

The Economic Impact of Tourism on Galveston Island, Texas

2016 Analysis



Prepared for:



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Headline Results



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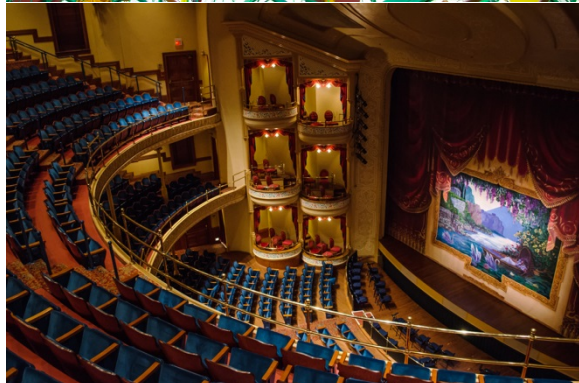
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Headline results

- Tourism is an integral part of the Galveston Island economy and continues to be a key driver of business sales, employment, and tax revenue.
- Visitors to Galveston Island spent \$780 million in 2016, which generated \$1.1 billion in total business sales, including indirect and induced impacts.
- Tourism on Galveston Island generated \$158 million in tax revenues in 2016, with \$76.6 million accruing to state and local governments.



Headline results



- A total of 11,013 jobs were sustained by visitors to Galveston Island in 2016. This included 8,519 direct and 2,494 indirect and induced jobs.
- Approximately 34.8% (1 in 3) of all jobs on the Island were sustained by tourism.
- Tourism-sustained jobs generated total income of \$287 million in 2016.

Key Trends in 2016



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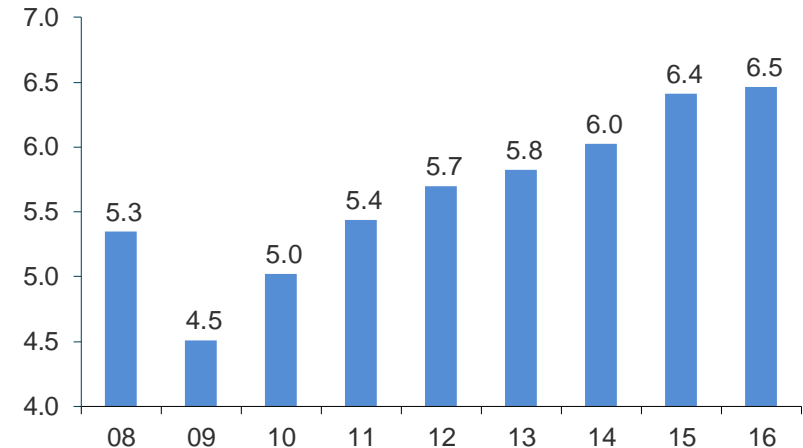
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Key trends in 2016

- On-going restoration and beach improvement efforts and faster than average growth in the Houston region supported Galveston Island's expanding tourism economy.
- Visitor volume increased 0.9% and lodging spending increased 1.0% in 2016. Visitor volume and lodging spending are 18.9% and 39.9%, respectively above the previous peaks in 2007.

Volume of Visitors to Galveston

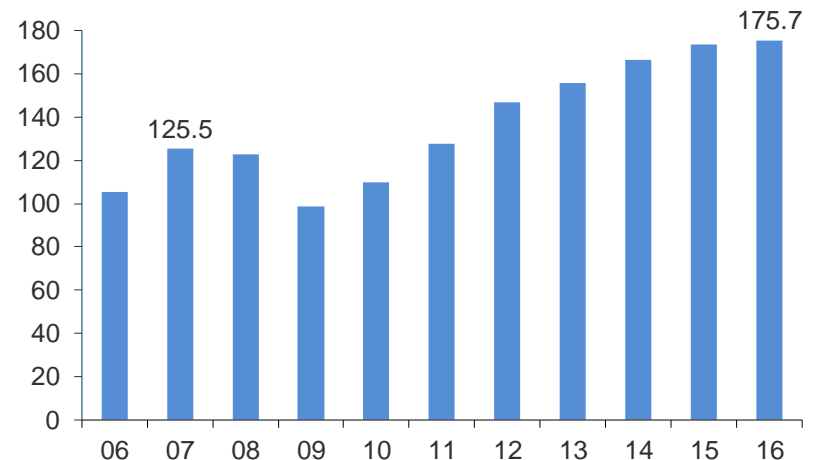
Millions, including day and overnight visitors



Source: Tourism Economics

Accommodations Spending in Galveston

\$ millions



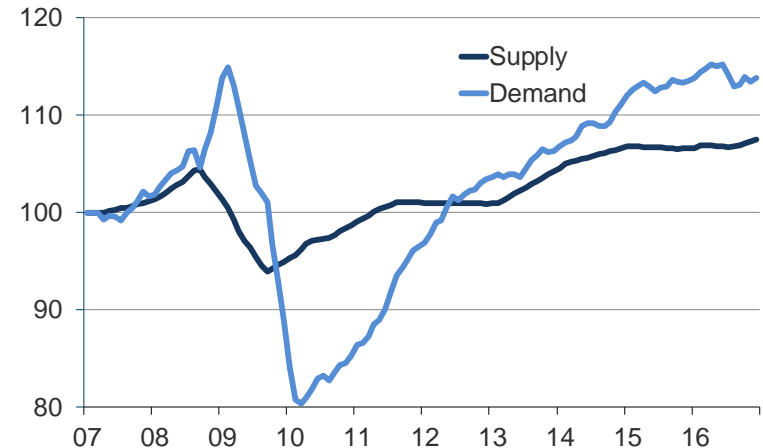
Sources: State of Texas Comptroller, Tourism Economics

Key trends in 2016

- Galveston Island's lodging market moderated in 2016.
- Room-night demand increased slightly at 0.3% in 2016, compared with a 0.9% increase in supply.
- The occupancy rate decreased by 0.4 percentage points, to 61.8% in 2016 from 62.2% in 2015.
- Overall revenue growth was flat as a tick down in ADR offset the small gain in room demand.

Demand Is Outpacing Supply in Galveston

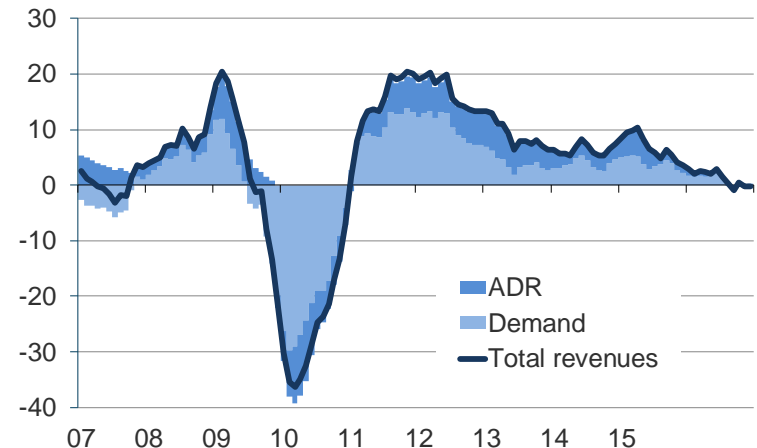
Room-nights, 12-mo moving sum, indexed to Jan 2007=100



Sources: STR, Tourism Economics

Demand and price growth boost revenues

Contribution to total revenue growth, %



Sources: STR, Tourism Economics

Key trends in 2016

- Galveston Island's visitor volume expanded 0.9% in 2016, driven in large part by expanding cruise visitors.
- After six solid years of expansion, total visitor volume again reached a new peak in 2016 at 6.5 million visitors. The spending associated with these visitors also increased in 2016 and is driving significant local economic impacts.

Visitor Volume Trends								
Thousands								
	2009	2010	2011	2012	2013	2014	2015	2016
Cruise Passengers	395	435	459	604	605	642	837	877
<i>% change</i>	(24.6)	10.1	5.7	31.5	0.1	6.1	30.5	4.7
Total Visitors	4,510	5,020	5,437	5,697	5,823	6,026	6,409	6,466
<i>% change</i>	(15.6)	11.3	8.3	4.8	2.2	3.5	6.4	0.9

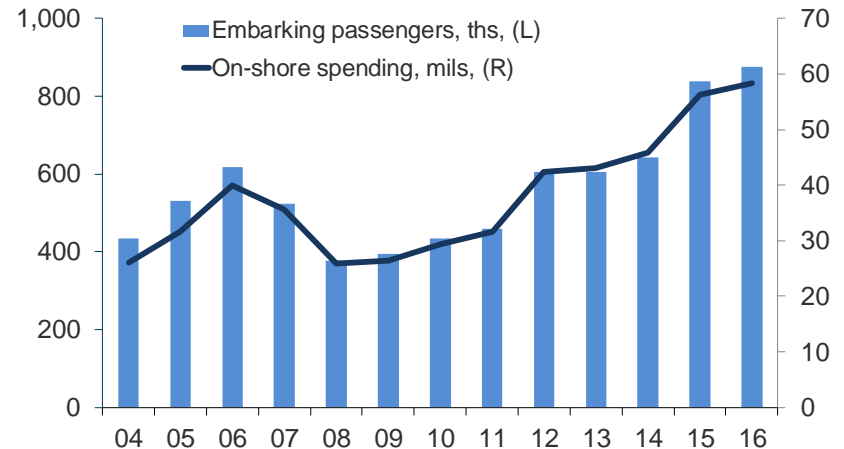
Sources: Port of Galveston, Tourism Economics

Key trends in 2016

- Cruise passengers increased 4.7% in 2016.
- At 877,000, embarkations are 42% higher than the 2006 peak of 617,000.
- The Port of Galveston maintains its ranking as the fourth largest home port in the US when measured by embarkations.
- Cruise activity generated \$58.4 million in passenger on-shore spending, and another \$19.1 million in services provided at the port in 2016.



Cruise Passengers and On-Shore Spending



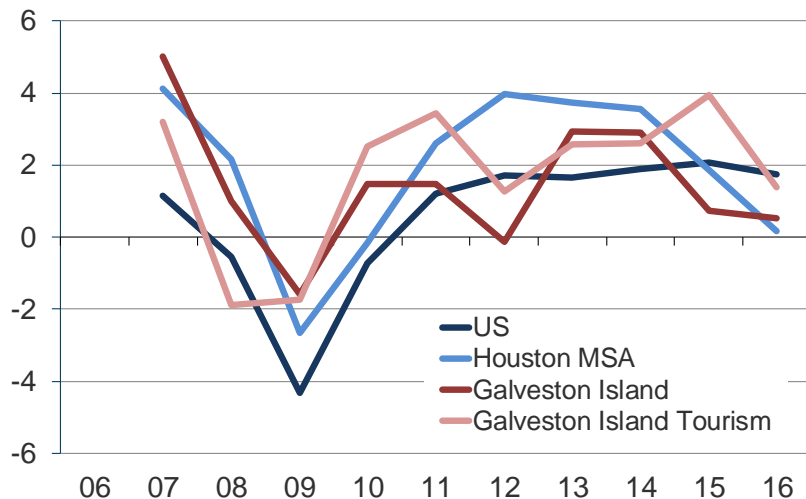
Sources: Port of Galveston, CLIA, Tourism Economics

Key trends in 2016

- Employment growth in Galveston Island's tourism industry is outpacing overall job growth on Galveston Island. Since the 2009 employment trough, tourism job growth amounts to 19.1%, compared to 10.3% for total employment on the Island.

Annual Employment Trends

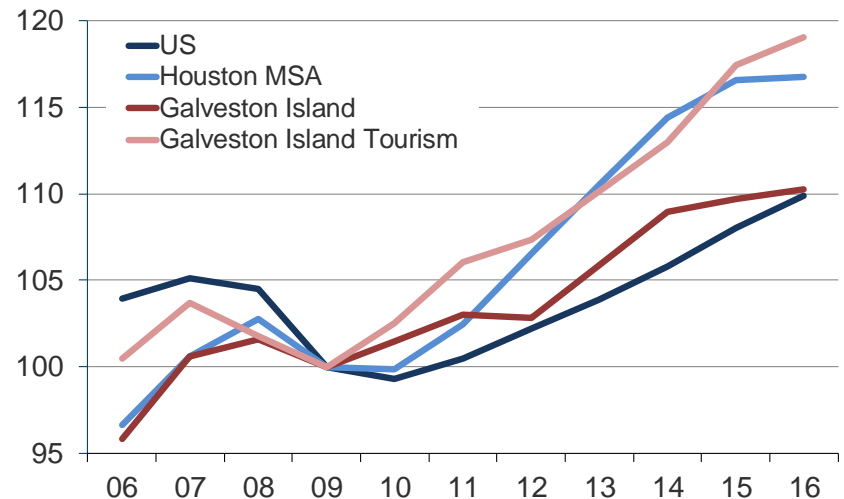
% change



Sources: BEA, BLS, Tourism Economics

Job Growth Since the Bottom

Employment indexes, 2009=100



Sources: BEA, BLS, Tourism Economics

Visitor Spending



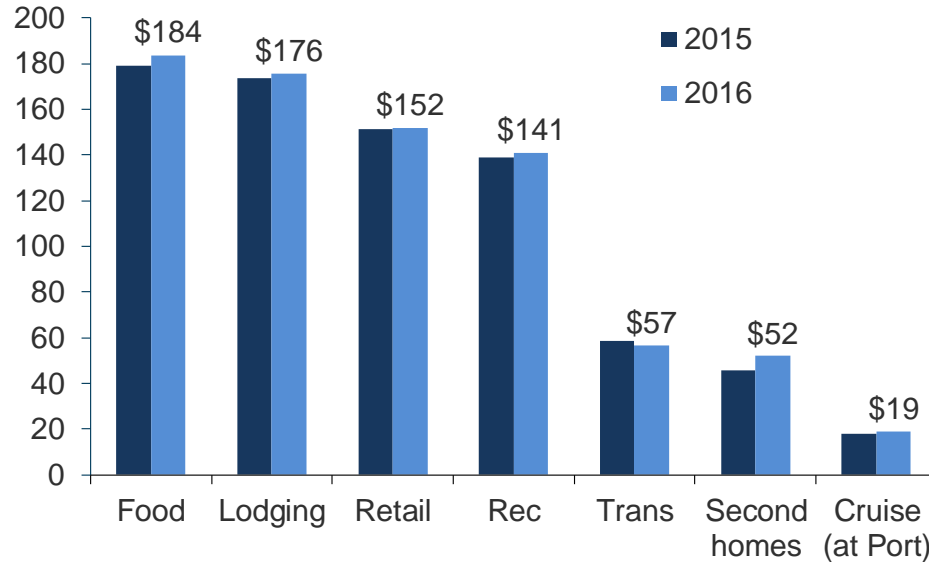
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Composition of visitor spending

Visitor Spending by Category

\$ millions



Source: Tourism Economics



- Visitors spent \$184 million on food and beverages, \$176 million on lodging, and \$152 million on retail shopping in 2016.
- The value of second home accommodations tallied \$52 million.
- Cruise-related spending at The Port of Galveston totaled \$19 million, including parking, ship fees, and water, porter, security, and utilities services. Cruise passengers' on-shore spending tallied \$58.5 million.

Composition of visitor spending

- Visitor spending increased 1.8% and reached a new peak in 2016.
- Growth in visitor spending was led by the food and beverage, retail, and recreation sectors.

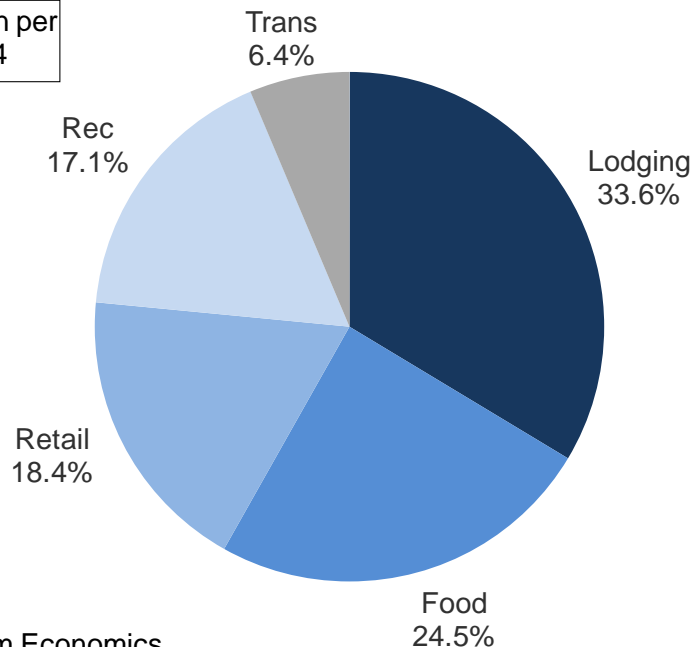
Visitor Spending By Category						
(US\$ Million)						
	2012	2013	2014	2015	2016	2015-16 % ch
Lodging	147.1	155.7	166.7	173.9	175.7	1.0%
Food and Beverage	152.6	159.9	165.6	179.3	183.7	2.4%
Retail	126.9	132.8	140.7	151.6	151.8	0.2%
Recreation	115.8	123.0	130.4	138.9	140.8	1.4%
Transportation	58.0	60.1	60.6	58.6	56.7	-3.2%
Second homes	42.6	43.7	46.0	45.6	52.0	14.0%
Cruise (at Port)	11.3	12.0	13.2	18.1	19.1	5.7%
Total	654.5	687.2	723.3	765.9	779.7	1.8%
<i>% change</i>	7.1%	5.0%	5.3%	5.9%	1.8%	

Visitor spending profiles

- Overnight visitors to Galveston spent \$114 per person per day, while day trippers spent \$50 per person per day. An estimated 61.0% of all visitors were day trippers.

Overnight Visitor Spending by Category

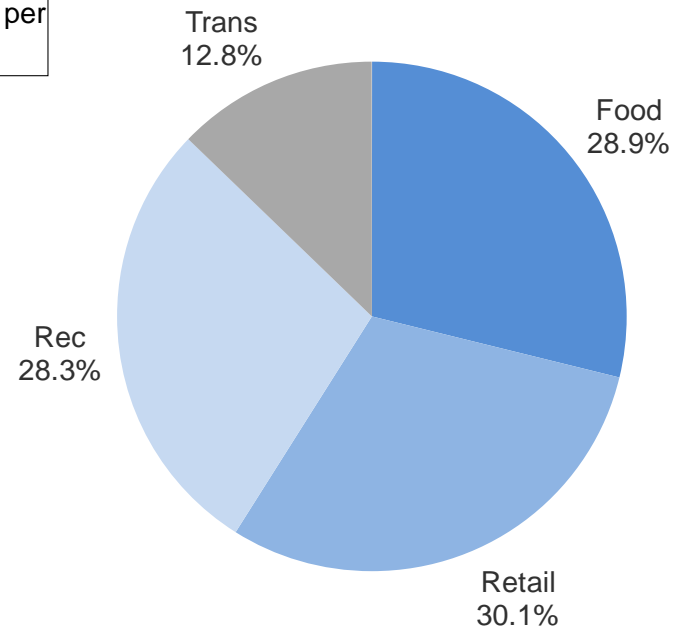
Avg per person per day = \$114



Source: Tourism Economics

Day Visitor Spending by Category

Avg per person per day = \$50

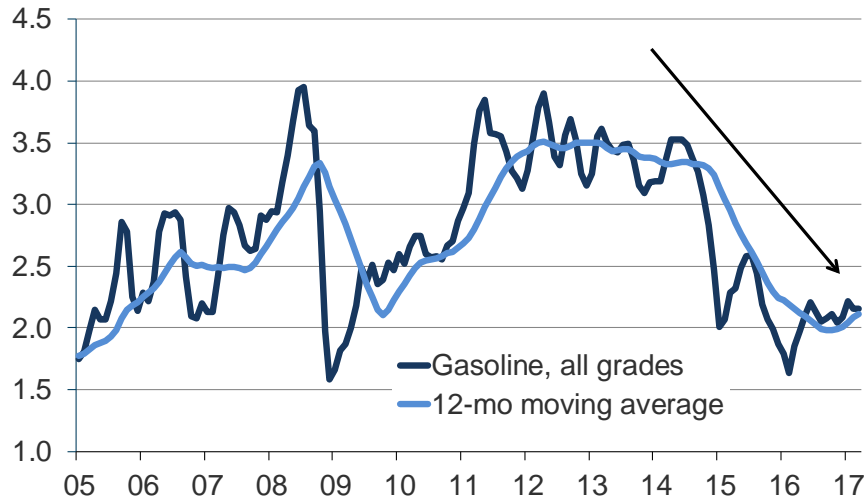


Source: Tourism Economics

Lower fuel prices free up resources

Fuel Prices on a Three-Year Decline

Houston gasoline price, dollars per gallon



Source: Energy Information Administration

- Fuel prices stabilized in 2016, but remain at six-year lows.
- After a three-year decline, low gas prices help to boost consumer confidence and encourage visitor spending.
- Oxford Economics forecasts oil prices to remain under \$60 per barrel through 2019, which implies a gas price in the Galveston area under \$2.50 per gallon for an extended period.

Economic Impacts

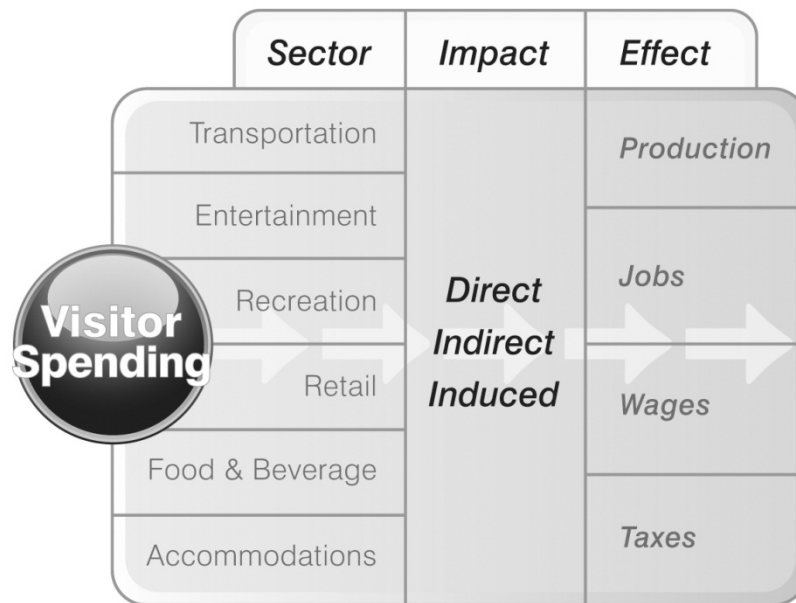


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How visitor spending generates impact

- **Direct:** Travelers create direct economic value within a discrete group of sectors (e.g. recreation, transportation). This supports a relative proportion of jobs, wages, taxes, and GDP within each sector.
- **Indirect:** Each directly affected sector also purchases goods and services as inputs (e.g. food wholesalers, utilities) into production. These impacts are called indirect impacts.



- **Induced:** Lastly, the induced impact is generated when employees whose incomes are generated either directly or indirectly by tourism, spend those incomes in the Galveston Island economy.

Tourism sales

- Including indirect and induced business sales, tourism generated \$1.1 billion in revenue in 2016.

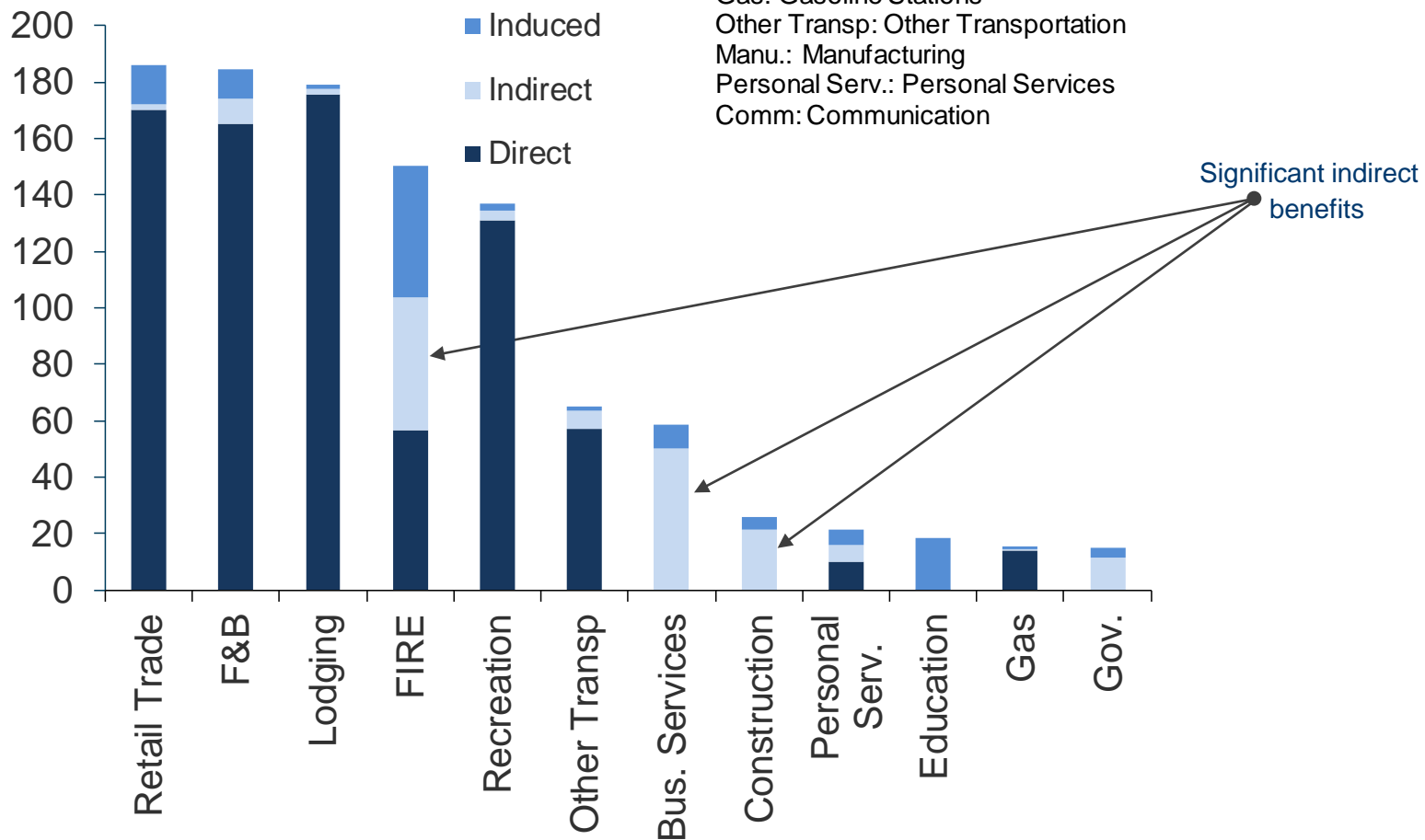
Tourism Sales (US\$ Million)				
	Direct	Indirect	Induced	Total
Agriculture, Fishing, Mining	0.0	1.6	0.6	2.3
Construction and Utilities	0.0	21.5	4.4	25.9
Manufacturing	0.0	3.2	0.9	4.0
Wholesale Trade	0.0	3.5	5.1	8.6
Air Transport	0.0	0.7	0.9	1.6
Other Transport	57.1	6.5	1.7	65.3
Retail Trade	170.2	1.8	14.0	186.0
Gasoline Stations	14.2	0.1	1.2	15.5
Communications	0.0	8.2	2.8	10.9
Finance, Insurance and Real Estate	56.5	47.0	46.6	150.1
Business Services	0.0	50.1	8.3	58.5
Education and Health Care	0.0	0.2	18.2	18.5
Recreation and Entertainment	130.9	3.6	2.4	137.0
Lodging	175.7	2.2	1.5	179.3
Food & Beverage	165.3	8.7	10.4	184.4
Personal Services	9.9	6.3	5.4	21.5
Government	0.0	11.7	3.5	15.1
TOTAL	779.7	176.9	127.9	1,084.5
<i>Annual growth, % ch</i>	1.8	4.6	3.4	2.4

* Direct sales include cost of goods sold for retail sectors

Tourism sales

Tourism Sales by Industry

\$ million

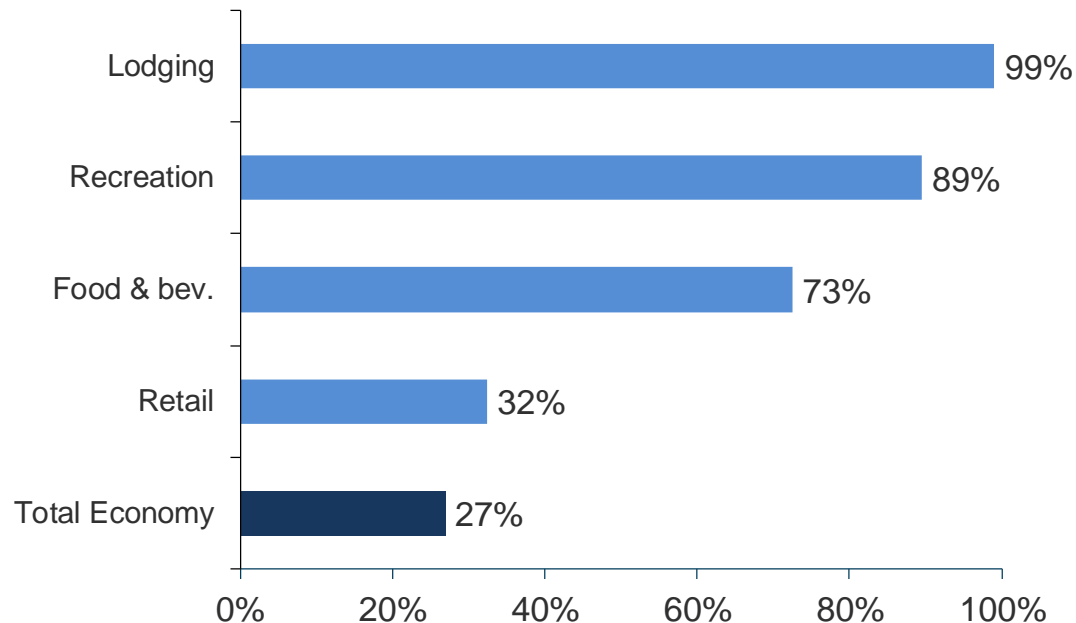


* Direct sales include cost of goods sold for retail

Tourism share of key industry employment

Tourism Employment Intensity by Industry

Direct jobs only



Source: Tourism Economics

- Tourism is a significant part of several industries – tourism directly supports nearly all employment in lodging, most of recreation, and nearly three-quarters of food and beverage employment.

Tourism employment details

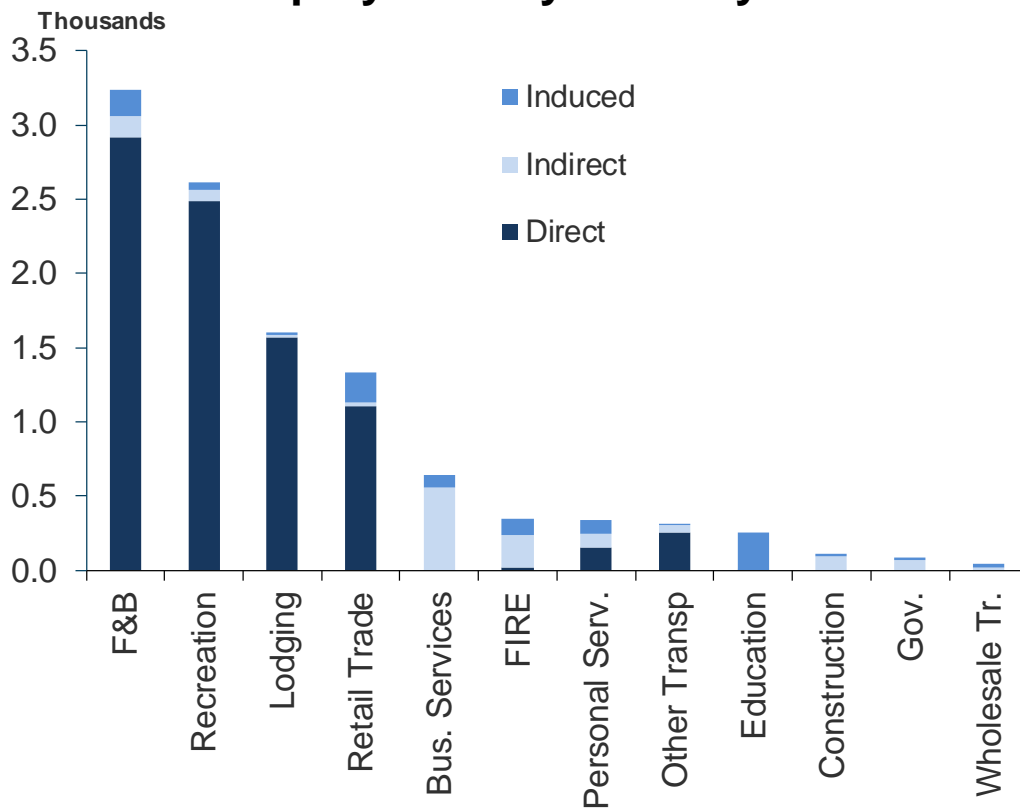
Tourism Employment				
	Direct	Indirect	Induced	Total
Agriculture, Fishing, Mining	0	4	2	6
Construction and Utilities	0	99	16	114
Manufacturing	0	10	2	12
Wholesale Trade	0	19	28	47
Air Transport	0	2	2	4
Other Transport	255	47	11	313
Retail Trade	1,105	27	203	1,335
Gasoline Stations	21	1	12	34
Communications	0	24	7	31
Finance, Insurance and Real Estate	19	216	110	345
Business Services	0	556	90	647
Education and Health Care	0	5	249	254
Recreation and Entertainment	2,485	79	47	2,611
Lodging	1,570	19	13	1,601
Food & Beverage	2,914	145	175	3,235
Personal Services	150	97	89	337
Government	0	70	18	88
TOTAL	8,519	1,422	1,073	11,013
<i>Annual growth, % ch</i>	<i>1.4</i>	<i>2.0</i>	<i>1.1</i>	<i>1.4</i>

- The tourism sector supported 11,013 jobs or 34.8% of employment (1-in-3 jobs) on Galveston Island in 2016, including indirect and induced impacts.

Tourism employment summary

- As a labor intensive collection of services, tourism-related sectors represent significant employment to Galveston Island.
- The more than 11,000 jobs supported by Galveston Island tourism span every sector of the economy, either directly or indirectly.
- The most significant indirect impacts come in business services and FIRE.

Tourism Employment by Industry



F&B: Food and Beverage
 FIRE: Finance, Insurance, Real Estate
 Bus. Services: Business Services
 Gas: Gasoline Stations
 Other Transp.: Other Transportation
 Personal Serv.: Personal Services
 Wholesale Tr.: Wholesale Trade
 Gov.: Government

Tourism personal income

Tourism Labor Income (Compensation)				
(US\$ Million)				
	Direct	Indirect	Induced	Total
Agriculture, Fishing, Mining	0.0	0.4	0.2	0.6
Construction and Utilities	0.0	5.4	0.9	6.3
Manufacturing	0.0	0.5	0.1	0.6
Wholesale Trade	0.0	1.3	1.9	3.2
Air Transport	0.0	0.2	0.3	0.5
Other Transport	30.3	3.5	0.8	34.6
Retail Trade	22.6	0.7	5.5	28.8
Gasoline Stations	0.9	0.0	0.5	1.4
Communications	0.0	1.6	0.4	2.0
Finance, Insurance and Real Estate	1.3	7.3	4.1	12.8
Business Services	0.0	17.8	3.1	20.9
Education and Health Care	0.0	0.1	9.2	9.3
Recreation and Entertainment	33.5	1.2	0.6	35.2
Lodging	44.5	0.5	0.4	45.3
Food & Beverage	58.4	2.9	3.9	65.2
Personal Services	6.2	3.6	3.0	12.8
Government	0.0	5.9	1.3	7.3
TOTAL	197.6	53.1	36.2	286.9
<i>Annual growth, % ch</i>	2.5	3.7	2.8	2.8

- Workers on Galveston Island earned \$287 million as a result of visitor activity in 2016.

Tourism tax generation

Tourism-Generated Tax Revenues			
(US\$ Millions)			
	2015	2016	% ch
Federal	79.2	81.6	3.0
Personal Income	20.2	20.8	2.8
Corporate	27.0	27.9	3.5
Indirect business	5.0	5.1	3.1
Social Security	27.0	27.8	2.8
State	32.4	33.5	3.4
Sales	20.7	21.4	3.1
Lodging	10.6	11.1	4.2
Social Security	1.0	1.1	2.8
Local	41.5	43.1	4.0
Sales	6.6	6.8	3.1
Lodging	15.9	16.6	4.2
Excise and Fees	1.9	1.9	2.8
Property	17.0	17.8	4.3
TOTAL	153.0	158.2	3.4

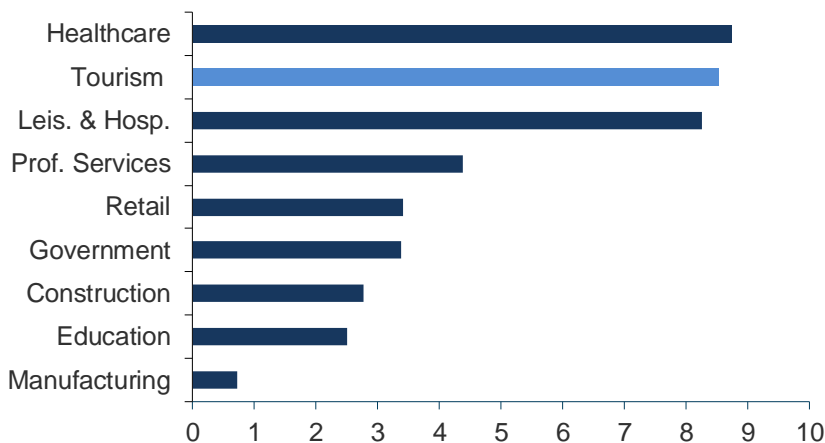
- Tourism generated \$158 million in taxes in 2016, 3.4% more than in 2015.
- Tourism-driven state and local tax proceeds of \$76.6 million helped offset the average household tax burden by \$3,771 per household.
- \$43.1 million in local taxes were generated by tourism in 2016.

Galveston Island tourism in context

- Tourism jobs span across sectors and include many small businesses. Taken as an industry, tourism was the second largest employer on the Island in 2016.
- By establishment, key employers on the island are the University of Texas Medical Branch - Galveston, Landry's, Moody Gardens, and ANICO. Total employment was estimated as 31,621 in 2016.

Galveston Island Jobs by Industry

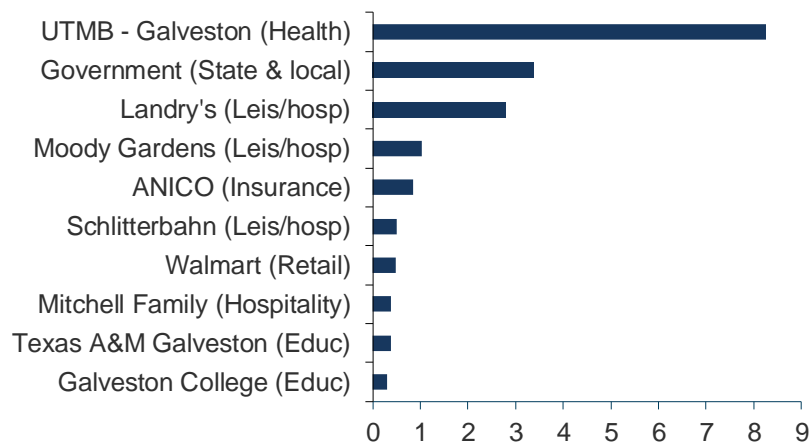
Thousands



Sources: Census, IMPLAN data, Tourism Economics

Galveston Island Jobs by Top Employers

Thousands



Sources: GEDP Investor Profiles 2014-15, Tourism Economics

Galveston Island tourism in context

- Tourism-generated tax revenues, not including hotel occupancy tax revenues, tallied \$26.5 million in 2016.
- This accounted for 51.2% of the City of Galveston's General Fund revenues, based on an estimated calendar year 2016 budget of \$51.8 million.
- Tourism-generated revenues would be sufficient to fund:
 - Police (\$17.6 million) 1.5 times over
 - Fire (\$10.4 million) 2.6 times over
 - Public works (\$3.8 million) 7 times over
 - Parks and rec (\$2.7 million) 10 times over

Methodology and Background



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Why quantify the tourism economy?

- By monitoring tourism's economic impact, policy makers can make informed decisions regarding the funding and prioritization of tourism development.
- It can also carefully monitor its successes and future needs.
- In order to do this, tourism must be measured in the same categories as other economic sectors – i.e. tax generation, employment, wages, and gross domestic product.

Why is this a challenge?

- Most economic sectors such as financial services, insurance, or construction are easily defined within a country's national accounts statistics.
- Tourism is not so easily measured because it is not a single industry. It is a demand-side activity which affects multiple sectors to various degrees.
- Tourism spans nearly a dozen sectors including lodging, recreation, retail, real estate, air passenger transport, food & beverage, car rental, taxi services, travel agents, museums, and theme parks.

Methods and data sources

- Estimates of visitor expenditures in Galveston were based on several sources including:
 - Smith Travel Research (STR) and Source Strategies data on room demand, supply and hotel revenues.
 - City tax data on hotel occupancy receipts and sales tax receipts by industry.
 - Visitor profile and spending reports produced by the Texas Office of the Governor, Economic Development and Tourism Division.
 - A tourism economic impact analysis completed for Galveston Island in 2008.
 - An economic impact analysis of cruise passengers completed by the Cruise Lines International Association (CLIA) in 2015.
 - Port of Galveston cruise passenger and port revenues data.
 - Recreational second home expenditures based on US Census data.
- An IMPLAN model was compiled for Galveston Island consisting of three zip code areas. This traces the flow of visitor-related expenditures through the local economy and their effects on employment, wages, and taxes. IMPLAN also quantifies the indirect (supplier) and induced (income) impacts of tourism. Tourism Economics then cross-checks these findings with employment and wage data for each sector to ensure the findings are within reasonable ranges.
- Employment and wage data were obtained from the Bureau of Labor Statistics, the Bureau of Economics Analysis, and the US Census Bureau.
- Fuel prices were obtained from the Energy Information Administration (EIA).

Description of spending categories

Spend Category	Description
Lodging	Includes visitor spending in accommodation sector. This includes food and other services provided by hotels and similar establishments.
Recreation	Includes visitors spending within the arts, entertainment and recreation supersector.
Local transport	Includes all forms of local transport services such as taxis, limos, trains, rental cars, and buses.
Shopping	Includes visitor spending in all retail sectors within the Galveston Island economy.
Service stations	Visitor spending on gasoline. Only the margin counts as local economic impact.
Second homes	Spending associated with the upkeep of seasonal second homes for recreational use as defined by the Census Department.
Food and beverage	Includes all visitor spending at restaurants and bars.



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