

The Economic Impact of Tourism on Galveston Island, Texas

2018 Analysis



Prepared for:



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Headline Results



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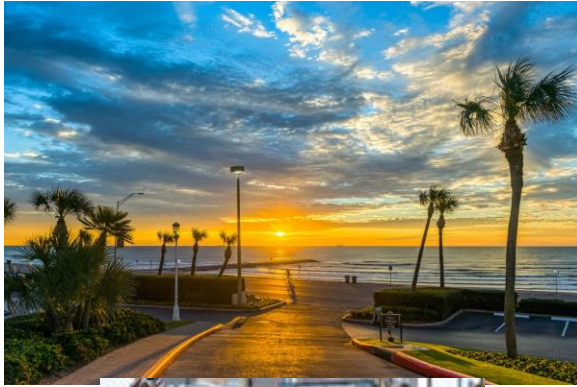
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Headline results

- 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 \$872 million in 2018, which generated \$1.2 billion in total business sales, including indirect and induced impacts.
- Tourism on Galveston Island generated \$177 million in tax revenues in 2018, with \$87.5 million accruing to state and local governments.



Headline results



- A total of 11,646 jobs were sustained by visitors to Galveston Island in 2018. This included 8,997 direct and 2,649 indirect and induced jobs.
- Approximately 35.5% (1 in 3) of all jobs on the Island were sustained by tourism.
- Tourism-sustained jobs generated total income of \$314.6 million in 2018.

Key Trends in 2018



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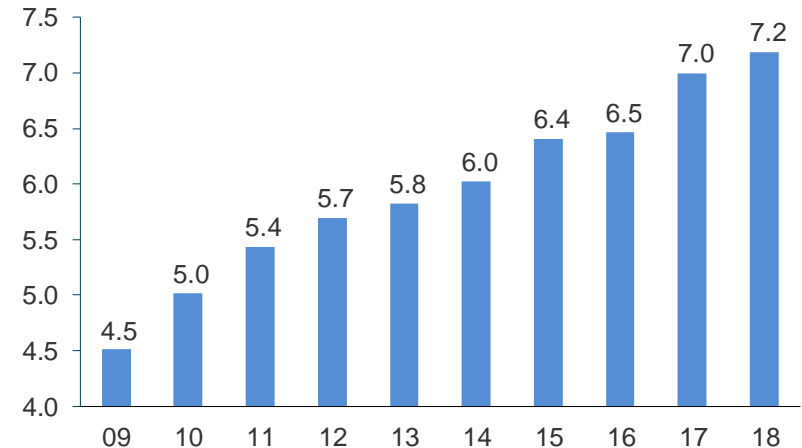
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Key trends in 2018

- Employment and income growth in Texas and Houston continue to outpace that of the nation, and are likely helping to drive tourism on Galveston Island.
- Visitor volume increased 2.7% and lodging spending increased 4.6% in 2018. Visitor volume and lodging spending are 32.0% and 65%, respectively above the previous peaks in 2007.

Volume of Visitors to Galveston

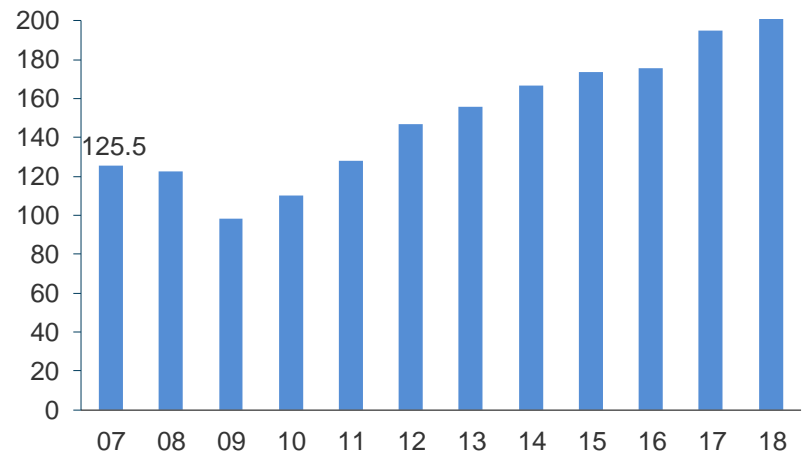
Millions, including day and overnight visitors



Source: Tourism Economics

Accommodations Spending in Galveston

\$ millions



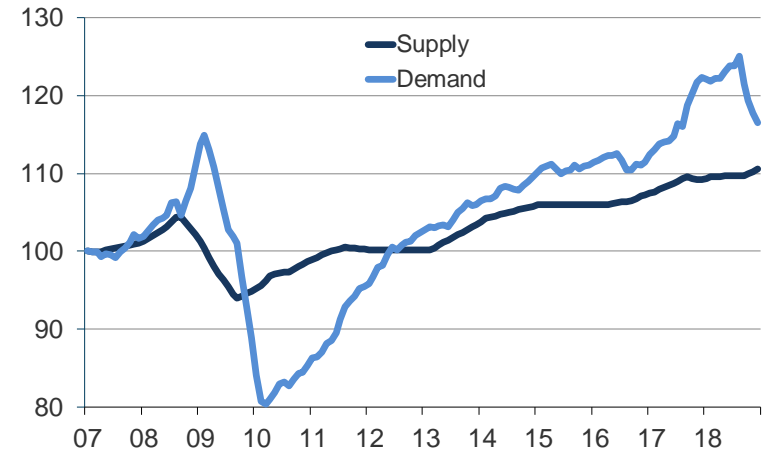
Sources: State of Texas Comptroller, Tourism Economics

Key trends in 2018

- Galveston Island's hotel market slowed in 2018, after a robust 2017, according to STR data.
- Room-night demand fell 4.8%, while supply expanded 1.2%.
- The occupancy rate ticked down 3.8 percentage points to 61.6%, but average daily rates managed to rise 5.2%.
- Some shifting in the market is likely happening as home sharing, such as AirBnB, is becoming more popular.

Softening Hotel Demand in 2018...

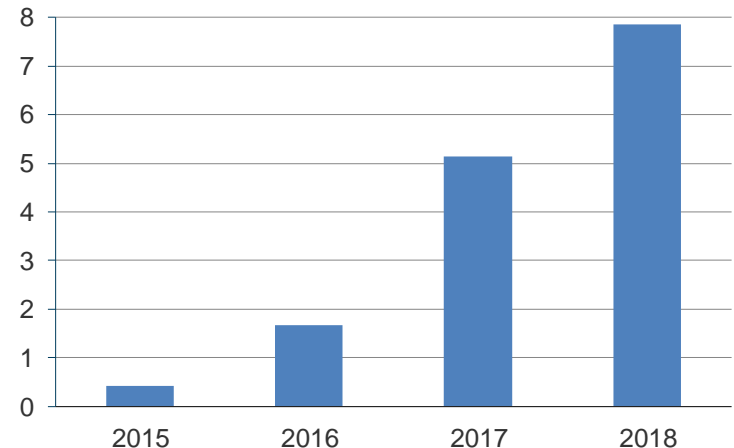
Room-nights, 12-mo moving sum, indexed to Jan 2007=100



Sources: STR, Tourism Economics

...Offset by Expanding Home sharing

Hotel comparable room revenues, \$mils



Sources: AirDNA, Tourism Economics

Key trends in 2018

- Galveston Island's visitor volume expanded 2.7% in 2018, and cruise visitors made a significant contribution to growth. The additional cruise visitors accounted for nearly a third of the annual volume growth.
- After seven years of expansion, total visitor volume again reached a new peak in 2018 at just under 7.2 million visitors.

Visitor Volume Trends								
Thousands								
	2011	2012	2013	2014	2015	2016	2017	2018
Cruise Passengers	459	604	605	642	837	877	934	985
<i>% change</i>	16.4	31.5	0.1	6.1	30.5	4.7	6.5	5.5
Total Visitors	5,437	5,697	5,823	6,026	6,409	6,466	6,998	7,190
<i>% change</i>	20.6	4.8	2.2	3.5	6.4	0.9	8.2	2.7

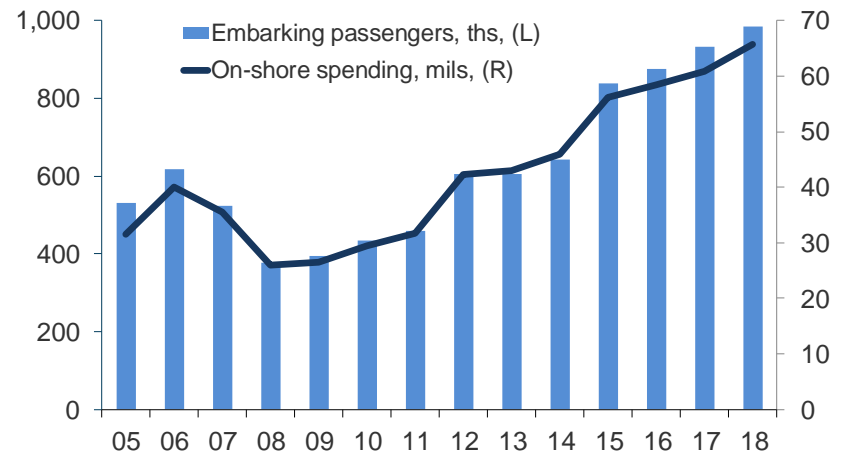
Sources: Port of Galveston, Tourism Economics

Key trends in 2018

- Cruise passengers increased 5.5% in 2018.
- At 985,000, embarkations are 59.7% 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 \$65.7 million in passenger on-shore spending, and another \$19.3 million in services provided at the port in 2018.



Cruise Passengers and On-Shore Spending

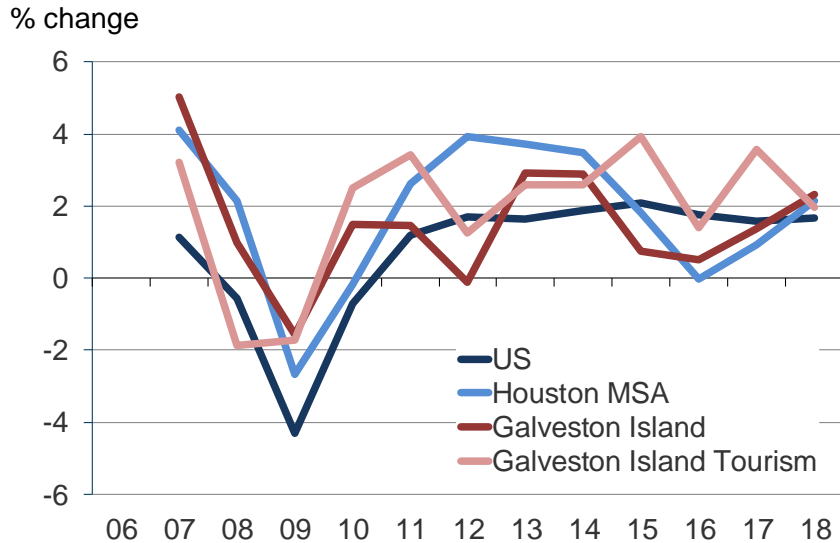


Sources: Port of Galveston, CLIA, Tourism Economics

Key trends in 2018

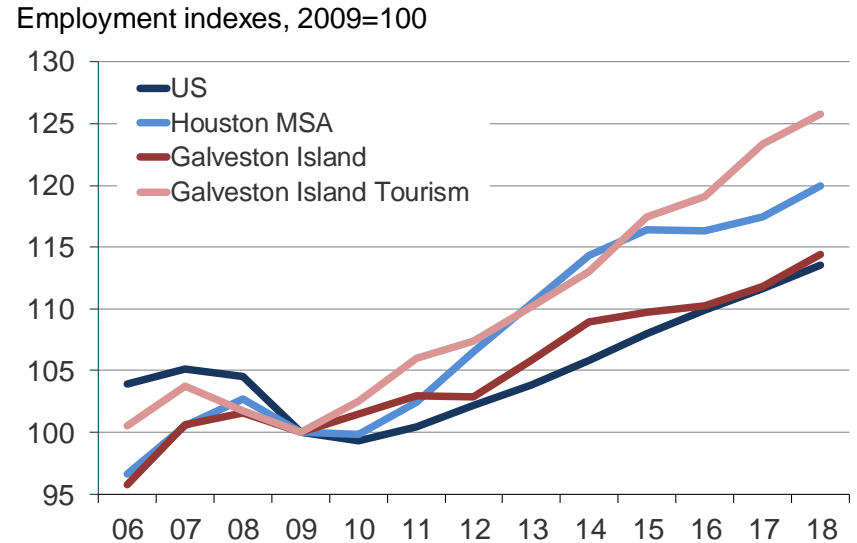
- Employment growth in Galveston Island's tourism industry is outpacing overall job growth on Galveston Island. Since the 2009 employment trough, tourism job growth amounts to 25.7%, compared to 14.4% for total employment on the Island.

Annual Employment Trends



Sources: BEA, BLS, Tourism Economics

Job Growth Since the Bottom



Sources: BEA, BLS, Tourism Economics

Visitor Spending



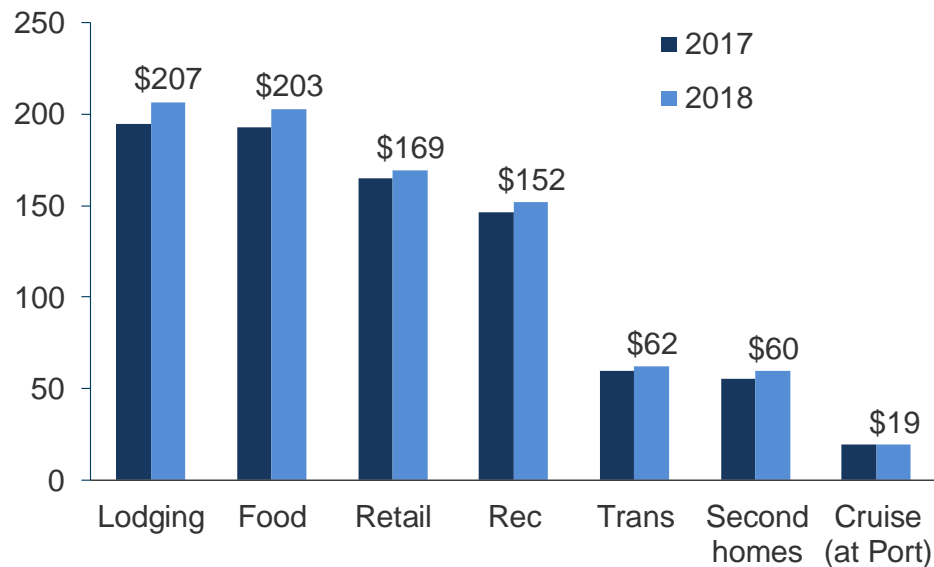
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Composition of visitor spending

Visitor Spending by Category

\$ millions



Source: Tourism Economics



- Visitors spent \$207 million on lodging, \$203 million on food and beverages, and \$169 million on retail shopping in 2018.
- The value of second home accommodations tallied \$60 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 \$65.7 million.

Composition of visitor spending

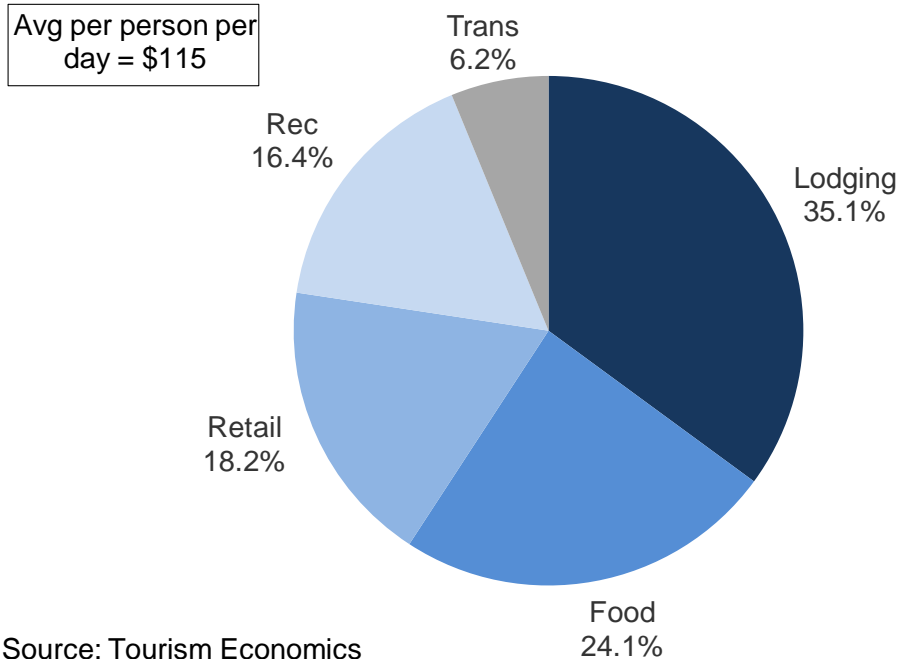
- Visitor spending increased 4.6% and reached a new peak in 2018.
- Growth in visitor spending was led by the lodging and food and beverage sectors.

Visitor Spending By Category						
(US\$ Million)						
	2014	2015	2016	2017	2018	2017-18 % ch
Lodging	166.7	173.9	175.7	194.9	206.7	6.1%
Food and Beverage	165.6	179.3	183.7	192.8	203.0	5.3%
Retail	140.7	151.6	151.8	165.1	169.1	2.4%
Recreation	130.4	138.9	140.8	146.3	151.7	3.7%
Transportation	60.6	58.6	56.7	59.8	62.2	4.1%
Second homes	46.0	45.6	52.0	55.5	59.8	7.6%
Cruise (at Port)	13.2	18.1	19.1	19.3	19.3	0.2%
Total	723.3	765.9	779.7	833.7	871.9	4.6%
<i>% change</i>	10.5%	5.9%	1.8%	6.9%	4.6%	

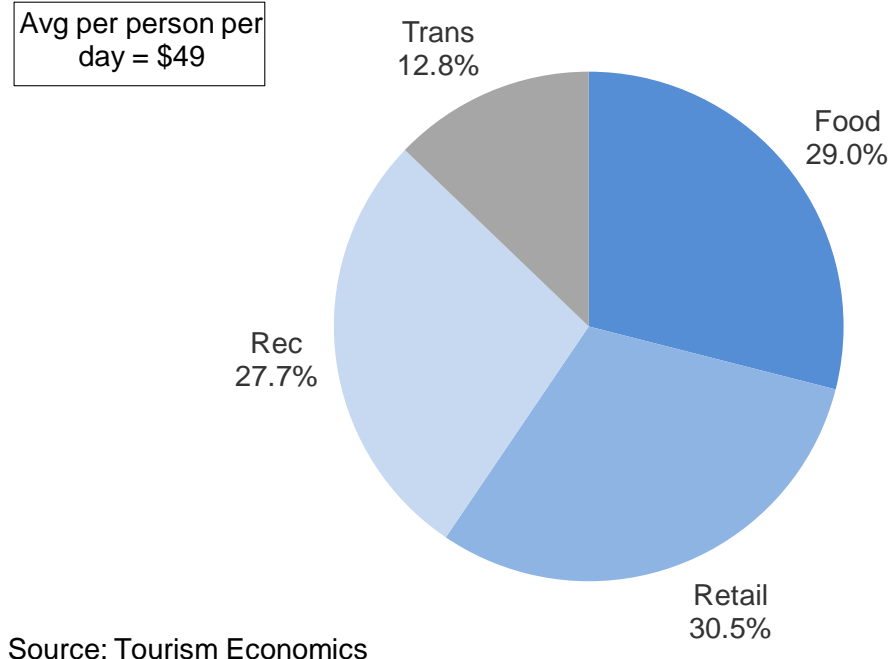
Visitor spending profiles

- Overnight visitors to Galveston spent \$115 per person per day, while day trippers spent \$49 per person per day. An estimated 60.7% of all visitors were day trippers.

Overnight Visitor Spending by Category



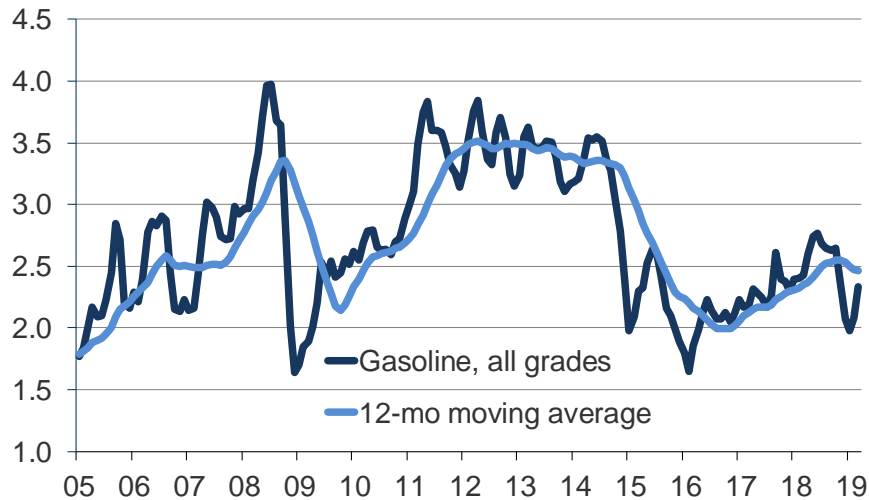
Day Visitor Spending by Category



Rising fuel prices weigh on travel

Fuel Prices Crept up in 2018

Houston gasoline price, dollars per gallon



Source: Energy Information Administration

- Fuel prices were on the rise in 2018, and finished the year 10% higher than in 2017, however still at a relatively low level.
- Rising gas prices can weigh on consumer confidence and visitor spending.
- Oxford Economics forecasts oil prices to remain under \$60 per barrel, on average, through 2021, which implies a gas price in the Galveston area under \$2.75 per gallon for at least several more years.

Economic Impacts

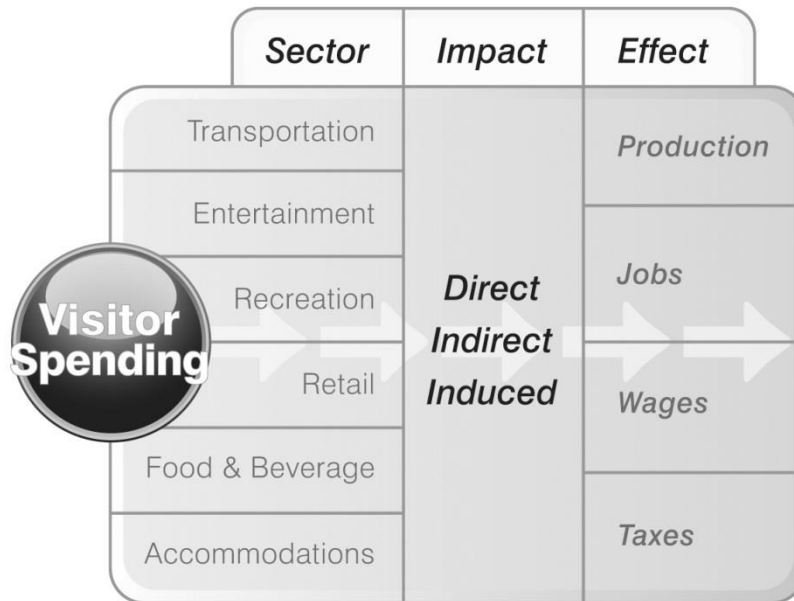


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How visitor spending generates impact

- **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 \$1.2 billion in revenue in 2018.

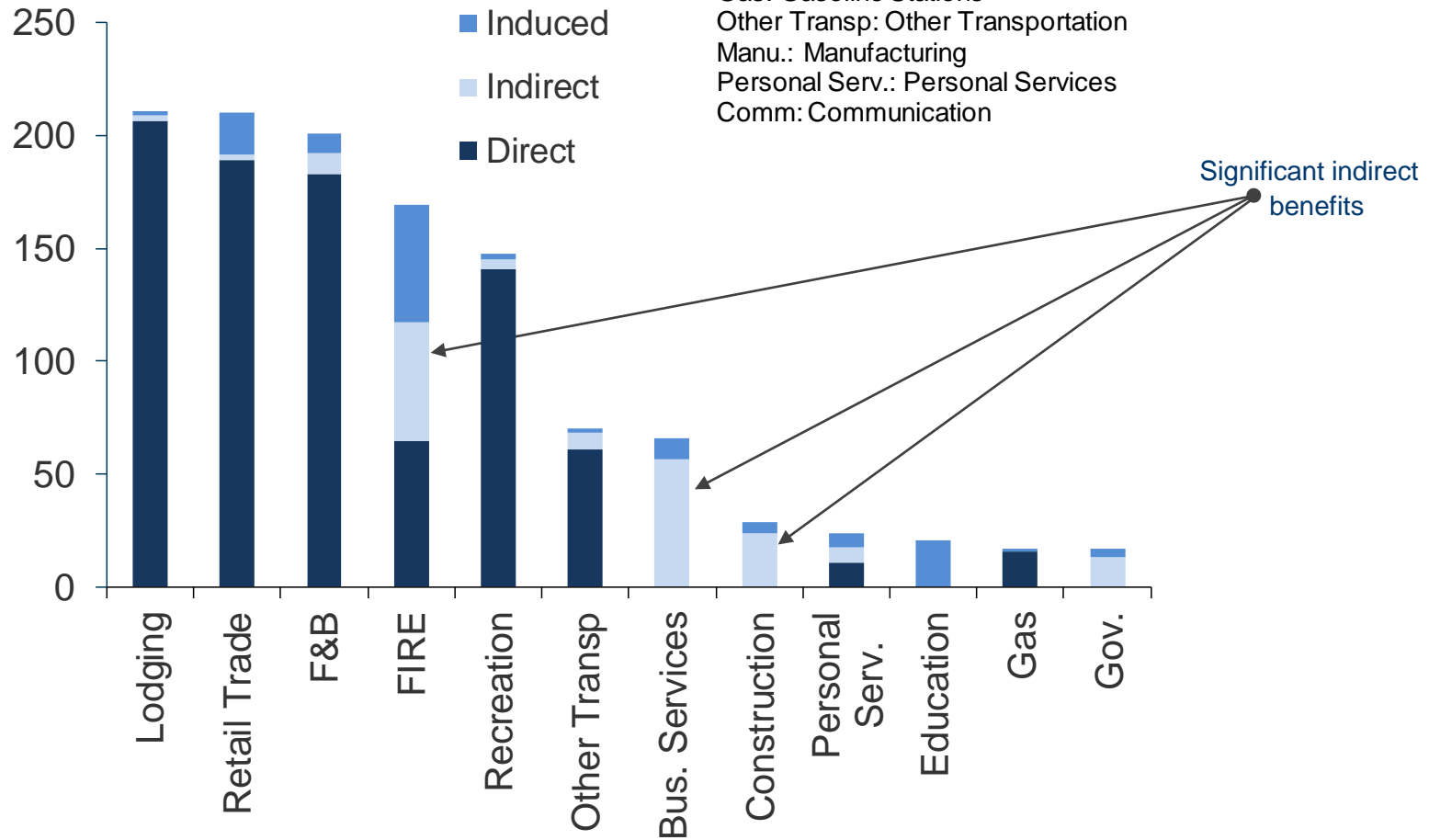
Tourism Sales				
(US\$ Million)				
	Direct	Indirect	Induced	Total
Agriculture, Fishing, Mining	0.0	1.9	0.7	2.6
Construction and Utilities	0.0	23.9	4.8	28.8
Manufacturing	0.0	3.4	0.9	4.3
Wholesale Trade	0.0	3.8	5.4	9.2
Air Transport	0.0	0.8	1.0	1.8
Other Transport	61.0	7.1	1.9	70.0
Retail Trade	189.4	2.3	18.3	210.1
Gasoline Stations	15.6	0.1	1.3	17.0
Communications	0.0	9.0	3.0	12.0
Finance, Insurance and Real Estate	64.7	52.6	51.9	169.2
Business Services	0.0	56.3	9.3	65.6
Education and Health Care	0.0	0.3	20.5	20.7
Recreation and Entertainment	141.1	3.9	2.7	147.7
Lodging	206.7	2.5	1.6	210.8
Food & Beverage	182.7	9.5	8.6	200.8
Personal Services	10.6	7.0	6.0	23.6
Government	0.0	13.1	3.9	16.9
TOTAL	871.9	197.4	141.8	1,211.2
<i>Annual growth, % ch</i>	4.6	4.7	4.4	4.6

* Direct sales include cost of goods sold for retail sectors

Tourism sales

Tourism Sales by Industry

\$ million

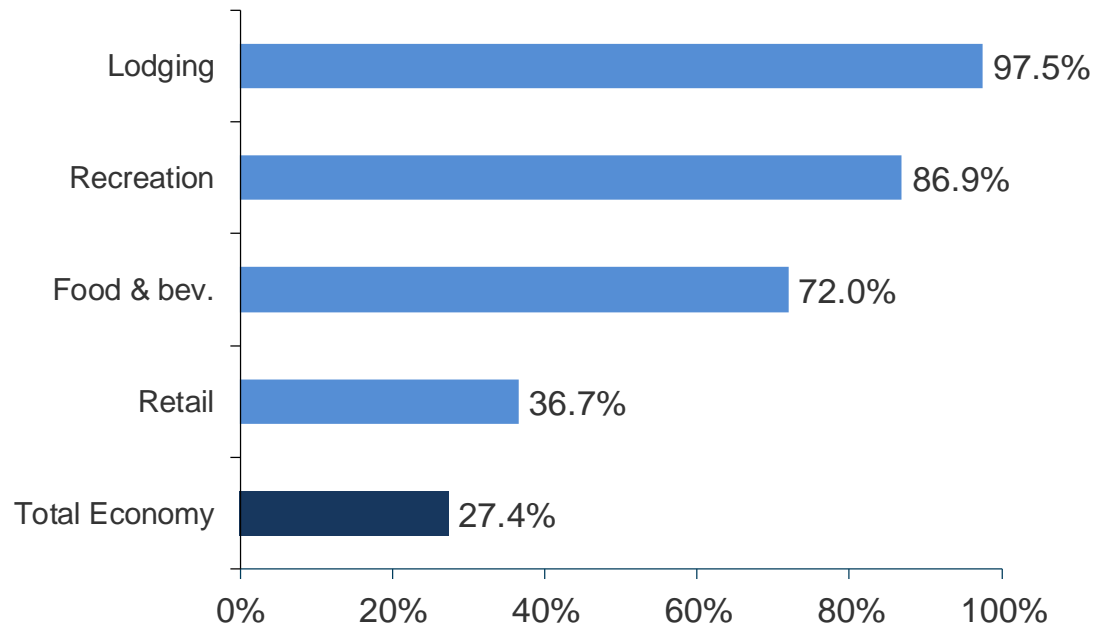


* Direct sales include cost of goods sold for retail

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

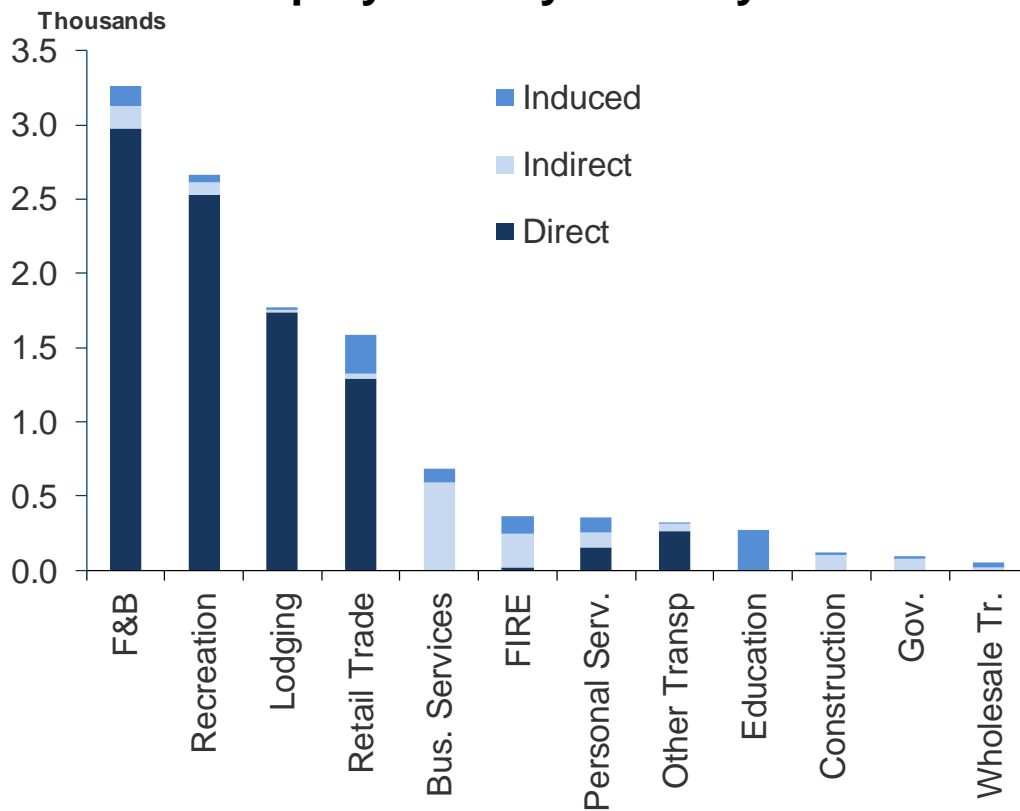
Tourism Employment				
	Direct	Indirect	Induced	Total
Agriculture, Fishing, Mining	0	4	2	6
Construction and Utilities	0	106	17	123
Manufacturing	0	11	2	13
Wholesale Trade	0	21	29	50
Air Transport	0	2	2	4
Other Transport	264	49	11	325
Retail Trade	1,289	35	264	1,588
Gasoline Stations	22	1	13	36
Communications	0	26	7	33
Finance, Insurance and Real Estate	20	229	117	366
Business Services	0	592	95	687
Education and Health Care	0	5	264	269
Recreation and Entertainment	2,532	82	49	2,663
Lodging	1,736	20	13	1,769
Food & Beverage	2,979	151	137	3,266
Personal Services	154	104	95	353
Government	0	75	19	94
TOTAL	8,997	1,512	1,137	11,646
<i>Annual growth, % ch</i>	<i>2.0</i>	<i>2.2</i>	<i>2.0</i>	<i>2.0</i>

- The tourism sector supported 11,646 jobs or 35.5% of employment (1-in-3 jobs) on Galveston Island in 2018, 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 11,600 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	0.5	0.2	0.7
Construction and Utilities	0.0	6.1	1.0	7.0
Manufacturing	0.0	0.5	0.1	0.6
Wholesale Trade	0.0	1.5	2.1	3.6
Air Transport	0.0	0.2	0.3	0.5
Other Transport	32.5	3.8	0.8	37.1
Retail Trade	28.2	1.0	7.5	32.1
Gasoline Stations	0.9	0.0	0.5	1.5
Communications	0.0	1.8	0.5	2.3
Finance, Insurance and Real Estate	1.5	8.1	4.5	14.0
Business Services	0.0	19.5	3.4	23.0
Education and Health Care	0.0	0.1	10.1	10.2
Recreation and Entertainment	35.3	1.2	0.6	37.1
Lodging	50.9	0.6	0.4	51.8
Food & Beverage	60.8	3.1	2.8	71.2
Personal Services	6.6	4.0	3.3	13.9
Government	0.0	6.5	1.5	8.0
TOTAL	216.5	58.4	39.6	314.6
<i>Annual growth, % ch</i>	3.7	3.8	3.7	3.8

- Workers on Galveston Island earned \$314.6 million as a result of visitor activity in 2018.

Tourism tax generation

Tourism-Generated Tax Revenues			
(US\$ Millions)			
	2017	2018	% ch
Federal	86.3	89.5	3.8
Personal Income	22.0	22.8	3.7
Corporate	29.5	30.6	3.8
Indirect business	5.4	5.7	3.8
Social Security	29.3	30.4	3.8
State	36.0	37.8	5.2
Sales	22.7	23.5	3.8
Lodging	12.2	13.1	8.0
Social Security	1.1	1.2	3.8
Local	46.8	49.6	6.0
Sales	7.3	7.5	3.8
Lodging	18.2	19.7	8.0
Excise and Fees	2.0	2.1	3.7
Property	19.3	20.3	5.2
TOTAL	169.1	177.0	4.7

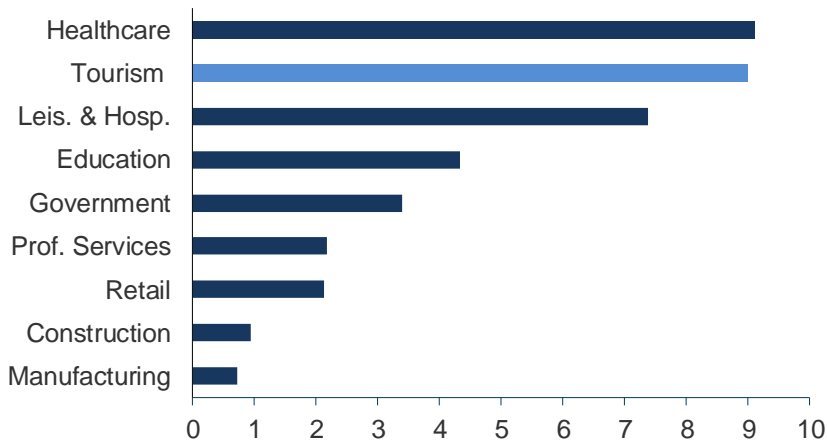
- Tourism generated \$177 million in taxes in 2018, 4.7% more than in 2017.
- Tourism-driven state and local tax proceeds of \$87.5 million helped offset the average household tax burden by \$4,233 per household.
- \$49.6 million in local taxes were generated by tourism in 2018.

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 2018.
- 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 32,779 in 2018.

Galveston Island Jobs by Industry

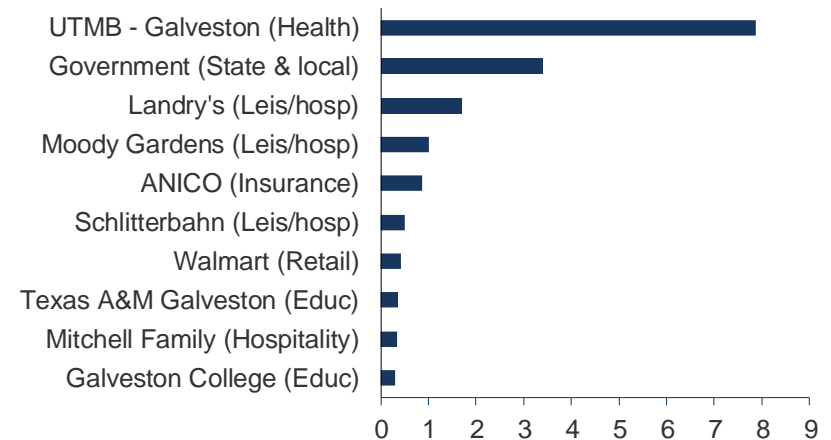
Thousands



Sources: Census, IMPLAN data, Tourism Economics

Galveston Island Jobs by Top Employers

Thousands



Sources: GEDP Investor Profiles (latest company detail available for 2017), Tourism Economics

Galveston Island tourism in context

- Tourism-generated tax revenues, not including hotel occupancy tax revenues, tallied \$26.6 million in 2018.
- This accounted for 49.5% of the City of Galveston's General Fund revenues, based on an estimated calendar year 2018 budget of \$53.8 million.
- Tourism-generated revenues would be sufficient to fund:
 - Police (\$17.6 million) 1.4 times over
 - Fire (\$10.4 million) 2.3 times over
 - Public works (\$3.8 million) 7.3 times over
 - Parks and rec (\$2.7 million) 9.2 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 2017.
 - 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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