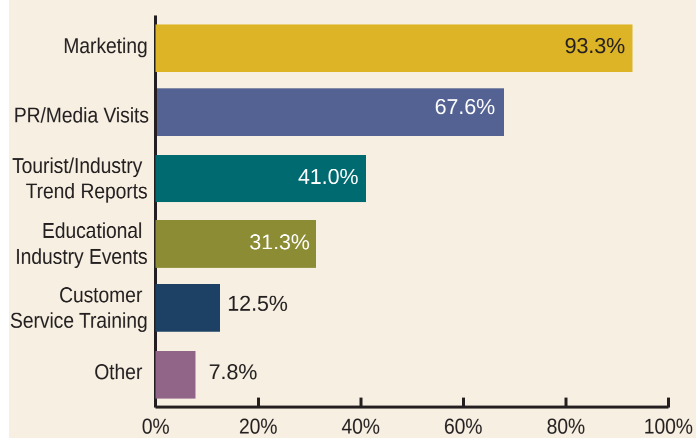
Percentage of Gross Revenue Spent on Marketing

The majority of tourism related businesses spend between 0-5% and 5-10% of gross revenue on marketing efforts, 41.5% and 31.1% respectively. Fewer respondents indicated spending in the 5-10% bracket than in 2010, but more respondents indicated that they spent between 10-25% and more than 25% of their gross revenue on marketing.

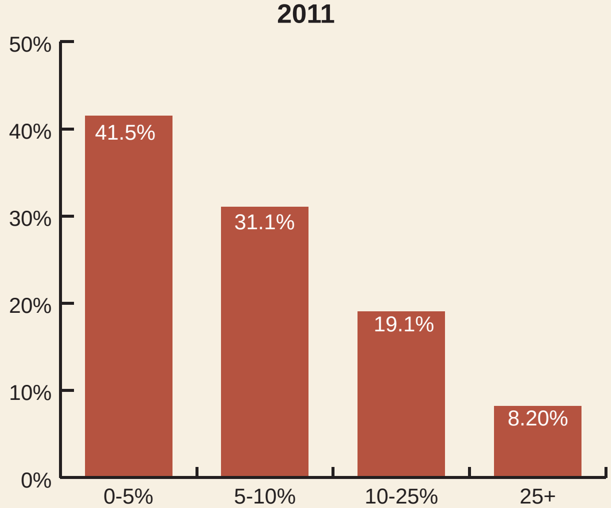
Potential for Local Government Assistance, 2011



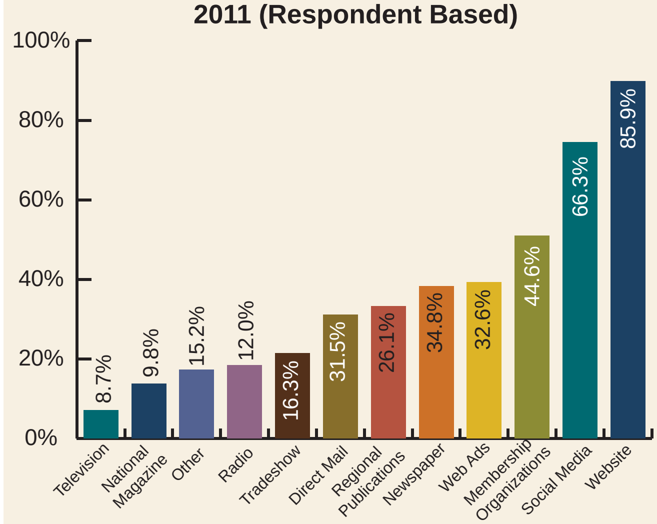
Potential for Local Promotion Agency Assistance, 2011



Percentage of Gross Revenue Spent on Marketing, 2011



Marketing Tools Utilized by Tourism Businesses, 2011 (Respondent Based)



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

More than 75% of respondents felt that Sonoma County had a high potential to attract visitors (75.9%). 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.

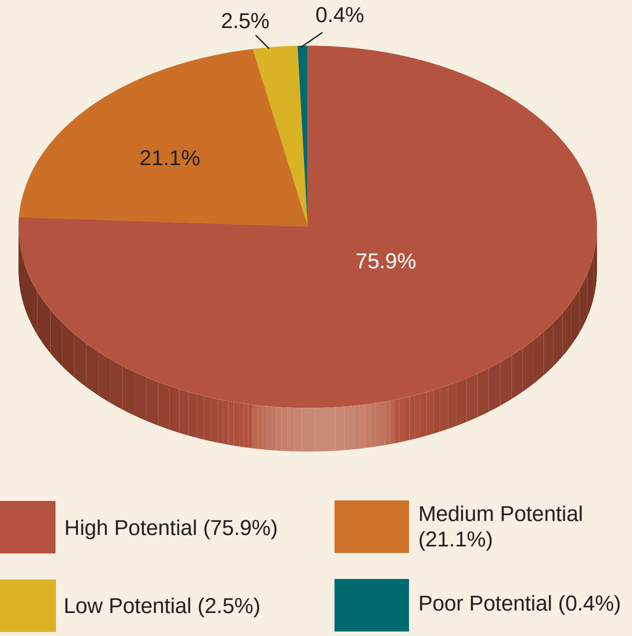
Pull Attraction in Sonoma County

Tourism-related businesses indicated that besides wine reputation, the most attractive assets to visitors are scenery (27.14%), culinary offerings (18.57%) and outdoor recreational activities (16.42%).

Nich Market Opportunitues for Sonoma County

Markets that tourism businesses felt would be good opportunities for Sonoma County were varied. The most reported niche market was cycling (53.8%), followed by eco-tourism/ agritourism (46.2%) and retirees or baby boomers (38.7%). Respondents who indicated 'other' (11.8%) suggested culinary market and wine.

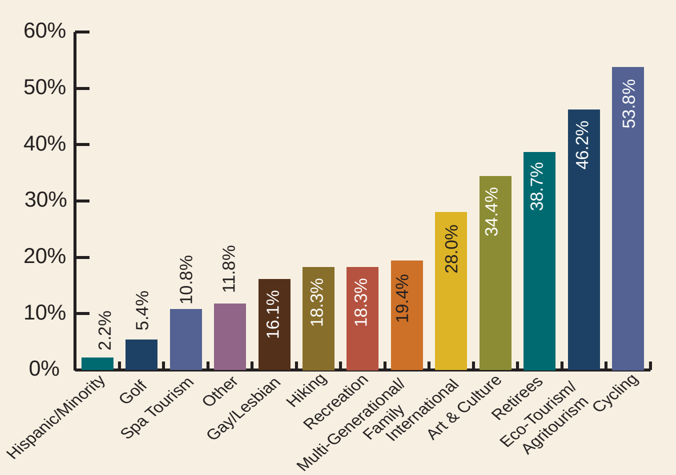
Potential for Attracting Visitors, 2011
Respondent Based



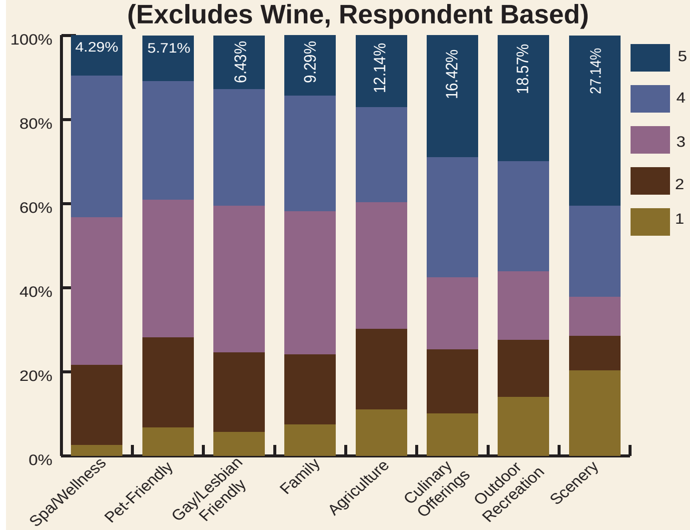
Reasoning: (Respondent Based)

- Diversity of services and attractions offered.
- Increased domestic travel due to economic climate
- Proximity to Bay Area
- Effective Marketing
- Climate and Scenery
- Recognition as a wine destination

Niche Market Opportunities for Sonoma County, 2011
(Respondent-Based)



Pull Attractions in Sonoma County, 2011
(Excludes Wine, Respondent Based)



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

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 the Tourism Bureau.

Effectivity of Marketing Initiatives

The majority of respondents indicated that tourism marketing initiatives were 'useful' for countywide marketing (38.6%) and 'somewhat useful' for regional marketing (33.2%). Very few respondents felt that regional marketing initiatives were 'somewhat useless' to 'very useless' for regional or countywide marketing. However, many respondents indicated suggestions to improve marketing. These included more region specific marketing, more non-wine activity promotion and expanding marketing efforts nationwide and internationally.

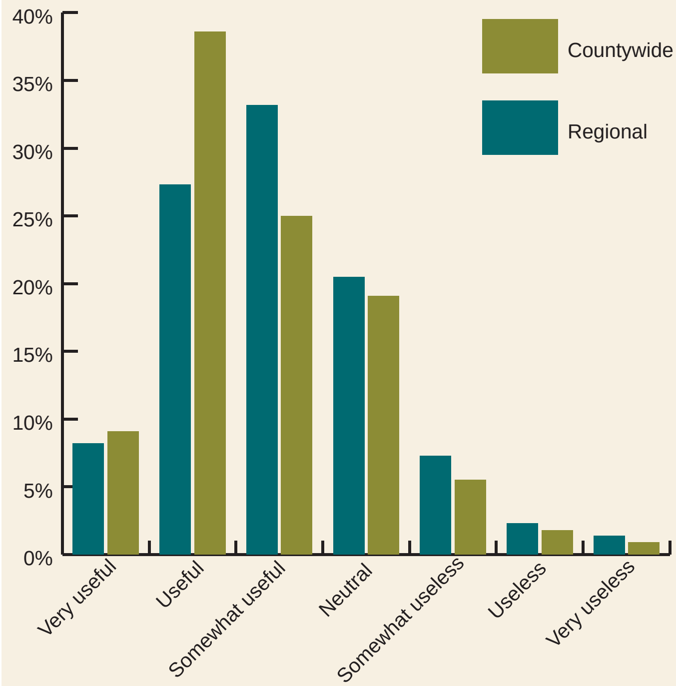
Involvement with Sonoma County Tourism Bureau

Respondents were asked to indicate how involved they were in working with the Sonoma County Tourism Bureau (SCTB). The majority indicated that they currently work with the Sonoma County Tourism Bureau (51.8%). Of those who worked with the SCTB, a larger percentage felt that regional and countywide marketing initiatives were 'useful' than 'somewhat uselss' to 'very useless' .

Involvement with Sonoma County Visitors Center

Respondents were also asked to indicate whether they worked with a local Sonoma County visitor center. The majority of respondents indicated that they were not currently working with a Sonoma County Visitor Center (47.7%). Of those that were not working with a Visitor Center, the majority felt that the regional and countywide marketing efforts were only 'somewhat useful'.

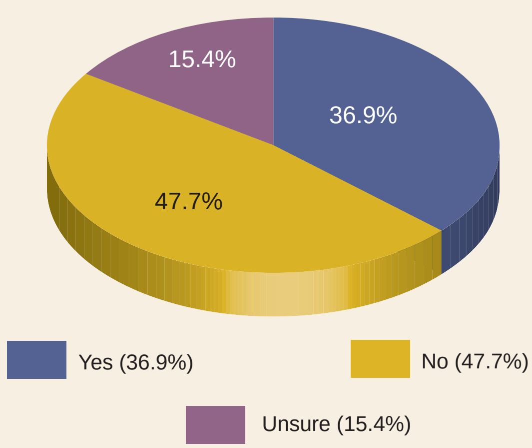
Effectivity of Marketing Initiatives, 2011 (Respondent Based)



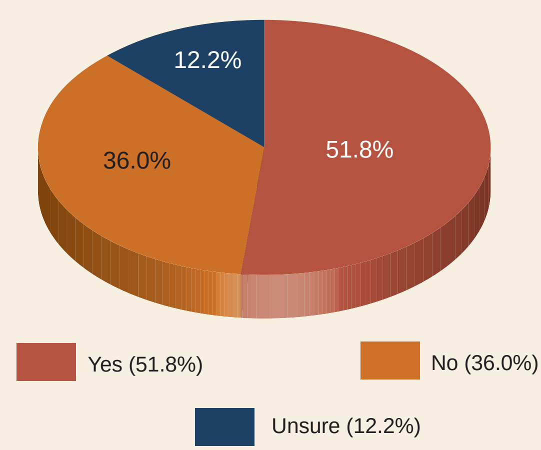
Suggestions for Improved Marketing, 2011

- Market non- wine activities
- Market specific regions within the county more heavily
- Create a clear and cohesive marketing message
- Increase specific niche marketing
- More national and international marketing

Involvement with Sonoma County Visitor Center, 2011 (Respondents Based)



Involvement with the Sonoma County Tourism Bureau, 2011 (Respondents Based)



Methodology

The Sonoma County Economic Development Board (EDB) conducted its 2011 survey of Sonoma County tourism businesses in relation to the tourism industry. Owners and executives of more than 250 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 2011 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, and the California Travel and Tourism Commission's 2010 California Travel Impacts by County, prepared by Dean Runyan & Associates and updated April 2011, www.visitcalifornia.com. 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.

Moody's Economy.com Section I:

The 2011 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 the Sonoma County Tourism Bureau for their invaluable suggestions and generous provision of statistical data on the tourism sector in Sonoma County.

Finally, Lauren Ward, 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. Lauren Ward updated and consolidated the data sources and statistics from previous years to create this comprehensive analysis, and deserves special thanks.

Ben Stone
Executive Director

EDB
Sonoma County
Economic Development Board

With Acknowledgment and Appreciation to Local Key Businesses Supporting Sonoma County Economic Development:

Director

Circle Bank — Your life. Your business. Your bank.

Exchange Bank

Infineon Raceway

PG&E Pacific Gas and Electric Company

SAFE-BIDCO

NorBAR North Bay Association of Realtors

Executive

Redwood Credit Union

First Community Bank

Bank of America

comcast

Kaiser Permanente. thrive

Sponsor

Anderson Zeigler Disharoon Gallagher Gray — Attorneys at Law, A Professional Corporation

North Bay Business Journal

Simons & Woodard — Development • Architecture • Management

Midstate Construction — Building Relationships

Wells Fargo

NVB North Valley Bank — Business Bank

Frank Howard Allen Realtors

Keegan & Coppin Real Estate

American AgCredit

Sonoma County Water Agency

Sonoma County Workforce Investment Board

Community Foundation Sonoma County

North Coast Bank

Vantreo Insurance Brokerage

Bank of Marin

Merrill, Arnone & Jones, LLP

Summit State Bank

Prudential California Realty Santa Rosa

Luther Burbank Savings

Sonoma County Alliance

Codding Enterprises

Sonoma County Tourism Bureau

■ County of Sonoma General Services, Real Estate Division ■ County of Sonoma Board of Supervisors ■
■ Sonoma County Health Services ■ Sonoma County Transportation & Public Works ■

www.sonomaedb.org