



SONOMA COUNTY TOURISM FISCAL YEAR 2018-2019 ANNUAL REPORT

TO BE FILED WITH THE OFFICE OF THE CLERK OF SONOMA COUNTY
PURSUANT TO STREETS AND HIGHWAYS CODE SECTION 36533

I. BACKGROUND

A. Sonoma County Tourism Business Improvement Area

On November 2, 2004, the Sonoma County Board of Supervisors ("Board") adopted Ordinance No. 5525 ("Ordinance") creating the Sonoma County Tourism Business Improvement Area ("SCTBIA"). Under the Ordinance, lodging establishments generating annual room revenue of \$350,000 or more during the preceding fiscal year must pay an assessment equal to 2% of such revenue. Proceeds from assessments are used to pay for activities designed to increase the number of overnight visitors to the area.

In January 2005, the Board appointed five members to the Sonoma County Tourism Business Improvement Area Advisory Board ("Advisory Board"), a body established pursuant to the Parking and Business Improvement Area Law of 1989 (Streets & Highways Code section 36500 et seq., the "Act") which is charged with advising the Board on the amount of the SCTBIA assessments and on the services, programs and activities to be funded by the assessments. In 2011, the Board amended the Ordinance, appointing the board of directors of Sonoma County Tourism Bureau, Inc. ("SCTB") to serve as the Advisory Board for the SCTBIA. This decision was based on recommendations of a 2010 County audit of the organization.

B. Sonoma County Tourism Bureau, Inc.

The Ordinance authorized the County to contract with a contractor to carry out the services, activities, and programs to be funded from the assessments, and designated SCTB to serve as the initial contractor. In June of 2005, the Board executed an agreement with SCTB to carry out services, activities and programs promoting tourism to Sonoma County, with funding from both SCTBIA assessments and from transient occupant tax (TOT) revenue allocated to SCTB by the Board. As noted above, in 2011, the SCTB Board of Directors was also appointed to serve as the Advisory Board.

The Ordinance requires a 22-member Board of Directors for SCTB, the composition of which must comply with a matrix that provides representation from each supervisorial district, and from each size category of lodging establishment. Appointments to the SCTB board are made on a pro rata basis in accordance with the respective contributions made to the SCTB budget by SCTBIA assessments and by County TOT allocations. The Sonoma lodging industry appoints the number of directors resulting from SCTBIA assessments, and the Board appoints the number of directors resulting from TOT allocations.

C. Boundaries

SCTBIA was the first county wide tourism business improvement area formed in California. For assessments to be collected from lodging establishments within the incorporated cities in the County, the councils of each City had to consent to formation of the SCTBIA. Consent was given by the Cities of Santa Rosa,

Petaluma, Rohnert Park, Sebastopol, Cloverdale and Cotati, and the Town of Windsor. Accordingly, the boundaries of the SCTBIA include the territory within the boundaries of those seven cities plus all of the unincorporated territory within the County. These boundaries have remained unchanged since the SCTBIA was formed, and SCTB does not recommend any changes to the boundaries in the upcoming year.

D. Assessment

Lodging establishments within the boundaries of the SCTBIA generating annual room revenue of \$350,000 or more during the preceding fiscal year must pay an assessment equal to 2% of such revenue. Lodging establishments in the unincorporated territory of the County pay the assessment to the County tax collector. Lodging establishments in the municipalities that consented to formation of the SCTBIA pay the assessments to the collecting entities within their respective municipalities. Those collecting entities, in turn, remit the collected assessments to the County in accordance with written agreements between the County and each municipality. This method and basis of levying and collecting the assessment has been unchanged since the SCTBIA was formed, and SCTB does not recommend any changes in the upcoming year.

E. Purpose and Specific Benefit

The Ordinance requires that revenues from assessments must be used to conduct marketing activities designed to increase overnight visits to the area. The term "area" is defined as the territory within the boundaries of the SCTBIA, and the term "marketing activities" is defined as activities designed to market the area as a tourist destination, including the expenditure of funds to place advertising in any media, conduct public relations campaigns, perform marketing research, promote conventions and trade shows, and foster improved contacts within the travel industry, for the purpose of promoting tourism within the area. Revenues from assessments may be used for programs, services, and activities outside the area, if such programs, services, and activities are designed to promote and encourage overnight visits to the area. Revenues from assessments may also be used to pay the ongoing administrative costs associated with the marketing activities.

The focus on increasing overnight visits to the area constitutes a specific benefit to the lodging establishments that pay the assessments. This specific benefit is what distinguishes the assessments from taxes that are subject to voter approval requirements. The fact that others may receive incidental benefits from the expenditure of assessments, such as restaurants serving more patrons, does not change the characterization of assessments as a specific benefit to lodging establishments because no additional cost is imposed on the lodging establishments to provide those incidental benefits.

F. Annual Report

Pursuant to Ordinance, and in accordance with section 36533 of the Act, SCTB must present an Annual Report to the Board for its approval that includes a program of activities intended to be implemented within the SCTBIA during the upcoming fiscal year, together with an estimate of related expenditures. SCTB must also include in the Annual Report an outline of the previous year's revenues and how those revenues were spent. SCTB obtains annual audits from independent auditors each year. The most recent annual audit is submitted as part of this Annual Report, providing a detailed analysis of the sources and uses of funds. Looking forward, the annual budget for the upcoming year submitted herewith describes the anticipated revenues and expenditures. The balance of this Annual Report will provide additional information concerning programs and activities completed in the prior year, as well as those planned for the upcoming year. The Board's consideration and requested approval of this Annual Report is the act which constitutes the levy of the assessment for the upcoming year.

II. **ANTICIPATED USE OF REVENUE**

A. Fiscal Year 2018-2019 BIA Revenue

For Fiscal Year 2018-2019 (July 1, 2018 through June 30, 2019), BIA assessment revenue is projected to be \$5,297,870.

B. Fiscal Year 2018-2019 TOT Revenue

For Fiscal Year 2018-2019 (July 1, 2018 through June 30, 2019), TOT revenue to be allocated to SCTB is projected to be \$2,107,840 based on County estimates as of March 8, 2018.

C. Recommendation

SCTB, in its capacity as the Advisory Board, recommends that the Board confirm this Annual Report and continue to levy the SCTBIA annual assessment for Fiscal Year 2018-2019 pursuant to the Parking and Business Improvement Area Law of 1989 (California Streets and Highways Code section 36500 et seq.), subject to the following findings and recommendations:

- 1) That the boundaries of the SCTBIA should remain the same, with the recognition that the cities of Santa Rosa, Petaluma, Rohnert Park, Sebastopol, Cloverdale and Cotati, and the Town of Windsor, have not withdrawn their consent to be included within the boundaries of the SCTBIA.
- 2) That SCTB continue to serve as the Advisory Board for the SCTBIA.
- 3) That the method and basis of levying the assessment remain unchanged, and in accordance with the terms of the Ordinance in fiscal year 2018 – 2019.
- 4) That the revenues generated by the assessment be used in accordance with the requirements of the Ordinance to conduct marketing activities designed to increase the number of overnight visits to the County.
- 5) That SCTB retained the services of Dillwood Burkel & Millar, LLP, an independent certified public accounting firm, to audit the SCTB financial statements for the periods of January 1, 2016 to December 31, 2016 and January 1, 2017 to June 30, 2017. Their findings were that there were no material weaknesses or significant audit findings in relation to SCTB's books and records. As part of SCTB's three-year auditor rotation policy, a new independent certified public accounting firm will be selected to audit the fiscal year July 1, 2017 to June 30, 2018.

D. Activities, Marketing, Advertising, and Public Relations Program Expenditures

The type of activities intended to be funded by the SCT BIA/TOT revenues include:

(1) advertising; (2) marketing materials and distribution; (3) tradeshow and sales missions; (4) sales and marketing promotions; (5) destination development; (6) research and development; (7) public relations; (8) sales and marketing tools; (9) labor; and (10) administrative expenses to align with SCT's five key initiatives: 1) Drive Overnight Visitation, 2) Create and Convey Value, 3) Engage Partners, 4) Spearhead Long-term Destination Planning, 5) Run an Effective Business.

Because of the October 2017 fires, Sonoma County Tourism's Board of Directors approved up to \$750,000 of funds from the catastrophic reserves to be used in to promote travel to Sonoma County, raise awareness

of Sonoma County as a destination and combat negative perceptions related to the fire. These funds will be used throughout FY17/18 as well as FY18/19.

D. Activities, Marketing, Advertising, and Public Relations Program Expenditures (cont.)

1. Advertising

SCT advertises in markets likely to yield overnight visits, driving consumers to trackable channels to increase marketing opt-ins. Strategy is to place a mix of paid content modules along with traditional ads, increase engagement with social media platforms and increase alignment with key advertising partners. A newly refreshed campaign, aligned with a brand refresh, will showcase the diversity of the area (coast, redwoods and rivers, vineyards and valleys) and experiences to extend visitor stays. Ad messaging will encourage visitors to see more of the total county during their stay.

Ad campaigns will be divided among brand advertising that runs year-round, and concentrated campaigns to yield overnight visitation during Oct-Dec and Jan-April, as well as mid-week.

2. Marketing Materials and Distribution

To promote the diversity of Sonoma County visitor experiences and encourage overnight visitation, SCT uses fresh imagery and advertising customized to the audience to inspire travelers. An online strategy that stresses deep content as well as an offline strategy that includes a combined run of 500,000 annual maps and guides serve to influence potential visitors to choose Sonoma County. Additional materials include sales brochures and collateral for use promoting mid-week, off-season visitation to meeting planners, weddings and travel trade.

3. Tradeshows and Sales Missions

Assessments will assist the DMO with funding tradeshows, sales missions and client events. These events will include attendance by qualified meeting planners from across the United States and Canada. These activities are intended to help generate room nights and qualified meeting and tour and travel leads. It is expected that Travel Industry Sales will generate qualified lodging and service business leads from Tour Operators for those hospitality/tourist related businesses within Sonoma County. Assessments will assist with funding the operation of satellite sales offices in Southern California, Washington DC, Chicago, Sacramento and Texas with the objective of specifically targeting meeting and group business.

4. Sales and Marketing Promotions

The activities to market and sell Sonoma County to our three core segments (leisure travel, meetings and groups, and tourism trade) are funded through these assessments. Funds are used for representation in target markets, education and awareness building among clients, incentives to bring group business in during need periods, marketing partnerships to raise awareness and gather information from future visitors, social media and email marketing, memberships in industry groups for leads and exposure and short-term promotions to take advantage of ad-hoc opportunities.

5. Destination Development

To sustain the tourism economy, which accounts for almost 20,000 local jobs, SCT provides programs that develop the hospitality workforce (like the Certified Tourism Ambassador program) as well as engages in community listening through the community engagement program. This

year SCT goal is to certify the 2,500th Certified Tourism Ambassador, ensuring that all visitor interactions are a positive one.

6. Research and Development

To maintain competitiveness and gauge effectiveness of programs, SCT conducts ongoing research, including contracting with the Sonoma County Economic Development Board for a Tourism Research Fellow as well as purchasing customized reports from tourism researchers. SCT also conducts brand and message audits and modifies marketing and sales activities based on findings. The EDB Research Fellow also manages Sonoma County Restaurant Week with the material assistance of SCT. SCT seeks to grow the research program in the coming year to complement new brand initiatives, maintain competitiveness and report on key performance indicators.

7. Public Relations

SCT assists thousands of journalists from around the world with stories about Sonoma County each year. Activities include visiting media to educate them, hosting qualified journalists in Sonoma County, attending events with partners like Visit California and representation in national and international markets likely to yield visitation.

8. Sales and Marketing Tools

Funds for sales and marketing tools are used to subscribe to programs that produce sales leads as well as to maintain the customer relationship management systems that track clients, partners and leads.

9. Labor

Labor expenses for marketing and group meeting sales activities will be funded by BIA Assessments. Labor costs for administrative personnel will be funded by TOT revenues.

10. Administrative Expenses

Administrative expenses will be funded by TOT revenues. At 10.6% of total expenditures, the administrative expenses are below average for a destination marketing organization according to the Destination Marketing Association International (DMAI) annual study.

11. Capital Expenditures

SCTB will replace outdated computers based on its 4-year replacement schedule.

11. Reserves

SCTB maintains reserves to provide funds for significant future cash demands arising from both planned and unplanned events or circumstances. \$1.3 million of reserves will be used during the fiscal year to forestall the impact of TOT funding reductions.

SONOMA COUNTY TOURISM

Sources & Uses of Funds -DRAFT

July 1, 2018- June 30, 2019

**Fiscal Year
2018-2019**

Revenues

BIA Assessments	\$ 5,297,870
Transient Occupancy Tax	2,107,840
Interest Income	<u>24,816</u>
Total Revenues	<u>\$ 7,430,526</u>

Expenditures

Advertising	\$ 1,294,000
Marketing Materials & Distribution	1,042,500
Tradeshows & Sales Missions	611,981
Sales & Marketing Promotions	868,360
Destination Development	279,290
Research & Development	421,800
Public Relations	282,480
Sales & Marketing Tools	102,800
Labor	2,963,356
Administrative Expenses	938,968
Capital Expenditures	17,151
Reserve Funding	-
Total Uses	<u>\$ 8,822,686</u>
TOTAL REVENUES LESS USES	<u>\$(1,392.160)</u>

Reserve Usage

Catastrophic & Strategic Reserves	\$ 1,392,160
TOTAL SOURCES LESS USES	<u>\$ 0</u>

Expense Details FY 2018-2019

Advertising	Budget
Domestic	\$1,227,000
International	67,000
Total	\$1,294,000

Marketing Materials & Distribution	Budget
Photo, Video, Design & Content	\$ 366,200
Collateral Material Print & Distribution	275,800
Website	319,500
Promotional Products	81,000
Total	\$1,042,500

Tradeshows & Sales Missions	Budget
Event Fees & Expenses	\$ 252,245
Travel	204,636
Client Events	155,100
Total	\$ 611,981

Sales & Marketing Promotions	Budget
Outside Representation	\$ 243,400
Industry Education & Site Tours	118,000
Group Cash Incentives	75,000
Marketing Partnerships	67,800
Email Campaigns	40,000
Memberships	144,160
Event Sponsorships	180,000
Total	\$ 868,360

Expense Details FY 2018-2019 (Cont.)

Destination Development	Budget
Tourism Enhancement Projects	\$ 100,000
CTA Program	130,780
CTA Collected Fees	(24,500)
Community Engagement	73,010
Total	\$ 279,290

Research & Development	Budget
Research Studies	\$ 270,800
County EDB Researcher	51,000
Branding & Strategy	100,000
Total	\$ 421,800

Public Relations	Budget
Media Site Tours	\$ 90,000
Contracted Representation	71,280
Visits to Media & Events	75,000
Media Tools & Content	46,200
Total	\$ 282,480

Sales & Marketing Tools	Budget
Sales Lead Generators	\$ 49,500
CRM System	53,300
Total	\$ 102,800

Expense Details FY 2018-2019 (Cont.)

Labor	Budget
Wages	\$ 2,334,435
Shared Labor	(27,263)
Benefits	364,545
Taxes & Workers Compensation	220,639
Temporary Help	16,000
Training & Development	47,500
Recruiting	7,500
Total	\$ 2,963,356

Administrative Expenses	Budget
Rent, Utilities, Janitorial	\$ 497,581
Sublease	(188,364)
IT, Telephone	199,189
Legal, Audit, HR Fees	169,140
Auto, Local Travel	81,960
Supplies, Equipment, Maintenance	87,608
Meetings & Retreats	35,000
Board Development	37,500
Insurance, Bank Fees, Taxes	19,354
Total	\$ 938,968

III.
SCT BIA / TOT REPORTING MATRIX

A. Fiscal Year July 1, 2017 – February 28, 2018 + Forecast (March – June 2018)
Group/Meeting Sales

Group/Meetings Sales Leads	Results YTD @ 02.28.2018	Forecast March–June 2018	Forecast Full Year FY2017-18	Prior Year Results FY2016-17
Leads Distributed	376	188	564	507
Lead Room Nights	82,626	41,313	123,939	87,812
Lead EIC	\$45,595,000	\$22,797,000	\$68,392,000	\$39,114,000
Definite Leads	75	37	112	112
Definite Room Nights	14,450	7,225	21,675	20,757
Definite EIC	\$6,662,000	\$3,331,000	\$9,993,000	\$10,656,000

B. Marketing Reporting Metrics

12-months trailing, as of Feb 28, 2018:

Sonomacounty.com Website Traffic	Sessions 3,103,638	Users 2,317,155	Pageviews 6,303,182
-------------------------------------	-----------------------	--------------------	------------------------

Social media total followers: 329,642
(Facebook, Instagram, Twitter)