



**SONOMA COUNTY TOURISM
FISCAL YEAR 2020-2021 ANNUAL REPORT**

- REVISED -

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

SUBMITTED: APRIL 22, 2020

**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 ("SCTB BIA"). 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 SCTBBIA 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. ("SCTBB") to serve as the Advisory Board for the SCTBBIA. 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 enter into an agreement 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 SCTB BIA assessments and from transient occupant tax (TOT) revenue allocated to SCTB by the Board. As noted above, in 2011, the SCTB Board of Directors also was 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 SCTBB budget by SCTB BIA assessments and by County TOT allocations. The Sonoma lodging industry appoints the number of directors resulting from SCTB BIA assessments, and the Board appoints the number of directors resulting from TOT allocations.

C. Boundaries

The SCTB BIA 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 SCTB BIA. 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 SCTB BIA 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 SCTB BIA 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 SCTB BIA 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 forward the assessment to the County tax collector. Lodging establishments in the municipalities that consented to formation of the SCTB BIA allocate 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 SCTB BIA was formed, and the 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 SCTB BIA, 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, attractions, wineries, retailers and parks, 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, the SCTB must present an Annual Report to the Board for its approval that includes a program of activities intended to be implemented within the SCTB BIA during the upcoming fiscal year, together with an estimate of related expenditures. The SCTB must also include in the Annual Report an outline of the previous year’s revenues and how those revenues were spent. The 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 2020-2021 BIA Revenue

For Fiscal Year 2020-2021 (July 1, 2020 through June 30, 2021), the revised BIA assessment revenue is projected to be \$3,653,941 based on expected fallout from the COVID-19 pandemic. This represents a \$1,797,903 (33%) reduction from the pre-COVID-19 forecast of \$5,451,844. The forecast was derived through estimates from Smooth Travel Accommodations Report (STR) and general business declines seen in Sonoma County. We have estimated on the conservative side and hope business returns more quickly than is shown in the budget, but because this year will be incredibly fluid, we wanted to be conservative. This crisis is currently estimated by Visit California to be nine (9) times more economically devastating than the terror attacks of 9-11. It should be noted, the STR report measures only the accommodations that provide data. Many of the smaller lodging properties and none of the vacation rentals are included in this report. In Sonoma County, this represents a minority of the number of hotels, but the majority of the rooms. And, this is only one performance indicator when considering the aggregate value of the entire tourism ecosystem.

B. Fiscal Year 2019-2020 TOT Revenue

For Fiscal Year 2020-2021 (July 1, 2020 through June 30, 2021), the revised estimated portion of TOT revenue allocated to the SCTB is projected to be \$1,620,348. This represents a \$842,010 (33%) reduction from the original forecast of \$2,462,358.

In advance of FY19-20, the environment for receiving funds through the TOT allocation changed. Moving from quarterly payments comprised of pre-determined amounts based on forecasts, to quarterly payments based on actuals means the organization must wait for reconciliations before funds are received and until then the amount is unknown. Added to this is the deferment of payments due to catastrophic disasters in Sonoma County. Because of this, SCT has evolved its operations to accommodate these uncertainties and changes, but it does make forecasting and programming challenging at best.

C. Recommendation

SCTB, in its capacity as the Advisory Board, recommends that the Board confirm this Annual Report and continue to levy the SCTB BIA annual assessment for Fiscal Year 2020-2021 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 SCTB BIA should remain the same, with the recognition that the properties within the cities of Santa Rosa, Petaluma, Rohnert Park, Sebastopol, Cloverdale and Cotati, and the Town of Windsor, continue to participate in the SCTB BIA with support from each of the cities;
- 2) that SCTB continue to serve as the Advisory Board for the SCTB BIA;
- 3) that the method and basis of levying the assessment remain unchanged, and in accordance with the terms of the Ordinance in fiscal year 2020 – 2021;
- 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; and
- 5) that SCTB retained the services of an independent certified public accounting firm, Pisenti & Brinker and to audit the SCTB financial statements for the 2018-19 fiscal year (July 1, 2018 to June 30, 2019). Their

findings continue to show a “clean” report - no material weaknesses or significant audit findings were found in relation to SCTB’s books and records. This report is included with this document. SCT will continue to conduct annual audits with County-approved firms.

D. Activities, Marketing, Advertising, and Public Relations Program Expenditures (Expenditures are noted based on the SCTB budget allocations rather than programmatic integration.)

Sonoma County Tourism has downsized its operations to meet the forecasted budget but continues to operate an integrated sales and marketing organization. The general areas within this new paradigm are Marketing & Communications, Group Business Development and Administration. The programming currently outlined in the financial accounting system conveys that integrated approach. The type of activities as allocated and intended to be funded by the SCTB BIA/TOT revenues include: (1) Paid advertising; (2) Marketing materials and distribution; (3) Tradeshow attendance; (4) Sales and marketing promotions; (6) Research; (7) Public relations; (8) Sales and marketing tools; (9) Labor; and (10) Administrative expenses. Within the integrated approach, these program areas align with SCTB’s five key initiatives as outlined in the 2019-2021 strategic plan: 1) Build a Data-driven Foundation 2) Drive Overnight Visitation, 3) Spearhead Long-term Destination Stewardship, 4) Enhance Value through Robust Partnerships, 5) Run an Effective Business.

During 2019, Sonoma County Tourism evolved its moniker from a Destination Marketing Organization to a Destination Stewardship Organization. Our goal, ultimately, is not only to drive visitation and bolster the Sonoma County economy, but to ensure we help our visitors preserve and protect our natural and cultural resources. The recently developed Traveler Pledge and programs with offerings such as Kind Traveler have begun to position Sonoma County as a leader in the sustainable travel space. As we look into FY20-21, the organization will be more focused than ever on sustainability and managing how visitors engage within the County.

1. Paid Advertising

Due to the Coronavirus, SCTB has cancelled all contracts with its marketing vendors and is transitioning out of its contract with MMGY Global. During the remainder of the calendar year, or Q1 and Q2 of FY20-21, SCTB will focus its paid advertising to the Bay Area and drive markets. While we believe Sonoma County will be appealing to travelers, we will be competing with all other destinations in Northern California for the same California and regional visitors. This will require we be more focused than ever. We also will run into the impacts of the potential for PSPS and fires in the fall adding significant complication to our timetable. Research currently shows many leisure and business travelers rescheduling trips to the fall. Once we get through the reboot, we will be able to take a more strategic approach to annual planning.

2. Marketing Materials and Distribution

Marketing materials have been pared down significantly to fit into the new budget. We are looking at ways to reduce all print projects including the annual visitor guide. We will continue to monitor the budget and the need to product print pieces as the year progresses.

3. Trade Shows and Sales Missions

We are still uncertain about when the large gathering associated with in-person trade shows will be allowed to occur. We will participate in virtual trade shows as appropriate. To note, we have suspended our Tourism Development group, meaning all travel trade outreach, including domestic and international shows are on hold throughout this fiscal year.

4. Sales and Marketing Promotions

Funds within this line item are used for sales and marketing programs in target US and international markets. The tactics used include 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 spontaneous opportunities.

5. Destination Development

We are putting all destination development projects on hold for FY20-21.

6. Research

To maintain competitiveness and gauge effectiveness of programs, the SCTB conducts ongoing proprietary research as well as purchasing customized reports from tourism industry organizations. In FY 19-20, SCT began receiving key research from its new vendor, Longwoods International. This included general visitation research as well as the return-on-investment of its paid advertising campaigns. For the first time, we know that Sonoma County received 10.8 million (domestic) visitors in 2018; 6.0 million day and 4.8 million overnight. We also know the paid advertising efforts for the brand launch campaign showed for every dollar invested in tourism marketing, \$166 is returned to the county with an 18:1 return on the incremental tax revenue. In the seven months of the campaign, 394,000 incremental overnight trips and 186,000 day trips were taken because of the messages in the ads. In the interest of space within this document, the full reports can be found on SonomaCounty.com.

7. Public Relations

Public Relations will take a key role in promoting Sonoma County during FY20-21. It has always been the most efficient form of outreach, but this year we'll need it to work harder than ever. As is the case with paid advertising, media relations will focus on the Bay Area and Northern California plus the drive markets and short flight cities such as Los Angeles, San Diego, Portland and Seattle. The SCTB will continue to assist journalists with developing positive stories about Sonoma County and conveying messages that elevate the Life Opens Up brand. SCTB has cancelled all contracts with its international media relations representatives in the U.K., Australia, Scandinavia and Canada.

8. Sales and Marketing Tools

Funds for sales and marketing tools are used to subscribe to programs that produce sales leads, provide a client training platform as well as to maintain the database systems that track clients, partners and leads and provide a platform for connecting with potential visitors. The SCTB uses the robust Simpleview database to track all programs included those listed above as well as community engagement outreach.

9. Labor

Labor expenses for marketing, tourism development 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. The costs for labor continue to rise with a number of factors coming into play. Sonoma County Tourism works with its HR consultant, HR Matrix, to ensure all personnel costs are reasonable given the cost of living, need to provide competitive wages and

desire to attract highly capable team members. The organization also has a significant need to maintain a high level of technology given the evolving channels travelers use to search for information.

11. Capital Expenditures

The SCTB will continue to replace outdated and end-of-life computers based on its 4-year replacement schedule. All other expenditures have been put on hold.

11. Reserves

The SCTB has a 3-month (90-day) reserve level to provide funds for significant future cash demands arising from both planned and unplanned events or circumstances. During 2018, the SCTB reduced its reserve target from a 6-month level to a 90-day level. Strategic reserves were used to market following both the 2017 and 2019 wildfires.

SONOMA COUNTY TOURISM
Sources & Uses of Funds -DRAFT
July 1, 2020 - June 30, 2021

	Fiscal Year <u>2020-2021</u>
<u>Revenues</u>	
BIA Assessments	\$ 3,653,941
Transient Occupancy Tax	1,620,348
Interest and Other Income	41,254
Total Revenues	<u>\$ 5,315,543</u>
<u>Expenditures</u>	
Advertising	\$ 1,137,270
Client Events Fams & Entertainment	127,240
Tradeshows & Sales Missions	99,250
Digital Engagement	316,110
Research, Tools and Memberships	203,112
Contract Services	255,468
Professional Development	114,175
Destination and Industry Programming	173,470
Labor	2,131,231
Administrative Expenses	808,217
Total Uses	<u>\$ 5,365,543</u>
TOTAL REVENUES LESS USES	<u>\$ (50,000)</u>
<u>Reserve Usage Capital Items</u>	
Depreciation	\$ 50,000
TOTAL SOURCES LESS USES	<u>\$ 0</u>

Expense Details FY 2020-2021

Advertising	Budget
Domestic	\$1,137,270
International	0
Total	\$1,137,270

Client Events Fams and Entertainment	Budget
Client Events and Meals	\$ 39,850
Site and Press Tours	74,000
Promotional Items	5,500
Travel – Mileage and Local	7,890
Total	\$ 127,240

Tradeshows & Sales Missions	Budget
Event Fees & Expenses	\$ 89,150
Travel	10,100
Total	\$ 99,250

Digital Engagement	Budget
Website	\$ 152,880
Media Tools	16,000
Email Campaigns	32,090
Photography and Video	24,175
Content	90,965
Total	\$ 316,110

Expense Details FY 2020-2021 (Cont.)

Research, Tools and Memberships	Budget
Research Studies	66,549
CRM Systems and Sales Tools	95,924
Memberships	46,640
Total	\$ 203,112

Contract Services	Budget
Account Management	\$ 65,305
Outside Representation	27,500
Design	71,398
Printing	91,265
Total	\$ 255,468

Professional Development	Budget
Industry Education	\$ 34,100
Board & Community Development	15,050
Professional Development	30,700
Meetings and Retreats	34,325
Total	\$ 114,175

Destination & Industry Programming	Budget
Destination Master Plan	\$ 0
CTA Program	38,170
Community Event Sponsorship	24,100
Marketing Partnerships	13,700
Industry Sponsorship	3,500
Group Business Development Incentive	94,000
Total	\$ 173,470

Expense Details FY 2020-2021 (Cont.)

Labor	Budget
Wages	\$ 1,840,683
Payroll Taxes and Workers Compensation	159,594
Benefits and 401K	127,503
Temporary Staffing	1,300
Recruiting	1,150
Total	\$ 2,131,231

Administrative Expenses	Budget
Technology	135,631
Office Supplies & Equipment	124,154
Fees and Licenses	182,561
Facilities Expense	310,825
Depreciation	50,000
Total	\$ 808,217

III.

SCTB BIA /TOT FY 2018-2019 OVERARCHING KPIs and RESULTS

As part of this report, SCT is required to account for the results of the preceding year's efforts. In 2018, Sonoma County Tourism developed and adopted a strategic plan that included a full slate of Key Performance Indicators (KPIs) for the organization as well as each program area. The annual report is available on SonomaCounty.com/partners. As a report of FY18-19 performance, following is an overview of the accomplishments as provided in the organization's annual report.

BUDGET ALLOCATION

For FY18-19, the SCTB budget was \$8,811,196. This was broken down into the organizations six program areas and was allocated as such:

Program Area	Budget	Percent of Total
Marketing	\$3,620,275	41%
Group Business Development	\$2,014,417	23%
Tourism Development	\$870,419	10%
Community Engagement	\$549,635	6%
Administration	\$1,756,450	20%
TOTAL	\$8,811,196	100%

The strategic plan outlined 223 Key Performance Indicators (KPIs) within each of the initiatives and program areas for the team to achieve during the plan timeframe (2018 – 2019). The team accomplished more than 90% of these goals. Through a transparent KPI tracker, the team was focused on achieving or surpassing these goals as the board and public tracked our success.

The organization also had overarching KPIs. These were designed to help ensure success of the entire SCT team, our investors and partners. These were aspirational goals, most of which were accomplished.

1. Increase the number of travelers to Sonoma County, most especially overnight visitors by two percent (2%) year-over-year.

As the organization's mandate is to drive the number of visitors to the destination, this is the central key performance indicator. While visitation is starting to come back, it has been a very challenging 18-months following Sonoma County's wildfires. We did not reach a 2% increase in any of our calculations.

2. Create a dynamic research foundation that tracks and communicates industry and organizational performance.

SCT has established partnerships with industry-leading research vendors to derive a full accounting of its domestic visitors and a reliable snapshot of its international visitors. Vendors include:

- Longwoods International – Foundational visitor research
- Dean Runyan & Associates (collaboration with Visit California) – Economic Impact Research
- VisaVue – International inbound visitation based on use of Visa cards
- MMGY – Visitor perception research as it related to the brand development
- Sonoma County Economic Development Board – Moody and general industry insights

3. Initiate a new funding model for Sonoma County Tourism that creates opportunities for growth within both traditional (tourism industry) and non-traditional (consumer brand aligned) partnerships.

SCT has begun discussions around a number of incremental funding options that can help boost funding to its sales and marketing efforts. While the funding model has not yet been fully developed we have far greater insight into the potential funding streams.

4. Expand partner marketing and business development opportunities.

This has been an important component of SCT's sales and marketing programs throughout the year. Whether celebrating new flights, engaging with new group business clients or showcasing Sonoma County to the world, SCT provided business-building opportunities to partners at a greater level than before.

5. Boost community outreach to ensure Sonoma County Tourism is perceived as a strong community partner.

Working to become a more valued and relevant member of the Sonoma County community has created numerous opportunities for the SCT team to interface with tourism industry partners as well as a variety of other business, service and educational organizations.

SCT worked closely with state and community leaders continuing the conversations around fire recovery and crisis management. Tourism Cares continued to make an impact at more than seven area locations.

SCT developed a significant Value of Tourism outreach around National Tourism Week. Including the Power of Tourism microsite, printed insert, posters, window clings and a celebratory gathering of tourism professionals.

SCT went on a countywide speaking circuit providing organization and program overviews to Chambers, City Councils and service organizations.

6. Develop a Destination Management Plan designed to identify a responsible long-term approach for creating a destination that addresses key issues and identifies innovative approaches for managing critical issues and bolstering the economy through travel and tourism activities.

During this plan time period, outreach was completed to potential partner firms with a request for proposal. SCT accepted proposals from three potential vendors and worked with its Executive Committee and Board to identify a contractor. This work will begin in earnest in August 2019 and should be concluded during FY19-20.

7. Cultivate trust in Sonoma County Tourism through ensuring transparency in budgeting, openness in meetings and timely, ongoing communications.

During FY18-19, SCT distributed a partner survey that showed as 71% partner satisfaction rating and a 72% net promoter score, measuring how likely our partners are to refer SCT to their peers.

During this past year, SCT worked with approved auditors to complete five audits, three for FY17-18 and for CY2016 and the first six months of 2017. All three financial statement audits were clean and the two travel & expense audits were completed with responses and policy changes made to address the few audit findings.