



20-YEAR

DESTINATION MASTER PLAN

**PREPARED FOR
SAN DIEGO TOURISM MARKETING DISTRICT
DECEMBER 2015**

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San Diego Tourism 20-Year Master Plan

San Diego Tourism
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Executive Summary



Tourism is the 2nd largest traded economy in San Diego County with \$15 billion in economic impact for the region. In the City of San Diego, Transient Occupancy Tax (TOT) is the City's 3rd largest revenue source accounting for \$170 million in FY2014. But, what if tourism improvements could generate an incremental \$250 million over the next 6 years to San Diego's General Fund? This impact question can only be answered through an aggressive and aligned tourism strategy. This strategy, or "Destination Master Plan", is something San Diego has lacked until now.

San Diego has always been known as a premier tourist destination due to its natural beauty, unparalleled climate, and exceptional character. However, San Diego's tourism growth has been outpaced in recent years by several peer destination cities. The idea that visitors will come to San Diego simply because of its weather and beaches ignores the reality of an extremely competitive tourism marketplace as evidenced by multiple performance indicators.

- **TOT and visitor spending:** San Diego lags recent peer growth in both visitor spending and subsequent Transient Occupancy Tax (TOT) growth, leaving over \$35 million of TOT and \$2.1 billion visitor spending on the table in 2012 alone
- **RevPAR:** San Diego lost its strong ranking in Revenue per Available Room (RevPAR) since 2008, being surpassed by Los Angeles, falling further behind San Francisco, and allowing Anaheim to drastically close its gap
- **Domestic Leisure Trips:** San Diego currently ranks 5th nationally in domestic leisure trips, but its growth in this metric has been just ~50% of the growth of San Francisco, Los Angeles, and Anaheim from 2009 to 2014
- **MICE:** For Meetings, Incentives, Conventions, and Exhibitions (MICE) segment, there has been 18% national growth from 2009-2013, but only 11% growth in San Diego. Furthermore, the number of visitors coming for an event held in the San Diego Convention Center have seen an average annual decline of 4% over this same period

- **International visitors:** San Diego's international overnight visitors are just 10% of total overnight visitors, less than half the share of Anaheim and Los Angeles, and one third of San Francisco's visitors. For example, in 2013, 83,000 Chinese tourists visited San Diego, compared to 252,000 in San Francisco and 570,000 in Los Angeles

To address these lagging performance indicators and realize economic opportunities, San Diego must embark on a transformative approach to tourism growth and innovation. There are 3 key components that San Diego must simultaneously pursue for a successful tourism transformation:

1. A bold aspiration for San Diego tourism to galvanize civic leaders
 - How could San Diego surpass \$300 million TOT by 2021? This would represent a doubling of the last 10 years' TOT average annual growth to 8%.
2. A clear ownership of San Diego's tourism agenda by leveraging a new organizational construct (NEWCO) and putting in place a governance structure to regularly assess the state of San Diego tourism versus peer destinations and trends
 - **New organizational construct** is led by a visionary City Tourism Leader and an Executive Committee of local tourism and civic leaders that are tasked with the goal to align, execute, and manage tourism initiatives across the City of San Diego, San Diego Tourism Authority (SDTA), San Diego Convention Center Corporation (SDCCC), and local tourism industry stakeholders to drive long-term San Diego tourism strategy. This coordinated effort would allow for more effective and efficient increases in tourism revenue, making San Diego more coordinated, nimble and entrepreneurial in responding to market conditions in a coordinated fashion
 - **Robust governance approach** leverages multiple performance measurement tools and processes to manage and assess impact of carefully selected tourism improvement initiatives
3. A set of tourism growth themes, with associated initiatives that are developed, supported, and advanced by a broad set of stakeholders. For San Diego, the four key growth themes are:
 - 1) **Leisure assets:** ensuring that San Diego has the right leisure assets and events that leverage its distinctive offerings to attract additional leisure visitors and increase length of stay, including considerations across accommodations, attractions, lifestyle, and events
 - 2) **Meetings, Incentives, Conferences, and Exhibitions (MICE):** expanding the appeal for business, meetings, and conferences within San Diego for both the Convention Center and individual properties

- 3) **Marketing:** increasing domestic and international awareness to accentuate, reinforce and expand San Diego's position in the world tourism marketplace
- 4) **Transportation:** encouraging and facilitating travel to, from, and within San Diego, leveraging a variety of transportation options ranging from air travel, rail, water, public transportation, and highway

Many leading destinations have embarked on similar transformative approaches to tourism growth with exciting outcomes. Los Angeles, Florida, Chicago, and New York are just some examples of tourism communities that have recently set bold aspirations to achieve significant tourism growth. Anaheim is an example of a community that has aggressively worked to achieve tourism growth through collaboration and continued investment. In 1994, various local Anaheim tourism and civic leaders collaborated in a \$5 billion transformation to reinvent its visitor industry center. As the Anaheim Resort District, it now contributes over 50% of the city's revenue, while taking up just 5% of the land. Anaheim has continued to recognize tourism's importance through its recent passage of an incentive measure to attract luxury hotel development, as well as an extension of the 30-year tax break for Disney attraction admission revenue. Other Californian competitors are supporting tourism growth through focused investment in assets, including San Francisco's \$500 million convention center expansion and Universal Studios Hollywood's planned addition of Harry Potter.

A key enabler to realizing the full benefits of San Diego's tourism transformation will be through the collaborative work of all relevant stakeholders. Much of the time-consuming initial work in San Diego has been accomplished by locally based theme teams who helped build this Master Plan. The attendance and participation throughout this Master Planning process, highlighted by over 40 San Diego tourism leaders dedicating a combined total of over 600 hours of work over a 4 month period, is evidence of this interest and commitment. The hard work of these teams has addressed some of the most pressing questions facing San Diego tourism, such as:

- How can San Diego recreate the 19% year-over-year growth in TOT revenues experienced by Carlsbad when LEGOLAND was added to its attraction portfolio?
- How can San Diego attract large new MICE groups, each worth up to \$650,000 in TOT and \$30 million in attendee spending?
- How will San Diego attract a greater share of visitors from China who spend over \$10,000 on average and are expected to have an annual growth of 17.5% through 2020?
- How can San Diego open an additional nonstop international route like the London-San Diego flight, which is estimated to have over \$110 million in direct and indirect impact for the city?

This Destination Master Plan not only answers these questions to provide a roadmap towards a \$300 million TOT goal, but also identifies a number of new experiences and assets that will benefit San Diego residents and visitors for years to come.

SDTMD would like to thank the individual contributors to the Destination Master Plan



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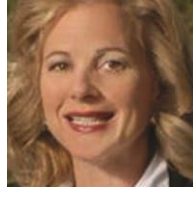
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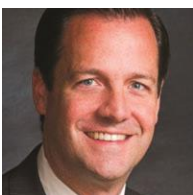
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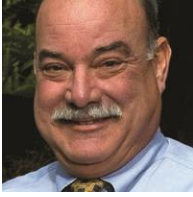
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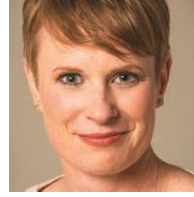
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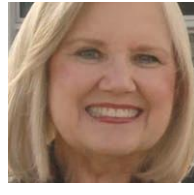
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Introduction

Tourism is a powerful force and industry in the world, helping raise a destination's profile, improve infrastructure, and spur economic development. On a global level, the travel and tourism industry generated \$7.6 trillion (10% of global GDP) and 277 million jobs (1 in 11 jobs) for the global economy in 2014¹. Recent years have seen the travel and tourism industry growing faster than both the wider economy and other significant sectors such as automotive, financial services and health care. International tourist arrivals to the US also surged, reaching nearly 74 million visitors who spent an estimated \$222 billion². Visitors from emerging economies now represent a 46% share of these international arrivals (up from 38% in 2000), demonstrating the growth and increased opportunities for future travel from these new markets³. In the United States alone, the tourism industry generates over \$2 trillion in economic impact and supports almost 15 million jobs, making it one of the largest economic sectors in the domestic market⁴. Looking forward, the projected US tourism growth for the next 10 years is significant: travel and tourism is forecasted to contribute 2.5% of the national US GDP in 2025 versus 1.4% in 2015⁵. Within California, tourism expenditures are expected to increase from \$117 billion in 2014 to \$145 billion by 2018⁶, representing an average annual growth rate of 5.5%. San Diego is expected to see an average annual growth of 4.3% in tourism expenditures from \$9.4 billion in 2014 to \$10.9 billion in 2018⁷.

In the United States alone, the tourism industry generates over \$2 trillion in economic impact and supports almost 15 million jobs, making it one of the largest economic sectors in the domestic market

Consistent with other large metropolitan areas, tourism is critical to San Diego and this projected domestic travel growth stands to make a significant contribution to San

¹ World Travel & Tourism Council (2015)

² US Department of Commerce

³ World Travel & Tourism Council (2015)

⁴ U.S. Travel Association (2014)

⁵ Statista (2015)

⁶ California Travel & Tourism Outlook January 2015, Tourism Economics

⁷ San Diego Travel Forecast December 2014, Tourism Economics

Diego's economy. In 2014, over 33 million visitors spent over \$9 billion in San Diego County, contributing to over \$15 billion in regional economic impact and helping to employ over 175,000 San Diegans in the hospitality industry⁸. This makes the tourism sector the second-largest traded economy for San Diego County, with visitors spending an average of \$255 per visit on lodging, restaurants, shopping, attractions, transportation and much more. Of this visitor spending, roughly \$73 goes towards lodging⁹, which provides direct benefit to the City of San Diego and its residents through Transient Occupancy Tax (TOT). TOT is a tax on short-term rental revenue that municipalities, including the City of San Diego, place on short-term living spaces such as, but not limited to, hotels, motels and inns. Despite the fact that lodging comprises less than 30% of visitor spending, San Diego's 10.5% TOT is the city's third largest revenue source, generating \$170 million in revenue for the City of San Diego in FY2014¹⁰. These funds are put towards various uses ranging from police and fire needs, road repairs, beach cleaning and park maintenance, to economic development programs, and arts, culture and community festivals.

In 2014, over 33 million visitors spent over \$9 billion in San Diego County, contributing to over \$15 billion in regional economic impact and helping to employ over 175,000 San Diegans in the hospitality industry.

Despite its rich set of compelling intrinsic qualities, San Diego must compete with neighboring cities like Anaheim and Los Angeles, regional destinations like Las Vegas, and national destinations like Orlando or the wider Miami area to attract domestic and international visitors. It is a fiercely competitive environment as these peer destinations have invested heavily in new tourism infrastructure, attractions and marketing— Las Vegas alone spends over \$200 million annually specifically for marketing purposes, with significant positive impact on the number of visitors, length of stay and spending¹¹.

⁸ CIC Research (2014), EDD (Employment Development Department) State of CA

⁹ CIC Research (2014)

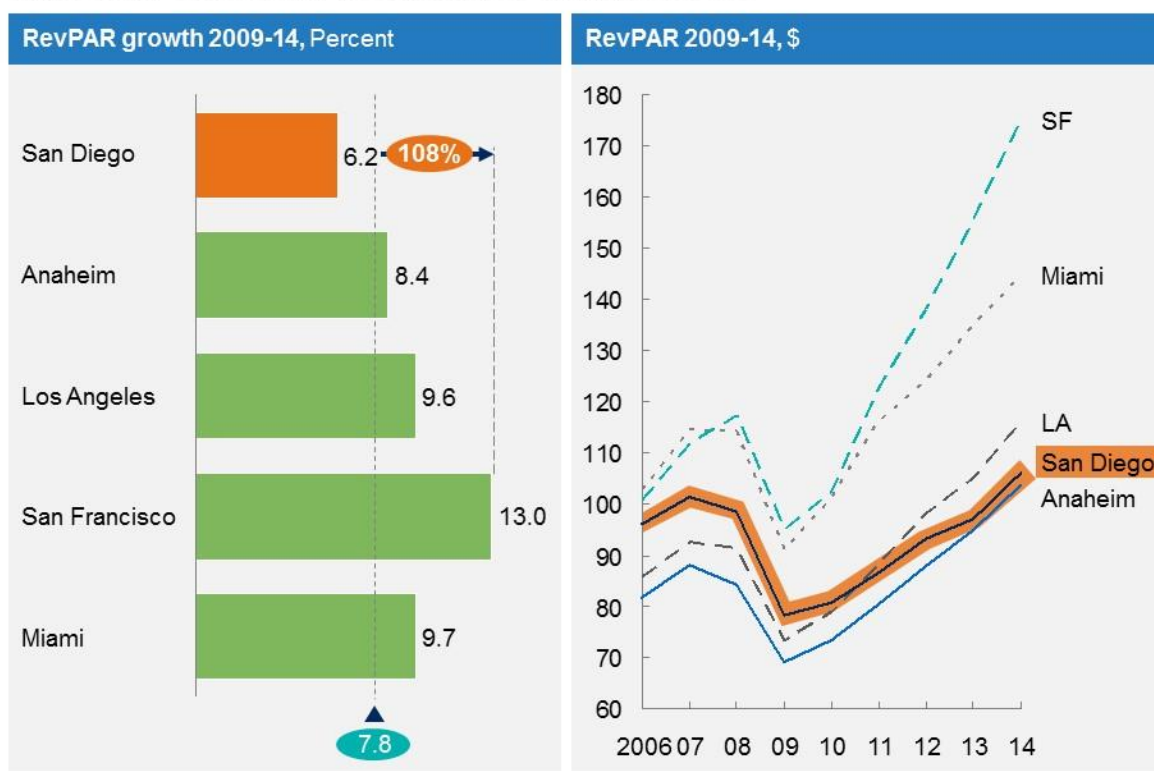
¹⁰ City of San Diego (2014)

¹¹ Destination Marketing Association International (2013) – DMO Organizational & Financial Profile Study

In comparison to its competitors, San Diego's tourism growth has trailed in many relevant performance indicators. For instance, hotel indicators such as revenue per available room (RevPAR), which combines the metrics of average room rates and occupancy rate, have developed less positively versus the peer group¹² as illustrated in Exhibit 01.

EXHIBIT 01

San Diego's RevPAR performance against peers



SOURCE: Smith Travel Research

The recession was a worldwide phenomenon which affected industries across global economies, tourism being no exception. From fiscal year 2009 to 2012, San Diego recovered relatively well from the recession, with TOT growing at an average of 3.0% annually and visitor spending growing at an average of 4.7%¹³ (Exhibit 02). However, when looking at the competitive set¹⁴, the benchmark TOT grew at an average of 7.5% annually and visitor spending grew at an average of 7.8% annually. While San Diego was not far behind many of the cities, San Diego grew at roughly 60% the annual average of our competitors. If San Diego had grown at the benchmark average, it could have received over an additional \$35 million of TOT and \$2.1 billion of visitor spend in

¹² Smith Travel Research

¹³ 2014 HVS US Lodging Tax Report (fiscal years), SDTA San Diego Visitor Industry Summary

¹⁴ Benchmark set includes Anaheim, Los Angeles, San Francisco, Miami, Ft Lauderdale, Orlando and New York

2012 alone¹⁵, money which could have been used to improve direct tourism infrastructure and/or finance other City needs.

EXHIBIT 02

San Diego's tourism industry growth relative to competitors

Percent



SOURCE: SDTA San Diego Visitor Industry Summary; web searches; 2014 HVS Lodging Tax Report

San Diego cannot assume visitors will come simply because of the City's intrinsic characteristics. Local tourism stakeholders and the broader San Diego community must collaborate and aggressively work towards attracting visitors, or it risks losing share to benchmark destinations and missing out on the rising tides of tourism.

Beginning in 1994, Anaheim, San Diego's next-door neighbor, heeded the call for investment. It worked with various local tourism and civic leaders to develop a deliberate plan to reinvent its visitor industry center as the 1,100 acre Anaheim Resort District. Despite being smaller than San Diego in population and municipal budget, Anaheim undertook a \$5 billion transformation with multiple coordinated efforts from various stakeholders in the city. This targeted tourism development effort included enhancing family entertainment, dining and shopping experiences with the Anaheim GardenWalk and Downtown Disney, expanding the convention center, adding themed lodging options (e.g., the Grand Californian), enriching attractions (e.g., the reinvention of Disney's California Adventure including Cars Land), developing multiple additional transportation options and enacting consistency in signage and landscaping to make the

¹⁵ Assumes San Diego 2009-2012 growth at benchmark average

area more appealing and easy to navigate¹⁶. As a result of this coordinated effort across public and private sectors, the Anaheim Resort District generates over 50% of the city's revenue, approximately \$77 million in 2009, even though it occupies only 5% of the city land¹⁷. Like Anaheim, several other municipalities have taken it upon themselves to create tourism master plans in coordination with relevant stakeholders. They have also articulated their tourism focus with bold aspirations for stakeholders to rally around.

As a result of this coordinated effort across public and private sectors, the Anaheim Resort District generates over 50% of the city's revenue, approximately \$77 million in 2009.

It is imperative that San Diego not only develops a bold aspiration, but also provides a unified and strategic roadmap to achieve its fulfillment. For instance, what would it take to surpass \$300 million TOT by 2021, representing an 8% average annual growth rate, roughly twice the average growth of the previous 10 years?

This San Diego Tourism Master Plan aims to lay the groundwork for the continuing enrichment and long-term development of San Diego tourism over the coming years. It does this by providing a factual foundation on the current state of San Diego tourism in order to identify strengths and opportunities, engaging key stakeholders to ensure that all perspectives and most relevant opportunities (including other integral local Master Plans) are taken into account, and finally uniting the San Diego tourism industry behind a singular focused effort to improve the tourism environment and offerings while delivering increased economic results to the industry and community. The plan is divided into five main sections:

1. **Current state of San Diego tourism:** analyzes the tourism sector's supply and demand qualities, highlighting strengths and gaps versus competitors and trends
 2. **Bold aspirations and potential impact of Master Plan:** details outside examples of destination tourism aspirations, sets out a potential tourism growth goal for San Diego, and describes the economic impact it could have
 3. **Strategic priorities and initiatives:** identifies initiatives to address opportunities and help realize tourism growth aspirations, keeping anticipated growth trends in mind
 4. **Tourism infrastructure:** discusses potential organizational revisions for an aligned San Diego tourism structure to guide transformational tourism growth and lays out the approach to continually evaluate the performance of San Diego tourism and growth initiatives against defined criteria for success, making adjustments as needed
- The plan is the result of an intensive three-phase study commissioned by the San Diego Tourism Market District (SDTMD), in partnership with a diverse array of

¹⁶ Anaheim Orange County Visitor & Convention Bureau

¹⁷ Support Our Anaheim Resort Area (SOAR)

key stakeholders from the public and private sectors, working together over five months through multiple cross-functional meetings and workshops. The SDTMD would like to thank the following groups for their invaluable help in the development of this plan:

- California Restaurant Association
- City of San Diego (including the Mayor's office, Commission for Arts and Culture and Special Events Department)
- Cross Border Xpress
- Downtown San Diego Partnership
- Historic Tours of America
- Hornblower Cruises and Events
- McKinsey & Company
- MJE Marketing
- Port of San Diego
- SANDAG
- San Diego Brewers Guild
- San Diego Convention Center Corporation
- San Diego County Hotel Motel Association
- San Diego County Regional Airport Authority
- San Diego Lodging Industry Association
- San Diego Port Tenants Association
- San Diego Regional Economic Development Corporation
- San Diego Tourism Authority
- San Diego Zoo Global
- SeaWorld San Diego
- Westfield
- World Trade Centers Association

In addition, the SDTMD is grateful for the support from a combination of data sources leveraged in the development of the overall plan including CIC Research, Euromonitor, San Diego Tourism Authority, Smith Travel Research, TNS America, US Travel Association, Tourism Economics and many other research and information providers.

The SDTMD is a private, nonprofit mutual benefit corporation dedicated to increasing lodging room night consumption in the City of San Diego by improving its tourism performance and demonstrating considerable positive economic and fiscal impact. It achieves this purpose through effective and judicious allocation of its revenue and resources to measurably enhance successful tourism sales and marketing programs¹⁸. As a result, any increases in the SDTMD hotel room night consumption from the promotion of local and regional tourism also increase the related TOT benefiting all the citizens of City of San Diego.

¹⁸ Programs may promote San Diego County as a means of driving visitors to stay overnight in assessed businesses within the City of San Diego

1. CURRENT STATE OF SAN DIEGO TOURISM

In order to develop a common fact based analysis of San Diego's current state of tourism, both demand and supply need to be assessed. An understanding of a destination's visitor base, or demand, is needed to refine what a destination has to offer, and similarly, an understanding of a destination's offerings, or its supply, is needed to best serve demand. Situations where there are demand or supply gaps – where a destination's visitor base and offering do not align due to capacity, quality, or other reasons – highlight opportunities for growth.

Analyzing a destination's demand and supply against other locations and against macro trends provides a necessary additional perspective in understanding its current state. In the case of San Diego, performance was assessed against benchmark locations including Los Angeles, Anaheim, San Francisco, Phoenix, Las Vegas, Miami, Orlando, and Tampa. Select other locations were leveraged for punctual comparisons. On the demand side, visitors were analyzed on the basis of their geographical origin, purpose of visit, socio-demographic make-up, and travel behaviors. On the supply side, San Diego's tourism infrastructure and offerings were analyzed, paying particular attention to accommodations (i.e., current and future hotel quantity and mix), transportation across air, rail, road and water, attractions (e.g., beaches, theme parks), events, and lifestyle offerings (i.e., shopping, dining, and nightlife).

EXHIBIT 03

Diagnostic involved analyses across the demand and supply of tourism in San Diego and how it fares against benchmarks and trends



1.1. Demand

San Diego is already among top domestic tourist destinations on the basis of total visitors, with 33.8 million visitors coming into San Diego in 2014¹⁹, resulting in the following rankings:

- 5th nationally in number of domestic visitors (below Orlando, Las Vegas, Los Angeles, and Chicago)²⁰,
- 11th nationally in number of overseas visitors (below Boston)²¹, and
- 9th nationally in number of visitors coming for meetings, incentives, conventions and exhibitions (MICE)²²

San Diego's 33.8 million visitors were split evenly between day and overnight visitors, with a large portion of day visitors coming from Mexico (i.e., of the 16.9M total day visitors to San Diego, 4.2M were from Mexico). Approximately 28% of total visitors stayed in hotels or motels (roughly 9.4 million), with the remainder only visiting for the day or staying in other accommodations such as households with friends or family²³. Visitors come in an average party size of 2.7, with a third traveling with children, and stay for 2 nights on average, a number that is skewed down, relative to other locations, by the large number of day visitors²⁴.

San Diego's 33.8 million visitors were split evenly between day and overnight visitors. Of the 16.9M total day visitors to San Diego, 4.2M were from Mexico.

The vast majority of visitors, approximately 88%, come for leisure travel, with the top activities including visiting theme parks and attractions and relaxing at the beach or bay. A smaller fraction of visitors, approximately 9%, come for business, predominantly for meetings, incentives, conventions and exhibitions (MICE).

¹⁹ CIC Research (2014)

²⁰ TNS America (2014)

²¹ U.S. Department of Commerce International Trade Administration, National Travel and Tourism Office Overseas Visitation Estimates for US States, Cities, and Census Regions: 2013

²² Travel Industry Association of America (TIA), the National Business Travel Association (NBTA) and the Institute of Business Travel Management

²³ CIC Research (2013)

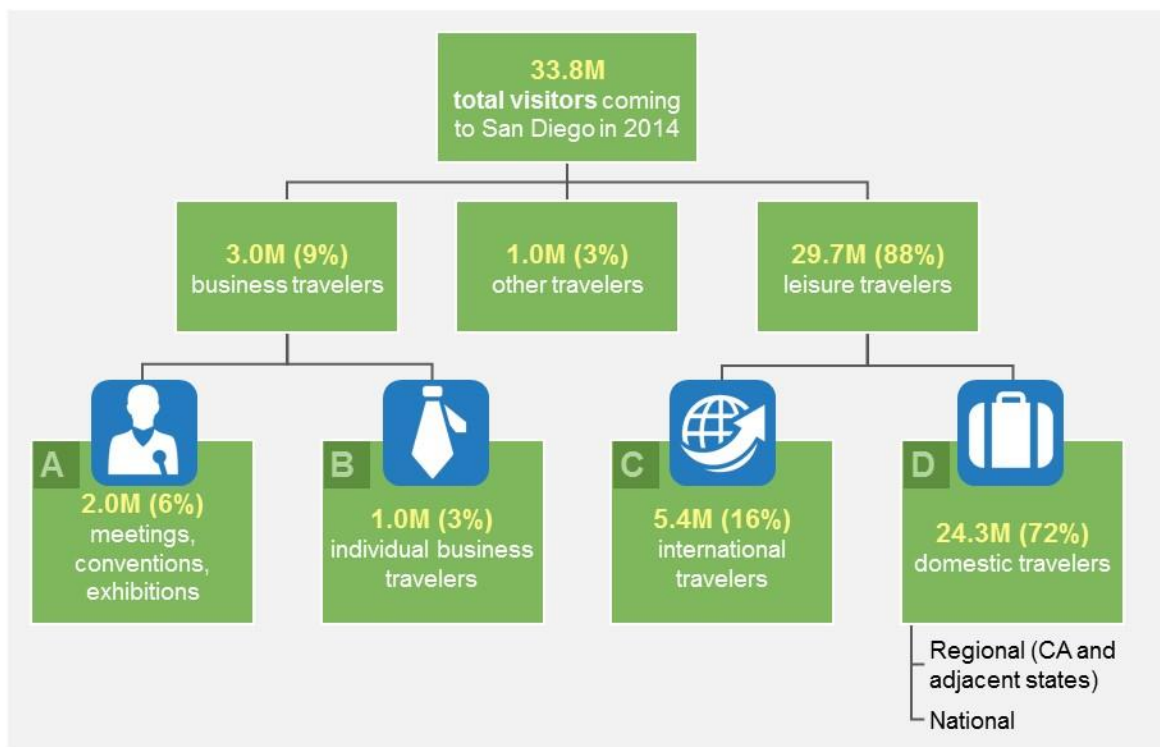
²⁴ CIC Research (2013)

For the purposes of the diagnostic analyses, four San Diego visitor segments were addressed as shown in Exhibit 04 (to include each segments associated % contribution):

- A) Meetings, incentives, conventions and exhibitions (MICE) travelers (6%)
- B) Business transients (3%)
- C) International leisure travelers (16%)
- D) Domestic leisure travelers (72%)²⁵

EXHIBIT 04

San Diego's current visitor profile consists of four distinct segments



SOURCE: San Diego Tourism Authority, CIC Research (2014)

²⁵ CIC Research (2013)

As seen in Exhibit 05, domestic leisure travelers are by far the largest segment and also make up the majority of spend. International leisure travelers, while traditionally a high spending category appear to have a relatively small spend per visit. Both domestic and international leisure include a large number of day visitors that reduce the overall average spend per visitor. In the domestic leisure segment, many of these day visitors are coming from nearby locations in Southern California, while in the international leisure segment, the vast majority of day visitors arrive from Mexico. In contrast, MICE visitors make up a relatively small percentage of San Diego's visitor base, but have an outsized impact on spending, given that they mostly stay in hotels (95% of MICE visitors in 2013) and have a higher spend on dining, all multiplied by their longer length of stay (an average of 3.9 days, roughly twice the average for all visitors of 2.0 days).

EXHIBIT 05

Share of San Diego's visitors and spend across segments



1 Meetings, incentives, conventions, exhibitions

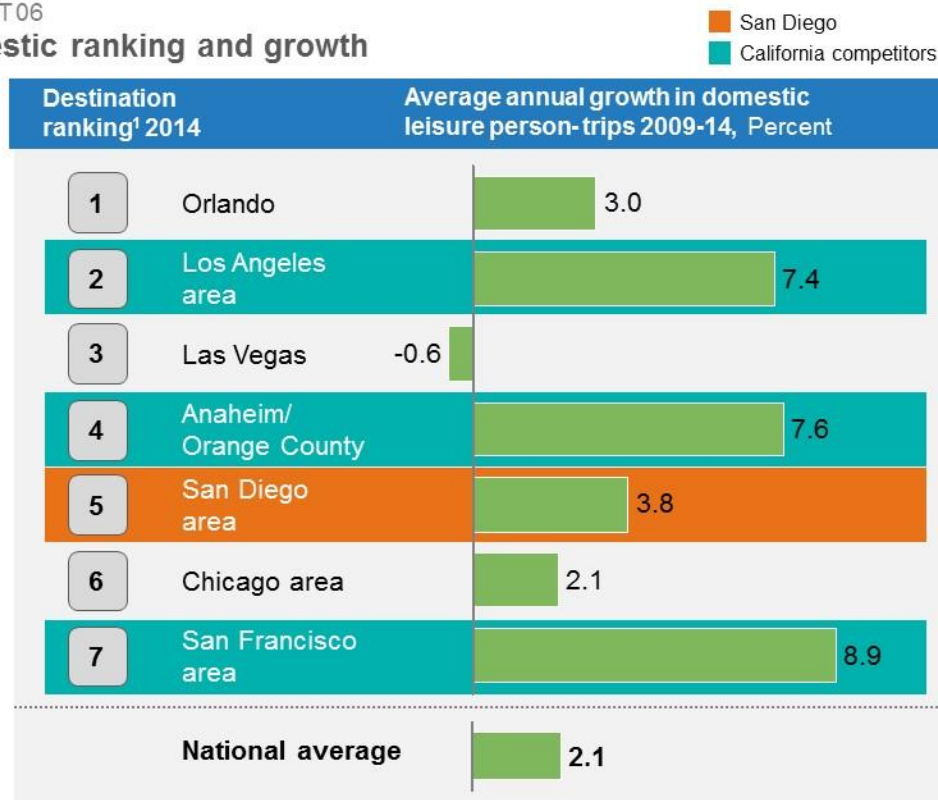
SOURCE: CIC Research (2013), TNS (2014) SDTMD joint team analysis

1.1.1. Domestic leisure

As previously mentioned, San Diego is a major player in the domestic leisure market, ranked 5th nationally in domestic leisure person-visits. Growth since 2009 has far exceeding the broader national average (3.8% CAGR vs. 2.1%)²⁶, but fallen far below the growth of Californian benchmark destinations, as illustrated in Exhibit 06.

EXHIBIT 06

Domestic ranking and growth



¹ National ranking by domestic leisure person-trips

SOURCE: USTA (2014) – national average of person-trips; TNS America (2014)

²⁶ USTA (2014) – national average of person-trips; TNS America (2014)

In addition to growing number of visits, Exhibit 07 reveals that San Diego has an opportunity to increase spend per trip. The relatively low average as compared to benchmarks is in part due to a relatively short length of stay (3.0 vs. 3.6 days benchmark average) that San Diego and its Southern Californian competitors face, as well as a low average number of nights in a hotel / motel (1.1 vs 1.6 nights benchmark average)²⁷. These lower numbers experienced by the Southern California destinations is largely due to easier access, with a large population located close enough to make a day trip versus locations like Las Vegas. Even still, San Diego can gain large benefits by increasing these numbers.

EXHIBIT 07

Visitor characteristics versus other destinations

Best in class



SOURCE: TNS America (2014)

The majority of domestic visitors to San Diego are from nearby locations, with strong growth from adjacent states, but lower growth from Californian visitors. San Diego domestic leisure visitors are predominantly regional travelers, with 80% of all 2014 domestic leisure person trips originating from California and its adjacent states of Arizona, Nevada and Utah²⁸. From 2009 to 2014, these adjacent states drove the majority of domestic leisure growth, with person trips growing 16.8% per year, substantially outpacing regional competitors like LA, Anaheim and San Francisco. While intrastate visitation is competitive to Anaheim and San Francisco on the basis of number

²⁷ TNS America (2014)

²⁸ USTA (2013); TNS America (2014)

of visitors, its growth of 2.3% annually over the same time period trailed other California cities, which grew between ~9-12% per year²⁹. This was also the case for growth in visitation from Southern California residents. While intrastate visitors are not the highest value segment due to their relatively short length of stay, they are nevertheless one of the largest segments for San Diego and are at high risk of being reduced or lost to other regional competitors if not protected. For example, while intrastate visitors to Anaheim have a similar length of stay as those visiting San Diego, they spend significantly more on a total daily basis and on lodging specifically, which has been improved as a direct result of Anaheim's aforementioned Anaheim Resort District strategy.

San Diego visitors are also slightly younger than the Californian and national averages, making San Diego relatively well positioned to attract millennial travelers, one of the highest value travel segments (\$17 billion market size in 2013)³⁰. Millennials will represent 50% of the US workforce by 2020 and are predicted to outspend baby boomers by 2030³¹. They travel more often than older groups (3.2 trips annually vs. 2.8 by older travelers), taking a mixture of both short getaway weekend trips and 14+ day long trips³².

San Diego also has a disproportionate share of the family segment (ages 35-44) visiting, which today has the largest market size among age segments (\$19 billion in 2013)³³, higher than both California and the national average. San Diego's image as an ideal place to take kids³⁴ is supported by strong family-friendly offerings (e.g., beaches, zoos, theme parks).

San Diego is also well positioned to attract retirees despite having a smaller share of these travelers today. Retirees are predicted to have the largest market size in 2020 (\$33 billion). They value good year-round weather, a laid-back relaxing environment, and a variety of activities that they can share with their families³⁵, characteristics that are intrinsic to San Diego.

²⁹ USTA (2013); TNS America (2014)

³⁰ CIC Research (2013) – Age of head of household of all domestic visitors ; TNS America (2013) - includes transportation; PhoCusWright US Consumer Travel Report Sixth Edition (2014); US Census Bureau (2013)

³¹ PhoCusWright - The U.S. Millennial Traveler: Leading a Travel Revolution (2014);

³² PhoCusWright - The U.S. Millennial Traveler: Leading a Travel Revolution (2014);

³³ CIC Research (2013) – Age of head of household of all domestic visitors ; TNS America (2013) - includes transportation; PhoCusWright US Consumer Travel Report Sixth Edition (2014); US Census Bureau (2013)

³⁴ 2014 San Diego Brand Platform Research Report

³⁵ CIC Research (2013) – Age of head of household of all domestic visitors ; TNS America (2013) - includes transportation; PhoCusWright US Consumer Travel Report Sixth Edition (2014); US Census Bureau (2013)

1.1.2. International leisure

San Diego's international visitors (6 million in 2014³⁶) predominantly come from Mexico (roughly 77%), Canada, UK, China, Australia, Germany, and Japan. International visitors stay an average of 1.4 nights in San Diego, which is shorter than expected due to the high percentage of day visitors in this segment (72%, composed almost entirely by visitors entering from Mexico). However, when looking only at overnight visitors, international length of stay increases to 5.6 nights³⁷ – similar to typical international segment performance. This exclusion of international day visitors also reveals a higher spend by these overnight international visitors.

Of San Diego's overnight visitors, 10% are international. This is less than half of the percentages of international visitors for Anaheim and Los Angeles (21% and 22%, respectively) and one third that of San Francisco (30%). This reveals a large opportunity for San Diego to increase this segment, especially for those high-spending international visitors.

San Diego's first and second largest international markets (Mexico and Canada respectively) tend to be lower spend international visitors as shown in Exhibit 08.

EXHIBIT 08

International visitor segments

International visitors		International visitation market size		Projected growth	Projected market
San Diego's international visitors, 2014 ¹		Spend per visit, 2014 ²	Arrivals to US, 2014 ²	US arrivals CAGR, 2014-20 ²	Projected 2020 US market size ³
Thousands		\$	M	%	\$B
Mexico	4,586	1,114	17.3	5.3	26.3
Canada	421	1,183	23.0	2.3	31.2
UK	103	3,325	4.0	2.8	15.6
China	98	10,868	2.2	17.5	62.6
Australia	82	4,766	1.3	3.7	7.6
Germany	78	3,756	2.0	1.7	8.2
Japan	75	4,832	3.6	0.5	17.8
France	45	3,543	1.6	3.5	7.1
Brazil	41	5,752	2.3	5.5	17.9

1 CIC Research (2014);

2 U.S. Dept of Commerce (2014) - (Mexico is air only);

3 Market size assumes spending constant;

³⁶ CIC Research (2014)

³⁷ CIC Research (2013)

However, given the proximity and size of these nations, San Diego's position must be protected and strengthened, as Canada and Mexico still provide one of the biggest opportunities to generate more hotel visitors for the destination.

With that said, this does highlight the need for San Diego to focus on higher-growth international markets in parallel. San Diego does not have a strong presence in the markets that have the highest spend and are expected to grow most rapidly, namely China and Brazil. China's spend per visit is \$10,868 (spending an average of 14.1 nights in a hotel/motel) and has an expected 17.5% growth rate³⁸. In 2013, 83,000 tourists from China visited San Diego, compared to 252,000 in San Francisco and 570,000 in Los Angeles³⁹. For the Chinese, LA and San Francisco have large Chinese-American populations, iconic attractions, as well as a stronger digital presence. When planning travel, Chinese visitors typically spend time on focused internet searches and blog reviews. However, when Chinese search sites were used for San Diego, the city's presence was limited as shown in Exhibit 09, with significantly fewer user posts, followers, tips or highlighted attractions for new visitors⁴⁰. The Chinese also rely on group tours (31% of US visitors) where San Diego is often a forgotten destination⁴¹, or when included, is frequently a day trip versus overnight destination. Targeting these segments aggressively and making San Diego a vital stop on a West Coast trip has the potential to draw the higher spending overnight international visitors.

In 2013, 83,000 tourists from China visited San Diego, compared to 252,000 in San Francisco and 570,000 in Los Angeles

³⁸ US Department of Commerce (2014)










³⁹ NTT, Survey of International Air Travelers, produced by CIC Research, Inc. (2013); Tourism Economics (2013) - Los Angeles; SIAT (2013); Dean Runyan (2014) – San Francisco

⁴⁰ SDTMD primary research

⁴¹ US Department of Commerce (2013); China National Tourism Administration (2014); China Tourism Academy

EXHIBIT 09

Chinese search engine results highlight opportunities

City typed into search engine	Search engines provide viewers with information about the city, from keywords and images to lists of attractions and user reviews				Increased Chinese awareness and interest
	Baidu ¹ Keyword search results	Weibo ² # followers # of user posts	Qyer ³ # visitors # user tips	Daodao ⁴ # attractions	
San Diego	<ul style="list-style-type: none"> Aircraft carrier SeaWorld La Jolla shores San Diego zoo Coronado Warm weather Beaches Military bases 	<ul style="list-style-type: none"> 14,200 450 	<ul style="list-style-type: none"> 6,927 532 	<ul style="list-style-type: none"> 776 	San Diego does not have as many user posts and tips nor highlighted attractions to attract new visitors
Los Angeles	<ul style="list-style-type: none"> Disney Universal Studios Hollywood Santa Monica beach Living in LA 	<ul style="list-style-type: none"> 1,503,821 3,598 	<ul style="list-style-type: none"> 23,048 3,564 	<ul style="list-style-type: none"> 1,062 	Los Angeles highlights famous brand names, iconic images, and its large Chinese population
San Francisco	<ul style="list-style-type: none"> Golden Gate bridge Fisherman's Wharf Alcatraz Silicon Valley Lombard Street Napa Valley Living in SF 	<ul style="list-style-type: none"> 31,895 1,492 	<ul style="list-style-type: none"> 19,036 3,788 	<ul style="list-style-type: none"> 1,234 	San Francisco has the most attractions and Chinese user tips that help new visitors feel comfortable with a planned visit

¹ Baidu.cn; ² Weibo.cn; ³ place.qyer.com/state-of-california; ⁴ daodao.com/attractions-g28926-activities-california.html; ⁵ mafengwo.cn

1.1.3. Meetings, incentives, conventions, exhibitions (MICE)

While MICE visitors only make up 6% of San Diego's visitor base, they are responsible for 27% of total visitor spend, as most of these visitors stay overnight in hotels, use transportation services, and eat in large groups at restaurants. While much of this activity occurs in downtown San Diego, single-property events at hotels across San Diego make up about three-quarters of MICE visitation and spend in comparison to events at the San Diego Convention Center Corporation⁴².

⁴² CIC Research (2013)

From 2009 to 2013, the national average growth in MICE trips was at 18%⁴³ while San Diego's growth in visitors for MICE events was at 11%⁴⁴. This threatens San Diego's competitive position in the highly valuable MICE segment. While San Diego scores well relative to competitors on the recreational and environmental considerations in selecting a geographic site (e.g., security/crime rate, clean/attractive appearance, variety of things to do, climate), these are not the top-of-mind considerations for most meeting planners, as seen in Exhibit 10. Instead, they prioritize ease of logistics and delegate travel costs, for which San Diego is currently not a top choice for planners⁴⁵.

While MICE visitors only make up 6% of San Diego's visitor base, they are responsible for 27% of total visitor spend.

EXHIBIT 10

Organizer considerations when selecting a geographic site

% of "very important" responses



SOURCE: DestinationMAP (2013), stakeholder interviews

⁴³ Euromonitor Travel and Tourism in the US (2014)

⁴⁴ CIC Research (2013)

⁴⁵ DestinationMAP (2013)

1.1.4. Business transients

Travelers who come to San Diego for company to company business such as sales calls, client and customer meetings, and training, rather than large organized group meetings are individual business transients. This is the smallest segment of San Diego's visitor base, representing 3% of all visitors. This volume lags many competitors.

This low business transient volume is largely driven by the limited large business presence in San Diego. San Diego has the lowest number of Fortune 500 companies compared to its regional competitors, with Anaheim claiming double the 2 present in San Diego and LA and San Francisco having 10-15 times the number. While San Diego does have a growing start-up business scene, many of these companies eventually relocate to other more business-friendly areas or are purchased once nurtured to a significant size (as highlighted by Websense, which recently moved and Synthetic Genomics, an algae biofuel company purchased by Exxon). Nevertheless, there is opportunity to attract additional business presence – San Diego is making a name for itself as a "City of Innovation," especially in niche, rapidly growing industries ranging from biotech to wireless technologies. It is the only US city to be identified as one of National Geographic Channel's "World's Smart Cities", thanks to the strong well established technology and biotech sectors, local innovators working across multiple business segments, trend-setting green practices, smart public planning and high quality of life.

San Diego is the only US city to be identified as one of National Geographic Channel's "World's Smart Cities".

1.2. Supply

San Diego is unique in that it has something to offer to just about anyone, with a plethora of attractions, activities and events across a spectrum of interests. San Diego boasts a dramatic location on the Pacific Ocean with beautiful beaches, all right next door to Mexico. Its varied geography and one of the most desirable year-round climates are ideal for a myriad outdoor activities. San Diego County is a center for creativity, culture, and heritage that feeds into a varied urban appeal, with diverse neighborhoods and cuisines. It has popular family-friendly offerings including: LEGOLAND, SeaWorld, Balboa Park, Seaport Village, Cabrillo National Park, and the world-famous San Diego Zoo, among others. Its business community is developing rapidly, gaining a reputation as a Smart City as identified by National Geographic. This classification recognizes San Diego as being a home for innovation in industries ranging from biotech and clean tech to craft beer. Brand research indicates that San Diego's image is not tied to a single icon or attraction, but rather to the overall experience and unique feeling and vibe,

driven by its friendly people, feel-good nature of the destination, temperate climate, and abundance of natural beauty⁴⁶. While a broad appeal yields a number of potential areas for tourism development, other leading destinations benefit from a unique icon or set of icons associated with the location.

These supply attributes help to substantiate some of San Diego's areas of strength, but also highlight the opportunity to leverage these strengths to create additional infrastructure that will allow San Diego to realize its tourism goals. Having just discussed many of the visitor demand opportunities that face San Diego, it is imperative to have a robust understanding of San Diego's intrinsic offerings, how they compare to benchmarks, and where the greatest growth opportunities exist.

1.2.1. Leisure assets and events

Leisure assets are disbursed across attractions and lifestyle offerings. Attractions take into account beaches, the outdoors, theme parks, zoos and aquariums, and culture. Lifestyle offerings address a location's dining, shopping and nightlife. Events represent an over-arching opportunity to highlight distinct aspects of San Diego.

1.2.1.1. Attractions

San Diego has a wide attraction offering, with a strong nature and animal focus. San Diego boasts robust zoo and theme park offerings, with the San Diego Zoo attracting 3.5 million visitors per year, the most of any zoo in the United States. While SeaWorld and other San Diego attractions bring in millions of attendees every year and are major drivers of visitation, Los Angeles and Anaheim each have higher attraction attendance figures than San Diego. Los Angeles' Universal Studios Hollywood and Six Flags Magic Mountain have over 9 million combined visits annually⁴⁷. Anaheim's Disneyland, Disney's California Adventure, and Knott's Berry Farm combine for over 28 million annual visits, making Orange County the second-largest theme park market in the country⁴⁸. San Diego's challenge is competing with the pressures from the cities of Anaheim and Los Angeles, together with the Disney and Universal corporations, and their combined investment in new product and promotion on an annual basis. San Diego's world class beaches (three of which are listed on TripAdvisor's Top 25 Beaches in the USA for 2015) are its biggest draw, with 16.3% of domestic visitors listing them as the primary purpose for their visit⁴⁹. Outdoor offerings set San Diego apart from its competitors: there are a multitude of hiking and camping options in the nearby Cleveland National Forest, Anza-Borrego, and Torrey Pines State Reserve, diverse water sports, sailing, whale watching, fishing, and several parks, bays and a 70 mile shoreline.

⁴⁶ San Diego destination marketing plan 2014 - 2015

⁴⁷ AECOM/TEA

⁴⁸ AECOM/TEA

⁴⁹ TNS America (2014)

Similarly, San Diego is well positioned to have a strong arts and culture identity, with several unique offerings. Balboa Park, which celebrates its 100 year anniversary in 2015, is the nation's largest urban cultural park. The La Jolla Playhouse has created 25 productions that have gone on to Broadway, earning 35 Tony Awards. However, there is limited investment and awareness of these offerings, especially compared to many of San Diego's competitors that boast big-name cultural attractions that drive visitation. San Diego has to compete with the likes of the Getty Museum and California Science Center in Los Angeles (which bring in a combined 4 million annual visitors). San Diego also has an enormous opportunity to focus on its history of being the first European settlement in California. San Diego's proximity to Tijuana, with historical attractions such as the Cabrillo National Monument and the Star of India, would complement such an opportunity. It also has a number of culturally-diverse and tourist-friendly neighborhoods, ranging from Little Italy to Hillcrest to Old Town. San Diego also has one of the largest concentrations of military personnel in the country, with approximately 95,000 uniformed personnel across seven bases operated by the Navy and Marines, and the USS Midway bringing in over 1 million annual visitors and being ranked 7th nationally for museums on TripAdvisor.

San Diego is well positioned to have a strong arts and culture identity.

1.2.1.2. Lifestyle

Lifestyle factors are not a primary reason for domestic visitation, even in places where they are exceptional. For example, San Francisco boasts 30 total Michelin-star restaurants, but only 3% of visitors come primarily for fine dining. Similarly, Los Angeles, known for its abundance of luxury shopping options, draws only 5% of visitors primarily motivated by shopping⁵⁰. Nevertheless, lifestyle factors are important *secondary* drivers, and contribute to an increased spend and potentially increased length of stay. Additionally, shopping is also a strong driver of visitation for international visitors.

Compared to benchmarks, San Diego's lifestyle offerings are relatively limited, but show potential for improvement. Its fine dining offerings lag many competitors' in official rankings, but a trend toward "food culture" as opposed to "fine dining" could present an opportunity with San Diego's unique Baja-Californian cuisine, craft beer, and multitude of locally sourced restaurants. San Diego has relatively few luxury points of sale despite its large amount of retail space (e.g., Fashion Valley, Las Americas and Carlsbad Premium Outlets), and drives only 1.0% of domestic visits compared to 4-5% in benchmark cities. Lastly, San Diego has a unique and centralized nightlife scene – its historic Gaslamp Quarter offers 16 ½ city blocks of vibrant and bustling bars, clubs featuring celebrity DJs and eclectic restaurants, amid 94 Victorian-era buildings. The

⁵⁰ Source: TNS America (2014)

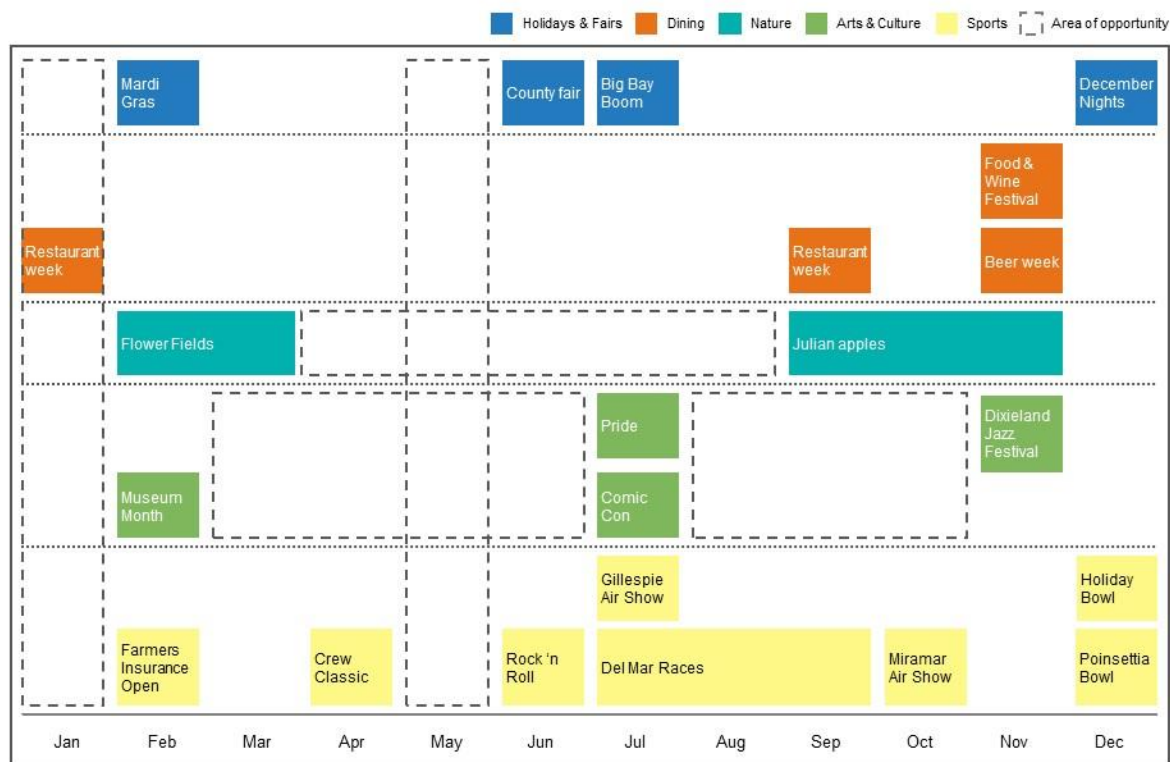
Gaslamp Quarter has helped San Diego gain a #10 position on US News *Best Nightlife Scenes in the USA*. Examples from other top destinations' offerings such as Los Angeles' LA Live and West Hollywood offerings, or Miami Beach's world-famous night clubs show that San Diego still has room to grow in this category.

1.2.1.3. Events

San Diego's signature special events include the Holiday Bowl, PRIDE, and Comic Con, but the city's calendar of "signature events" in Exhibit 11 reveals opportunities to expand during particular times of year and within certain categories (e.g., arts and culture, nature or month of January or May) to attract additional visitors. In areas where San Diego has core strength, there is opportunity to further grow events to be more widely renowned. San Diego does well in sporting events compared to benchmarks (e.g., the Holiday Bowl has over 50,000 annual attendees), but could grow towards best in class (e.g., the Kentucky Derby brings in over 160,000 annual visitors), especially with sporting facilities such as the Olympic Training Center and Del Mar Fairgrounds. San Diego's Beer Week showcases its growing local craft beer culture with approximately 20,000 annual visitors, but the size of Denver's Great American Beer Festival (almost 50,000 annual visitors) reveals additional potential.

EXHIBIT 11

2014 calendar of San Diego "Signature Events"



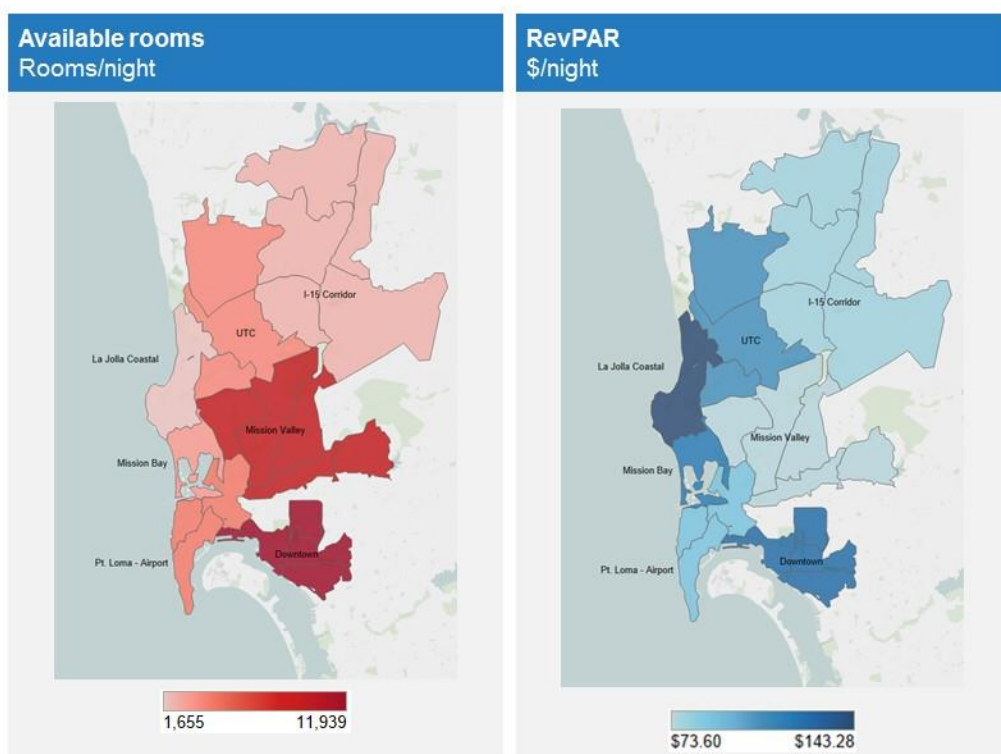
SOURCE: Joint team analysis, San Diego Tourism Authority

1.2.2. Accommodations

The city of San Diego has over 40,000 hotel rooms available with an average daily rate of \$140.93, an occupancy rate of 74.6%, and RevPAR of \$106.27⁵¹. The vast majority of San Diego's current supply of hotels is located inland with very few beachfront hotels, despite the higher RevPAR in coastal regions as shown in Exhibit 12. Further, it has fewer top-tier⁵² chain hotels compared to Los Angeles, San Francisco and Miami.

EXHIBIT 12

Coastal regions enjoy high RevPAR, but there is a limited supply



SOURCE: Smith Travel Research

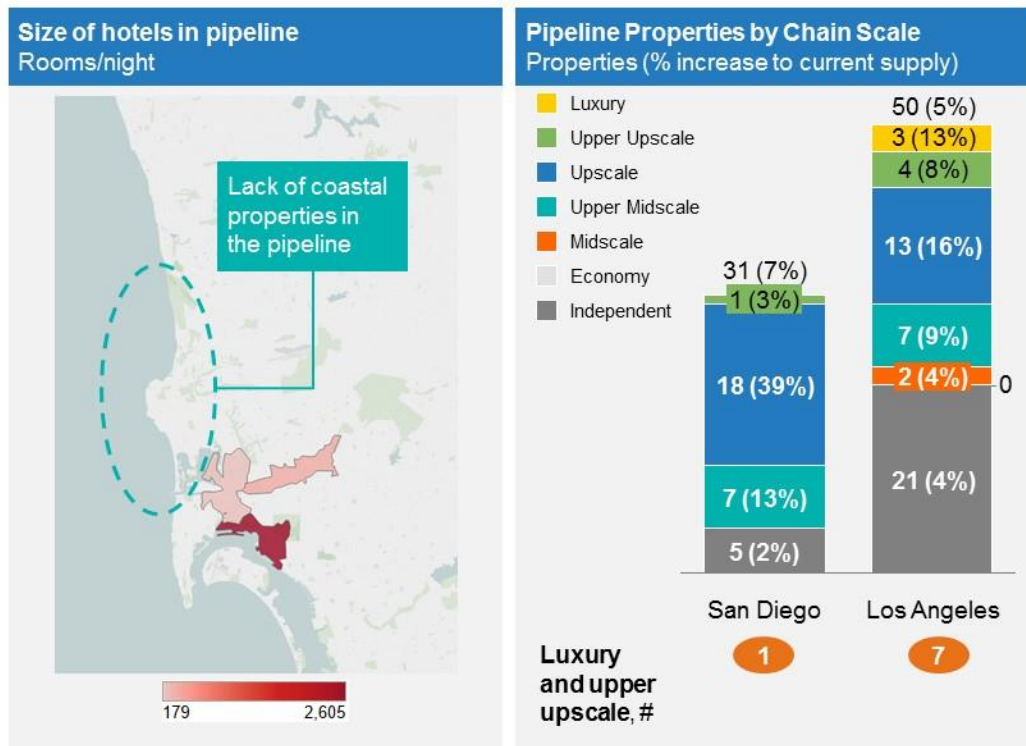
⁵¹ Smith Travel Research

⁵² Defined as luxury and upper-upscale

From 2009 to 2013, hotel supply grew at 0.7% p.a., while hotel demand grew at 4.3% p.a. Though San Diego city is in the process of adding over 3,000 rooms of hotel capacity within the next 5 years, it has only one top-tier chain hotel in the pipeline and no hotels along the coast, as Exhibit 13 illustrates. While there are arguable difficulties to coastal development, San Clemente's 580,000 square foot development of a retail center (which includes a 129-room hotel) expected to open in the next 5 years, and Chula Vista's multifaceted plan to develop over 500 acres along the coast (including multiple hotels) shows that with determined and collaborative planning, coastal development is possible.

EXHIBIT 13

Current pipeline does not fill the need for coastal and luxury properties



SOURCE: Smith Travel Research

In addition to the need for a more aggressive coastal accommodation development, San Diego must also address the recent growth of vacation rental accommodations offered within San Diego. For example, Airbnb has seen exponential growth in recent years with gross booking revenue growing from \$0.1 to \$4.0 billion from 2010 to 2014, representing a 195% average annual growth rate⁵³ as shown in Exhibit 14. With over 10 million rooms in homes and apartments across the world, Airbnb now has more room inventory than the Marriott and Hilton chains.

EXHIBIT 14

Airbnb recent and projected revenue growth



SOURCE: Piper Jaffray Estimates, company press release and website, various news sources

Many cities, states, and hotels are only now beginning to understand the effects this can have on the accommodations industry and city tourism assessment revenues.

- The city of San Francisco has seen a decreased occupancy for some pricing segments on weekends⁵⁴
- The president and COO of Apple Core Hotels in New York believes Airbnb is the reason the growth in RevPAR has been underperforming projections, despite steady growth of visitor arrivals⁵⁵

⁵³ Piper Jaffray Estimates, company press release and website, various news sources

⁵⁴ The Impact of the Sharing Economy on Hotels - Hotel News Now

⁵⁵ The Impact of the Sharing Economy on Hotels - Hotel News Now

- Within Austin, it is estimated that Airbnb has decreased some of the most vulnerable hotel revenues by 8-10%⁵⁶

The success of the sharing economy is enabled by evolving consumer preferences towards authentic and local experiences, speed and transparency of communications/actions, and strong customer feedback. With these changing consumer trends and with over 3,100 listings on Airbnb, San Diego cannot ignore these new entrants into the marketplace and must investigate the effects this new accommodation offering has on tourism and residents more broadly. Incumbent players will need to offer increased personalization, convenience and transparency to their guests (e.g., digitally integrated customer journeys, non-commoditized experiences). Municipalities will need to appropriately regulate the industry, as many have already, and address several complex considerations ranging from proper health and safety regulations, impacts on rent prices, visitor experience, and zoning infringements that bring temporary visitors through neighborhoods. For example, on July 15, 2015, San Diego Airbnb rentals became subject to both TOT (10.5%) and TMD Assessment (0.55%) fees. Even though this mandates Airbnb to pay its share of taxes and fees, it may still hamper the growth rate of TOT due to the lower rates Airbnb charges for their rooms (compared to comparable hotels) and discourage new hotel development throughout San Diego. In downtown specifically, a decrease in hotel development could impede future convention center expansion plans.

With over 3,100 listings on Airbnb, San Diego cannot ignore this new entrants into the marketplace.

1.2.3. Transportation

San Diego's visitors arrive through multiple means, including air, land, train and sea (and sometimes a combination). The vast majority (~84%) of visitors arrive by land, where traffic is increasingly becoming a challenge to visitor access. This also poses a strain on local transportation infrastructure once visitors are already in San Diego, as there are limited public transportation options for locals and tourists alike. Approximately 21% of visitors' arrival includes air travel, with ~2% arriving by train and less than 1% arriving by sea⁵⁷.

San Diego's international airport is ranked highly for its ease of use and close proximity to the city, especially in comparison to neighboring airports such as LAX. San Diego's arriving seat capacity has grown 1.6% per annum since 2009, ahead of the United

⁵⁶ The Rise of the Sharing Economy: Estimating the Impact of Airbnb on the Hotel Industry – Boston University

⁵⁷ CIC (2013) – does not sum to 100% due to multiple modes of transportation used

States' overall seat growth of 1.0%⁵⁸. The current arriving seat capacity represents ~82% of San Diego's projected airfield capacity. While San Diego is expected to reach capacity before 2030 with 14.2 million enplanements, it is expected to have sufficient

San Diego's arriving seat capacity has grown 1.6% per annum since 2009, ahead of the United States' overall seat growth of 1.0%

capacity in the short term while other major Southern California airports are forecast to hit their capacity earlier⁵⁹. The vast majority of San Diego's seat capacity is domestic, with 11.7 million domestic seats set for 2015 but under 500,000 international seats⁶⁰. However, its international service has grown aggressively over the past few years, from 3 to 9 international routes serving four countries.

With these positive attributes in mind, there are still some access opportunities that could further support San Diego's tourism. For instance, San Diego's share of international seats is low, representing just 4% of total arriving seat capacity. There are many reasons why this is the case, ranging from leisure and business demand to export trade and large, nearby competitors such as Los Angeles. The need for a larger corporate business community, which is a major component of an air route's profitability, also serves as a key roadblock in San Diego's ability to develop additional routes and will need to be addressed by broad based community initiative.

San Diego Airport's share of international seats is low, representing just 4% of total arriving seat capacity.

While only a small number of visitors arrive by sea or air, these represent areas of opportunity when considering the large number of regional visitors in San Diego as well as the larger number of international arrivals to Los Angeles. San Diego's port, the third busiest Californian cruise port following Long Beach and Los Angeles, expects 225,000 passengers for 2015 cruises, dominated by Mexican Riviera destinations served by companies like Disney Cruise Lines and Norwegian Cruise Lines. San Diego's cruise industry saw a rapid increase from 2005 to 2008, with the number of cruise passengers departing from San Diego growing at an average of over 20% each year, significantly higher than that of Los Angeles or California overall. However, this was followed by an even larger decline from 2008 to 2011, with the number of cruise passengers falling from over 400,000 to less than 150,000 in 2011 (an average of almost 30% decline each year). While the impact of security concerns in Mexico is a contributing cause of the decline, Los Angeles and Long Beach experienced a less rapid decline despite being even more heavily exposed to the Mexican Riviera destinations⁶¹. San Diego has an

⁵⁸ Innovata via Diiomi

⁵⁹ Regional Aviation Strategic Plan San Diego

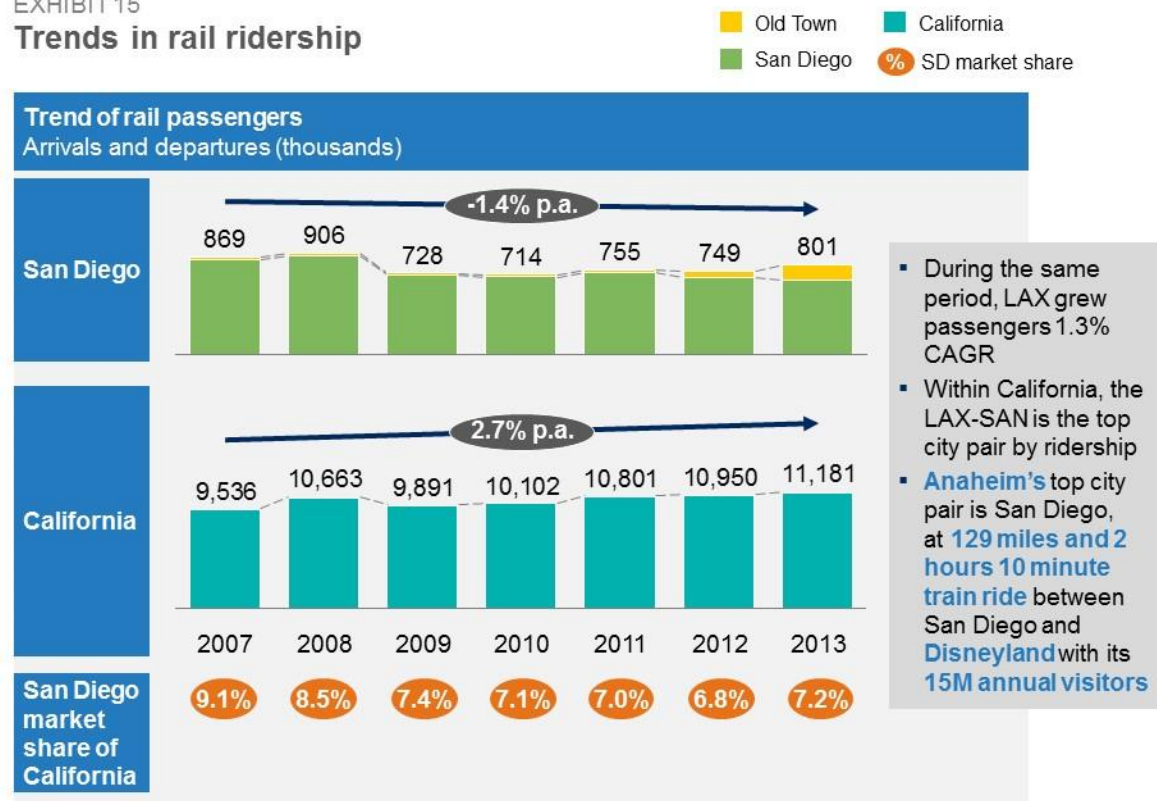
⁶⁰ Innovata via Diiomi

⁶¹ US Department of Transportation Maritime Administration

opportunity to capture a greater market share, as the national trend for cruising is showing growth and conditions are improving in Mexico.

EXHIBIT 15

Trends in rail ridership



SOURCE: 2013 Amtrak arrivals and departures by city and state

San Diego City's market share of California rail ridership has slipped from 9.1% in 2007 to 7.2% in 2013⁶². Over that timeframe, San Diego's rail ridership fell an average 1.4% per year, while Los Angeles' grew at 1.3% per year and California as a whole grew 2.7% per year⁶³ as shown in Exhibit 15. Despite recent weak performance, the growth in California ridership highlights an opportunity for San Diego to aggressively capitalize on the large number of international visitors arriving into Los Angeles who tend to regularly use rail in their home countries.

⁶² 2013 Amtrak arrivals and departures by city and state; includes Old Town and San Diego downtown stops

⁶³ 2013 Amtrak arrivals and departures by city and state

1.3. Tourism organizational landscape

One of San Diego's key tourism strengths come from the quality and quantity of stakeholders within the tourism industry (a sample of which is shown in Exhibit 16).

EXHIBIT 16

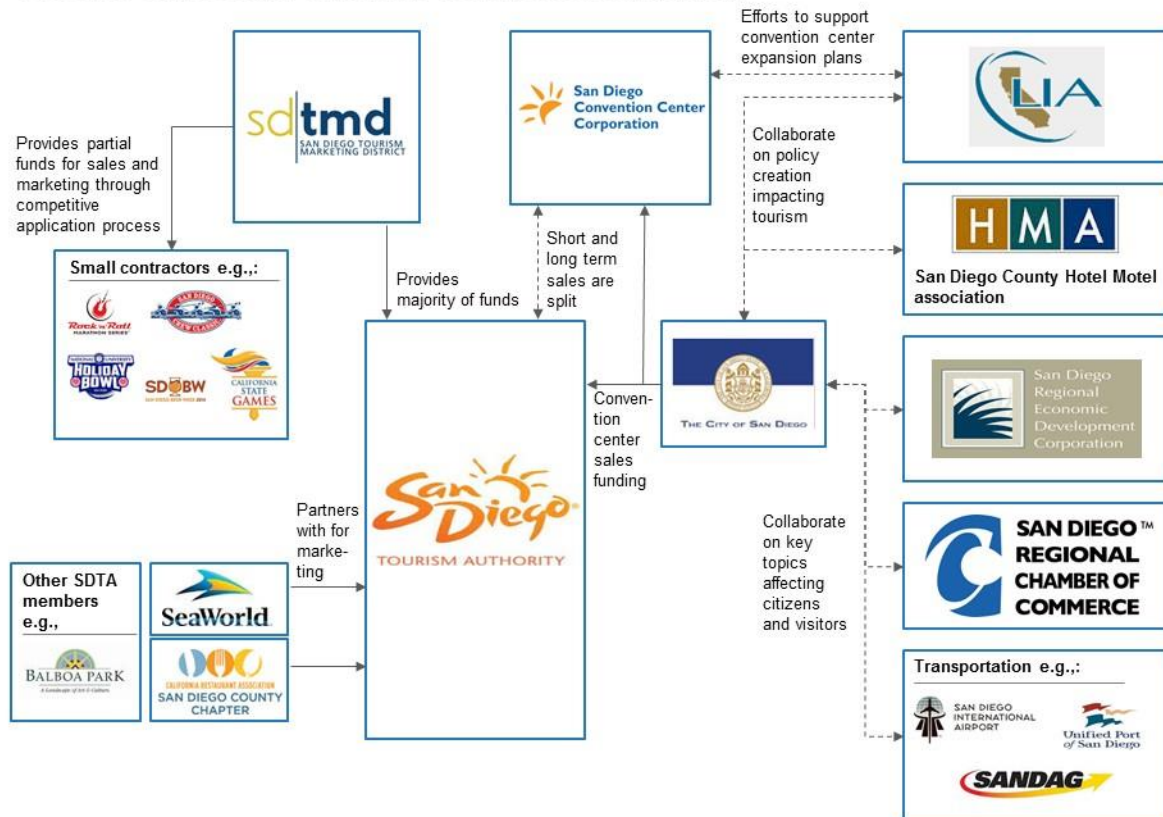
Sampling of San Diego tourism stakeholders (non-exhaustive)



With that said, this large number of players can also cause difficulties when trying to align, coordinate, and execute a set of strategic initiatives across organizations as shown in Exhibit 17.

EXHIBIT 17

Current San Diego tourism ecosystem mapping



Some of the complications that arise with this large number of tourism stakeholders in San Diego include: inefficiencies in promotional activity, issues with cohesive direction setting, disconnect in accountability, and non-optimal use of tourism funds. With various independent organizations simultaneously marketing San Diego, silos create confusion or redundancies in the communication of the city's value proposition in the market. The lack of a suitable linkage between entities also translates into a diminished ability for the tourism industry players to determine the broader development work that will directly affect them. As several boards set differing directions for San Diego tourism without formal links to collaborate, a lack of accountability and misalignment can result. Finally, these disconnected decisions can also result in a suboptimal use of funding, as no organization fully understands what others are doing and what synergies and efficiencies could result in better investment coordination. With all this said, improved organizational alignment in the San Diego tourism industry is required to maximize impact associated with the growth opportunities.

1.4. Overall Tourism Implications

Given the current state of tourism in San Diego, it is apparent that there is great strength to build on. In order to identify key improvement areas for San Diego moving forward, supply, demand and organization considerations need to be looked at hand in hand, leading to the following questions:

- What level of growth can San Diego hope to achieve with a concerted transformation tourism effort?
- What adjustments can be made to the tourism organizational design to facilitate the aspirational growth?
- What kind of strategic priorities are most important to pursue to accomplish the economic impact aspired
 - How can San Diego improve its offerings to attract additional leisure visitors and increase length of stay?
 - How can the branding and marketing of San Diego as a destination best support growth across visitor segments?
 - How can the travel of visitors into and around San Diego be improved to increase volume and overall experience?
 - What can be done to attract incremental visitors within the high-value MICE segment to San Diego?
- What governance structure is required to monitor and support the continued growth of tourism in San Diego?

Improved organizational alignment in the San Diego tourism industry is required to maximize impact associated with the growth opportunities.

2. ASPIRATIONS AND POTENTIAL MASTER PLAN IMPACT

Many successful tourism destinations have used bold aspirations to rally stakeholders to taking transformative action. As can be seen in Exhibit 18 (and referenced earlier), when cities set aspirational targets the subsequent call to action results in not only meeting, but often exceeding these targets. For example, when Mayor Emanuel formed Choose Chicago in July 2012, he established goals to reach 50 million visitors by 2020, to elevate Chicago to among the top 5 US cities for inbound international travel, and to book 2.3 million hotel room nights and 50 new groups annually – the largest convention room night goal in the industry⁶⁴. After it became clear that Chicago would meet this target ahead of schedule (surpassing its 50 million target in 2014), a new goal was set to reach 55 million visitors by 2020. This increase resulted in an additional \$13 million in 2014 in hotel tax revenue over its 2012 levels. Los Angeles also set an ambitious goal in 2010 to reach 50 million visitors by 2020, an increase of approximately 10 million annual visitors from 2010, representing 2.5% annual growth. When considering that Los Angeles attracted 43.4 million visitors in 2014 (2.6% annual growth since 2010), its 2020 goal appears well within reach.

EXHIBIT 18

Tourism aspirations: What other cities have aspired to

City	Target	Result
 Los Angeles	Grow visitation from 39.2 million in 2010 to 50.0 million in 2020, representing a 2.5% CAGR	 As of 2014, visitation had reached 43.4 million, on pace to achieve the target by 2020 and representing a 2.6% CAGR
 Florida	Grow visitation from 94.0 million in 2013 to 100.0 million in 2014, representing a 6.4% growth rate	 Had 97.3 million visitors in 2014, falling short of the target, but representing a healthy 3.25% growth rate
 Chicago	Grow visitation from 46.5 million in 2012 to 50.0 million in 2020, representing a 0.9% CAGR	 Had 50.2 million visitors in 2014, representing a CAGR of 3.9%
 New York	Grow visitation from 44.0 million in 2006 to 50.0 million in 2015, representing a 1.4% CAGR	 Reached the 2015 target in 2011 when visitation was 50.9 million, representing a 3.0% CAGR
	In 2012, set a new 2015 target: grow visitation to 55.0 million, representing a 1.4% CAGR from 2012 to 2015	 New 2015 target reached in 2014 when visitation was 56.4 million, representing a 2012-2014 CAGR of 2.3%

SOURCE: LA Times, Orlando Sentinel, Choose Chicago, NY Times

⁶⁴ Choose Chicago 2012 Annual Report

With these examples in mind, coupled with the energy and commitment of various local tourism stakeholders, what should San Diego's aspiration be? If the strategic priorities and initiatives were aggressively pursued, achieving \$300M TOT by 2021 is believed to be possible. This growth must come from a dramatic increase in the main TOT drivers of:

- Total number of visitors staying in paid accommodations
- Average length of stay in paid accommodations
- Average Daily Rate (ADR)

This goal would not only galvanize the initial initiatives associated with this Master Plan, but also set a longer-term course of sustainable tourism progress. From a TOT growth standpoint, a \$300M aspiration by 2021 would represent over \$250M in incremental TOT revenue relative to current City of San Diego projections. The cumulative benefits can be seen in Exhibit 19. This \$300M would represent:

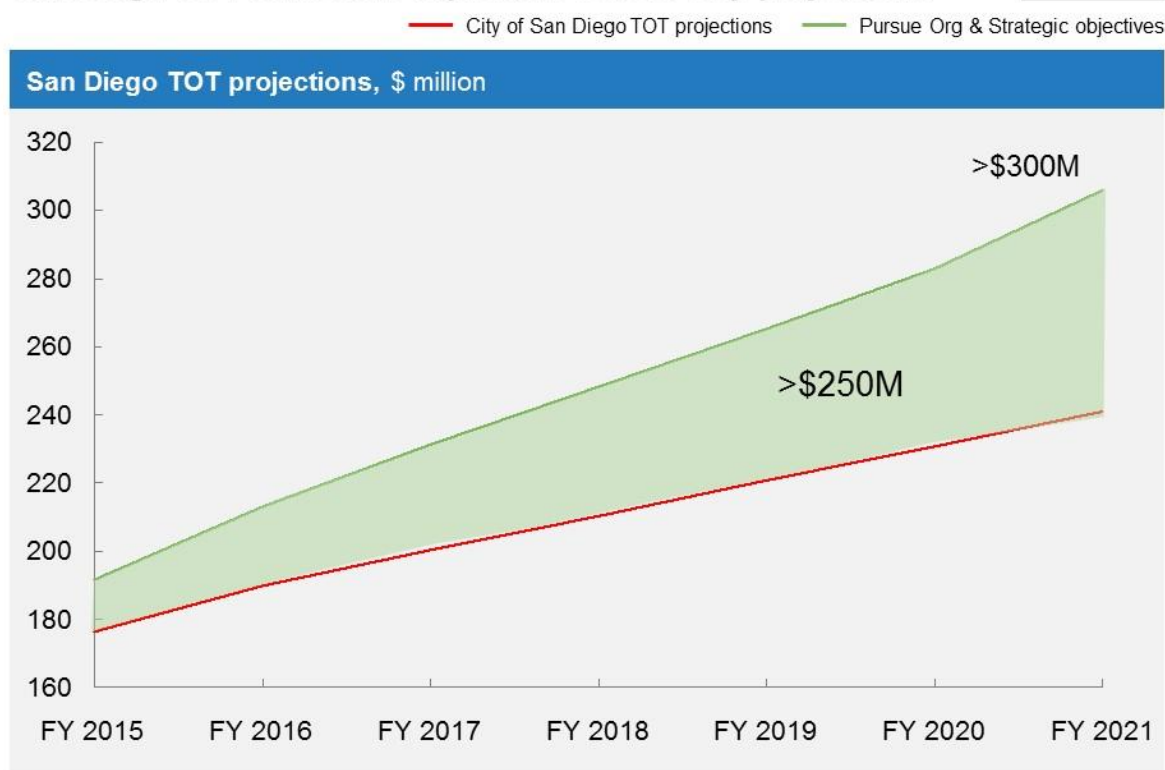
\$300M aspiration by 2021 would represent over \$250M in incremental TOT revenue relative to current City of San Diego projections.

- Visitation could increase to 39M visitors
- Overall tourism spending could reach approximately \$13.9B annually

EXHIBIT 19

San Diego TOT collection aspiration versus City projections

PRELIMINARY



SOURCE: City of San Diego, SDTA

3. STRATEGIC PRIORITIES AND INITIATIVES

As the diagnostic uncovered, the San Diego region has several characteristics that set it apart from competitors. San Diego, however, must innovate to take full advantage of these strengths and leverage them to help reach its visitor potential.

San Diego is in a highly competitive tourism market positioned against benchmark destinations, which continually develop and reinvent their offerings. Many in San Diego's competitive set have done expansive work recently (e.g., LA Live, Universal Studios' Harry Potter addition, Anaheim's tax incentive for luxury hotel development, San Francisco's \$500 Million Moscone Convention Center expansion). These advancements make strategic development in tourism not just aspirational, but imperative for San Diego. A long-term approach can help San Diego meet and exceed aggressive progress in metrics (e.g., visitor spending, TOT, and RevPAR) enjoyed by many competitive set locations in recent years.

To better exploit San Diego strengths, address current state opportunities, and strategically build the destination's tourism offering, four growth themes have been developed and advanced. Each theme is a vital pillar in transforming San Diego's tourism industry, and therefore should be addressed in parallel and in close coordination. The four themes are:

1. **Leisure assets:** ensuring that San Diego has the right leisure assets and events that leverage its distinctive offerings to attract additional leisure visitors and increase length of stay, including considerations across accommodations, attractions, lifestyle, and events
2. **Meetings, Incentives, Conferences, and Exhibitions (MICE):** expanding the appeal for business, meetings, and conferences within San Diego for both the Convention Center and individual properties
3. **Marketing:** increasing domestic and international awareness to accentuate, reinforce and expand San Diego's position in the world tourism marketplace
4. **Transportation:** encouraging and facilitating travel to, from, and within San Diego, leveraging a variety of transportation options ranging from air travel, rail, water, public transportation, and highway

Prioritizing these four themes and associated work will enable San Diego to achieve its long-term aspirational growth. Initiatives were considered for each theme across time horizons (short, medium and long-term), as well as various angles of each theme.

The initiatives were then prioritized and considered across impact (as measured by overnight visitors and visitor spend) and implementation feasibility (including possible risks and policy considerations). As initiatives were developed, the following were taken into consideration to ensure completeness and increase the likelihood of success:

- **Owners and stakeholders:** Who will be responsible for implementation or will need to be part of the process? What set of stakeholders have vital insights into this topic?
- **Initiative goal:** What are the realistic aspirations to be achieved by this initiative?
- **Criteria for success:** How will progress and results be measured to ensure the goal is achieved?
- **Dependencies:** What efforts will be synergistic with this initiative? Will this initiative be reliant upon other work to ensure ultimate success?
- **Potential challenges:** What process challenges are foreseen and how can we best plan to work through them? Are there risks that need to be understood and mitigated?
- **Roadmap:** What is the anticipated timeline for planning and implementation?

This work serves as a head start in facilitating the successful implementation of each initiative as the plan is advanced.

3.1. Leisure assets

The vast majority of visitors to San Diego (88%) come for leisure purposes, yet the average length of stay is below that of neighboring Southern California cities. With appealing hotels, theme parks, nightlife, and cultural richness, San Diego offers a robust leisure product. By creating additional must-do activities, total visitors, average length of stay, and total visitor spending could all drive an even greater positive impact on overall tourism activity and the San Diego economy.

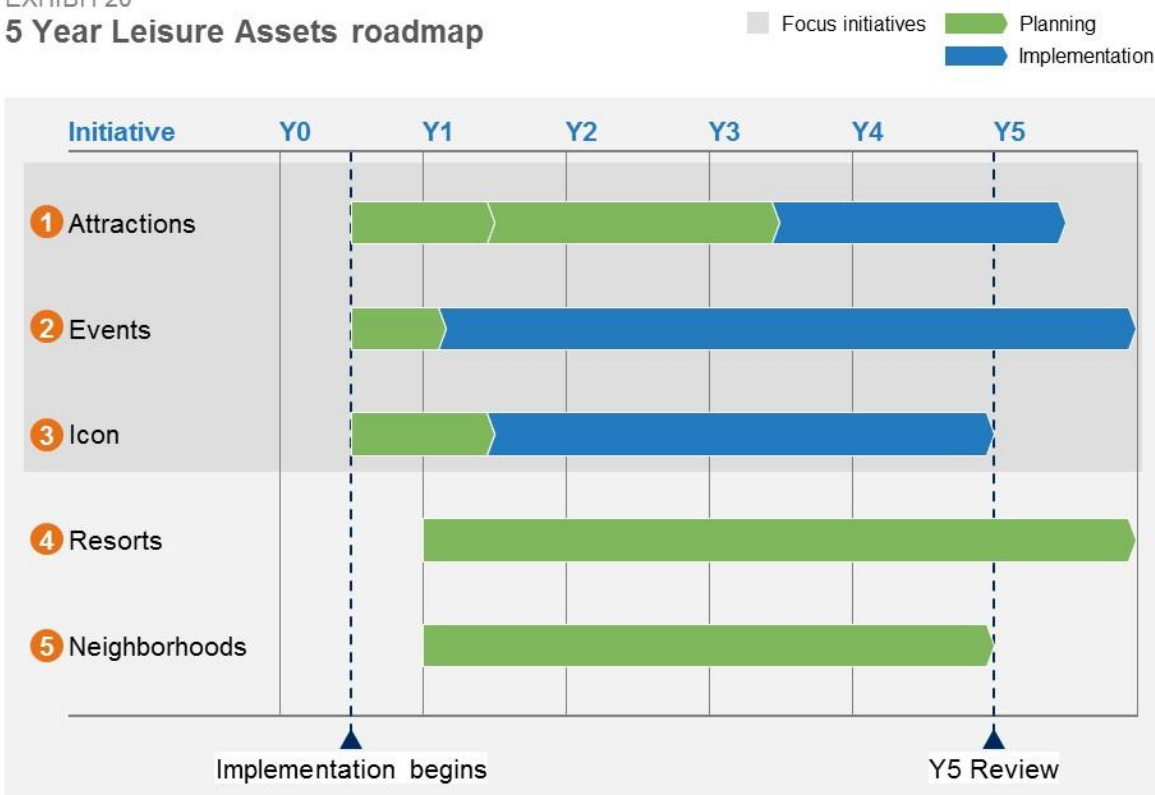
The vast majority of visitors to San Diego (88%) come for leisure purposes, yet the average length of stay is below that of neighboring Southern California cities.

To ensure the broad assets that San Diego offers are considered in a holistic way, representation across a comprehensive stakeholder group was a vital part of the work set forth within this theme. Representation from the California Restaurant Association, City of San Diego (including Commission for Arts and Culture and Special Events Department), Historic Tours of America, Hornblower Cruises and Events, San Diego Brewers Guild, San Diego County Hotel Motel Association, San Diego Lodging Industry Association, San Diego Tourism Authority, San Diego Zoo Global and SeaWorld San Diego assisted in developing the initiatives associated with the Leisure Asset growth Theme.

Exhibit 20 represents the near term initiatives developed by this theme team.

EXHIBIT 20

5 Year Leisure Assets roadmap



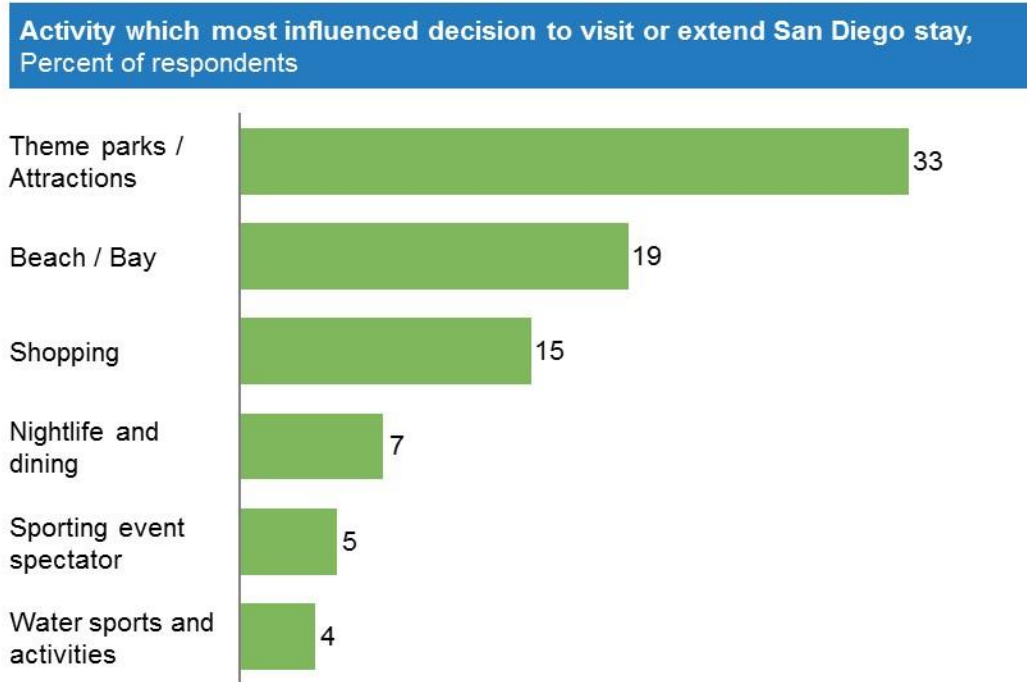
3.1.1. Develop or attract major San Diego attraction(s)

In 2013, US tourist attractions received over 2.9 billion visitors⁶⁵. Among leisure assets, tourist attractions such as theme parks, zoos and aquariums, museums, and beaches are some of the main aspects cited by visitors as reasons for visiting a destination and for extending their stay. San Diego is no exception to this fact, with the most common activity with the highest influence on a visitor's decision to visit or extend their stay to San Diego being theme parks and attractions, as shown in Exhibit 21.

⁶⁵ Euromonitor Travel and Tourism in the US (2014)

EXHIBIT 21

Theme parks and attractions are the main driver for San Diego visitors



SOURCE: CIC Research (2013)

Theme parks and other attractions show one of the greatest opportunities for growth in total number of visitors, as well as the possibility to extend length of stay. Within the US, more than a third of adults in the US visited an amusement park in 2014⁶⁶. As an example of the impact a theme park can have on the local tourism economy, in California, Disneyland's California Adventure was re-opened with an estimated \$1.1 billion in capital, resulting in an increase of several million visitors per year. With Cars Land as a new anchor, the goal was to induce people to not just come for a day but for a whole weekend or longer, preferably sleeping in Disney-owned hotels and eating in Disney-owned restaurants⁶⁷. After a previously estimated 6.1 million attendance, the park now has attendance that rivals Disneyland (14 million)⁶⁸. Universal Studios' made a successful Harry Potter addition to their park in Orlando in 2010, and is still benefiting by an upswing in attendance (reaching 8.3 million in 2014, a 17% increase over 2013). Now they are looking to repeat their success with a similar addition opening in 2016 at Universal Studios Hollywood in Los Angeles. LEGOLAND is a local example of the impact an attraction can have on TOT, with Carlsbad's TOT increasing by 19% the year after its 1999 opening. Since this opening, hotels continue to build with the local Sheraton

⁶⁶ International Association of Amusement Parks and Attractions, SAFETY SURVEY 2014

⁶⁷ New York Times article June 15, 2012 by Brooks Barnes

⁶⁸ Bloomberg Business article by Christopher Palmeri, May 30, 2013

planning to add 150 rooms to its 250-room hotel. With its opening in 2013, the LEGOLAND hotel created a total of 250 hotel rooms catered to the attraction, further increasing TOT generation⁶⁹.

Even smaller attractions can have a significant impact in a relatively short period of time. In San Diego, the USS Midway Aircraft Carrier has entertained millions of visitors since 2004 and has an estimated economic impact of \$170 million annually.

Developing new attractions requires a proactive-pursuit of desirable partner(s), the appropriate land for development, and research to support optimal decisions. A key enabler to future amusement park development is the involvement and collaboration with City officials to offer tax incentives or breaks for developers while also helping to identify potential sites for development of a new attraction. As an example, Anaheim recently passed a decision to wave taxes on the admission revenue for Disneyland to incentivize further development. The anticipated benefit of this tax break, and associated development, would be through additional visitors and higher lengths of stay – both resulting in higher TOT revenues for the city. There is also a need for land on which to develop a new attraction. Are there potential sites that could be repurposed and offered for this use (e.g., unused military land, Fiesta Island, Bayfront land)? Consumer and other research is also needed to validate potential new attraction(s). For San Diego, the sooner the planning process is complete and the implementation stage can begin the faster the city, residents, and visitors can enjoy the benefits.

3.1.2. Identify event opportunities to leverage San Diego strengths

Special events offer an additional layer of destination appeal that can be implemented relatively quickly to address changing trends or consumer interests to drive reasons for target segments to visit. Events can help to highlight some of the distinctive features (e.g., outdoor activities, great weather, and natural beauty) and clusters of excellence (e.g., craft beer, innovation, regional theater) within San Diego. Events can also be strategically leveraged to address shoulder seasons or to draw attention to geographical or industry development. The right event could help create global awareness of San Diego.

San Diego currently has various large signature events throughout the year including the Holiday Bowl, Rock n' Roll Marathon, and Comic Con, but must expand within certain categories and during times of the year when visitation is otherwise low. Additionally, working to turn these 1-time annual events into larger attended, longer, or even year-round experiences could serve to benefit San Diego. For example:

- The Little Italy ArtWalk Festival is currently popular with locals, but by leveraging the "unique neighborhood" theme, has the potential for expansion and greater promotion to attract visitors to its valuable spring dates.
- San Diego has been identified as the "Capital of Craft Beer" and hosts San Diego Beer Week (SDBW) annually. This 10-day signature celebration of craft beer in

⁶⁹ Tourism Industry Study Prepared for the City of Carlsbad (Strategy Advisory Group)

early November generates tourism in a historically off-peak season through a myriad of events ranging from beer dinners to brewing demonstrations to festivals. Further marketing and developing SDBW as well as year-round ideas such as the development of an “Ale Trail” could increase beer tourism throughout the County. Offerings from the "Craft Corridor" on 30th Street in North Park, "Beeramar" (Miramar), and "Hops Highway" along Highway 78 in North County could serve as incentive for additional visitors as well as an increased length of stay.

- The summer Shakespeare theater programming produced by the revered Old Globe Theater could serve as the core for a much broader region-wide Shakespeare Festival that goes beyond Balboa Park for performances, and adds academic, “new writer” competition, film festival, Renaissance Faire, and many other symbiotic components to a multi-day event.

San Diego has been identified as the "Capital of Craft Beer" and hosts San Diego Beer Week (SDBW) annually... Further marketing and developing SDBW as well as year-round ideas such as the development of an “Ale Trail” could increase beer tourism throughout the County.

Within sports events alone, there is large economic impact nationally (over \$8.9 billion in 2014 from youth sports alone). San Diego needs to continue to cultivate and pursue the youth travel sports market. San Diego has experienced significant economic dividend from its annual sports events, such as Holiday/Poinsettia Bowls, Rock & Roll Marathon, Crew Classic and others. For example, key San Diego benefits from the PGA Farmers Insurance Open have included⁷⁰:

- \$24.66 million in economic impact
- \$261,825 in sales tax revenue
- \$341,864 Transient Occupancy Tax contribution
- 28,325 room nights booked
- 72 hours of TV coverage
- 41 million viewers of TV broadcast
- More than \$2.8 million generated for San Diego charities

With the beneficial economic impact that events can have, the continued buildup of support and infrastructure will make San Diego even more appealing to these large events. What venue development and other supportive considerations would it take to make San Diego known as the destination of choice for the high-profile, high-impact events?

For example, the ESPN Wide World of Sports complex in Orlando, Florida with 9 venues over 220 acres, is built to attract a range of professional and amateur athletic events. With over 350 events each year, drawing more than 2 million attendees, this facility specifically targets out-of-town spectators, directly impacting the number of visitors to

⁷⁰ The Century Club

the city and spending benefits generated. Establishing additional sporting venues like this in San Diego could help to attract a wide range of sporting events year-round.

As implementation begins, the current market mix should be optimized to deliver the greatest impact to the economy. Developing criteria for successful events and using that to help prioritize events will be important first steps for the implementation team. Identifying and working with existing events in San Diego with the potential to meet this success criteria and helping them to grow or redefine themselves to become the high-profile, high-impact events sought by the tourism industry could reap great benefits. Benchmarking successful events can also reveal the possibilities in attracting or creating new events. All event development must be done while continuing to invest in the process of creating and supporting events among the stakeholder community for sustained impact.

3.1.3. Identify and highlight an icon for San Diego

As identified in the diagnostic, San Diego lacks a signature visual icon. An icon is a proven draw and “must-see” that visitors associate with any number of national and international destinations, influencing the decision to visit. San Diego lacks such an icon. An icon with the status of the Golden Gate Bridge in San Francisco or the Statue of Liberty in New York is known to be a major decision factor when visitors are selecting a tourism destination, especially when traveling from international markets. Having an easily-identifiable icon associated with the city can help to put a travel experience on a potential visitor’s “bucket list” and gain San Diego a spot on their itinerary or enhance the possibility of an additional overnight stay.

Visitors from overseas destinations tend to be some of the most valuable tourists, with multiple times the average spend per trip than the average domestic traveler. To capture the high spend of these international tourists there must be a big draw for them to choose California over all the other states and San Diego among the various options within the state. As seen in Exhibit 22, among the top motivating features driving visitors from China and the UK to California, San Diego only has one that is unique to it – Sea World.

EXHIBIT 22

Top 10 motivating California features for visitors from China and UK, Percent

San Diego distinct feature
San Diego affiliated features



SOURCE: Hall & Partners, 2013 Visit California Outlook Forum

An icon can become an integral part of a destination's marketing to generate attention and assist in telling the branding message⁷¹. While the beaches of San Diego are beautiful, they do not result in a distinctive, "San-Diego-only" image. Compare that to the instant association with the host city when one sees the images of the Golden Gate Bridge, the Eiffel Tower, or Sydney's Opera House.

Icons, however, do not exist in isolation; they tell a deeper side of the destination's story. For example, the Statue of Liberty is deeply connected to the history of the United States and is a symbol of freedom. Many US citizens can track their heritage back to a passage through Ellis Island which has become symbolic of the multi-cultural "melting pot" that is New York City. Some examples of potential icons for San Diego may include Balboa Park, the

An icon can become an integral part of a destination's marketing to generate attention and assist in telling the branding message. While the beaches of San Diego are beautiful, they do not result in a distinctive, "San-Diego-only" image.

⁷¹ *Why and How to use icons in destination advertising* – Brand: Truth

Coronado Bridge, the San Diego skyline, or the Cabrillo National Monument as shown in Exhibit 23.

EXHIBIT 23

Examples of potential San Diego icons



To choose and develop the San Diego icon, the development team will not only pursue visitor feedback and take inventory of iconic candidates, but will recommend an icon to be leveraged especially in international markets.

3.1.4. Develop new luxury resort

With over 40,000 hotel rooms in San Diego, there are many accommodation choices for travelers. While the accommodations available are usually not the reason a visitor will choose a particular destination, some resorts can create demand as a stand-alone destination (e.g., Disney's Aulani Resort & Spa), ensure a high-value target market is served by luxury options (e.g., Four Seasons, St. Regis), or ensure a geographic area is served (e.g., near the beach or other popular attraction). San Diego must continually evaluate if the accommodation mix is serving these needs and changing preferences. This will ensure that visitors do not discount the destination for lack of the right accommodations, but rather look to the accommodations as an added highlight of San Diego. Gaps such as the current needs for coastal and luxury properties are areas for development. To fill these and future gaps, the process of evaluation of location, involvement of potential investors, and franchisees will require long-term assistance and

support throughout the development. But there are many actions that can be taken to incentivize developers to expedite filling these gaps.

There are many cities and states that have offered a variety of incentives to encourage quality hotel development. Anaheim is an example of a city that has recognized the value in prioritizing the development. In April 2008, Anaheim created a Hotel Development Economic Assistance Program to attract high quality hotel development in The Anaheim Resort and The Platinum Triangle. Following the success of this program, on June 16, 2015, another hotel incentive policy was passed which will attract the development of 4- and 5-Diamond properties with a 70% rebate of the TOT generated by the property for 20 years. This incentive was passed with the ultimate goal of increasing the financial benefits of visitor spending and tax revenue that these properties can have for the city.

3.1.5. Further develop neighborhood identities and offerings

Much of San Diego's current strength lies in the distinct character of each neighborhood, which offers unique cultural experiences, dining, arts and shopping. From the artisan enclaves of North Park and South Park to the free-spirited coastal vibe of Ocean Beach, to the dynamic ethnic celebrations and eateries in the Convoy district, it is the distinct culture of each neighborhood that can give visitors opportunities to experience San Diego in new, unexpected ways. Further developing, packaging and promoting the unique character and experiences in each neighborhood as well as seeking to develop up-and-coming areas to enhance their offerings to tourists can help vary visitors' itineraries and increase San Diego's overall appeal.

3.2. Meetings and conferences

While the Meetings, Incentives, Conferences and Exhibitions (MICE) segment is relatively small in San Diego, representing roughly 6% of total visitors, it dominates in spending per capita, accounting for 27% of all visitor expenditures. In 2013 alone, MICE visitors were estimated to have spent over \$1.5 billion in San Diego across exposition costs, lodging, dining, shopping, transportation, and other categories⁷². If the size of this segment could be increased by one percentage point, San Diego could see up to \$250 million in additional visitor spending annually.

Many initiatives within this growth theme will serve to go beyond attracting additional MICE visitors, by raising awareness that San Diego is a dynamic place to do business. In 2014, San Diego hosted the BIO International Conference, accommodating over 15,000 leaders across the biotechnology industry, including almost 2,500 CEOs from 50 states and 70 countries. In conferences such as these, initial meeting attendee visits should be viewed as a key promotional opportunity for subsequent leisure trips. Similarly, this exposure to San Diego serves as an introduction and enticement for

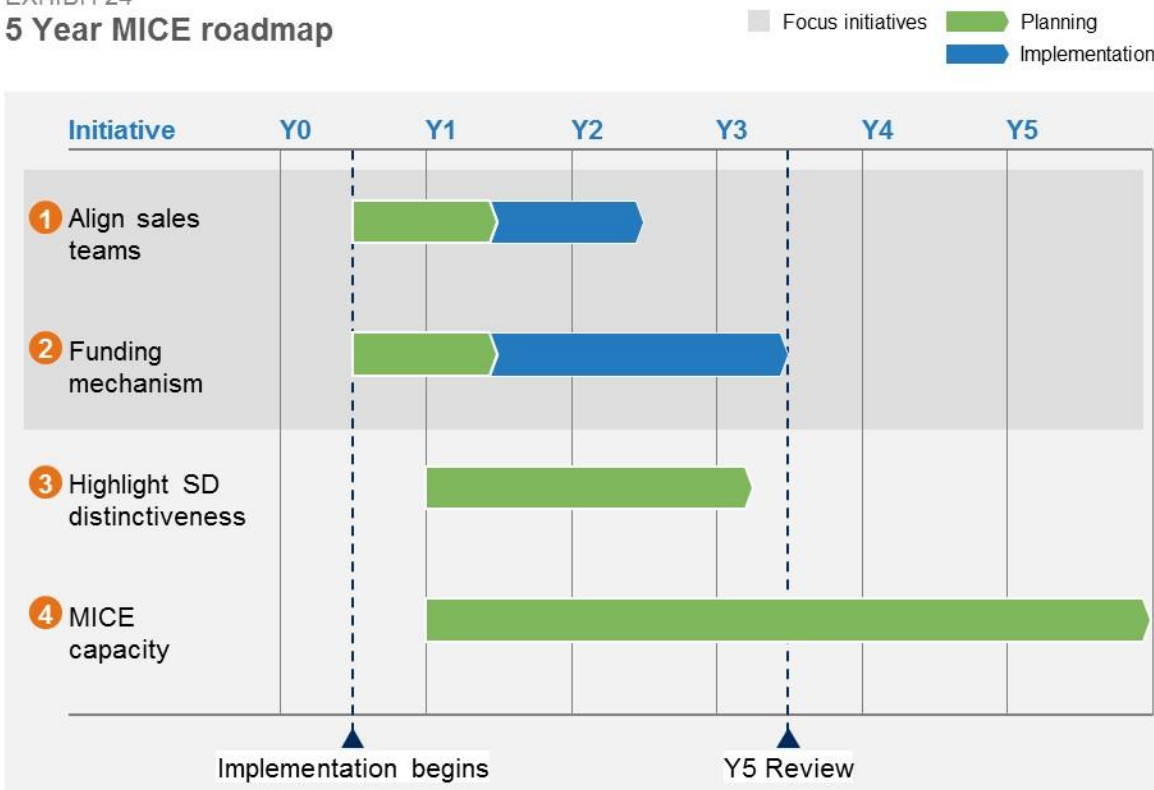
⁷² CIC Research 2013

other meetings and opens the door for business opportunities with local companies or even future economic development including corporate relocation.

To take advantage of these opportunities, a group of MICE professionals representing various industries have worked to develop a set of initiatives to maximize San Diego's MICE offering. Group members include representation from the San Diego Convention Center Corporation (SDCCC), San Diego Tourism Authority (SDTA), Citywide sales teams, Single Property sales teams, City of San Diego (the Mayor's office), Downtown San Diego Partnership, San Diego Economic Development Corporation (SDEDC), San Diego Tourism Marketing District (SDTMD), San Diego County Hotel Motel Association (SDHMA), Lodging Industry Association (LIA) and various hotel properties. This group collaborated to come up with a robust set of initiatives that will begin to address the opportunities within the MICE segment as shown in Exhibit 24.

EXHIBIT 24

5 Year MICE roadmap



3.2.1. Align MICE sales teams

Within San Diego, there are several groups selling across multiple MICE offerings, with limited alignment. San Diego MICE sales teams vary in the organizations they report to, the meeting spaces they rent, the hotels that receive bookings, and booking windows in which to secure new business as shown in Exhibit 25.

EXHIBIT 25

MICE sales teams variations

Sales team	Organization	Meeting space rented	Hotels booked	Booking window
Citywide	SDTA	SDCC	Primarily downtown hotels	18 months +
Short-term SDCC	SDCC	SDCC	Primarily downtown hotels	0-18 months
Single properties	SDTA	Individual and groups of hotels	Individual and groups of hotels	Varies
Hotel-based	Individual hotels and brands	Individual hotels and brands	Individual hotels and brands	Varies

Even when booking for the same meeting space, marketing communications, booking incentives, and sales results can vary. With limited coordination across the MICE sales teams, there can also be variation in the message that potential clients are receiving regarding San Diego as a meeting space, suboptimal use of limited meeting or accommodations space when conflicting needs arise, as well as missed opportunities to bring in some of the best business or fill greatest need periods when a coordinated effort is needed.

While there are differences, and in some cases competition, among the various sales teams, each have the ultimate goal of bringing additional MICE visitors to San Diego.

An effort to enhance coordination would have many steps, but could yield great results as shown in Exhibit 26.

EXHIBIT 26

Sales team alignment activities and benefits

Activity	Description	Expected benefits
Define goals, incentives and booking priorities	Determine priorities and goals as related to room nights vs. rental revenue, high demand and need periods, and high value industries	Clarity of objectives and opportunities for impact
Define competitive sets and strategy to better compete	Agree to the destinations against which San Diego most directly competes to form winning strategy for San Diego	Insight into highest impact and need areas for change
Set up format to share best practices and information	Implement the industry's best practices to help San Diego to compete and win business through consistent communication among teams	Continued performance improvement across teams
Coordinated SD value proposition and communication	Ensure messaging in target markets is coordinated to present San Diego's value proposition with minimal confusion	Ensure market receiving consistent message
Scheduling transparency	Coordinate focus on key times of the year to attract optimum business	Optimize limited capacity and target best business

3.2.2. Create new sustainable funding mechanism

The stakes are high to attract high-impact conventions, as they carry with them a large attendee pool that stay in San Diego hotels and generate revenues for the City, local restaurants, shops, transportation, and attractions. As Exhibit 27 shows, a medium-large convention could generate up to \$30 million in attendee spending in San Diego.

EXHIBIT 27

The benefits of attracting additional large conventions could be substantial



1 Based on 2014 example conventions

2 Assuming \$190 ADR for downtown hotels and 10.5% TOT

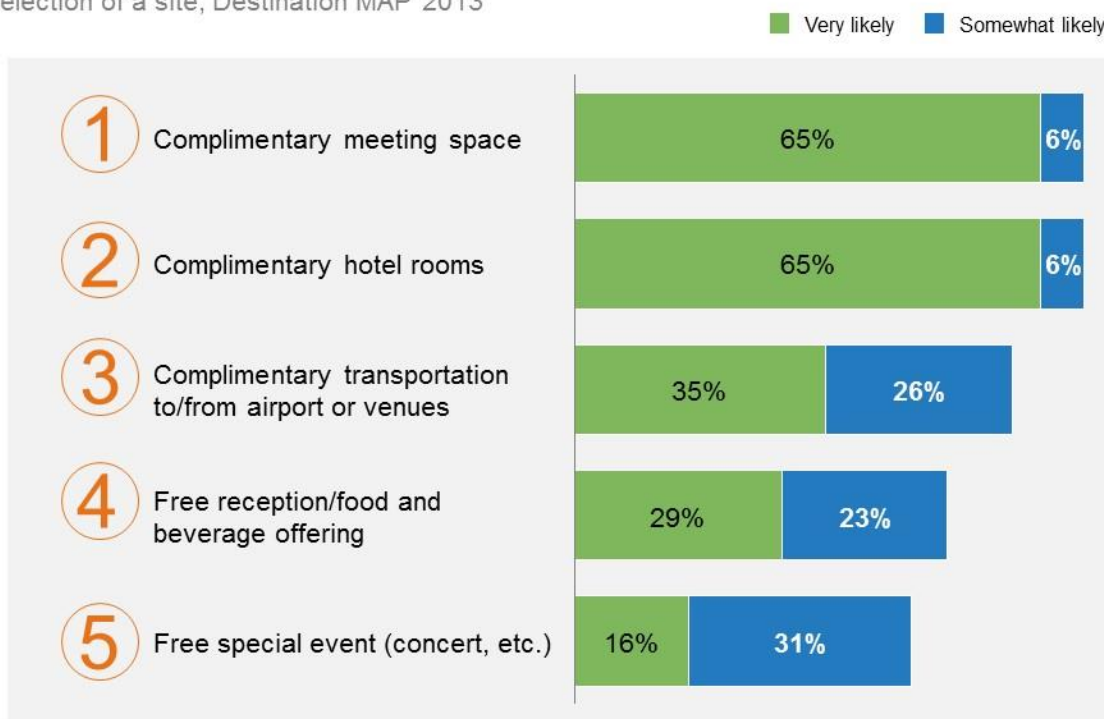
SOURCE: 2014 Convention Center data

For meeting planners, some of the top site-selection criteria center on logistical considerations such as good hotels, convenient airline service, travel costs to the location, and food and lodging costs. Due to the fact that competition for this business among the many MICE destinations is extremely high, many destinations often offer a range of additional incentives to attract the most impactful business. These incentives may take the form of complimentary rental space, discounted lodging, or sponsored transportation. Complimentary meeting space and complimentary hotel rooms tend to be the incentives most likely to influence the meeting planner's decision to select a particular site (Exhibit 28) outside of the initial site-selection criteria.

EXHIBIT 28

Top 5 incentives likely to influence selection of a site for a meeting

Percentage of respondents indicating incentive was 'very likely' or 'somewhat likely' to influence selection of a site, Destination MAP 2013

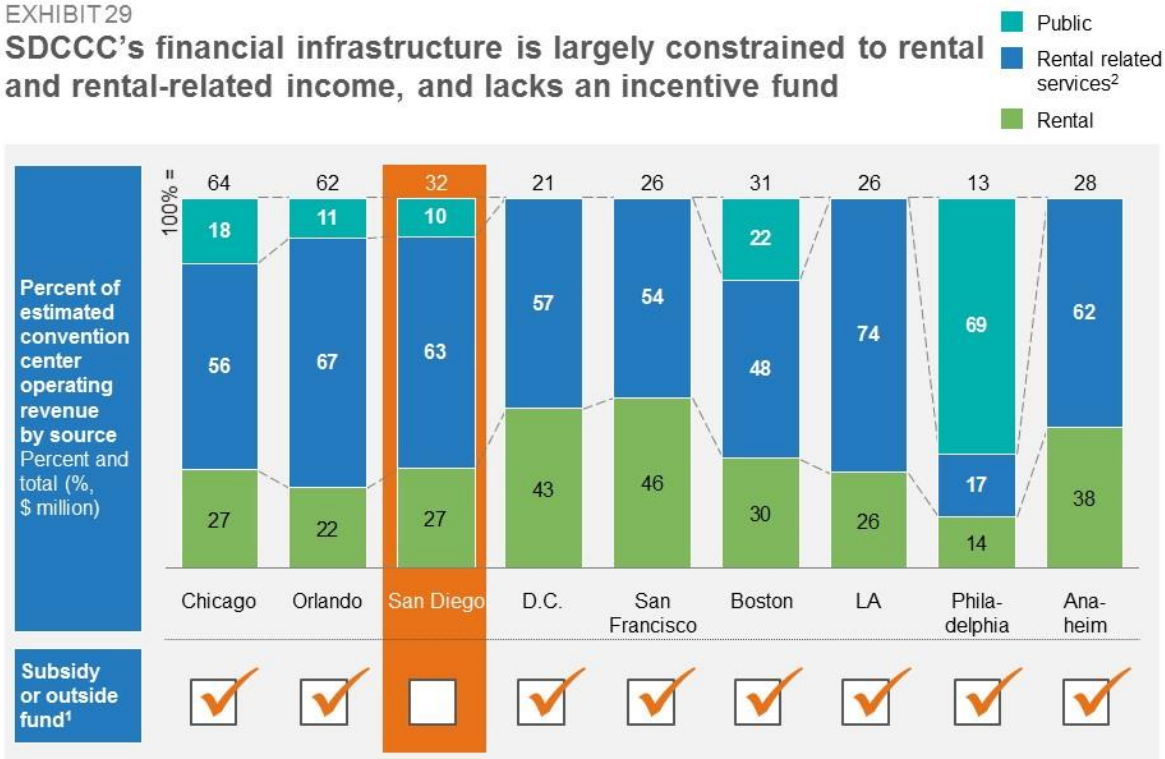


To support these incentives, which ultimately attract these high impact groups, cities often leverage an incentive fund to pay for these concessions, often in conjunction with hotels offering accommodation discounts. These efforts drive downstream TOT and Sales Tax benefits that far outweigh the upfront incentive costs. To date, the hotels in San Diego have been the main force behind incentives by offering discounts on accommodation in those cases warranting the need. It is important to note that as hotels offer complimentary rooms, their resulting TOT benefits to the city are also eliminated. By funding complimentary rental space, the TOT would be left intact. As

seen in Exhibit 29, San Diego is largely funded by rental revenue and related income and is the only MICE destination in its competitive set without incentive funding for its convention center.

EXHIBIT 29

SDCCC's financial infrastructure is largely constrained to rental and rental-related income, and lacks an incentive fund



1 Subsidies for rental discounts or outside funds for covering operating deficits

2 Includes Food & Beverage, Utilities, Telecommunications, Audio-Visual and Ancillary income (e.g., parking, internet, security)

SOURCE: San Diego Convention Center Study by Radcliffe Company, September 2014

The creation of a sustainable promotional fund used to attract and incentivize high-impact business will help SDCC become more competitive as a demand generator for visitor stays and all that follows (TOT, visitor spend, etc.). This fund can help reinforce the reason the SDCC was originally built, to generate demand and overall economic impact for San Diego as a whole, as opposed to generating revenue for the building alone.

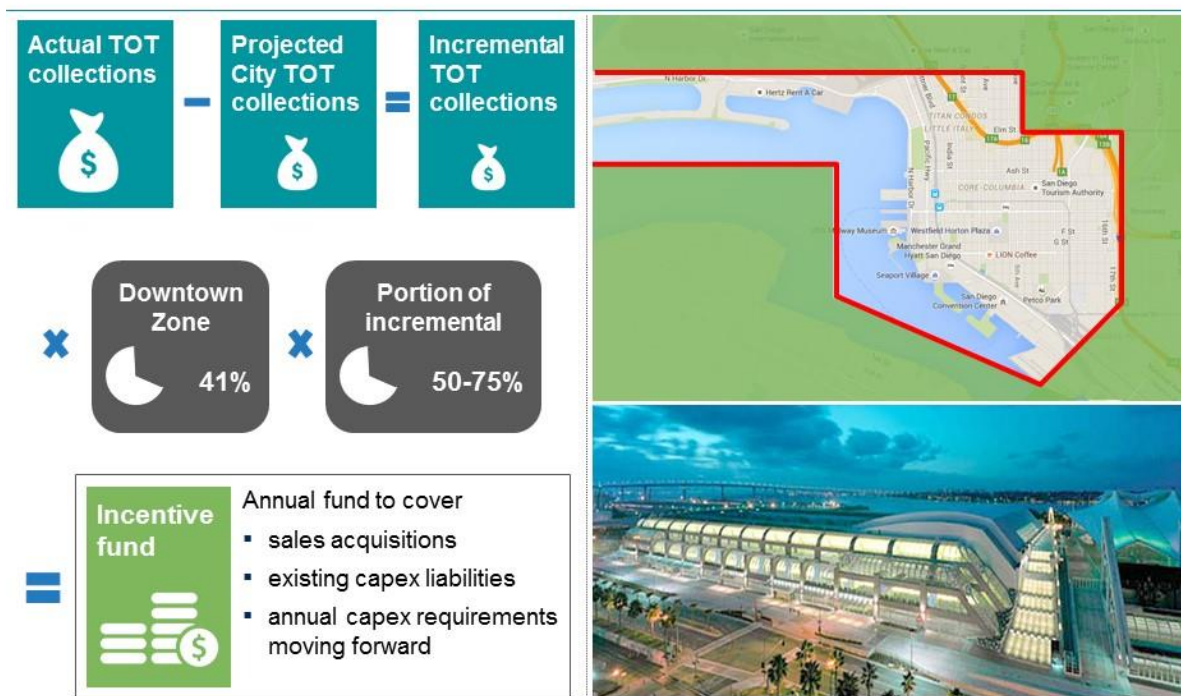
Incentivizing the right business for San Diego can help to increase performance in the MICE segment, but costs such as on-going operations, capital needs, and annual debt payments cannot be ignored. If not properly maintained and upgraded, the Convention Center will not be able to stay relevant in the competitive market and attract the same level of interest.

San Diego is largely funded by rental revenue and related income and is the only MICE destination in its competitive set without incentive funding for its convention center.

A fund that can help San Diego compete within this segment in a sustainable fashion will require viable revenue sources and may include the same revenues that will grow as a direct benefit from the fund (e.g., City of San Diego TOT, SDTMD hotel assessments, restaurant and Port of San Diego revenue, etc.). Exhibit 30 elaborates on the City of San Diego TOT incentive funding option. An initial consideration would be to allocate a certain percentage of incremental downtown TOT funds (off of current City of San Diego projections) to this incentive fund. A similar approach was successfully launched for Mission Bay Park called the Mission Bay Park Improvement Fund. This fund was established to go toward wetlands restoration, bike trails and other capital improvements.

EXHIBIT 30

One potential incentive fund source: allocate a certain percentage of incremental San Diego TOT from downtown zone



To implement this fund, revenue sources will need to be confirmed, as well as a thorough understanding on what level of incentive funding will be needed to realize the full capacity potential within the San Diego Convention Center.

3.2.3. Highlight San Diego as world-class for conventions and business

San Diego is home to many distinctive industries (e.g., life sciences, defense, craft beer, cyber securities) and has been recognized recently as a World's Smart City by National

Geographic Channel for its innovative culture. To further build San Diego's international profile as a convention destination and world-class business city, partnering with local entities, including EDC and the broader business community could help to highlight these strengths. One way to promote these elements would be to hold a homegrown San Diego-based business convention or event. This could give San Diego the opportunity to highlight up-and-coming industries that thrive in San Diego.

3.2.4. MICE capacity

As the above initiatives are implemented to attract new and bigger events, the capacity to house these events will be an important part of the process. There are other opportunities where additional capacity could open the possibility of hosting concurrent events, especially during the peak periods, when demand is at its highest. While the contiguous expansion of the San Diego Convention Center would best serve these needs, there are other options that need to be investigated in addition to this primary strategy. For example, other spaces within downtown or other potential meeting hubs around San Diego could be evaluated. This would be of highest potential where there is already a base of hotel supply, such as in Mission Valley, or where there is a center of business activity in a particular industry, such as Sorrento Valley. These expansions must also consider the impact of Chula Vista's entrance into the MICE segment as development moves forward along their waterfront.

3.3. Marketing

While San Diego is among the top 5 domestic and top 11 international travel destinations in the US, active marketing and sales are needed to protect that performance and grow it further. Just as well-known consumer product brands need to advertise regardless of past performance, San Diego needs to continually invest in propelling its brand forward to keep it relevant and top of mind for potential visitors. In order to attain and surpass some of the growth in spending and visitors achieved by some of San Diego's competitors, marketing and branding must be integral parts of the overall tourism strategy for the city.

San Diego needs to continually invest in propelling its brand forward to keep it relevant and top of mind for potential visitors.

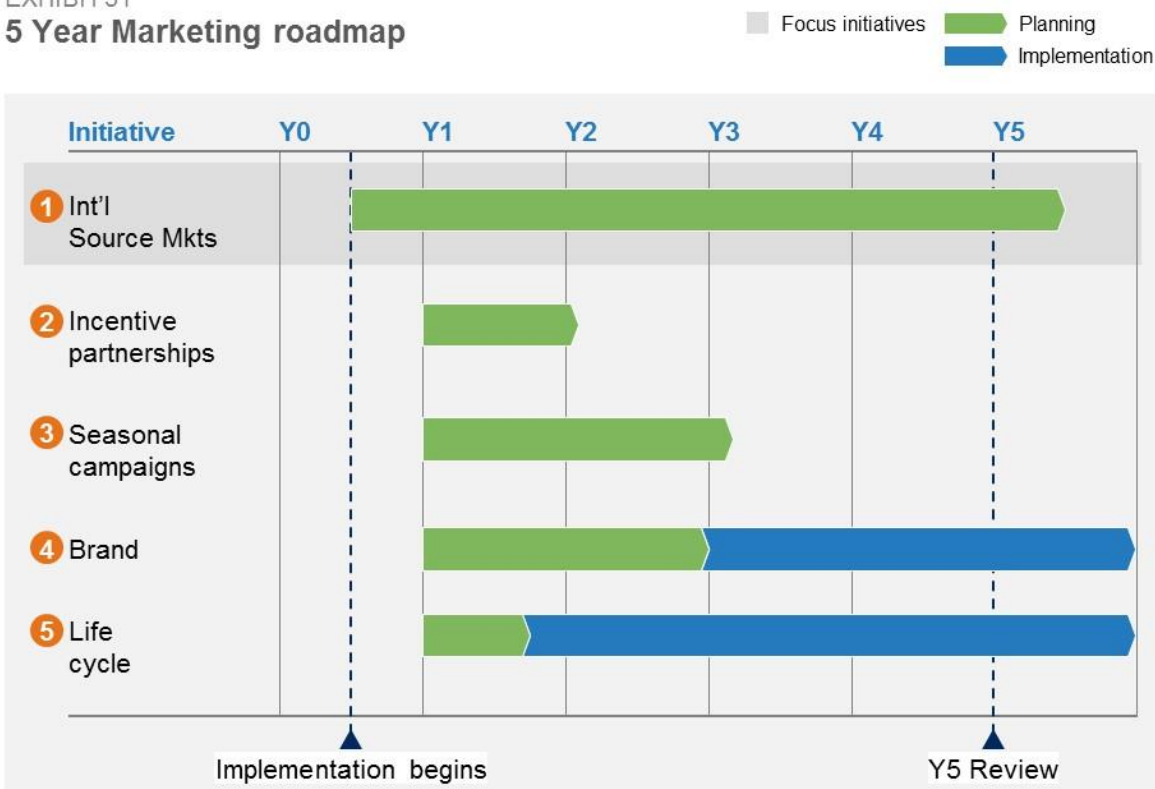
Existing campaigns range from television to online to print, and are largely regional in deployment. Even though San Diego is a popular destination, there are few national and international campaigns to attract visitors, especially during winter months. San Diego could benefit from increased investment in expanded, more aggressive marketing to compete on the national and global stage.

San Diego's current offerings have been built by a broader community in the tourism industry, and it is only through a wide group of stakeholders that the best marketing

strategy can be defined and disseminated. Representation from these groups assisted in assembling the initiatives listed in Exhibit 31 for San Diego branding: California Restaurant Association, San Diego Brewers Guild, San Diego County Hotel Motel Association, San Diego Lodging Industry Association, San Diego Tourism Authority, San Diego Tourism Marketing District, Westfield, and World Trade Centers Association.

EXHIBIT 31

5 Year Marketing roadmap



3.3.1. Define international market development strategy

International travel to the US is booming, amounting to roughly 74 million international visitors who spent an estimated \$222 billion in 2014⁷³. With estimations that the number of international visitors to the US will grow to 100 million by 2021, states and cities are pursuing a share of these highly lucrative visitors. Visit California has a robust program of work dedicated to international market development. In 2014, Visit California estimates there were 16.3 million international visitors to the state, with 7.6 million from Mexico, 1.6 million from Canada and over 7 million from overseas countries (an increase of 11%⁷⁴).

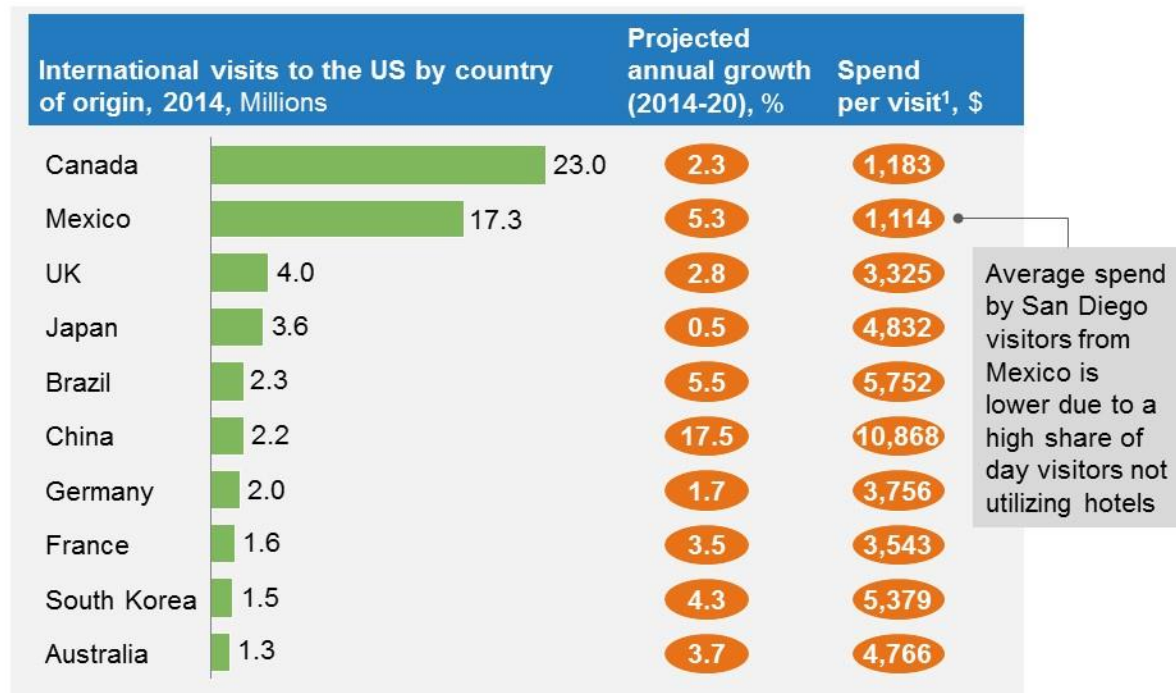
⁷³ U.S. Department of Commerce

⁷⁴ U.S. Department of Commerce

Opportunities to attract this growing segment to San Diego could have a large impact on tourism's economic benefit, as the highest-spend and fastest-growing visitors tend to be from international locations. In 2014, there were an estimated 6 million international travelers to San Diego, with Mexico and Canada continuing to be the largest volume markets (4.6 million and 421,000 visitors respectively) as shown in Exhibit 32. The UK, China, Australia/New Zealand, Germany and Japan are the top markets for overseas visitors to San Diego, where spend tends to be greater. San Diego is ranked 11th in the US for overseas visitors, but a strategic focus on major international markets could help San Diego compete for this valuable segment.

EXHIBIT 32

San Diego's mix of international visitors



1 USD; Total Spend on travel and tourism related goods to and within the US divided by total visitors (includes airfare)

SOURCE: U.S. Department of Commerce (2014)

In order to position San Diego to more effectively compete for some of these high-value international segments, a strategy for investment has been pursued by the San Diego Tourism Authority in coordination with CIC Research and Tourism Economics. Tourism Economics' Market Allocation Plan (MAP) for San Diego includes an analysis where 19 countries were considered across factors including realizable return, costs, risk and constraints to determine overall allocation recommendations. For example, despite Brazil's high spend and growth projections, this analysis did not identify Brazil as one of San Diego's priority due in part to some of the cost and access difficulties San Diego would potentially face.

The analysis yielded a list of 6 priority markets that make up 90% of San Diego International arrivals. These countries are:





1. Canada
2. United Kingdom & Ireland
3. China
4. Mexico
5. Japan
6. Australia & New Zealand

By investing in these markets, it is projected that the number of international visitors to San Diego could increase from 6 million in 2014 to 7.1 million by 2020 with their spending increasing from \$1.5 billion to \$2.3 billion. To achieve this impact, consistent investment in priority markets and continuous reevaluation of where strategic investments will generate the most return with changing global factors is required.

In order to attract larger volumes from these international countries, San Diego's tourism entities must make strategic investments in consumer-direct advertising, as well as partner with third-parties, such as tour operators, student bloggers, online travel agencies (OTAs), and international media outlets, among others. This need is highlighted in Exhibit 33, representing China's low awareness in San Diego offerings.

EXHIBIT 33

Chinese awareness of San Diego is low

Categories	Key takeaways	
LA and SF have strong brands	<ul style="list-style-type: none"> Los Angeles is significantly more famous among Chinese tourists than San Francisco and San Diego Universal Studios and Disney brands are well known by Chinese 	
Search engines and trip review sites are a big driver for Chinese visitation	<ul style="list-style-type: none"> Baidu, the largest Chinese search engine, lists OTA tour bookings when searching "San Diego" or other cities User reviews, tips, and posts are highly influential Tours clearly state "Los Angeles" in the headline, as a selling point, while San Diego is more of an ancillary product packed into the whole package 	
Translation errors hurt San Diego	<ul style="list-style-type: none"> San Diego has a disadvantage due to its translated Chinese name based on pronunciation A search for "San Diego" in Chinese also results in queries for Santiago, Chile and Santiago de Cuba 	
Chinese visitors believe San Diego has limited attractions	<ul style="list-style-type: none"> Perceived number of attractions in San Diego are much fewer and much less diverse than Los Angeles and San Francisco Online postings about San Diego are concentrated on the USS Midway and SeaWorld 	

SOURCE: Joint team analysis; Baidu search engine

Tour operators are a relatively direct way to tap into the international market, as many international tourists rely heavily on these services. Currently, tours to Anaheim and Los Angeles are very popular. San Diego has a significant opportunity to attract some of these large group tours by expanding multi-lingual information resources, establishing preferred pricing and incentives, and by investing in strong relationships with the largest tour operators. San Diego could gain market share from other Southern California destinations as this segment grows.

3.3.2. Build incentive partnerships

San Diego's offering and brand is attractive, but does not have to stand alone. As many commercial brands have discovered, co-marketing can be a powerful tool used to elevate both partners (e.g., Nike and Apple or the Eddie Bauer Edition of the Ford Explorer). By leveraging synergistic entities (e.g., celebrities, experts, public, private sector leaders, other brands/companies) to co-market the destination, room nights could be grown in a win-win situation. Recent examples of this are Taylor Swift becoming New York City's Global Welcome Ambassador and Dora the Explorer as the bi-lingual Family Ambassador. Since the launch of the Family Ambassador program in 2009, New York City has seen an increase of over 30% in family visits⁷⁵. A similar co-branding initiative could help San Diego see substantial growth in target segments.

San Diego could even investigate the possibility of partnering with other locations to develop collaborative itineraries. Los Angeles, Phoenix, Las Vegas or Tijuana are just some examples of destinations that could be of interest to San Diego. By co-developing itineraries, San Diego could attract the longer-stay international visitors that would like to make more than one stop on their holiday. Facilitating the access between destinations or even incentives or promotions could encourage those international tourists to make San Diego one of their stops.

3.3.3. Build out shoulder season strategy

Across the US, peak travel season is during the summer months of June through August, due to the large number of Americans (3 in 5 adults) taking vacations. San Diego mirrors the US trend, with the destination's largest number of overall visitors and highest hotel occupancy realized in summer months. San Diego competes with other top destinations for its share of these summer vacationers.

San Diego's low tourism season is typically November through December. Travel during the holidays is normally driven by traditional travel patterns of visiting friends and family, with generally less business, meetings and conventions travel. The "Shoulder Seasons" of January through May and September through October realize varied performance depending upon the fall of key holidays (Valentine's Day, Easter, Jewish Holidays) and school schedules (year-round, early vs. late start).

⁷⁵ *Dora the Explorer Tapped as Family Ambassador for NYC NBC NEWS*

San Diego has embraced seasonal campaigns and promotions to stimulate hotel visitation in the shoulder seasons. An example is the "October Kids Free San Diego," which contributed to an increase in San Diego hotel occupancy by 6 percent for the month of October 2012, when it was first run. Another example is the fall advertising campaign targeting the Los Angeles geographic market, helping to deliver over 400,000 room nights on average for the district annually. Strategic development and investment in seasonal campaigns and promotions can further grow incremental room night demand for San Diego.

3.3.4. Invest and build out San Diego brand

Further development and investment of the San Diego brand is a critical piece of the long-term strategy to grow tourism in San Diego and to outperform the competitive set. Brand recognition for San Diego will keep it top of a potential visitor's mind when considering travel. Having a defined brand platform as the foundation to all communications, along with a 5-year marketing communications plan, will assist in strengthening the brand message and increasing awareness in markets that have potential to drive visitor volume to San Diego. Las Vegas's "What Happens Here, Stays Here" campaign is an example of a pervasive brand that resonated with its target market to drive visitation. This initiative will focus on understanding the research data for San Diego, identifying opportunity markets and channels, and creating a defined message to be delivered with an expanded and strategic approach.

3.3.5. Own life cycle of repeat visitors

While each visitor represents value for San Diego, converting these first-time visitors into repeat visitors over their lifetime multiplies that value. Significant impact for San Diego could be realized by developing destination loyalty and building top of mind awareness that would appeal to visitors through the stages of their life. This could be activated by establishing a relationship with our visitors that begins with their first San Diego experience and permeates throughout their lifetime via the use of technology. It would serve as an umbrella effort that encompasses and ties together all existing and new visitor marketing efforts.

The potential life cycle segments to consider could include Youth, Family, Young Adult, Life Partner (no children), Empty Nesters, and Retirees. For each segment, benefits and offerings should be developed to attract and retain them. This effort can be augmented through strategic partners and databases. As visitors are identified and developed, work then must be done to bridge the visitors' relationship with the city to their next life cycle segment. Whether a first-time or repeat visitor, this program will motivate them to return to San Diego via a loyalty component that may include rich offers based on visitation history and tendencies, further building the visitor's loyalty to San Diego as a tourism destination.

3.4. Transportation

Beyond San Diego's appeal and marketing, getting people to and around San Diego presents a separate and equally important opportunity to grow tourism. Ease of access can become a major deciding factor for potential visitors, particularly in the MICE segment for meeting planners. Tourists currently find themselves forced to navigate often congested interstate highways or to make multiple airline connections in order to

Ease of access can become a major deciding factor for potential visitors, particularly in the MICE segment for meeting planners.

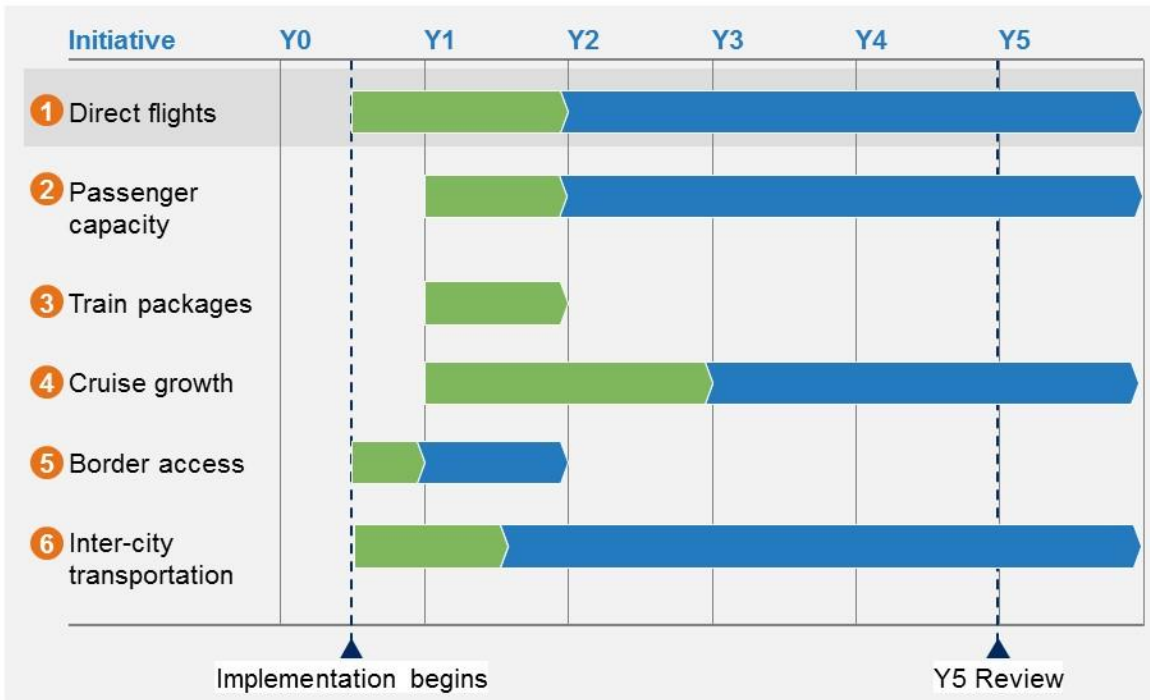
reach San Diego. The additional cost, in time and money, represent an important value decision to visitors. Despite San Diego's close proximity to Tijuana and international hubs like Los Angeles, there is limited options for easy commuting (though some projects are now in the works). Once within San Diego, the ease of getting around to each of the tourism offerings can greatly impact a visitor's enjoyment and length of stay. Improved

connectivity to and within San Diego can help ensure that transportation is not a limiting factor, but rather an enabler and potentially a source of increased demand as San Diego becomes known for its ease of access and navigation.

Considerations for improvements span the various modes that visitors use to arrive to San Diego, including road, air, rail and sea. There are many groups within San Diego that are continually evaluating transportation needs for the region using a broad lens for residents and business development overall. The tourism community must be actively involved in these plans and their implementation in order to maximize synergies across groups and support the impact this work can have on tourism. In that spirit, representation from each of these important groups was incorporated in this process, including from the City of San Diego, Cross Border Xpress, Downtown San Diego Partnership, Port of San Diego, San Diego Association of Governments (SANDAG), San Diego County Regional Airport Authority, San Diego Regional Economic Development Corporation, and San Diego Tourism Authority. Many of these groups have their own process for creating and implementing their own master plans, and the opportunity to understand and support those plans increases ability to have impact. Many of the initiatives within this theme will serve to highlight and support the work already being done by organizations represented within the working group, as seen as Exhibit 34.

5 Year Transportation roadmap

Focus initiatives Planning Implementation

**3.4.1. Increase nonstop flight access to San Diego**

While the majority of visitors arrive by land (84%), those that arrive by air (21%) are more likely to have a greater length of stay, especially those that arrive from international destinations. Providing nonstop options to San Diego can help support the decision to choose it as a destination.

San Diego International Airport has grown faster in overall seat capacity than the national average from 2009 to 2015 (1.6% average growth compared to 1.0%) as shown in Exhibit 35. Despite this growth, the share of international capacity is far below the national average (4% compared to 13%). New aircraft technologies, such as the Boeing 787 and Airbus A-350 have only recently been developed, which address some of the technical challenges of operating long-haul nonstop routes from San Diego. The new generation of high-tech aircraft enhances San Diego's opportunity to capture a greater share of nonstop international capacity.

EXHIBIT 35

San Diego's airline seat capacity has grown at a faster rate than the national average, but has a lower international share



SOURCE: Innovata via DiiMi

To further increase visitation from international cities and non-adjacent domestic states, San Diego must increase flight options into the city. San Diego can add flights to new cities and increase the number of flights on existing, profitable routes, especially to international destinations, through a continuous concerted effort.

This work can have great impact on the tourism economy of San Diego, while delivering overarching economic benefits as well. For instance, the nonstop San Diego-London flight transports over 80 thousand passengers annually, more than half of whom are visitors who spend an average of \$1,500 on their visit to San Diego. Overall,

it is estimated that this flight contributes over \$110 million in direct and indirect impacts to the San Diego economy⁷⁶.

The process to add a new route is by no means without challenges. A new route must be an attractive fit for the airline to ensure that it will be of economic benefit to them. To that end, while tourism can be part of what makes a route successful, there is a need for broader business traffic to make the route sustainable for the long run, especially for international routes. It is for this reason that the method of capturing new nonstop routes for San Diego must involve the support of the broader San Diego community, particularly the business community. A process designed to keep the tourism and business community engaged in the ongoing strategy of attracting and keeping new prospective routes in San Diego will help to ensure all resources are coordinated to accomplish the growth desired.

To increase seat capacity and number of markets to the San Diego region, the air service development at San Diego International Airport evaluates prospects continuously. At the beginning of each fiscal year (July), the airport completes a draft air service development plan, which outlines air service efforts for the coming year. This plan takes into account performance of current routes, load factors on existing flights, passenger volumes and average airfares. In the plan, priorities are divided into international long-haul opportunities, regional international opportunities, mainline domestic opportunities and regional domestic opportunities.

To improve the support and participation in the process of adding service, the airport will engage key stakeholders in the development of the plan from fiscal year 2016 onward. As air service opportunities are developed, the airport will also seek assistance from regional partners such as the San Diego Tourism Authority and the San Diego Regional Economic Development Corporation for engagement and follow-up with target air carriers and route proposals. An annual forum on air lift would also offer an opportunity for the industry to provide feedback and for the airport to share the goals of the air service development plan with key stakeholders.

⁷⁶ Campbell-Hill Aviation Group 2012

While the initial focus is on San Diego International Airport, the overall objective is to evaluate and improve air access to San Diego, which would necessarily include the support and optimization of the entire regional air infrastructure. As identified by the 2012 Regional Aviation Strategy Plan (RASP), currently these players would include Tijuana Rodriguez International Airport, Brown Field Municipal Airport, Montgomery Field, Gillespie Field, McClellan-Palomar Airport, Oceanside Municipal Airport, Fallbrook Airport, Ramona Airport, Borrego Valley Airport, Ocotillo Airport, Agua Caliente Airport, and Jacumba Airport shown in Exhibit 36.

EXHIBIT 36

San Diego County Airport System – Regional Aviation Strategic Plan



SOURCE: Regional Aviation Strategic Plan

3.4.2. Expand airline capacity to San Diego

The 2012 Regional Aviation Strategy Plan (RASP) prepared by the San Diego County Regional Airport Authority considers the likely capacity constraints, demand forecasts, and potential actions that the region's public-use airports can take to better accommodate future demand.

Some of the scenarios considered in the report to optimize the airport system included:

1. Commercial Passenger Optimization
2. Enhanced Utilization of Tijuana
3. California High Speed Rail (HSR)

4. General Aviation Optimization
5. Air Cargo Optimization

For San Diego International Airport specifically, the Airport Development Plan (ADP) is the next master-planning phase. The ADP is designed to identify improvements that will enable the airport to meet demand through 2035. The primary areas that the ADP is studying include, but are not limited to: Terminal 1, redevelopment of the former Teledyne Ryan property, input to SANDAG as the agency plans for effective intermodal transportation facilities, and creation of new non-airline revenue opportunities for reinvestment in capacity improvements. The ADP includes a forecast of aviation activity and a financial plan. It also includes extensive collaboration with both internal and external stakeholders.

3.4.3. Develop and market LA-Anaheim-San Diego train packages

The LA/Orange County market encompasses over 13 million residents and is the largest leisure market for travel to San Diego, with Southern California making up over 45% of visitors⁷⁷. But traffic counts on I-5 and I-15 continue to grow, taking as much as 3-4 hours to reach San Diego during peak travel times (versus 2 hours without traffic). This has a negative impact on travel decisions and limits drive traffic from this important market.

Rail travel offers an alternative to the highway, with Amtrak Pacific Surfliner service from LA to San Diego being the second busiest route in their system, only surpassed by the DC to New York service. There are 12 roundtrip services per day, with increase in service during peak travel dates. Unfortunately, there are up to 13 stops on the 3 hour station to station service, with additional stops to let other trains pass on the single tracks.

Creating a fun San Diego branded Amtrak service between LA and San Diego could bolster an attractive alternative to driving and could allow San Diego to capture additional overnight stays from this critical market. Ideally, the service would have one stop at Anaheim before arriving at San Diego downtown station in less than 2 hours. Special hotel and attraction packages would be developed, only available to Amtrak riders and alternative transportation options will be included to allow arriving passengers to reach their final San Diego destination.

3.4.4. Drive new cruise line business to San Diego

At its peak in 2008, the San Diego region hosted over 900,000 arriving and departing cruise line passengers. Due to the severe 2007 economic decline and drug war hostilities in Mexico, cruise lines reduced service in San Diego by 80%. After dropping to a low of approximately 170,000 annual passengers, the cruise business is once again trending upward as the economy is improving and Mexico has enhanced security in

⁷⁷ CIC Research (2013)

Mexican ports that is bringing back cruise line calls. The Port of San Diego has set a goal to reach 600,000 annual passengers by 2021.

The United States is top in passenger demand for global cruise line vacations, carrying over 11 million passengers in 2013. The State of California is the second largest state to benefit from cruise visits with almost \$1.9 billion in direct spending in the state, with over 40,000 jobs and \$2.4 billion in income⁷⁸. San Diego is the third largest cruise port in the state and is positioned to recapture and grow market share with improving dynamics of the global economy and safer travel conditions for Mexico's port of calls.

Over of the cruise line visitors of the Port of San Diego in 2013, over 60% of them came via air and enjoyed pre or post stays in the San Diego region. The Port of San Diego provides cruise line passenger facilities and its goal is to expand the region's cruise industry offerings by investing in cruise facility infrastructure and by soliciting additional cruise line service for the San Diego region.

Inhibited by the 1886 Passenger Services Act that prohibits foreign flag ships from transporting passengers between American ports, itinerary options are limited to those that include foreign port of calls. San Diego cruises that begin and end in San Diego must include a port of call in Mexico or Canada in order to offer homeport cruise service from San Diego. Therefore, a close working relationship is necessary with the Mexican port authority officials, tourism outlets in Mexico, and the Federal and State tourism officials. Infrastructure improvements to Mexico ports on the Pacific West Coast will enhance San Diego's position as the premier California port, offering geographic and fuel savings advantages, as a result of being closer to Mexico.

The Port of San Diego has two cruise line facilities, "B" Street Pier and the Pavilion on Broadway Pier that provide berthing capacity for up to 6,000 daily departing cruise passengers. Improved infrastructure to the "B" Street Pier will allow for the newer, longer cruise ships to berth and will provide a key advantage in capturing the new generation of cruise ships. To retain and capture this key tourism segment for the San Diego region the community's political will and support will be necessary, in addition to financial and infrastructure resources.

3.4.5. Facilitate border crossing from Tijuana International Airport

The US/Mexico border in the San Diego region is the busiest border crossing in the world. At the San Ysidro point of entry alone, there were approximately 56 million crossings in 2013⁷⁹. Of the four million passengers who utilize the Tijuana International Airport (TIJ) each year, approximately half cross the US border. The Cross Border Xpress (CBX) opens in 2016 and will serve as catalyst for increasing international travel to San Diego by facilitating convenient, efficient border crossing for TIJ passengers through a new gateway between the US and Mexico. On-going promotion of the CBX

⁷⁸ 2013 Cruise Line Industry Association US economic impact report

⁷⁹ Department of Homeland Security

has the potential to induce travel into San Diego by offering easy, safe, and cost-effective access from TIJ, which has significant capacity to increase services to new and expanded domestic routes in Mexico and international destinations. As these airline passengers are the most likely to be overnight guests, facilitating their entry into the US can encourage those visitors to stay in San Diego.

3.4.6. Comprehensive intra-city and regional transportation

The transportation needed to transit visitors throughout the region is a broad challenge that also impacts local residents. SANDAG is the main public body that organizes the strategic plans for regional transportation improvements. The 2050 plan *San Diego Forward: The Regional Plan* is being finalized in 2015 to incorporate many far-reaching additions for the transportation network of San Diego. Some of the plans detailed that are most relevant to the tourism community include:

- Midcoast light rail extension (2018)
- Streetcar for Hillcrest, Balboa Park and Downtown loop (2020)
- Airport Express Route (McClellan-Palomar Airport to SAN) (2020)
- Airport Express Route (Escondido Transit Center to Cross Border Facility) (2020)
- Streetcar (Downtown Loop East Village to Little Italy) (2030)
- Streetcar (30th Street North Park, Golden Hill, and Downtown Loop) (2030)
- Trolley Extension (Pacific Beach to El Cajon) (2035)
- High-Speed Rail (2041-2050)
- Airport Intermodal Transit Center
- San Ysidro Intermodal Transit Center

While the above is just a sampling of the work outlined in the plan, there is much the tourism community can do to support and augment this work. As an example, there is potential for supplementing infrastructure plans with a Downtown Circulator System of shuttles to assist both tourists and residents navigate downtown travel in a quick, on-demand fashion. There is also potential for alternative options to access the beach from downtown with ideas such as water taxis or gondolas. Additionally, there is a need for layering of systems like navigation assistance and transportation communications (e.g., mobile applications, easily navigable maps) that can be created and adapted as improvements are made to facilitate visitor and local travel through the city. This is work that can be done in tandem to the larger strategic plan and can add value to San Diego's transportation options.

4. TOURISM INFRASTRUCTURE TO SUPPORT

Similar to the method used to create this plan, this work cannot be completed in isolation, but rather requires the broad collaboration of the San Diego community and consistent tracking of performance to ensure goals and targets are being achieved. A robust infrastructure needs to be built to support such transformative aspirations and entails both a new organizational construct and a rigorous governance structure.

4.1. New Organizational construct

Success of this plan can only be ensured by the Mayor and elected officials, with help from the business community, tourism entities, and the broader public to prepare San Diego for its aspirational future. For example, bringing in new flights requires deep involvement of the business community, tourism industry and transportation network; building leisure infrastructure requires collaboration between the City, regulators and hoteliers; aligning the meetings and convention sales teams requires the cooperation of hoteliers, convention sales teams and meeting planners – all of this work cannot be done in silos.

Best-in-class examples of tourism organizations within the United States and around the globe highlight several consistent guiding principles on how best to organize tourism organizations, namely having a unified tourism authority with single point of accountability, collaborating with various committed stakeholders, and putting in place a supporting infrastructure that encourages alignment towards consistent goals (Exhibit 37).

EXHIBIT 37

Tourism organizations need to build a robust governance to appropriately fulfill functional responsibilities

Guiding principles	Implications for governance
A Unified tourism authority with single point of accountability	<ul style="list-style-type: none">▪ Influential tourism visionary to lead overall tourism efforts▪ Tourism “think tank” to continuously evolve and advance long term strategy
B Collaboration with various committed stakeholders	<ul style="list-style-type: none">▪ Diverse and broad representation of public sector, tourism-related organizations and the business community to drive alignment and facilitate tourism initiatives▪ Financial support from key stakeholders to ensure appropriate “skin in the game”
C Supporting infrastructure that encourages alignment towards consistent goals	<ul style="list-style-type: none">▪ Alignment to a set of core performance goals, incentives, and metrics across tourism stakeholders to drive a consistent set of behaviors

Tourism entities such as the Las Vegas Convention and Visitors Authority, Choose Chicago, NYC & Company, and Visit Orlando showcase these qualities in their vision, goals, organizational structure and governance, whether they are public, private, or

public-private entities. For example, in 2012 Chicago focused tourism efforts under one organization with explicit support from Mayor Emmanuel to rally the public and private sectors around an ambitious city-wide goal. Choose Chicago's board and executive committee are comprised of deeply committed leaders from hotels, foundations, art/cultural organizations, restaurants, banks, airlines and government agencies.

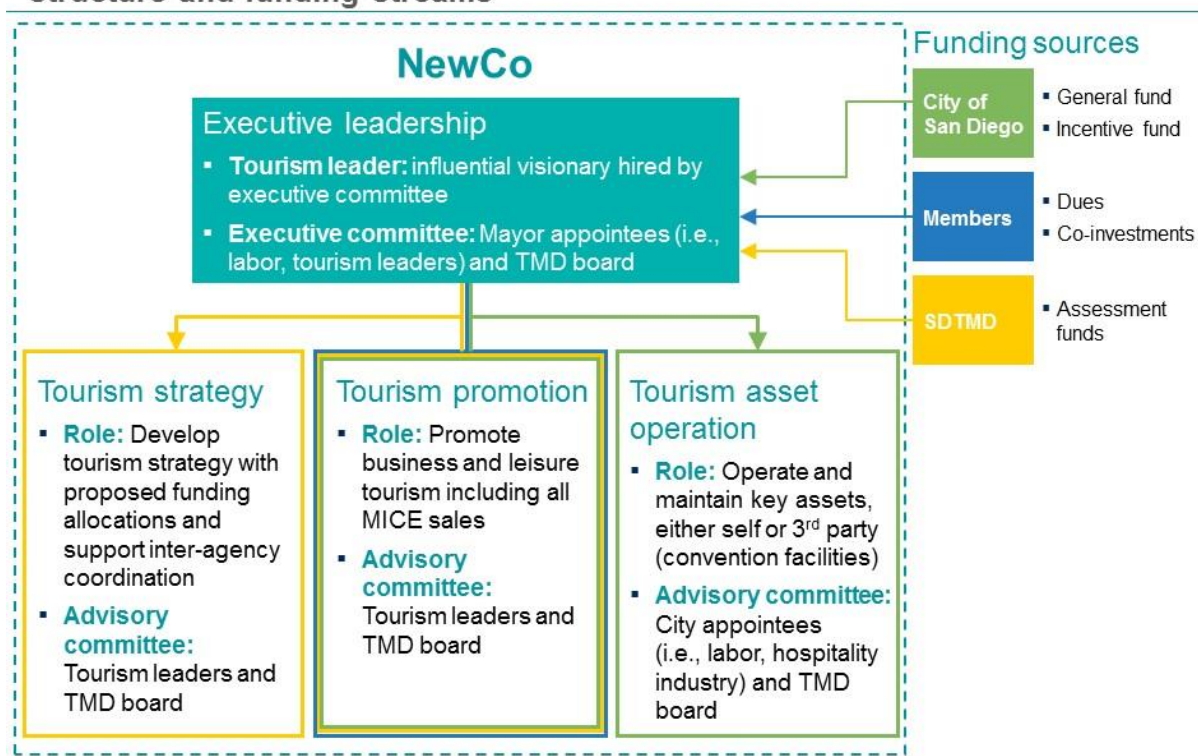
While tourism organizations should play a role across various functions including strategy/planning, regulation, investment promotion, delivery and marketing, the areas of most active involvement are around strategy, delivery and marketing.

To better align efforts within San Diego, a new construct (NEWCO) is needed, including an influential visionary tourism leader and an executive committee with representation from both the City and Tourism industry. While the specific responsibilities and components of this NEWCO will require ongoing design work (Exhibit 38 presents a preliminary view), the intent of unifying San Diego's tourism strategy is fundamental to achieving long-term, sustainable success. This construct will also allow the coordinated tourism community to react nimbly to the ever-changing market and implement innovative improvements to keep San Diego's product relevant.

EXHIBIT 38

Potential San Diego tourism organizational structure and funding streams

PRELIMINARY

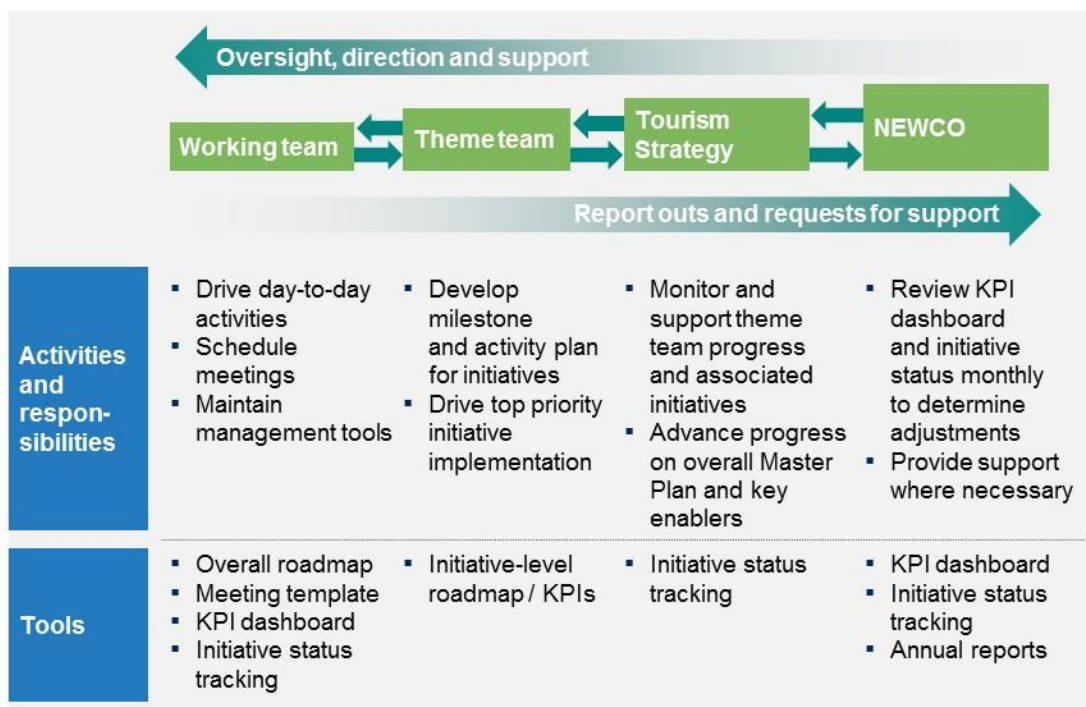


4.2. Governance structure

The strategic themes outlined in this Master Plan can increase tourism industry spending, driven by higher, more valuable visitor volumes, longer stays, and a more balanced mix between domestic, international, and overnight visitors. To ensure the initiatives of the Master Plan are achieving the aspirational change desired, a robust governance structure is required to evaluate the success of each year's work, report back to stakeholders and make adjustments where necessary. The working teams, theme teams, tourism strategy group, and NEWCO will have various roles and activities supported by tools as shown in Exhibit 39 and 40.

EXHIBIT 39





Master plan governance will be driven by various groups with distinct activities and responsibilities



This will help ensure the work of the Master Plan is leading toward the overall aspiration. Progress reviews and annual reviews will allow the Master Plan to stay relevant and incorporate new trends and information.

EXHIBIT 40

Progress management materials help ensure initiatives are having impact

Tool	Description	
Roadmap	<ul style="list-style-type: none"> Gives overview of owners, investments required, start/end dates and progress Each initiative has additional details on separate pages 	
Monthly meeting template	<ul style="list-style-type: none"> Offers format, content and time suggestion to ensure monthly progress reviews are metric and solution oriented 	
KPI dashboard and trends	<ul style="list-style-type: none"> Dashboard gives quick overview of metrics across visitors, hotels, tourism assets and transportation for quick assessment Trends allow assessment with a longer-term view 	
Initiative status tracking	<ul style="list-style-type: none"> Highlights only those initiatives that require the attention of the group (for updates of needed intervention) 	

5. CONCLUSION

The importance of tourism in San Diego makes it a vital industry for the city and stakeholders to support. Since the economic downturn of 2008, San Diego has experienced tourism growth, but has lagged the progress of its competitors against several key tourism indicators, most notably TOT, visitor spending, and RevPAR growth rates. In 2012 alone, San Diego could have received an additional \$35 million in TOT for the General Fund and over \$2 billion in visitor spending if it were to have developed at the same rate as its peer set. From a RevPAR standpoint, San Diego has lost its strong 2008 position, being surpassed by Los Angeles, getting further outpaced by San Francisco, and allowing Anaheim to come close to surpassing it as well. These gaps within San Diego's peer set prompted the SDTMD to develop a strategic Destination Master Plan, incorporating nationwide best practices and local expertise, so as to provide a blueprint for long-term tourism growth and prominence.

In order to realize the full benefits of this blueprint and become a top domestic and international destination, San Diego must transform the way it approaches tourism. Specifically, San Diego needs to:

1. Set a bold aspiration: Potential for \$300M TOT by 2021, through a combined increase of number of visitors and their associated average daily spend and length of stay
2. Improve the ownership model for San Diego tourism: Create an aligned, collaborative, and committed tourism leadership team to advance San Diego's tourism strategy
 - New construct: A NEWCO which is able to look across all tourism initiatives and allocate investment dollars and manage efforts in a prudent manner
 - Monitor improvement: Create a continuous improvement tourism culture which leverages a balanced set of tourism metrics, regular performance dialogues, and review of evolving market conditions
3. Execute a carefully planned set of initiatives: Leverage the research and design work across 4 key areas – Leisure Assets, MICE, Marketing, and Transportation. This includes many initiatives with vital priorities such as:
 - Leisure Assets: Create additional demand with a higher length of stay via a new major attraction and serve that demand through new luxury accommodation offerings
 - MICE: Develop an incentive fund to acquire and retain high-impact MICE groups
 - Marketing: Attract a higher market share of the lucrative international traveler. Prioritized segments include: Canada, United Kingdom & Ireland, China, Mexico, Japan, and Australia & New Zealand

- Transportation: Expand number of nonstop flights service key international and domestic markets. Collaborating across the civic, business, and tourism community

San Diego's recent lagging performance versus competitors, combined with its untapped potential, makes immediate action imperative to the future prosperity of San Diego. If not, it runs the risk of falling further behind destinations that have already embraced an aggressive and methodical approach to tourism growth, such as Anaheim, Los Angeles, and San Francisco.

The path forward needs to not only embrace the transformational approach articulated above, but ensure it includes continuous and collaborative engagement of the broader San Diego tourism, civic, and business leaders. The four months of Master Planning development was a testament to the exciting work that can come from such a coordinated and collaborative effort. It is through this work done by the many local San Diego tourism leaders and entities that will make this change possible and help realize the full benefits that San Diego's 2nd leading industry is capable of providing to its citizens.

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