

Transient Occupancy Tax Growth Rate Analysis

Fiscal Year 2007 actual year-to-date growth in TOT revenue is approximately 10%. The year-end projection reflects a growth of approximately 9% over FY 2006 estimated receipts, although the IBA believes that the FY 2007 projection is somewhat conservative, and that actual growth may be over 10% by year-end. This follows on the heels of an estimated 14% growth in FY 2006. Over the past 15 years, annual growth in TOT has averaged approximately 7.2%.

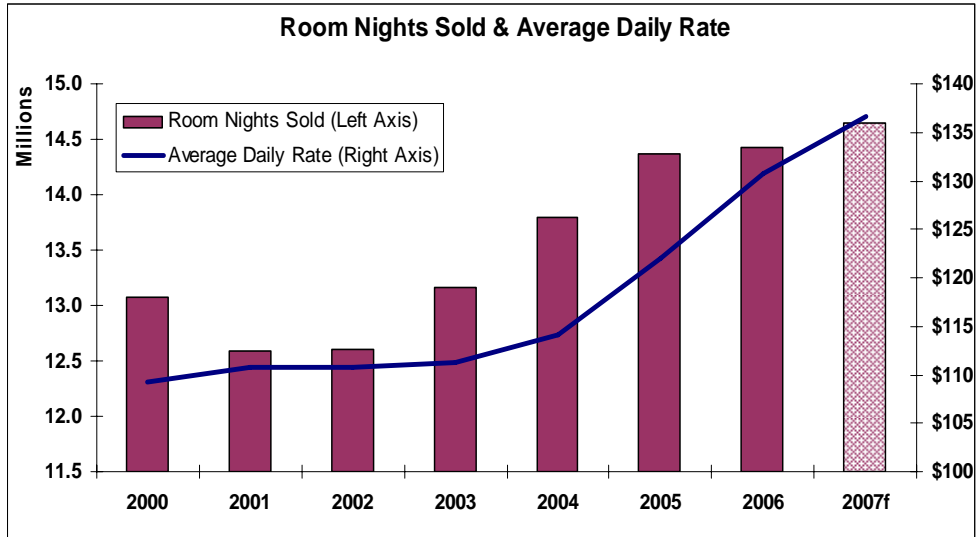
According to the San Diego Convention and Visitor's Bureau (ConVis), the County's tourism industry is projected to continue to grow at a moderate pace in calendar year 2007. Total number of visitors to the region is expected to grow by 1.8%, down from 3.0% in 2006. However, the number of visitors that stay in hotels is projected to grow by 2.2%, while visitor spending is expected to grow by 6.0%, an increase from 4.6% growth in 2006. It is anticipated that a minimum of 2,300 new hotel rooms will be added to the region's inventory in calendar year 2007, resulting in a 2.0% increase in annual average room supply. The increase in room supply is also expected to cause occupancy rates to decline slightly.

2007 San Diego Tourism Outlook

	2006 <u>Projected</u>	2007 <u>Forecast</u>
Total Visitors	3.0%	1.8%
Overnight Visitors	1.3%	1.5%
Visitor Spending	4.6%	6.0%
Room Supply	-0.4%	2.0%
Room Demand	0.5%	1.5%
Occupancy Rate	73.4%	73.0%
Average Daily Rate	6.6%	5.0%

Source: ConVis

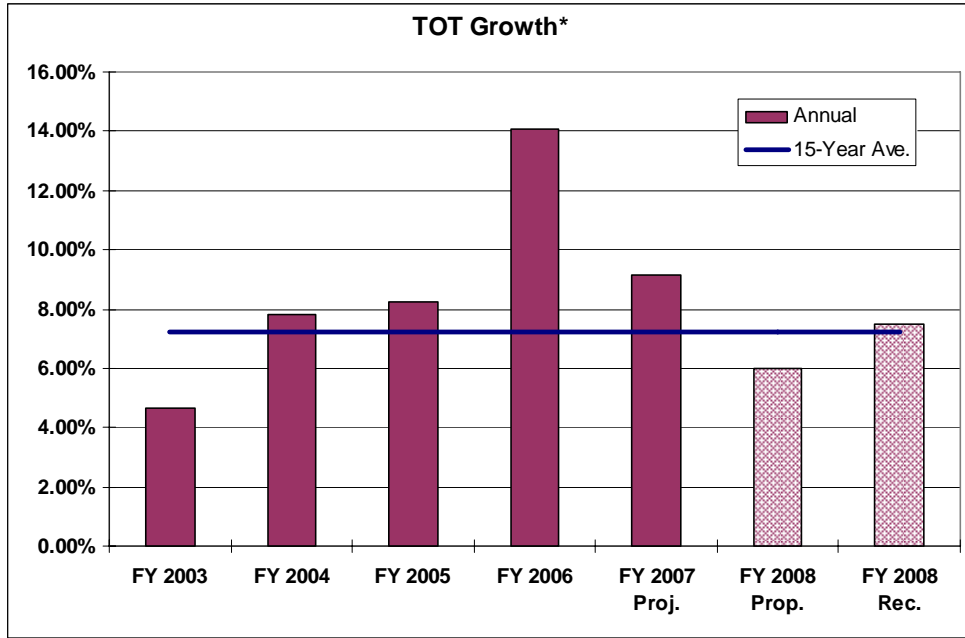
Two of the more important variables as they relate to TOT revenue are room nights sold and average daily rate (ADR) charged for hotel rooms. Room nights sold is a measure of industry demand (reflected as Room Demand in the table above), and reflects the total number of rooms that are sold over a given time period. ADR simply reflects the average rate that is charged for all rooms sold. ConVis projects room nights sold to grow by 1.5%, an increase from 0.5% growth in 2006, while growth in ADR is expected to slow to 5.0%, down from 6.6% growth in 2006. Nevertheless, growth in these two indicators has been strong over the past several years, and continues to support robust growth in TOT. The chart below shows the recent trends in both room nights sold and ADR.



Source: ConVis

Overall, the health of the County’s tourism industry is expected to remain strong in calendar year 2007. Attractions such as SeaWorld, the San Diego Zoo and LEGOLAND continue to lure visitors to the region, while the hosting of two college bowl games (Holiday Bowl and the new Poinsettia Bowl) provides market stimulus in December, a traditionally slow month for local visitor travel. Significant one-time events that will benefit TOT receipts in FY 2008 include the Dead Sea Scrolls exhibition, which will be at the San Diego Natural History Museum for six months beginning June 29, 2007; and the 2008 U.S. Open Golf Tournament, which will be held at Torrey Pines from June 9 – 15, 2008. In addition, San Diego continues to benefit from a diverse visitor mix, reducing the potential impact of a decline in any one segment, such as business travel. Finally, San Diego continues to benefit from its location, as it is within an hour and a half plane ride from the four largest metropolitan areas in the western U.S., including Los Angeles-Long-Beach-Santa Ana, San Francisco-Oakland-San Jose, Riverside-San Bernardino, and Phoenix.

For the reasons discussed above, the IBA recommends increasing the projected FY 2008 growth rate for TOT to 7.5%. The table below reflects TOT growth over the past several years, as well as FY 2008 Proposed and recommended growth, compared to the 15-year average.



* Adjusted to remove impact of Super Bowl XXXVII, held at Qualcomm Stadium on January 26, 2003

Based on current-year growth rates, a 6.0% growth in FY 2008 would reflect a more rapid deceleration of the tourism market than is justified based on the available indicators. While it does appear that growth in both the tourism market and the City's TOT receipts may have peaked in 2006-2007, market data and the tourism industry forecast by ConVis suggest that that the slowdown will occur more gradually than is currently reflected.