SAN DIEGO INSTITUTE FOR POLICY RESEARCH

Policy Report

By Kelly Cunningham

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Value and Contributions of San Diego's Visitor Industry

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VISITOR INDUSTRY

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FORWARD

By all accounts, the early 1990's was an economically bleak time for San Diego. General Dynamics had shuttered its facilities, transitioning from one of the region's largest employers to having only a token workforce. The savings and loan industry, which previously had a major local presence in the financial and corporate services sector, radically downsized as a result of an imploding housing market. Unemployment rates spiked, municipal revenues stagnated and national commentators asked whether San Diego, along with the rest of the state, would ever recover.

However, throughout the past 15 years city businesses and residents have seen a remarkable recovery. Local entrepreneurs have undertaken bold new ventures which are built upon the resources and attributes of the region – a talented workforce, strengths in research and development, century-long partnerships with the U.S. Navy and Marine Corps, environmental attractions, and a wonderful climate. The efforts of these private sector trailblazers in San Diego have created a 21st century economy that is diversified and, consequently, much more resilient to downturns in the business cycle. While it would be Pollyannaish to declare that San Diego is now "recession-proof" and irresponsible to say that we should rest on laurels, it is not too far a stretch to suggest that this diverse economy is likely to continue to grow and that baring serious economic dislocations, will generally outperform the state and the nation.

A key pillar in that diversified economy is San Diego's visitor industry. Entrepreneurs such as the Evans family, Doug Manchester, Terry Brown, David and Leslie Cohen, Sam Ladeki, Chris Cramer, Daniel Tucker and scores of other risk-takers and industry leaders have built an industry that fosters a collaborative culture and employs more than 120,000 workers, making San Diego the 4th most popular travel destination in the country.

Vital to this marketplace success is freedom from intrusive government and the development of strategic public-private partnerships. As Kelly Cunningham points out in this overview of the economic impact of the industry in San Diego County, these factors stem from a business environment that has generally been conducive to new investments and which has encouraged risk-takers to seek out innovative solutions. Of course past victories are no guarantee of future successes and that is why policymakers must diligently work to cut more red tape and curb government intervention in the marketplace. But along with that positive regulatory and fiscal environment came a commitment to use public-private partnerships to help the industry reinvest the tax revenues it generates into important projects that help it continue to grow. From financing the expansion of the convention center, to promoting San Diego through the San Diego Convention and Visitors Bureau to maintaining the beauty of Mission Bay, these public-private partnerships further improve the San Diego "product." The challenge, one which the industry and supporters must continually take on, is ensuring that this reinvestment is done in an efficient and effective manner and not used as an excuse to fund government largesse or unrelated activities. To torture the metaphor, San Diego policy makers need to look at the visitor industry not as a cash cow but as a golden goose.

The coming decades will bring challenges, four of which Mr. Cunningham identifies and lays out. But if the track record of this industry is a guide, its leaders and entrepreneurs will meet those challenges head-on and continue to expand one of San Diego's most important engines of prosperity.

By W. Erik Bruvold
President & CEO
San Diego Institute for Policy Research

TOP TEN FACTS ABOUT SAN DIEGO'S VISITOR INDUSTRY

1 – San Diego hosts more than 32 million visitors per year, including hotel guests, those staying with friends and relatives, and those just visiting for the day.

2 – Visitors spend more than $7.7 billion at local businesses. Visitor spending annually equals $2,502 for every San Diego resident. The massive injection of visitor spending directly supports local hotels, restaurants, shops, attractions, and cultural institutions.

3 – Visitor spending also indirectly bolsters practically every segment of the economy, accounting for 11.4 percent of San Diego's total regional economic production.

4 – Visitor dollars also generate significant tax revenues for local communities – some $430 million in tax and fee revenues flowed to San Diego City and County municipalities in 2006, benefiting parks, law enforcement, fire safety, road improvements and many other needs.

5 – One in every nine civilian jobs in San Diego County is due to visitor spending.

6 – An average 88,200 visitors are in San Diego on any given day, bringing $21.1 million every day.

7 – San Diego often reports the nation's highest hotel occupancy rates. In the summer of 2007, the average San Diego hotel occupancy rate was 93.6 percent during the 28-day period ending August 22.

8 – San Diego leads the nation for Indian gaming with more Indian-owned casinos than any other county in the U.S.

9 – The vast majority of San Diego visitors (85 percent) travel to San Diego for recreational or leisure purposes, versus 13 percent for business, conventions, and meetings.

10 – Forty-three percent of overnight visitors come from other parts of California, 13 percent from Arizona and 6 percent from Nevada. Six percent are international travelers.

INTRODUCTION

This report provides an overview of San Diego's visitor industry and key issues facing the industry. We start by reviewing the value of the visitor industry to San Diego's economy, how it ranks in comparison with other economic sectors, and the stability, diversity, and advantages provided to the region. We then go onto look at the number of jobs associated with the industry and the kind of wages that it pays. We also look at who is coming to San Diego and why.

Next, the report highlights six key drivers that impact prospects for the industry, including the role of the San Diego Convention and Visitors Bureau, importance of the Convention Center, hotel expansion, growth of the cruise ship industry, rise of Indian gaming, and Baja California's importance for local travel.

Finally, the report examines four longer-term key challenges facing this industry moving forward. These include government financing derived from tourism, reinvesting and supporting the visitor industry, the constraints of the current airport, and the Chargers stadium and Super Bowl in San Diego.

I: THE IMPACT OF THE VISITOR INDUSTRY ON THE SAN DIEGO ECONOMY

The travel and tourism industry—encompassing transportation, accommodations, catering, recreation and services for travelers—is the world's largest industry and largest generator of jobs.[i] It encompasses the third largest sector of the U.S. economy and one of the largest employment sectors. One out of every eight people in the U.S. civilian labor force is directly or indirectly employed by travel and tourism. Tourists spend $1.4 billion every day in the U.S, translating into $60 million an hour, $1 million a minute, or $17,000 a second.[ii]

Travel and tourism is one industry in which America actually has a trade surplus. International tourists spent $7.2 billion more in the U.S. than U.S. citizens spent abroad during 2006. In total international visitors spent $107.8 billion traveling in the U.S. last year, including international passenger fares, while U.S. resident travelers spent $100.6 billion traveling in foreign countries.[iii]

The economic impact of travel and tourism for San Diego County is just as prominent. An estimated 32.2 million visitors poured $7.7 billion into the local economy during 2006.[iv] One in every nine civilian jobs in the region is associated to this industry. An average 88,200 visitors were in San Diego on any given day during 2006, spending $21.1 million every day. Spending by visitors annually averaged $2,502 for every San Diego resident.

As with the rest of the nation, San Diego's visitor industry faced significant challenges since the beginning of the decade. A nation-wide slump in visitor travel followed the meltdown of dot.com business in 2001, and was greatly exacerbated by the September 11, 2001 terrorist attacks. Tighter security measures imposed by the federal government made air travel more difficult resulting in a sharp drop of both corporate and personal travel for San Diego, as well as for the rest of the nation.

Air travel to San Diego bottomed in 2002 and took three years to regain the same level of travel experienced at the peak in 2000. Adding to the challenge in October 2003, wildfires in San Diego's rural areas destroyed state parks and outdoor recreation areas, as well as the homes of many residents. The wildfires caused temporary closures of local businesses and attractions, hindering the restaurant industry and other visitor-based business.[v] Significant increases in the price of gasoline since 2004 have also made driving much more expensive impacting San Diego's important drive-to visitor market.

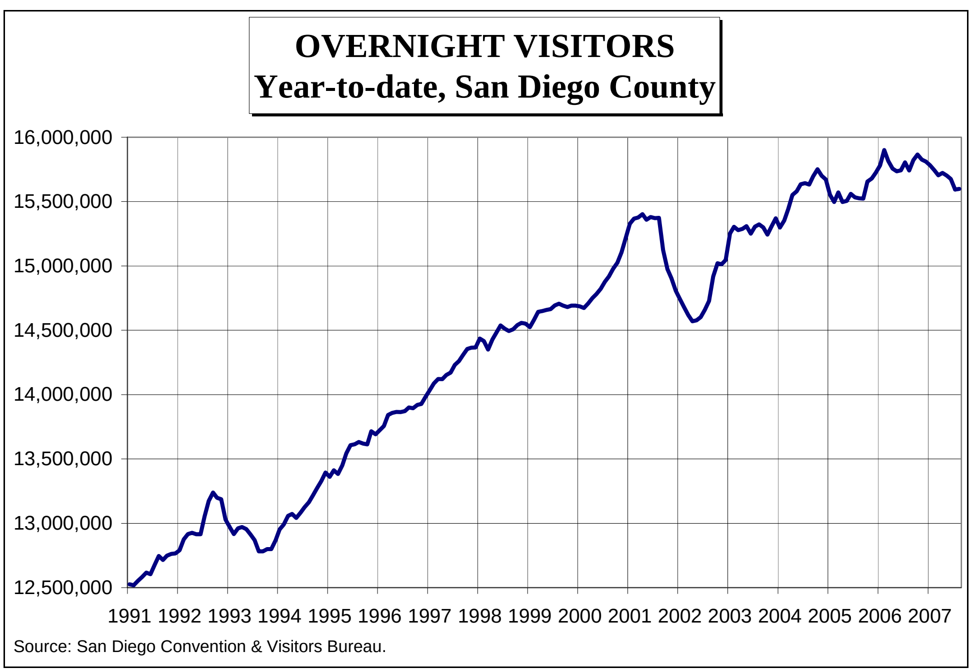
Despite these multiple challenges, the visitor industry nevertheless managed to rebound successfully. The number of visitors to the region, hotel operations, and related spending all rebounded and now exceed pre-9/11 levels of activity. A significant plus for San Diego was hosting the Super Bowl at Qualcomm Stadium. San Diego based *Marketing Information Masters, Inc.* reported the January 2003 Super Bowl generated $367 million, bringing 348,000 people to the San Diego region for the event, and highlighting the area to audiences around the world.[vi] (See section III. 4 - Super Bowls, Chargers, and the Stadium.)

Also positively impacting the region's success was the fact San Diego is a popular drive-to market. Recent studies found 68 percent of overnight visitors to San Diego use their own vehicle to travel to the region. In light of the slowing economy and people's reluctance to go long distances, San Diego was an attractive destination for nearby markets in southern California, Arizona, and other western states to drive here.

Finally, the importance of the San Diego Convention and Visitors Bureau (ConVis) and the San Diego Convention Center aiding this recovery cannot be overstated. According to *Smith Travel Research*, a Tennessee-based company that surveys the hospitality industry, San Diego County hotels ranked first in the nation for highest occupancy rates during July and August of 2007.[vii] Since travelers were less inclined to fly and instead driving by automobile, ConVis strategically shifted marketing and advertising efforts to a heavy focus on the Los Angeles, Phoenix and Las Vegas markets. The expansion of the San Diego Convention Center allowed and attracted larger conventions and trade shows to the region as well.

During 2006, 32.2 million visitors came to San Diego. Visitor travel varies considerably throughout the year, with summer being the busiest time of the year. Visitor travel varies from just more than 2.0 million visitors recorded in January to a high of 4.2 million in July.

Figure 1



A bit less than one-half of the travelers are overnight visitors, those who stay in hotels and motels, in private homes, or other overnight accommodations, according to CIC Research on visitor stays. Of these, in 2006 7.8 million stayed in hotels or motels, while another 800,000 stayed at campgrounds, RV parks, timeshares or rental apartments and condominiums. The balance of 7.2 million overnight visitors stayed with friends and relatives in private homes.[viii]

Between 2002 and 2005 (the years for visitor survey profiles conducted by CiC Research), a relatively strong 9 percent increase in visitors with hotel accommodations was noted, but at the same time only a modest 2 percent increase of in-home and other overnight visitors occurred. The strong rise of hotel visitor volume also contrasts with generally slower growth in other overnight visitor segments (e.g., overnight in-home guests, camping, RV, timeshares, and second homes).

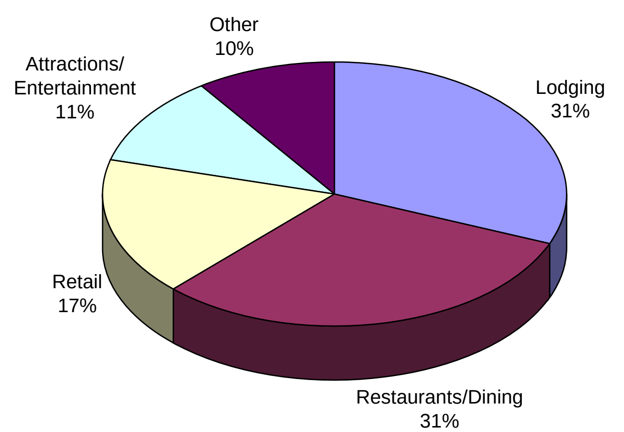
Also since 2002, the average length of stay has decreased along with the number of people traveling in the group. The average stay of hotel/motel visitors in 2005 was 3.2 nights and the average travel group size was 1.8 people. This compares with 3.6 nights and 2.4 people per travel group observed in 2002. Private household visitors stayed an average of 4.3 nights, and the average travel group size was 2.1 persons, compared with 4.6 nights and 2.3 people per travel group in 2002.

An additional 16.4 million "day" visitors came to San Diego in 2006 to visit area attractions, events, or businesses, and/or to see friends and relatives, but who did not stay overnight.[ix] The estimate also includes Mexican day visitors, those who come to San Diego for visitor-based reasons (not for work or other purposes). In 2006 it was estimated that 4.6 million Mexican citizens came to San Diego as day visitors, about 28 percent of the year's total.

A. Comparative Economic Impact

Visitors to San Diego have a tremendously positive economic impact on the region. Recently revised estimates for visitor spending show $7.7 billion was spent in the region during 2006. Including the overall economic impact from direct and induced or multiplier spending, indicates the total value of visitor spending on the San Diego regional economy was $17.7 billion, according to economic and fiscal impact analysis by CIC Research.[x] This represents 11.4 percent of San Diego's $155.4 billion gross regional product in 2006. Moreover, visitor spending grew somewhat faster than the rest of San Diego's economy, increasing 6.8 percent compared to an overall growth rate of 6.2 percent.

Figure 2: **Visitor Spending in San Diego $7.7 billion, 2006**



Among the $7.7 billion in direct visitor spending during 2006, the two largest portions came from spending for lodging and at restaurants and dining, each totaling $2.4 billion. Visitors shopping at area retail stores spent another $1.3 billion. Attractions and entertainment venues collected $849 million from visitors to the region, while other expenditures totaled $756 million.

This makes the visitor's industry San Diego's fourth largest sector of the economy, following 1st manufacturing ($25.8 billion in 2002), 2nd military/defense ($10.2 billion, 3rd high-tech research and service-driven industries ($7.4 billion in 2002), and 4th visitor industry ($7.1 billion in 2005). These four legs of economic productivity provide a sturdy and diverse base of economic stability for the San Diego region. This is a primary reason why San Diego's economy has been one of the nation's stronger regional economies, and why the County led the rest of California in economic growth through recent years.

B. Visitor Industry Jobs

Approximately 120,000 full-time equivalent jobs are attributed to visitor spending in San Diego County, according to CIC Research. This represents one out of every nine civilian jobs in the region. Nearly 70,000 of the jobs are directly supported by tourism spending, including lodging, food services, attractions, retailing, and transportation. Another 50,000 jobs are in firms indirectly supported by the spending of visitors. These jobs are with businesses such as accounting firms, web designers[xi] and business managers. Construction companies building hotels, food, printing and paper suppliers, or stage and lighting companies coordinating special events at the convention center are other examples for business and workers benefiting from the visitor industry.[xii]

Compensation and Career Ladders

Although tourism is clearly a good thing for San Diego, generating billions of dollars in the region economy, providing employment for thousands of San Diegans, and supporting many of the attractions and services enjoyed by all residents, there are critics. One of the most stinging is the claim the industry creates mostly low paying service jobs that provide little opportunity for growth and advancement. Consequently, critics argue, the industry disproportionately contributes less to San Diego's economic prosperity and investments and support for the industry should be reconsidered.

REVISIONS OF ANNUAL VISITOR SPENDING METHODOLOGY/ESTIMATES

Due to a lack of data for some segments of the visitor industry, the volume of visitors and resulting spending on the region was previously underreported. For example, previous estimates did not include an assessment of spending by Mexican day visitors coming into San Diego for tourism purposes. Recent research conducted by the *San Diego Association of Governments* (SANDAG) on the economic impact of cross border travel into San Diego helped fill in this gap of data. These estimates, combined with more reliable data on the number of monthly border crossings recorded by the Department of Homeland Security, provide a basis for *ConVis* and their research consultant, *CIC Research*, to now track this segment of San Diego's visitor market.

In addition, a portion of the price of airline tickets issued to non-residents for travel to San Diego is also now included. Currently, the average amount allocated per air traveler is $114, based upon an industry employment-output ratio for air transportation services and by the number of non-resident air travel to the region.

Lastly, in the past only the out-of-pocket spending in San Diego County by conference and/or convention attendees was included. Research now available from *Destination Marketing Association International* (DMAI) provides estimates of spending by meeting planners and exhibitors that was not generally captured before, such as meeting/convention space rental, event catering, audio/visual and equipment rentals, the cost of group entertainment and activities, local transportation chartering, and other event related expenditures. According to ConVis, this spending may still be somewhat underreported for meetings at single property hotels, but the estimate is now much closer to actual spending.

The additional data led to an upward revision of visitor spending in San Diego for 2005 from $5.8 billion to $7.2 billion. The estimate for visitor spending in 2006 shows a strong 6.8 percent jump to $7.7 billion.

For example, SANDAG's 2007 Regional Economic Prosperity Strategy states San Diego's "substantial increase in lower wage jobs has been assisted by strong public policy and investment, targeting industries such as tourism, entertainment, the uniformed military, and retail trade, without compensating investments for high value-added industries."[xiii]

This criticism seems to miss four important issues. First, the visitor industry has a far higher economic impact than many industries because it brings "new" or additional spending to the local economy, while other services or entertainment jobs are dependent upon local resident spending, which are re-circulated dollars. When truly "visitor" introduced spending is considered, the economic impact has much greater weight than other low-wage jobs dependent upon local resident spending. Another way to consider this is to realize that "visitor" dollar spending is much more valuable to the local economy because it represents an addition to the economy, while a "resident" dollar largely represents money already circulating in the economy.

Second, often information about the wages paid to workers and the economic impact of the industry becomes blurred by the fact that local residents as well as visitors spend money on dining out or going to entertainment venues. For example, the latest 2004-05 consumer expenditure survey showed San Diego households spend nearly one-half (46.2 percent) of their food budget eating out.[xiv]

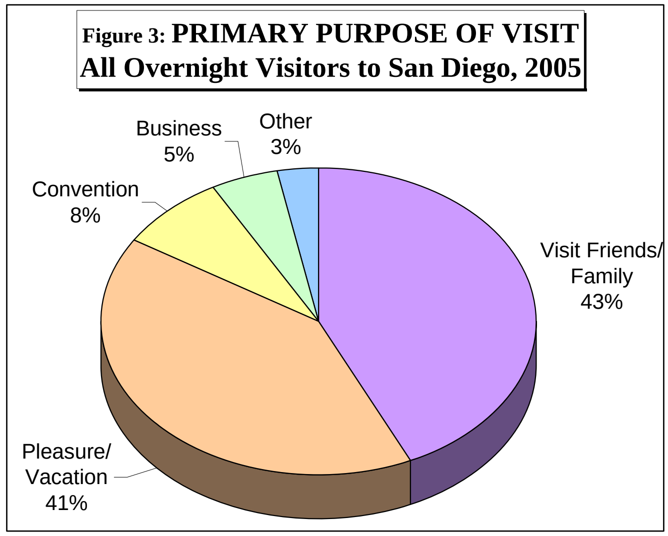
Third, calculating wages in this area is made difficult. Data sources sometimes do not include tips and gratuities, which can make up a substantial portion of many job's total compensation, especially for food services and entertainment. In addition, the comparison of "annual" wages does not recognize the often part-time and seasonal aspect of many food service and entertainment workers. [xv] It is at best misleading to compare the compensation for wages with the compensation in other fields where full-time, year round work is the norm.

Fourth, one of the most important limitations on government sources about wage data is that it is not longitudinal. That is important because the visitor industry tends to have relatively robust career ladders, offering opportunities to advance in the industry. Visitor-based employment often provides new job entrants the first rung of job experience. These entry level jobs give young people their first business experience, providing basic workplace skills of managing money, taking direction from superiors, working as a team, and satisfying customers. The presence of career ladders in this industry also helps explain why local school districts and universities are taking significant steps to prepare students for professional careers in San Diego's visitor industry.[xvi]

San Diego State University now offers a four-year hospitality and tourism management degree program, as does United States International University. Both the University of California San Diego (UCSD) and the California State University San Marcos offer tourism management certificate programs. Mira Costa College and Mesa Community College each offer associate degrees in hospitality and tourism, as well.

As Joanne DiBona, Communications Director at ConVis, observes, "It simply stands to reason that if tourism offered only entry level jobs, there wouldn't be such an interest on the part of educational community to provide courses and professional degree programs designed to prepare students for rewarding careers in the industry."[xvii]

C. Who comes to San Diego?

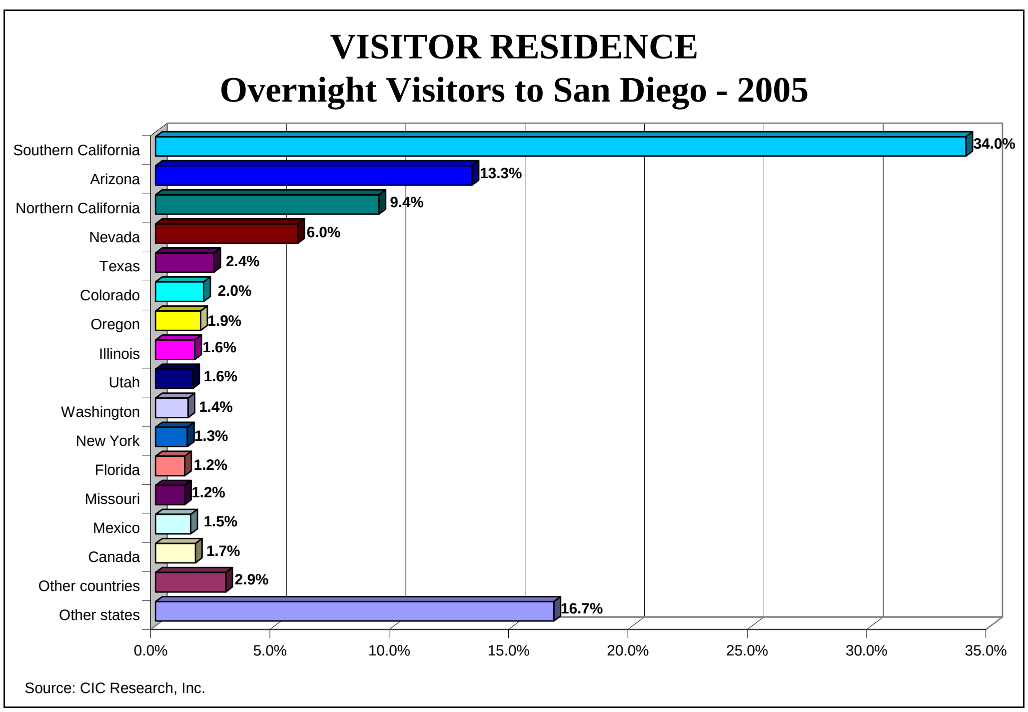


According to the latest profile reported for 2005, the average visitor to San Diego is 46 years old, lives in the western United States and has a median household income of $64,300. On average, each visitor to the region spends $94 per day of their visit.[xviii]

The vast majority of San Diego visitors (85 percent) travel to San Diego for recreational or leisure purposes, versus 13 percent for business, conventions, and meetings. This is similar to San Diego's closest competitor - and in many ways ally - Orange County, where 85 percent of visitors are also leisure travelers. In contrast, three-fourths of all domestic travel in the U.S. is for leisure purposes, and one-quarter business travel trips, according to the Travel Industry Association (TIA).[xix]

The distinction between leisure and business traveler is important because those visiting for business purposes almost always stay in hotels (93 percent) and, on average, spend significantly more ($234 a day) compared to leisure travelers ($77 a day). Moreover, conventioneers (making up 2.8 percent of visitors to the region) tend to spend more than those coming to San Diego for other business purposes (13.2 percent of the region's visitors).

Figure 4



Most visitors (62.7 percent) to San Diego live within a day's drive of the region. Forty-three percent of overnight visitors to San Diego come from the rest of California, 13 percent from Arizona and 6 percent from Nevada. Six percent of overnight visitors are international travelers.

By comparison, since Orange County is more centrally located and closer to the huge Los Angeles metro area, only 15 percent of their overnight visitors come from Southern California, as visitors can more easily visit there for just the day. Even though located nearer the huge Los Angeles International Airport, approximately seven percent of Orange County tourists are international visitors, not significantly more than the six percent San Diego attracts (not including Mexican day visitors). By comparison, 18 percent of Los Angeles visitors are international travelers.

Figure 5

LEADING U.S. CITIES FOR OVERSEAS[1] VISITORS						
		2006		2005		Volume
Rank	City Visitation[2]	Visitation (000s)	Market Share	Visitation (000s)	Market Share	Percent Change
1	New York City	6,219	28.7%	5,810	26.8%	7.0%
2	Los Angeles	2,514	11.6%	2,580	11.9%	-2.6%
3	Orlando	1,993	9.2%	2,016	9.3%	-1.1%
3	San Francisco	1,993	9.2%	2,124	9.8%	-6.2%
5	Miami	1,972	9.1%	2,081	9.6%	-5.2%
6	Oahu/Honolulu	1,733	8.0%	1,821	8.4%	-4.8%
7	Las Vegas	1,647	7.6%	1,778	8.2%	-7.4%
8	Chicago	1,062	4.9%	1,084	5.0%	-2.0%
8	Metro DC Area	1,062	4.9%	1,106	5.1%	-4.0%
10	Boston	997	4.6%	802	3.7%	24.3%
11	**SAN DIEGO**	**650**	**3.0%**	**499**	**2.3%**	**30.3%**
12	Atlanta	477	2.2%	564	2.6%	-15.4%
13	Houston	455	2.1%	**	**	n.a.
14	Anaheim	303	1.4%	390	1.8%	-22.3%
14	San Jose	412	1.9%	347	1.6%	18.7%
16	Seattle	325	1.5%	347	1.6%	-6.3%
	Tampa/St. Petersburg	**	**	455	2.1%	n.a.
	Philadelphia	**	**	434	2.0%	n.a.

[1]Excluding Canada and Mexico.
[2]Only city destinations having a sample size of 400 or more are displayed.
** Estimate not shown due to sample size fewer than 400, a new OTTI statistical policy.
n/a = Estimate not available.
Source: U.S. Department of Commerce, ITA, Office of Travel and Tourism Industries

Although not having direct flights from overseas locations to the airport, San Diego still ranks 11th on the list of U.S. cities for international visitors arriving by air, excluding Canada and Mexican visitors, according to the Office of Travel and Tourism Industries. By comparison, Los Angeles has nearly four times as many international visitors, and San Francisco three times with direct flights from overseas markets.

San Diego's large drive market creates benefits such as the fact that the region was less vulnerable to the air travel slowdown which followed the 9/11 terrorist attacks. This is most clearly seen in the increase in the percentage of overnight visitors driving their own cars when coming to San Diego.[xx] But it also creates some unique challenges, including the negative impact of freeway congestion on Friday afternoons on the ability of visitors to drive here.

D. Profiling Visitors: Why They Come to San Diego

Leisure travelers list a variety of reasons for coming to San Diego, including the numerous attractions, beaches, idyllic weather, and the opportunity to visit family and friends as the leading purposes. According to CIC Research, 19 percent of all vacation visitors stated the beaches and ocean as the primary reason they selected San Diego for a vacation.

Visitors increasingly use the internet to discern information for travel – with almost one-half (47 percent) of visitors that come here using the internet to get information about San Diego.

The next most used sources were friends and relatives (39 percent), followed by travel guides, magazines, and travel agents (21 percent). (For the San Diego Visitor Profile methodology, see Appendix 1.)

Profile of Visitors

Figure 6

PURPOSE OF VISIT SUMMARY - Overnight Visitors to San Diego

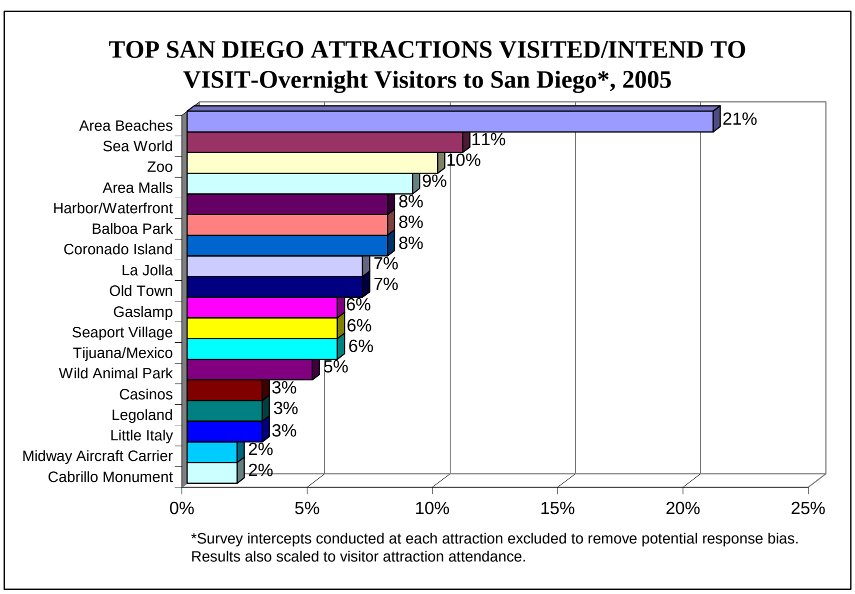
	Leisure			Commercial (Conv./Bus.)			All Overnight		
	1999	2002	2005	1999	2002	2005	1999	2002	2005
Accommodations									
Hotel/Motel	48%	47%	47%	89%	84%	93%	53%	51%	52%
Private Household	48%	48%	48%	10%	14%	7%	44%	45%	43%
Other	4%	5%	5%	1%	2%	--	3%	4%	5%
Transportation to SD									
Air	22%	22%	26%	66%	51%	58%	27%	25%	30%
Personal Vehicle	65%	72%	70%	22%	37%	36%	60%	68%	66%
Rental Vehicle	10%	4%	2%	10%	2%	5%	10%	3%	2%
Residence									
S. California	35%	29%	34%	18%	34%	34%	33%	30%	34%
N. California	10%	10%	9%	16%	8%	9%	11%	10%	9%
Arizona	13%	17%	15%	8%	4%	4%	12%	16%	13%
Other Mountain States	12%	13%	12%	7%	7%	6%	12%	12%	11%
Other Western States	4%	5%	4%	5%	2%	2%	4%	5%	4%
South Central	5%	5%	5%	7%	8%	8%	5%	5%	5%
South Atlantic	3%	3%	4%	9%	9%	8%	4%	4%	4%
Midwest	7%	9%	8%	14%	13%	12%	8%	10%	8%
Northeast	5%	4%	4%	8%	9%	8%	5%	5%	5%
Foreign	6%	4%	6%	8%	6%	9%	6%	4%	6%
Average Group Size	2.9	2.5	2.1	2.0	1.8	1.3	2.7	2.4	2.0
Average Nights in SD	4.1	4.4	4.1	4.3	5.0	3.1	4.1	4.5	3.9
Median Age-Head of HH	47 yrs	43 yrs	48 yrs	46 yrs	46 yrs	43 yrs	46 yrs	44 yrs	46 yrs
Median HH Income	\$62,120	\$64,500	\$55,000	\$94,450	\$91,000	\$93,900	\$68,700	\$70,100	\$64,300
Average Daily Spending	\$59	\$69	\$77	\$132	\$115	\$234	\$69	\$74	\$93
Percent of Visitors in Category	85%	88%	85%	13%	11%	13%	98%	99%	98%
Number of Visitors	12.8 mil	13.8 mil	14.2 mil	2.0 mil	1.7 mil	2.2 mil	15.1 mil	15.8 mil	16.7 mil

Source: 2005 San Diego Visitor Profile, CIC Research, Inc.

E. Why do they come to San Diego?

The Importance of Attractions to the Leisure Market

Figure 7



Part of what brings people to San Diego, especially the nearly 29 million that come for vacations, are attractions. Together they comprise a major part of the San Diego "experience" and are the symbols marketers point to when encouraging people to come to the region to vacation.

The 70 miles of beach shoreline are cited in the San Diego Visitor Profile as the region's number one attraction. Coronado's City Beach was ranked the nation's number one beach for families and the second favorite beach overall by the *Travel Channel*. Encinitas to the north part of the County was also listed among "The 10 Best Surf Towns" by *Surfer Magazine*. Beaches all along the coast of San Diego are noted for their own unique qualities and appeal.

The second most noted attraction was SeaWorld-San Diego. Established in 1964 and situated on 189 acres of public land on Mission Bay, SeaWorld is a key driver of the local industry. In 2006 nearly 4.3 million people visited the theme park and are estimated to have an annual economic impact on the region close to $1 billion. One issue that continues to face attractions is how best to balance the imperative to continually refresh and invest in the Park so as to attract repeat visitors versus the community concerns of the impacts from such things that splash-down rides and fireworks create.[xxi]

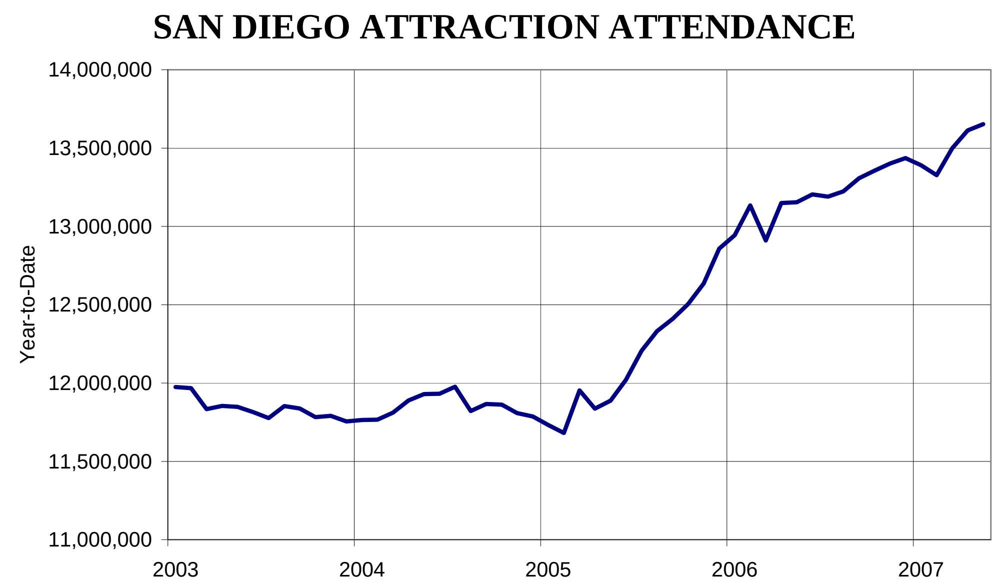
A third critical attraction is the San Diego Zoo. It is one of the most famous in the world and people everywhere closely associate the Zoo with San Diego. It houses a diverse collection with more than 4,000 animals of more than 800 species. The Zoo is privately operated by the nonprofit Zoological Society of San Diego on 100 acres of parkland leased from the City of San Diego, and ownership of all animals, equipment and other assets rests with the City of San Diego. In 1972 the San Diego Zoological Society opened the Wild Animal Park. The Park is located 32 miles to the north in an expansive 1,800-acre preserve dedicated to exhibiting animals in an open, natural environment.

Much as with SeaWorld, the Zoo continues to face the challenge of how to keep itself fresh and interesting to would-be return visitors. [xxii] Adding to the challenges is the fact that the Zoo is adjacent to the residential neighborhood of North Park, shares space with other leading institutions in Balboa Park, and runs as a non-profit institution.[xxiii]

Two relatively recent additions to the San Diego "portfolio" should be noted. Legoland, opening in Carlsbad in 1999, was an important destination attraction for North County. Originally built by the Lego Group of Denmark, England-based Merlin Entertainments purchased 70 percent of Lego's theme park division and began a major capital investment. As noted above, a critical component of success in the theme park industry is investment and refreshing as Legoland has added 13 new attractions over the past 2½ years with a total investment of $21 million. A resulting 16.6 percent increase in attendance to 1.66 million at Legoland in 2006 was recorded, and is noted as the largest year-over-year percentage gain among any amusement park in the world.[xxiv]

Finally, in 2004, the San Diego Aircraft Carrier Museum opened on San Diego's downtown waterfront with the decommissioned USS Midway aircraft carrier moored at the Broadway Pier in downtown San Diego. San Diego has a rich history of hosting the United States Navy and has been at the forefront of naval aviation. For a number of years visitors to San Diego would ask what opportunities there were to tour the aircraft carriers, which are often moored and easily seen across the San Diego Bay at the North Island Naval Shipyard. The decommissioning of the Midway and the success of the Midway Magic Foundation has provided visitors this opportunity. During the first full year of operation, nearly 880,000 visitors came aboard, doubling anticipated projections and making the Midway the most-visited of the 119 historic ship museums in the continental United States.[xxv]

Figure 8



Combined attendance at seven major San Diego attractions-Sea World, San Diego Zoo, Wild Animal Park, LEGOLAND California, Cabrillo National Monument, Mission Bay visitor Center and Midway Aircraft Carrier.
Source: San Diego Convention and Visitors Bureau.

A composite of San Diego's major attractions is compiled by the San Diego Convention and Visitors Bureau. Overall attendance had decreased following the 9/11 terrorist attacks, but beginning in 2005 began a rebound with record levels of activity eventually being established in 2006 and 2007. The San Diego Convention & Visitors Bureau estimated that out of the County's 32 million visitors last year, more than 13.4 million attended at least one of these local attractions, including SeaWorld, the San Diego Zoo, the Wild Animal Park, Legoland, Cabrillo National Monument and the Mission Bay Aquatic Center. "Each one of the attractions has an economic impact – all are positive generators," says Kerri Kapich, vice president of marketing and strategic partnerships for the San Diego ConVis.[xxvi]

II: KEY DRIVERS FOR INDUSTRY SUCCESS

What accounts for the success of the industry and what challenges loom on the horizon? In this section we look at several "drivers" that have impacted the success of the industry during the past decade. In the section that follows we point out key challenges that will need to be addressed for the visitor industry to thrive in the coming decade.

1. San Diego Convention and Visitors Bureau: Role and Funding

The San Diego Convention and Visitors Bureau (ConVis) was formed in 1953. Incorporated as a not-for-profit private corporation, the organization's mission was to "promote the visitor industry, with particular emphasis on the attraction of meetings, conventions, leisure visitors and events that generate overnight accommodations." Much as today at the time of ConVis' founding, the San Diego Zoo and Balboa Park were the region's most significant attractions, as is the ever-beautiful coastline and outstanding "Mediterranean-like climate".

During 2006, the San Diego Convention and Visitors Bureau delivered more than 3,000 leads to area hotels resulting in more than 600,000 room nights being booked. Advertising efforts by ConVis are estimated to have made more than 367 million impressions of the San Diego brand, while integrated marketing efforts generated 2.3 million visitor inquiries. Research shows the leverage of paid media budgets produced $13.7 million in unpaid editorial, media promotions and cooperative advertising. Travel Industry Sales produced more than 800 travel agent and tour operator leads to members, while Visitor Services referred more than 191,000 visitors to member businesses.

In total, the analysis of the return on investment by the San Diego Convention and Visitors Bureau directly produced $245 million in travel spending generated for San Diego in 2006. This calculates to $16.70 in tax revenue and $6.30 lodging tax revenue being collected for every ad dollar spent.

Despite the impressive performance of the visitor market, over the past three years the San Diego ConVis budget has been cut more than 37 percent, from $13.9 million in fiscal 2003 to $8.8 million in fiscal 2006. Under the current city budget for 2007, ConVis's budget remains at $8.8 million.

Having to work with fewer marketing dollars because of government budget cutbacks, at the same time as competing markets step up their efforts, makes duplicating past performance much more difficult and improbable for ConVis and San Diego's visitor industry. An additional 2,300 hotel rooms will be added to San Diego's hotel inventory during 2007 alone, bringing total room numbers to 55,301. The need to fill the additional rooms and maintain profitable levels of hotel occupancy remains a formidable challenge.

"Thanks to the region's excellent reputation as an outstanding visitor and meeting destination, we are optimistic that San Diego's visitor industry will see moderate growth in 2007." says David Peckinpaugh, ConVis president and CEO. "However, we cannot lose track of the fact that many other destinations are competing for business and stepping up their efforts. Major cutbacks in marketing funds at the local level continue to impact ability to competitively market San Diego."

It seems foolhardy, even in a budget crunch, to pull back funding for a profitable sector of the economy that generates revenue for the local government. Particularly as the industry grows, greater revenues will contribute to the City's net income. (See Section III. 2. Reinvesting Visitor Generated Revenues, page 24)

2. San Diego Convention Center: Expansions and the Importance of Headquarter Hotels

San Diegans voted against funding and building a convention center 14 times, before the Community Concourse was finally built in the 1960s. The City of San Diego conceived a "Centre City Plan" that included plans to finance the center by a combination of city capital outlay funds and the City Employee's Retirement Fund, without needing voter-approved general obligation bonds to finance the project. When funding for the project ran short, a group of local businessmen raised $1.5 million from private sources.[xxvii]

A major downtown redevelopment campaign in the late 70s ultimately led to the current San Diego Convention Center being sited on 11 acres of Port of San Diego-owned land along San Diego Bay. This time City voters approved the proposal to build the waterfront convention center in November 1983, with the Port agreeing to fund the entire project at a cost of $164 million with no debt service. In December 1983, the City Council created the San Diego Convention Center Corporation (SDCCC) to manage and operate the new facility upon completion. A nine-member board of directors was appointed to establish policy for the non-profit, public benefit corporation.

Construction of the 1.7 million square-foot building was completed in November 1989. During the very first year of operation (FY90), the Convention Center clearly demonstrated success with 1.1 million visitors at 354 events. Perhaps the most notable event was to later host the 1996 National Convention of the Republican Party.

A needed expansion of the Convention Center was soon obvious and plans were made to nearly double the building size to 2.6 million total gross square feet. Court challenges, though unsuccessful, delayed the expansion and opening, resulting in the Center losing some 50 conventions and trade shows. It was estimated at the time the opportunity cost of the delay was $288 million of convention delegate spending and $12.3 million in hotel room taxes, as well as increasing the costs for construction and materials of the structure.

The San Diego Convention Center currently ranks 23rd in size among the nation's 247 convention facilities and fourth on the west coast and in California.

Figure 9

NATION'S TOP CONVENTION CENTERS
Ranked by Square Feet of Prime Exhibit Space, June 2007

Rank	City	Convention Center Name	Prime Exhibit Space s.f.
1	Chicago	McCormick Place	2,600,000
2	Orlando	Orange County	2,100,000
3	Las Vegas	Las Vegas Convention Center	1,984,755
4	Atlanta	Georgia World Congress Center	1,400,000
5	Louisville	Kentucky Fair & Exposition Center	1,200,000
6	New Orleans	Ernest N. Morial Convention Center	1,100,000
7	Houston	Reliant Center	1,056,213
8	Dallas	Dallas Convention Center	1,019,142
9	Las Vegas	Sands Expo & Convention Center/ Venetian Resort Hotel Casino	935,000
10	Las Vegas	Mandalay Bay Resort & Casino	934,731
11	Houston	George R. Brown Convention Center	893,590
12	Cleveland	International Exposition & Conf Center	850,000
13	Chicago (Rosemont)	Donald E. Stephens Convention Center	840,000
14	Anaheim	Anaheim Convention Center	815,000
15	Los Angeles	Los Angeles Convention Center	770,000
16	New York	Jacob K. Javits Convention Center	760,000
17	San Francisco	Moscone Center	738,092
18	Washington DC	Washington Convention Center	725,000
19	Detroit	Cobo Convention Center	700,000
20	Las Vegas	Las Vegas ExpoCenter - Echelon Place	650,000
21	Denver	Colorado Convention Center	570,000
22	Dallas	Dallas Market Center	550,000
23	**SAN DIEGO**	**SAN DIEGO CONVENTION CENTER**	**525,701**
24	Boston	Boston Convention & Exhibition Center	516,000
25	Salt Lake City	Salt Palace Convention Center	515,000

Source: 2007 Directory of the World's Top Convention Centers, Trade Show Executive.

The SDCCC manages an annual budget of $27.8 million and employs a staff of approximately 620 people including 248 full-time and 372 part-time employees at the Center. The Convention Center has generated nearly $11 billion in economic impact since opening in 1989 and continues to generate about 8,000 jobs county-wide. In 2005, the Center hosted more than 224 events with $1.2 billion in regional economic impact and $25.5 million in hotel room and sales tax revenues.

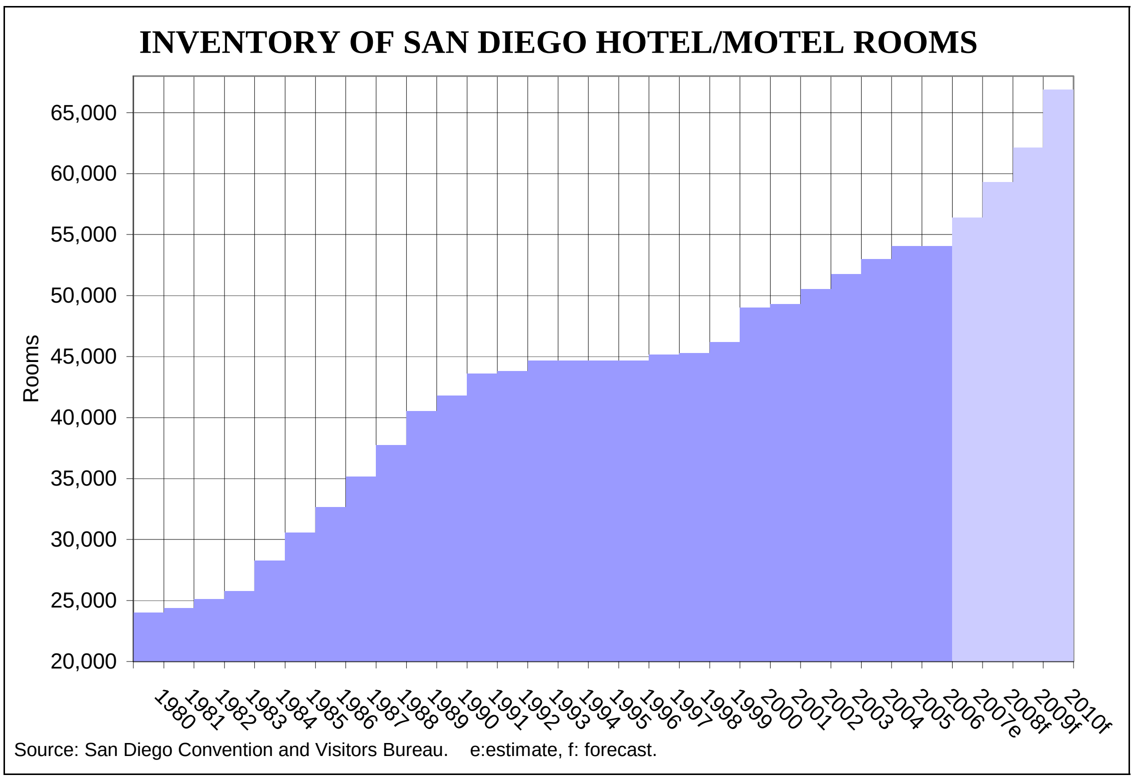
Considered a most important deal maker/breaker for convention planners is having headquarter hotels within a five-minute walk of the convention center. San Diego now has three headquarter hotels within five-minutes of the Convention Center (Marriott, Hyatt, and Hilton). Another major headquarter hotel scheduled to open in late 2008 is the 1,190-room

Hilton San Diego Convention Center Hotel, located adjacent to the San Diego Convention Center and across from PETCO Park, on the former Campbell Shipyards. By comparison, the recently expanded Anaheim Convention Center, now the largest convention center on the west coast and ranked 14th in the U.S. ahead of Los Angeles, San Francisco, and San Diego, has eight hotels with 500 or more rooms (including 3 Disneyland hotels) within a few miles of the Center.

A key issue for the San Diego Convention Center remains having enough hotel rooms available in close proximity to the center to host large scale conventions, as well as ensuring those hotel rooms are filled. Carol Wallace, president and chief executive officer of the San Diego Convention Center, recently stated, "Every year we're turning away a year's worth of business…either because we don't have space in the building, or we don't have the hotel room block that we'd need."[xxviii]

3. Hotels: Managing the Expansion of Inventory

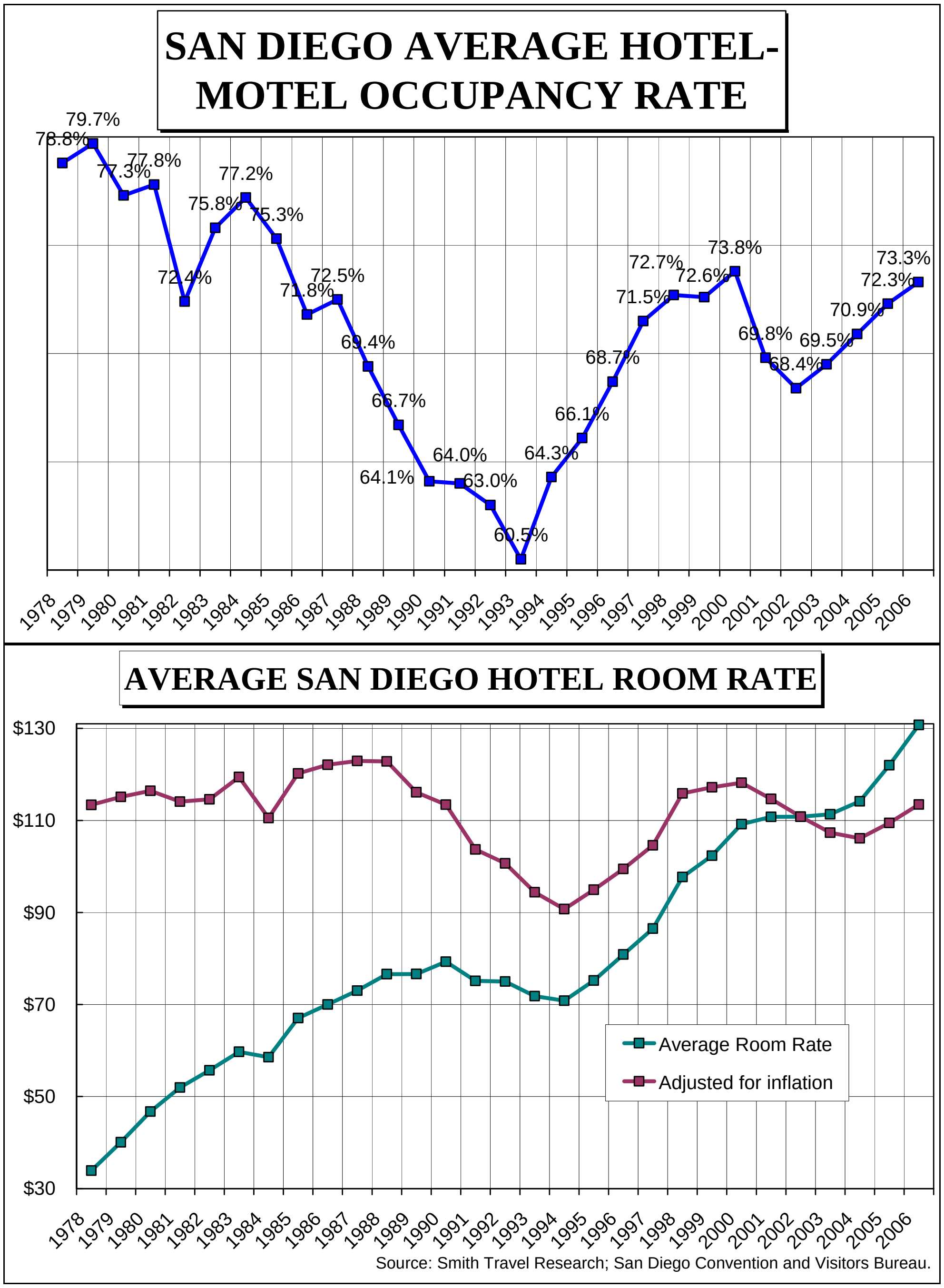
Figure 10



San Diego's hotel construction industry has experienced two important "waves" of expansion. During the 1980s 16,600 net rooms were added to the region's supply, a 69 percent increase of total inventory. After that boom, the 1990s saw very little construction, as the overhang of supply stifled new investment. But in the early part of the decade, the local hotel market was re-stimulated largely with the Convention Center expansion, ballpark project, and downtown revitalization, as well as job growth in suburban job centers. Between 1999 and 2006, a net 8,764 rooms were added in the County, representing a 19.4 percent increase of inventory.

More rooms are in the pipeline. With the hotels currently under construction and those fairly certain to be built, more than 12,800 rooms will be added by 2010, another 24 percent increase of inventory.

Figure 11 & 12

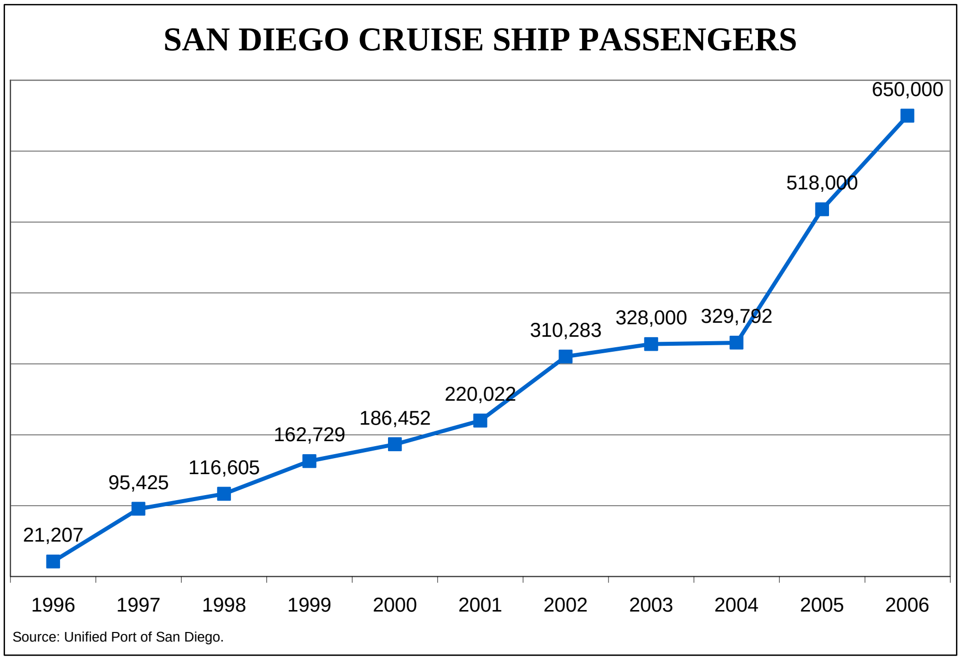


If past is prologue, this increase in inventory promises to present a challenge to the industry. When occupancy rates slipped during the 1990s, in large part because of the overhang in supply, room rates declined as well. The average room rate for San Diego hotels are only now returning to the levels they were at during the 1980s, adjusted for inflation. One of the reasons that it is so important to continue to invest in visitor-related infrastructure such as the new Cruise ship terminal or area attractions is to help encourage more visitors to fill the newly expanded supply of hotel rooms. Failure to do so will not just be to the detriment of hotel owners and investors but also cause disruptions in the labor market, depress local tax revenues, and create a very negative investment environment.

4. Cruise Ships: Improving the B Street Terminal

A particularly bright spot for San Diego's recent visitor activity, and expected to contribute significantly more in the future, is the burgeoning cruise ship industry. The total economic impact in the U.S. from cruise ship travel exceeds $35.7 billion per year. Some 17 percent of the U.S. population has taken a cruise and the number is anticipated to continue rapidly expanding, with 12 million cruisers recorded in 2006. An estimated 348,000 jobs and $14.7 billion in wages was generated in the U.S. by the industry.[xxix]

Figure 13



Approximately 180 ships docked in San Diego during 2006, bringing 650,000 passengers to the region, the third-largest number in the state behind Los Angeles and Long Beach. Every time a cruise ship embarks from San Diego, an estimated $2 million is generated as cruise passengers come and spend on their travels. According to the Port of San Diego, the estimated impact of the cruise industry on San Diego's economy supports 2,243 jobs with $271 million in spending. An important step for the local cruise business is the home porting of a Carnival Cruise Line ship beginning year-round cruise schedules in 2007 from San Diego. This will be a substantial boost for local cruise business and for tourism spending for the region in general.

An advantage for San Diego is the cruise ship terminal is located in San Diego's downtown instead, as in many cities, in an isolated warehouse/shipping district. The downtown location benefits both the cruise lines and downtown businesses, as well as provides an attractive Harbor side gateway for downtown. The drawback is the B Street Pier is badly needing to be modernized and expanded. The Pier cannot physically accommodate the newer generation of cruise ships, many of which carry more than 3,000 passengers. Security requirements have also changed dramatically since 9/11 and improvements are needed to accommodate heightened security measures and required custom and immigration processing.

The constraints can be seen today. To meet current homeport volumes of more than 300,000 passengers, the Port is now using the south side of the B Street pier for homeport operations using a tent as a terminal in order to have two functioning terminals.

Constraints will be even greater if projections of increased demand are realized. *Bermello. Ajamil & Partners, Inc.*, a leading firm in the planning and design of urban waterfront and cruise facilities, prepared a comprehensive cruise market and economic impact assessment in 2003 providing guidance for maritime facilities programming, operations and financing. They project "San Diego has the potential to triple its passengers in the next fifteen years from the current 328,000 passengers (in 2003) to more than 1.4 million passengers per year. In addition, the vast majority of the growth would be among passengers that travel to San Diego to originate their cruise from the Port." This would result in the creation of 3,650 high level jobs (with an average wage of $53,950 annually), as well as total economic impact of $715 million (compared with the current total impact of $271 million) in the region.

It is important to underscore Bernello and Ajamil's point about where cruise ship visitors come from. While Seattle and Long Beach pull more than 60 percent of their passengers from their local populations, San Diego is in a unique position of attracting a majority of passengers from other areas (approximately 60 percent of San Diego cruise passengers are not from here, according to a recent passenger profile study conducted by the Port of San Diego). This is significant because cruise passengers consume more local services, as do other visitors to the region—spending money for the flight, hotel, local transportation, meals, and other spending in the community.

In their conclusion, B&A affirm it is critically important for the Port of San Diego to provide the necessary twin terminals at the B Street Pier and the Broadway Pier if projections for future passenger and revenue volumes are to be realized. "The success of the huge new cruise passenger volumes over the next few years will be the most critical to the future of this industry in San Diego; any missteps will set back this program for years, however, its success could yield even greater volumes in the future."[xxx] As a response, the Port of San Diego is negotiating with Manchester Viejas LLC to develop a new cruise ship terminal facility and make repairs to the B Street Pier at a cost of $100 million. This is part of an overall master plan to redevelop San Diego's downtown waterfront property. As of the time of publication, a Joint Powers Agreement (JPA) between the Port, Center City Development Corporation (CCDC), and the City of San Diego is forthcoming that will provide for the development of a phasing and financing plan and the completion of the design and construction for the project. The Port and CCDC will share all costs of the JPA to implement the plan, while the Port and CCDC continue working together to identify potential funding sources for the project.

5. Indian Gaming: Its role in the Growth of the Local Visitor Industry

The Indian Gaming Regulatory Act legalized tribal gaming in 1988. Ten Indian-owned casinos now operate in San Diego County, with an additional one scheduled to open in 2008 (Jamul Casino).

A report published by Alan Meister, a Los Angeles economist who compiles the "Indian Gaming Industry Report", indicated San Diego County has more Indian casinos than any other U.S. county and 22 percent of the slot machines and 23 percent of the card tables in Indian casinos in California.

National research has found casinos have a largely positive impact on the community, both economically and socially. A 2005 survey of community leaders in gaming jurisdictions reported that, "In the broadest sense, elected officials and civic leaders are strikingly positive about the impact that casinos have had on their communities. They welcome the additional tax revenue, jobs, secondary economic development, and contributions to community and charitable organizations. At the same time, the negative effects predicted by casino opponents have largely failed to materialize. Taking everything into consideration, these public officials strongly endorse the decision to allow gaming in their communities — with the benefit of hindsight, fully 75 percent say they would vote to allow casinos if they could go back and do it all over again." [xxxi]

EXISTING SAN DIEGO COUNTY INDIAN CASINOS AND PLANNED ADDITIONS

Viejas Casino: 2,500 slots, 87 table games. Planning expansion to 5,000 slots and addition of 600-room hotel.

Pala Casino Spa and Resort: 2,324 slots, 87 table games, 507-room hotel. Planning $100 million expansion.

Barona Valley Ranch: 2,000 slots, 85 table games, 400-room hotel.

Sycuan Casino & Resort: 2,000 slots, 90 table games, 104-room off-reservation Sycuan Golf Resort.

Harrah's Rincon Casino and Resort: 1,600 slots, 73 table games, 653-room hotel.

Valley View Casino: 1,260 slots, 10 table games.

Casino Pauma: 1,090 slots, 16 table games. Planning 400-room hotel.

Golden Acorn Casino: 750 slots, 20 table games. Proposing 150-room hotel.

La Posta Casino: 349 slots.

Santa Ysabel Resort and Casino: 349 slots.

Source: San Diego County Indian casinos, *San Diego Union-Tribune*, www.signonsandiego.com/news/metro/20070824-9999-1n24viejasbx.html.

Based on an analysis of the proportion of slots and table games in the county compared with the statewide total, the *San Diego Union-Tribune* estimated County Indian casinos took in $1.7 billion in 2006. That same analysis estimated about 13,000 people work in gaming in the county – similar to the number that now work in transportation manufacturing (including both aerospace and shipbuilding) in San Diego.[xxxii] Among visitors surveyed in San Diego, 7 percent indicate "to gamble" was a major reason for their coming to the area.[xxxiii]

Because the number of visitors versus San Diego residents patronizing local casinos is not publicly available, the economic impact of gaming on the regional economy is not entirely known. Visitors from outside of the County coming to the casino or local residents staying here instead of spending money elsewhere (such as in Las Vegas) have a positive economic impact on the region. When locals patronize a local casino, however, there is not necessarily a net flow of spending into the region. Rather, gaming is likely substituted for some other form of entertainment or recreation. To better measure the impact of gaming on the San Diego economy, San Diego ConVis plans to do a full assessment during 2008.

6. Baja California/Mexico: Getting the Most Bucks from Bang of Bi-National Visitors

There are long standing and import synergies between Tijuana and San Diego's visitors industries. When San Diego hosted the Panama-California Exposition in 1915, Tijuana held their own "feria", drawing visitors to displays of Mexican culture and foods, horse racing and boxing matches. With prohibition in the 1920s, Tijuana became a magnet for U.S. citizens to partake in legal drinking and gambling there. Major casinos opened, including the "Agua Caliente Racetrack.". The "Caesar Salad" was invented at this time in a hotel named Cesar on the now famous Avenida Revolución. Legend has the margarita was also created in Tijuana as a non-alcoholic drink for Rita Hayworth (real name was Margarita Carmen Cansino) in her teenage cabaret days (Tequila was added later).

This symbiotic relationship continues today. The San Diego Visitor Profile found among all San Diego leisure visitors, Mexico was the primary destination for 1.8 percent of the travelers. Among overnight visitors to San Diego, 5.1 percent primarily came to visit Mexico. Among all visitors, 2.4 percent indicated Mexico was one of the attractions visited or intended to visit.

According to a report by Baja Quarterly, a supplement to the *San Diego Metropolitan Uptown Examiner and Daily Business Report*, recreational tourism in Baja California generated $1.1 billion in revenues during 2006, a $200,000 increase over 2005. The *Baja California Mexico* website list 208 hotels in Tijuana with 24,000 total available rooms.[xxxiv]

Young people play an important role in Baja's tourism industry. Mexico's drinking age of 18 (vs. 21 in the United States) makes it a common weekend destination for many high-school and college aged Southern Californians. Two thirds of all tourists that come to Baja California are young people, between the ages of 15 and 24.[xxxv]

Similar to San Diego, most of Baja's visitors come from nearby drive markets. According to "MyBajaGuide", three out of four tourists to Baja California come from the United States, with two from the state of California alone. The main cities of origin for the tourists from California are San Diego, Los Angeles, the Imperial Valley and San Francisco.

Tijuana and Baja are also home to several pharmacies marketed toward visitors from the United States, as well as health care providers offering U.S. travelers much lower costs for services. Research by the Mexican company *Imerk* indicates more than $3 billion was additionally spent by American tourists on medical care in Baja California over the past year. This spending is anticipated to grow as more Americans seek lower cost health care and medications or retire south of the border.[xxxvi]

The growth of manufacturing in Baja at *maquiladoras,* has also impacted the visitor industry. These mostly foreign-owned assembly plants employ thousands of workers in the manufacturing of a myriad of different products. The North American Free Trade Agreement (NAFTA) further spurred this industrial activity attracting high-tech firms and telemarketing companies to the city and drawing skilled workers with technical trades and college degrees to Tijuana. The result has been a rise in the number of business travelers to Baja, according to the report "Investing in Baja California".[xxxvii]

The rest of Baja California is also a magnet for tourism as well. Smaller communities stretching on both sides of the peninsula are well-known destinations for travelers from the U.S., including Mexcali (the capital of Baja California), Tecate, San Felipe, Rosarito Beach, San Quintin, Bahia de los Angeles, and Ensenada.

Finally, a critical part of the Baja-San Diego visitor industry relationship involves those crossing the border for the day. Even with a drop in visitor numbers following 9/11, San Diego's border with Tijuana remains the busiest in the world. About 300,000 visitors cross by foot or car from the San Ysidro point of entry in the United States each day and 56.6 million total crossings were recorded during 2006. About 25 million were U.S. citizens, and the rest were foreigners, mostly Mexican citizens.

Among some 16.3 million day visitors coming to San Diego each year, nearly 30 percent are from Mexico specifically coming for visitor related activities, and not for work or other purposes. This new statistic is now tracked and estimated monthly by ConVis based on monthly border crossing reports from the *Department of Homeland Security*.

Future Investments in Baja

Tijuana and other areas of Baja are placing big bets on continuing to grow their visitor industry. According to Baja California's secretary of tourism, Alejandro Moreno Medina, $2.2 billion in tourist infrastructure projects are under construction. These include a road project that will allow boats to be hauled in a few hours between the Pacific Ocean and the Sea of Cortez, instead of needing to sail around the 800-mile-long Baja California peninsula. Work is also under way on marinas at Santa Rosalita on the Pacific side and at Bahia de los Angeles on the Sea of Cortez. Another new marina has been completed in San Felipe.[xxxviii]

Other road projects will widen the existing highway from the popular east Baja coastal town of San Felipe to the U.S. border. Plans have also been made to build another link connecting the west and east sides of Baja.

Tijuana and Baja's visitor industry faced significant challenges as well, particularly since 9/11 and the resulting heightened security coming back into the U.S. This resulted in already long waits being further lengthened for those re-entering the United States, and undoubtedly discouraged many tourists from crossing the border. U.S. immigration officials are reportedly planning to place more booths at the San Ysidro crossing, positioning them in tandem to speed up inspections for each line of traffic.

III. FOUR CHALLENGES AS WE LOOK FORWARD

1. Pressures to Raise Taxes on Visitors

In addition to the hundreds of millions of dollars generated by visitors spending at businesses, from eating at restaurants, attending attractions, and staying at hotels, as well as the general fund revenues collected from sales taxes, property taxes, and rents from those businesses, jurisdictions in San Diego County collect significant revenues from special levies paid largely by visitors. Among these are charges on car rental fees paid when leasing from airport locations, fees associated with air travel, and hotel occupancy taxes.

(To see how San Diego compares with national averages reported by the Travel Industry Association see Appendix I.)

2. Reinvesting Visitor Generated Revenues

Every major travel destination in the U.S. levies some kind of hotel tax paid primarily by travelers visiting that city. In most cases, the idea is to tax visitors and then invest the revenues back into tourism development and promotion, paying for facilities and programs such as convention centers, cultural programs, welcome centers and travel-related marketing. However, a recent study by the Travel Industry Association finds, on average among major cities, only 37 percent of city hotel tax revenue is reinvested in travel and tourism. (See the following charts on page 25.)

WHERE THE MONEY GOES:
Top Ways That Cities Spend Their Hotel Tax Revenue
(based on number of cities)

1. General Fund
2. Convention & Visitors Bureau
3. Convention Facilities
4. Other Travel Related Programs
5. Sporting Complexes
6. Arts/History/Culture
7. State Travel Office
8. Special Events

TOP TEN CITIES
Percentage Hotel Taxes Reinvested in Travel & Tourism

1.	Reno	77.8%
2.	Houston	67.6%
3.	Riverside (tie)	60.0%
3.	San Francisco (tie)	60.0%
4.	Las Vegas	59.8%
5.	Dallas	57.7%
6.	Detroit	57.1%
7.	San Antonio	54.7%
8.	Indianapolis	54.6%
9.	St. Louis	51.4%
10.	Austin	50.0%

About 38 percent of the City of San Diego's hotel tax collections are reinvested or applied toward promotion of the City as a tourist destination. The manner in which the spending is allocated is governed by statute and City Council policy, but as a practical manner is largely left to the discretion of the Mayor and City Council.

A. Rental Car Taxes and Fees

Taxes and fees imposed on rental cars have grown rapidly in recent years and local governments have tapped into these revenues to pay for a variety of projects including sports stadiums, art centers and convention centers. *Enterprise Car Rental* estimates about 80 special car rental taxes — not including airport fees — have been imposed across the U.S., and at least 44 proposals are pending. The latest *Travelocity* study shows that the average taxes added to base rates for car rentals at major U.S. airports increased from 25.8 percent in March, 2005 to 28.04 percent in December, 2006. This contrasted with the tax rate at neighborhood car rental locations, which averaged only 14.9 percent.

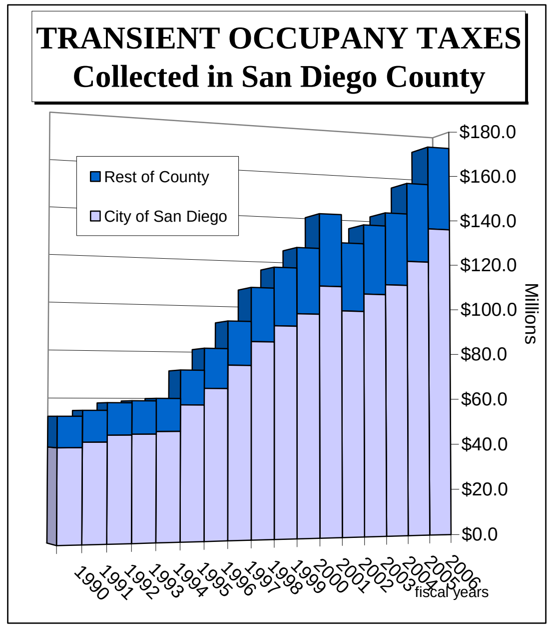
Part of the reason for this trend is the idea that the tax falls largely on non-residents. Research by the National Business Travel Association, however, shows car rental companies rent the majority of their cars to local markets rather than to visitors.[xxxix]

Most travelers are probably oblivious to the added taxes, and just pay it as part of their overall expense of travel. However, those that are aware of it are annoyed by the added tax. On a trip to Tampa in March, David Walajtys, a 45-year-old retired government worker from Wakefield, R.I., says taxes and fees amounted to a third of his bill when he rented for two days. "It's really unfair that the cities do this because most of the time it's to pay for a stadium or something that you're never going to use," he says.[xl]

B. Transient Occupancy Tax

Transient Occupancy Taxes (TOT) are levied on visitors to cities who stay for short periods of time. The TOT rate levied in the City of San Diego is 10.5 cents per dollar of the daily room price of hotels and motels used by visitors staying for less than 30 consecutive days. Under current council policy, 4.0 cents (or 38.1 percent) of each dollar of the TOT is to be invested in promoting the City as a tourist destination; 5.5 cents (or 52.3 percent is allocated directly to the General Fund for general government purposes; the remaining 1.0 cent (9.5 percent) is allocated for any purpose approved by the City Council.

Figure 14



During Fiscal year 2006, the City of San Diego collected $135.9 million transient occupancy taxes. This was the third largest source of revenues for the City and the fastest growing. Since the majority of hotel rooms, including many of the more expensive lodging facilities, are within the City of San Diego, it is not surprising that the majority by far of County TOT collections are collected within the City, accounting for 77.8 percent of the total collected over the past five years. The tax rates imposed vary among communities in the County from a low of 6.0 percent in Lemon Grove and Santee to a high of 10.5 percent in San Diego and Del Mar.

Figure 15

TRANSIENT OCCUPANCY TAX COLLECTIONS
Cities in San Diego County

Municipality	Tax Rate	2002	2003	2004	2005	2006	Percent of Total
Carlsbad	10%	$8,443,144	$8,302,662	$8,933,450	$10,031,610	$11,510,097	6.4%
Chula Vista	10%	2,051,305	2,024,366	1,884,491	2,203,085	2,340,455	1.4%
Coronado	8%	7,252,478	7,785,204	7,991,044	8,231,498	8,624,351	5.4%
Del Mar	10.5%	1,342,034	1,409,624	1,489,104	1,489,131	1,564,617	1.0%
El Cajon	10%	943,452	935,043	997,334	1,008,470	1,098,769	0.7%
Encinitas	10%	938,370	928,165	1,000,267	1,001,909	1,100,000	0.7%
Escondido	10%	1,059,020	1,119,142	1,189,346	1,176,482	1,221,365	0.8%
Imperial Beach	10%	215,589	272,925	233,918	279,826	240,000	0.2%
La Mesa	10%	733,862	743,494	820,508	858,995	872,341	0.5%
Lemon Grove	6%	30,614	28,252	28,592	31,172	31,810	0.0%
National City	10%	1,039,172	915,770	1,010,600	891,386	829,869	0.6%
Oceanside	10%	1,562,858	1,636,598	1,824,135	2,014,902	2,185,114	1.3%
Poway	10%	91,937	115,846	167,726	167,720	190,097	0.1%
San Diego	10.5%	98,327,262	105,970,746	110,306,667	121,023,478	135,891,366	77.8%
San Marcos	10%	209,366	245,948	278,980	282,909	327,632	0.2%
Santee	6%	99,938	109,115	116,909	123,856	118,669	0.1%
Solana Beach	10%	534,203	515,588	561,429	730,306	919,638	0.4%
Vista	10%	300,388	326,760	356,299	365,553	404,545	0.2%
Unincorp. Areas	9%	2,905,068	2,967,717	2,961,182	3,851,316	3,180,427	2.2%
Total Collections		$128,080,060	$136,352,965	$142,151,981	$155,763,604	$172,651,162	100.0%

Note: Total may not sum because of rounding.
Source: San Diego Convention and Visitors Bureau.

San Diego's TOT rate remains comparatively low, particularly against key competitors such as Anaheim (15 percent), San Francisco (14 percent) and Los Angeles (14 percent) all imposing greater burdens than San Diego. However, it should be noted that Las Vegas, one of San Diego's most important competitors in the important meetings and conference area, imposes only a 9 percent levy on hotel lodging.[xli] (See Appendix 3 – Travel Taxes in America's Top 50 Destinations.)

C. Tourism Marketing District

An important development to ensure continued and adequate marketing for San Diego tourism is the concept of creating a Tourism Marketing District. In large part this is due to Transient Occupancy Tax (TOT) revenues in the City of San Diego increasingly being diverted from tourism promotion and redirected toward general uses. This is true not only for the 5.5 percent allowed for under existing Council policy, but also involves tapping the 4.0 percent set aside for Tourism promotion to pay for general services under the justification that these are for the benefit of "tourism". Thus, for example, in FY 2005 and FY 2006, the council with no analytical justification, shifted several million dollars away from tourism promotion into the general fund for supposed "visitor related services".[xlii]

In light of the shift in priorities of the council and out of concern that tourism marketing would be subject to further reductions, a coalition of lodging business owners representing the San Diego Lodging Industry Association (LIA) and the San Diego County Hotel Motel Association proposed creating a tourism benefit assessment district. Modeled after several successful programs, the coalition has proposed imposing a 2.0 percent assessment on all lodging businesses with 70 rooms or more within the City of San Diego.

The primary goal for creating the TMD is "to ensure a dedicated, stable source of funding for comprehensive destination marketing," according to Mike McDowell, Executive Vice President/CEO of the *San Diego Lodging Industry Association.*[xliii] A fixed allocation of the annual proceeds will go to the San Diego Convention and Visitors Bureau at 50 percent and the San Diego North Convention & Visitors Bureau at 10 percent. The TMD would be managed by an independent board voted by lodging industry professionals, and would give the industry a greater say in how funds are disbursed. State law also imposes constraints on how the funds are to be used.

An important consideration is the TDM can move forward without putting the proposal on the ballot. First, a simple majority of the affected businesses indicate their approval. If approved by a majority of the approximately 170 hotels and motels in San Diego having 70 rooms or more – under a weighted formula giving larger hotels a larger say – the additional 2.0 percent room tax is tacked onto guests' bills, and in effect, the total levy on hotel guests becomes 12.5 percent.

If approved, the TMD could raise an additional $24.0 million annually for spending specifically on marketing San Diego to potential visitors. In addition, the TMD proposal would offset the current $10.0 million in annual funding underwritten by the City for marketing and tourism promotion granted to community organizations. The proposal for the Fiscal Year 2008 General Fund Budget recommends the offset funds be redirected back to the General Fund to support other city services, which would be in accordance with City Council Policy stipulating 1.0 cent of the 10.5 cents collected be allocated for any purposes approved by the City Council.

Mayor Jerry Sanders and some members of the City Council embraced the hotel industry's proposal because it could free up $10 million in the existing hotel tax proceeds spent annually on tourist promotion by the city. The City Council has voted to allow the preliminary foundation for the creation of the TMD and the assessment may be instituted as soon as the end of this year (2007).

3. San Diego International Airport

Founded in 1928, San Diego International Airport at Lindbergh Field is the 30th busiest airport in the nation in terms of passengers and the nation's busiest single-runway commercial service airport. The Airport's passenger and cargo airlines operate close to 300 departures daily. As of June 2007, the Airport is served by 29 airlines and flies to 55 destinations in the United States, Canada and Mexico. Southwest Airlines is the largest carrier in terms of passengers, accounting for 33 percent of volume.

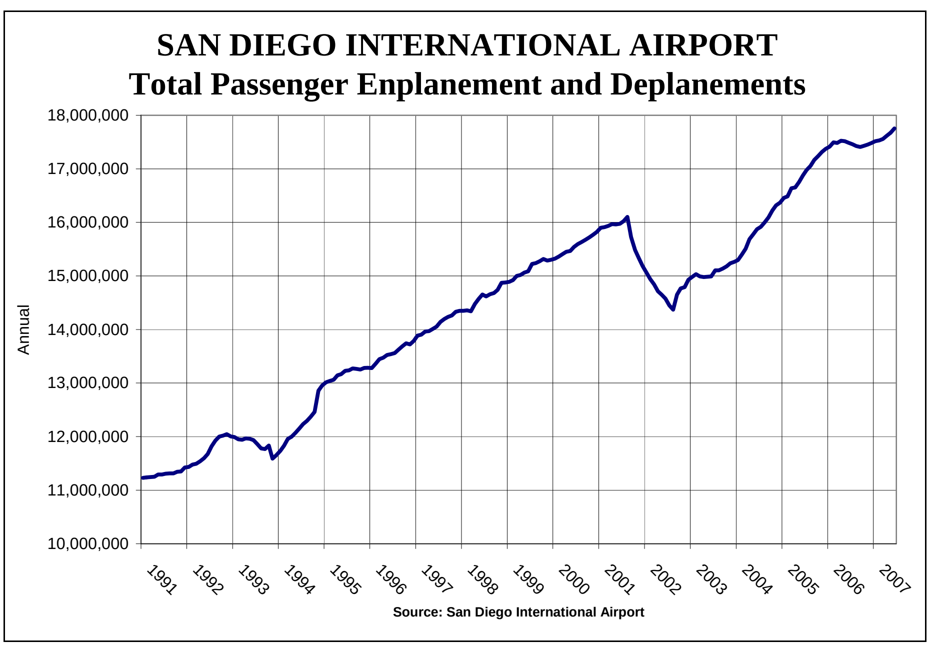
Because the location and rising terrain both east and west of the airport constrains the runway, airplanes are restricted by weight from flying out of the airport. This limits fully-loaded planes from going very long distances and flying over seas. This restriction on airplane's carrying weight limits the economic viability of long haul international service for both passengers and cargo flights. Since 1976 aircraft departures have also not been allowed between 11:30 p.m. and 6:30 a.m.[xliv]

Air transportation services provided by San Diego International Airport had a $9.9 billion total impact on the regional economy in 2005, according to a report prepared by *Hamilton, Rabinovitz & Alschuler, Inc.* (HR&A). This included the direct impact from $2.6 billion in spending by visitors who enter the region by air transportation and the value of goods shipped by air.[xlv]

Nearly 6,100 workers are employed by the airport's airline companies, air freight companies, airline support companies, fixed-base operators, concessionaires and airport passenger service tenants, plus ground transportation companies, government entities and construction contractors. About 115,000 jobs, or one of every 16 jobs in the region, are directly or indirectly traced to the operations of the Airport and the economic activity it supports.

In addition to passenger service, the airport handled 165,800 tons of freight cargo and 42,200 tons of mail. Freight cargo increased 6.0 percent over the amount handled in 2005, while mail jumped 34.9 percent. Both could be much greater if the airport were capable of handling it. Additional private, civil, and military planes are also served by the Airport.

Figure 16:



Approximately 17.5 million passengers used the Airport during 2006, for an average of nearly 48,000 passengers arriving or departing on any given day. The Airport accommodates approximately 600 airplane arrivals and departures each day, the vast majority for passenger service.

Confounding policymakers and pundits are varying interpretations as to what will occur in this market moving forward and whether the rapid increase of passenger enplanements and deplanements (E&D) between 1994 and 2000 represents a long-term trend or an expansion that is unlikely to occur in the future. San Diego, as did the rest of the nation, saw a sharp slump in airline passengers for both corporate and personal travel and did not regain the same level of activity seen before the attack until the end of 2004.

But the trend line continues to go up. San Diego's airport traffic was at record levels in 2006 exceeding 17.4 million passengers per year. More than 18 million passengers have been recorded as of the year-to-date in August 2007.

Partially fueling that increase was the growing availability of direct, low cost flights to major hubs. Passenger traffic between New York and San Diego is up significantly since JetBlue began direct flights to and from JFK. JetBlue also began direct service to Washington D.C. (Dulles), while Southwest began service to San Antonio and Austin, providing visitors much easier and less expensive options to travel to San Diego.

A. Constraints of the current airport

Although the 29th largest airport in the U.S. in terms of passenger traffic, San Diego is the only major airport served by a single large runway. At 661 acres, Lindbergh Field has the smallest land footprint of any large commercial airport in the U.S. A Federal Aviation Administration study, in fact, singled out Lindbergh Field as one of the most constricted major airports in the country, not only because of the limited acreage but also because of the surrounding terrain obstacles.

For comparison, both Oakland and Tampa have comparable passenger volumes to San Diego, but their airports are approximately 3,000 acres apiece, dwarfing San Diego's 661 acres. While Lindbergh Field has one runway, Oakland and Tampa each have three. San Diego's runway is 9,400 feet in length, but only 7,600 feet is actually fully usable due to terrain and obstruction issues. The current runway cannot handle larger aircraft flying nonstop to intercontinental destinations fully loaded with passengers and cargo. Even the new smaller Boeing 767-400ER with 245 passengers and 40,000 pounds of cargo can only fly nonstop as far as Hawaii or Boston, half of its maximum range. Reduced payloads and the inability of an airline company to fully employ a diverse fleet of airplanes significantly impacts its profitability.

San Diego's airport as currently configured is rapidly approaching the maximum capacity for passengers and operations. Projections by HR&A for Lindbergh Field indicate capacity will be reached between 2015 and 2022. Under the Airport's current state, annual passenger capacity is now estimated to be between 18.7 million and 25.6 million passengers. With nearly 17.5 million passengers enplaned in 2006, and with projected growth rates of passenger service, the airport could reach maximum passenger capacity as early as 2011. Air cargo capacity at Lindbergh Field was estimated to be limited to between 110,000 and 140,000 tons, yet in 2006 the Airport had already handled 165,410 tons of air cargo. Air cargo demand is forecast to grow by up to 4.8 percent per year through 2030.

During 2006, there were 220,839 aircraft operations (take-offs and landings). With 260,000 annual operations (anticipated to occur between 2015 and 2022), runway capacity will begin to constrain the growth of air traffic. At 300,000 annual operations (anticipated to occur between 2021 and 2030), runway congestion will prevent any further growth as long as the number of passengers on planes remains largely constant. Importantly, the decision of how to serve San Diego (i.e. whether to use larger planes to increase the number of passengers per operation) is largely a function of the airline's business models and overall conditions of the US airline industry. Thus while it would be convenient for San Diego to see larger planes operate, this cuts against industry-wide trends and business models. Simply put, it is a wish that is likely to go unfilled.

With the current site of the airport bounded by San Diego Bay, military facilities, and residential areas, a major expansion of Lindbergh Field is physically, politically and fiscally not available. Even if the entire Marine Corps Recruit Depot was available, which so far it has not been despite some possibility of being closed during BRAC rounds, this would only allow minimal expansion for storage and facilities. In addition, more than 60 percent of the military land has structures of historical significance that would preclude demolition. In any case, for now, so long as the Marines are using it, the land is not available.

Expansion of the Airport runway would require either bulldozing housing in parts of Point Loma and Mission Hills, and/or wiping out the Midway District. The possibility for this occurring through "eminent domain" is virtually impossible within the needed timeframe. Moreover, this would have minimal impact on the airports capacity. At best, a small, second runway in an open-V configuration could be accommodated that would provide only a 15 to 20 percent increase of capacity. Extension into the bay also seems a non-starter as the required landfill would interfere with nearby U.S. naval operations and shipping lanes and still not address projected capacity demands.

B. Alternative sites

Considering the importance of the Airport to the regional economy and potential constraints on future growth from facility limitations, the San Diego County Regional Airport Authority (SDCRAA) was created by California Assembly in 2001. The Airport was separated from the Port of San Diego largely because of the recognition that the future of the airport might include relocating it to areas outside of the Port's jurisdiction.

The SDCRAA is a public entity created by state law for operating the Airport and planning for the San Diego region's future air transportation needs. The Airport Authority assumed ownership and operations of San Diego International Airport from the Unified Port of San Diego in 2003.

Between 2003 and 2006, the San Diego County Regional Airport Authority made an exhaustive search to find feasible places to relocate the airport. Due to San Diego being surrounded by the border, ocean and mountains, and extensive development along the populated coastal area, there is simply no close-in non-military site available. Often suggested solutions of Brown Field or Salt Flats and Ream Field fail at least two preliminary threshold criteria – FAA approach angle, violation of Mexican airspace, and excessive wetland/marine impact wetland/marine impact and excessive cut-and-fill terrain required to build the runway). Remote East County areas of Boulevard, Borrego Springs, Warner Springs, Valley Center, and even Imperial County were ruled out, as were March Field in Riverside County. Joint-use possibilities with the military at Miramar Marine Corps Air Station, East Miramar, Camp Pendleton and North Island Naval Air Station, and the fallback option of making do with Lindbergh on its existing footprint were all considered.

After studying some 30 possibilities for the new regional airport, Board members selected the Marine Corps Air Station Miramar as the preferred site, although the military strongly objected to even the proposal for considering a joint-use state. On November 7, 2006, San Diego County residents defeated the mere advisory relocation possibility of the airport at Miramar, which included a joint-use proposal measure.

So where does that leave San Diego, especially in light of the fact that no major city in the United States has an airport farther than 26 miles from its downtown center?

Adding an auxiliary or supplemental airport would seem to run up against the fact that, unlike Chicago, Houston, and Washington, D.C., San Diego is not big enough to support two full-service airports. A single-runway at a North County site would need to draw passengers from Orange and Riverside counties to be attractive enough for airline carriers to make the critical investments that would make the project work.

Military options remain foreclosed. The U.S. military was emphatic as to the extent to which commercial operations were incompatible with vital national security missions at Miramar Marine Corps Air Station. High-speed rail connections to either Riverside or Imperial County are potentially promising but would have to overcome serious financial, geographic, and topographical challenges. "Out of the box" thinking such as a floating airport would require a leap of faith to embrace this experimental concept and undoubtedly face opposition from various interests concerned with the impact on the coastal environment and logistically connecting the airport with the rest of the region's transportation network.

While the airport authority is rightly focused on maximizing the efficiency and effectiveness of Lindbergh Filed, the issue of how to accommodate increasing demand for aviation services and constraints on supply still remain unresolved and a key issue for the visitor industry.

4. Super Bowls, the San Diego Chargers, and the Stadium

San Diego has hosted the Super Bowl three times (in 1988, 1998, and 2003). In many ways San Diego is tailor-made for the event, and the event is perfect for San Diego. It occurs in late January/early February during the slowest part of the year for San Diego's visitor industry. San Diego's weather has always been clear, warm and sunny for each of the three Super Bowls held here, perfectly putting on display the region to the more than one-half of all Americans and one billion foreign viewers that tune in for the game. It also occurs just at the time when many households are making plans for where to travel during the upcoming summer. There is also the positive impact from hearing repeated mentions of San Diego throughout the entire NFL season.

The total economic impact of the last Super Bowl (XXXVII) held in San Diego County in 2003 was estimated to have been $367 million. According to a study by *Marketing Information Masters, Inc.*, the weeklong festivities and event itself generated an estimated 168,600 hotel room nights. Fifty-nine percent of the people who came to the game were decision-makers within their corporations. While the median household income of an average visitor to San Diego is approximately $68,000, Super Bowl visitors averaged $110,000, 133 non-local corporations were in San Diego spending a total of $61.6 million during Super Bowl week in addition to spending $3.3 million on visits prior to January 2003. Among spectators who stayed overnight in San Diego, 74 percent stayed three-or-more nights. Of the total 67,603 spectators attending the game, 60,720 were from out-of-town. Importantly, a recent trend has been found of many more people coming to visit Super Bowl cities than those attending the actual game. A study jointly funded by the San Diego Super Bowl Host Committee and the NFL, determined that 348,000 people visited San Diego County for the Super Bowl and related activities.

In addition to Super Bowls, San Diego also benefits from the Holiday and Poinsettia collegiate Bowl games. These bowl games also come at a strategically valuable time for the local visitor industry, when both recreation and business travel drops during the holiday season. The bowl games have proven to be multi-million dollar events for the region and local visitor business activities. In 2006, the two post-season college football games combined to produce an economic impact of $41 million in the San Diego region, according to a study conducted by the San Diego State University Center for Hospitality and Tourism Research. The 29th annual Pacific Life Holiday Bowl generated $34.2 million in economic impact (direct visitor spending totaled $17.7 million, while $16.5 million derived from indirect spending). The second annual San Diego County Credit Union Poinsettia Bowl generated an economic impact of $6.8 million (direct visitor spending totaled $3.54 million, and $3.3 million derived from indirect spending).[xlvi]

The challenge for San Diego is that even with the kind of natural attributes the region has and the accolades made by ABC announcers such as John Madden and Al Michaels, San Diego is unlikely to be awarded another Super Bowl at its existing stadium, which is among the oldest among NFL facilities.

All of these factors should be considered in the debate on retaining and supporting the NFL San Diego Charger football team in San Diego. Without the Chargers, the City of San Diego loses the opportunity to host the Super Bowl. In addition, if the Chargers leave Qualcomm Stadium, San Diego State University will undoubtedly also lose it's venue to play NCAA 1-A collegiate level football jeopardizing it's membership in the Mountain West Conference and top-tiered sports league standing. Plus the City loses two important money-making Bowl games.

There is tremendous value to the industry to resolve these issues, yet San Diego faces major fiscal challenges and constraints. The real challenge is how to move forward in a way that it is good for taxpayers, does not provide publicly financed windfalls to already profitable and valuable private business, and builds trust among a jaded and often-skeptical public.

CONCLUSIONS

San Diego's economic success since the end of the Cold War has been the result of diversification. By avoiding the trap of relying upon solely one or two "traded industries," the region has been much better able to weather national and international business cycles and keep prosperity generally high.

Part and parcel of that strategy is keeping the visitor industry healthy. With other regions also competing to attract visitors, continued investments and attention to the factors that put "heads-in-beds" and keeps our region competitive is essential.

APPENDIX 1 – CIC Research, Inc. San Diego Visitor Profile Methodology

The San Diego Convention and Visitors Bureau (ConVis) commissions the local research firm CIC Research to conduct surveys of visitors to San Diego to ascertain who they are, where they come from, and why they come to San Diego. The latest 2005 San Diego Visitor Profile was compiled from 3,817 face-to-face interviews with visitor groups to the region and a telephone survey of San Diego County residents. Other data used include statistical information from the U.S. Department of Transportation, Transient Occupancy Tax revenues and ConVis records of convention attendees.

CIC Research prepares an estimate of the number of visitors to San Diego and their spending. These estimates include: day visitors, visitors with overnight hotel or motel accommodations, and visitors who stay overnight in San Diego in the home of a friend or relative. Additionally, each year that the visitor profile survey is conducted, an estimate of the number of overnight visitors who stay in other accommodations is prepared including: campgrounds, second homes, apartments and timeshares.

APPENDIX 2 – Tourism Taxes

Travel Taxes	U.S. Average	San Diego
Airline (Domestic)	9% plus $1 for each domestic segment	
(International)	$12 international arrivals fee, $12 international departure fee, $6.50 Customs Service user fee, $6 Immigration and Naturalization Service user fee, $1.45 Agriculture Dept. fee	
Airport	$3 passenger facility charge in most cities	
Gas	$0.44 a gallon	$0.439
Restaurant	7.29%	7.75%
Hotel	12.36%	10.50%
Auto Rental Base Sales Tax	8.40%	7.75%
Airport Concession Fee	9.75%	
Off-Airport Fee (Rate)	7.91%	7.00%
Off-Airport Fee (Fee)	$2.43	
Per Rental Surcharge (Rate)	3.17%	
Per Rental Surcharge Fee	$6.56	
Per Day Surcharge (Fee)	$1.60	$1.275

Source: Travel Industry Association

APPENDIX 3 – Travel Taxes in America's Top 50 Destinations - Summary

							Auto Rental Surcharge		
	Hotel/ Lodging Tax	**Restaurant Tax**	**Gasoline Tax Per Gallon**	**Auto Rental Sales Tax**	**Airport Concession Fee**	**Off Airport Fee**	**Per Day**	**Per Rental**	**Per Rental**
Anaheim	15.00%	7.75%	$0.369	7.75%			$1.275		
Atlanta	14.00%	7.00%	$0.259	6.00%	10.00%	8.00%		3.00%	
Atlantic City	12.00%	6.00%	$0.289	6.00%	10.00%	10.00%			
Austin	13.00%	8.25%	$0.384	10.00%	10.00%	8.00%	$0.85		
Baltimore	12.50%	5.00%	$0.419	11.50%	10.00%				
Boston	12.15%	5.00%	$0.394	5.00%	10.00%			3.55%	$10.30
Charlotte	12.00%	7.00%	$0.410	8.00%		5.00%			
Chicago	14.90%	9.75%	$0.484	18.00%					$2.75
Cincinnati	10.50%	6.00%	$0.404	6.00%	9.00%			3.00%	
Cleveland	14.50%	7.00%	$0.404	7.00%	10.00%	8.00%			$10.70
Columbus	15.75%	5.75%	$0.404	5.75%	10.00%				
Dallas	13.00%	8.25%	$0.384	10.00%	10.00%	8.00%	$1.21		
Daytona	11.00%	6.00%	$0.429	6.00%	10.00%		$2.05		
Denver	11.80%	7.80%	$0.404	11.30%			$2.98		
Detroit	14.00%	6.00%	$0.374	6.00%	9.50%			2.00%	
Ft. Lauderdale	11.00%	6.00%	$0.449	6.00%	10.00%	$3.10	$2.05		
Honolulu	10.00%	4.00%	$0.344	4.17%			$0.25		
Houston	17.00%	8.25%	$0.384	15.00%	10.00%	6.00%	$1.75		
Indianapolis	11.00%	6.00%	$0.334	9.00%		7.00%		2.00%	
Jacksonville	12.50%	6.50%	$0.419	6.50%	10.00%	10.00%	$2.05		
Kansas City	12.10%	8.35%	$0.354	6.85%	9.00%			2.29%	
Knoxville	13.25%	8.25%	$0.398	8.25%	10.00%			2.00%	
Las Vegas	9.00%	7.00%	$0.522	7.00%	10.00%	10.00%		6.00%	
Los Angeles	14.00%	8.25%	$0.374	8.25%		8.00%	$1.275		
Memphis	13.25%	8.25%	$0.398	8.25%	8.00%			2.00%	
Miami	12.50%	8.50%	$0.480	6.50%	9.00%		$2.05		
Minneapolis	12.00%	10.00%	$0.384	12.70%	8.50%	$1.75		3.00%	
Nashville	12.25%	8.25%	$0.398	8.25%	10.00%			2.00%	
New Orleans	11.00%	9.50%	$0.384	10.75%	10.00%			3.00%	
New York	13.25%	8.25%	$0.411	8.25%				5.00%	
Norfolk	11.50%	10.00%	$0.359	8.00%					
Oakland	11.00%	8.25%	$0.374	8.25%			$1.275		
Orlando	11.00%	6.00%	$0.419	6.00%	10.00%	10.00%	$2.05		
Philadelphia	13.00%	7.00%	$0.443	7.00%			$2.00	2.00%	
Phoenix	10.35%	6.80%	$0.374	8.80%	10.00%	7.00%		5.00%	$2.50
Pittsburgh	14.00%	7.00%	$0.447	7.00%		8.00%	$2.00	2.00%	
Portland	9.00%	0.00%	$0.454	10.00%	10.00%				
Raleigh	12.00%	7.00%	$0.410	13.00%		10.00%			
Reno	9.00%	7.00%	$0.532	7.00%	10.00%	7.00%		6.00%	
Riverside	11.00%	7.75%	$0.484	7.75%			$1.275		
Sacramento	12.00%	7.75%	$0.439	7.75%		10.00%	$1.275		
San Antonio	15.00%	7.75%	$0.384	10.00%	9.00%		$0.85		
SAN DIEGO	**10.50%**	**7.75%**	**$0.439**	**7.75%**		**7.00%**	**$1.275**		
San Francisco	14.00%	8.50%	$0.449	8.25%		7.00%	$1.275		
San Jose	10.00%	8.25%	$0.447	8.25%		8.00%	$1.275		
Seattle	15.60%	8.60%	$0.414	18.30%	10.00%	4.00%			
St. Louis	14.10%	8.35%	$0.354	5.975%	10.00%			3.27%	
Tampa	11.75%	6.75%	$0.429	6.75%	10.00%		$2.05		
Washington DC	13.00%	10.00%	$0.384	8.00%	10.00%		$2.00		
West Palm	10.00%	6.00%	$0.479	6.00%	10.00%	8.00%	$2.05		
Average	**12.36%**	**7.29%**	**$0.443**	**8.40%**	**9.75%**		**$1.60**	**3.17%**	**$6.56**

Source: "Economic Impact Fast Facts – Tourism Taxes," *Travel Industry Association*, www.tia.org/pressmedia/economic_taxes.html.

ENDNOTES

[i] "Travel Industry Fun Facts", *Travel Industry Association of America,* www.tia.org/pressmedia/fun_facts.html, October 2006.
[ii] Ibid.
[iii] Ibid.
[iv] "San Diego County Visitor Industry Summary", Market Intelligence, *San Diego Convention and Visitors Bureau*, www.sandiego.org/nav/Members/MarketingTools/ResearchAndReports Calendar Year 2006.
[v] For accounts of the impact of the fires on San Diego, see "Special Report: Week of the Fire" and "After the Fires", San Diego Union-Tribune, www.signonsandiego.com/news/fires/index.html, December 16, 2005, and Gary Gentile, "Wildfires likely to have temporary effects on state economy," *Associated Press*, October 31, 2003.
[vi] "Super Bowl XXXVII Generates $367 Million Economic Impact on San Diego County," National Football League, May 14, 2003.
[vii] Connie Lewis, "San Diego Ranks No. 1 In Hotel Occupancy," *San Diego Business Journal*, www.sdbj.com/archive_article.asp?aID=76276863.5029086.1518777.0258621.1986399.892&aID2=116820, August 27, 2007.
[viii] "San Diego County 2005 Overnight Visitor Profile," *CIC Research, Inc.,* July 24, 2006, p.4.
[ix] To derive this estimate, CIC Research conducts so-called "capture surveys" at known visitor locales around the County. The intercept surveys were conducted at 39 locations throughout San Diego County. Visitors were approached randomly by a field interviewer who introduced the survey, obtained the visitor's permission to be surveyed, and asked a residency-screening question. The 5 to 10 minute interview was only administered to adult non-San Diego County residents.
[x] The objective of the study was to estimate the fiscal and economic impacts of visitor spending within the San Diego regional economy. CIC developed expenditure profiles of convention, business, and leisure overnight visitors from its in-house database of visitor surveys. Economic impacts (direct, indirect and induced) were estimated using a regional input-output model of the San Diego economy. The multiplier effects from direct visitor expenditures were modeled by sector yielding total employment, gross regional sales, and income generation. A fiscal impact model was designed to measure government revenues and expenditures resulting from overnight visitors. See CIC *Research, Inc* website, home.cicresearch.com.
[xi] One of the most prominent uses of consumer business conducted on the web is for visitor related purposes, including booking air travel, hotels, rental cars, and information on areas to be visited. See: "Building Online Revenue Through eCommerce," Travel Insights, *Travel Industry Association of America*, April 2006, Vol. 2, Issue 1.
[xii] These figures measure just the jobs that are associated with the spending of visitors to the region. Other sources of research using government identified sectors or "cluster" defined industries for San Diego look at employment in traditionally "visitor focused" industries. For example the San Diego Association of Governments (SANDAG) identifies "Entertainment and Amusement" cluster of industries in San Diego as having 104,000 employees in 2005, plus a "Travel and Hospitality" cluster with 33,516 employees. While the focus of the businesses identified in these clusters may be visitor related, San Diego residents also obviously patronize local restaurants, museums, zoo, and other attractions. Even local hotels, conventions, and travel agents are used by local residents as well. CIC Research determines visitor employment based upon the direct and indirect spending identified specifically by visitors residing from outside of San Diego County. Therefore the number of jobs identified here as supported by visitor spending are not the same as reported for all travel, hospitality, and entertainment defined clusters by SANDAG and other agencies. For information on SANDAG's employment clusters, see "Traded Clusters in the San Diego Region," *SANDAG*, www.sandag.org/uploads/publicationid/publicationid_1255_5879.pdf, September 2006. For a discussion of CIC's methodology see Appendix I.

[xiii] "Draft 2007 Regional Economic Prosperity Strategy*," San Diego Association of Governments*, May 2007, p. 120.
[xiv] "Consumer Expenditures in 2005," Bureau of Labor Statistics, *U.S. Department of Labor*, www.bls.gov/cex/, November 8, 2006,
[xv] See "Occupational Employment Statistics" methodology, Bureau of Labor Statistics, U.S. Department of Labor, www.bls.gov/oes/.
[xvi] Hilltop High School has an Academy of Travel and Tourism and three others—Mission Bay, San Diego and Morse high schools—offer event and meeting planning curriculum. See "Tourism Produces Employment at All Levels", *San Diego Convention and Visitors Bureau*, www.sandiego.org/article/Media/312.
[xvii] Joanne DiBona, "Tourism Produces Employment at All Levels", *San Diego Convention and Visitors Bureau*, http://www.sandiego.org/article/Media/312.

[xviii] See Appendix 1 for methodology.
[xix] "TIA Fast Facts – Domestic Travel," *Travel Industry Association*, www.tia.org/pressmedia/fast_facts_domestic.html.
[xx] In 1999, 60 percent of overnight visitors drove their own vehicle to San Diego. This jumped to 68 percent in 2002, settling back to 66 percent in 2005. Source: "San Diego County 2005 Overnight Visitor Profile," *CIC Research, Inc.*, July 24, 2006.
[xxi] Tanya Rodrigues, "Sea World To Begin Expansion," *San Diego Business Journal*, September 16, 2002 and Terry Rodgers, "SeaWorld suspends fireworks show", *San Diego Union-Tribune*, www.signonsandiego.com/news/metro/20060824-9999-7m24kaboom.html, August 24, 2006, www.coastal.ca.gov/sd/sdlcpa2-2001.pdf.
[xxii] "Repeat visitors are your life's blood, so you need new things to get the repeat local visitors and you also need to say something to the market," says Dennis Speigel, of International Theme Park Services, quoted by Jennifer Davies, "Roping Em In," San Diego Union-Tribune, www.signonsandiego.com/uniontrib/20060521/news_lz1b21roping.html, May 21, 2006.
[xxiii] "The Park Boulevard Promenade "(Concept Plan), *San Diego Zoo*, www.sandiegozoo.org/zoo/promenade.html.
[xxiv] TEA/ERA Theme Park Attendance Report 2006, TEA/Economic Research Associates, *InPark Magazine, Park World*, www.connectingindustry.com, April 2007.
[xxv] "News Releases, *USS Midway Museum*, www.midway.org/site/pp.asp?c=eeIGLLOrGpF&b=3038989, June 7, 2005.
[xxvi] Jennifer Davies, "Roping Em In," *San Diego Union-Tribune*, www.signonsandiego.com/uniontrib/20060521/news_lz1b21roping.html, May 21, 2006.
[xxvii] "History of the San Diego Convention & Visitors Bureau", *San Diego Convention and Visitors Bureau* website, http://www.sandiego.org/article/Media/334.
[xxviii] Connie Lewis, "Convention Center at Capacity, Tourism Industry Mulls Expansion," *San Diego Business Journal*, October 1-7, 2007.
[xxix] "The Contribution of the North American Cruise Industry to the U.S. Economy in 2006," *Business Research & Economic Advisors,* August 2007, and "The Cruise Industry – 2006 Summary," *International Council of Cruise Lines*, 2007.
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[xxxiii] "San Diego County 2005 Overnight Visitor Profile," *CIC Research*, Inc., July 24, 2006.
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[xxxv] "Investing in Baja California", *My Baja Guide*, www.mybajaguide.com/eng/.
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[xl] Ibid.
[xli] "Economic Impact Fast Facts – Tourism Taxes," *Travel Industry Association*, http://www.tia.org/pressmedia/economic_taxes.html.
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