



Annual Galveston Visitors

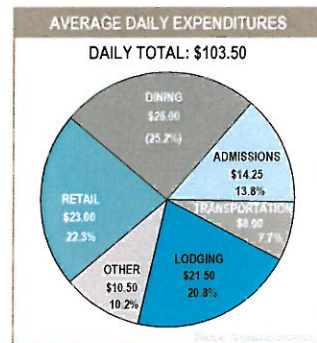
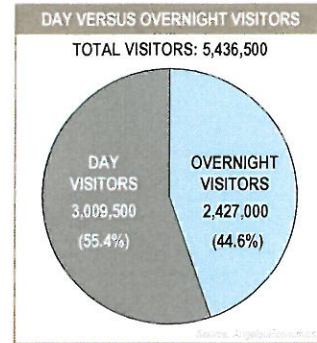
In 2007, over 5.4 million tourists visited the City of Galveston. Of this total, approximately 3 million tourists visited Galveston for a single day. An additional 2.4 million tourists spent one or more nights in Galveston.

TOTAL SPENDING

Direct Daily Expenditures by Tourists

On average, tourist expenditures in Galveston totaled approximately \$103 per person per day. This figure represents the weighted average of both day trippers and overnight visitors. As a result, spending within a particular category may appear unusually low due to the fact that not all travelers make expenditures in every spending category.

Dining represents the single largest spending category, with an average daily expenditure of \$26. Retail expenditures, at \$23 per person per day, represent the second largest spending category. Lodging is the third largest category of visitor expenditure, with a daily average of \$21.50. The fourth largest category of daily tourist expenditures, Admissions, totaled \$14.25. This includes the prices of admission to attractions such as Schlitterbahn and Moody Gardens. At \$8, Transportation expenditures on such expenses as gas and parking represent the smallest single category of tourism expenditures. Finally, visitors spend on average \$10.50 on expenses such as groceries, fishing licenses, and other miscellaneous items.



Visitor Fiscal Implications

Three of the preceding categories of tourists' expenditures have especially important fiscal impacts. Together, Dining and Retail expenditures by tourists totaled \$266 million dollars in 2007. As both of these categories are subject to local sales tax, dining and retail purchases by tourists generated \$5.3 million in revenue for the City of Galveston. This figure represents just under a third of all sales tax revenues received by the City of Galveston in 2007.

Lodging expenditures represent the third crucial source of funding for the City of Galveston. In 2007, tourists spent more than \$116 million dollars on hotels and other types of lodging, generating nearly \$10 million in hotel occupancy tax revenues for Galveston. Additionally, property taxes levied on local hotels produced more than \$5.8 million in revenues.

Direct Tourism Employment & Wages

In 2007, the tourism industry within the City of Galveston employed approximately 9,300 workers. Reflecting the expenditures of tourists, these employees primarily work in such sectors as retail, dining, and lodging. On average, employees in Galveston's tourism sector annually earned \$20,610. Thus, direct wages among Galveston's tourism industry workers totaled \$191.8 million in 2007.

Direct Tourism Employment Fiscal Implications

Slightly less than half of workers in Galveston's tourism industry—4,275 employees—reside in the City of Galveston, with the remaining workers commuting from neighboring communities. The wages earned by these workers in Galveston's tourism industry significantly contribute to the city's coffers.

In 2007, tourism industry workers residing within Galveston spent \$50.2 million on retail purchases, generating \$1 million in retail sales tax revenues. Additionally, retail space supported by worker expenditures generated \$967,500 in local property taxes.

Workers in Galveston's tourism industry also support a significant level of property taxes through the purchase of housing and the rental of multi-family units. In 2007, Galveston's tourism industry workers generated \$9.3 million in local property tax revenues.



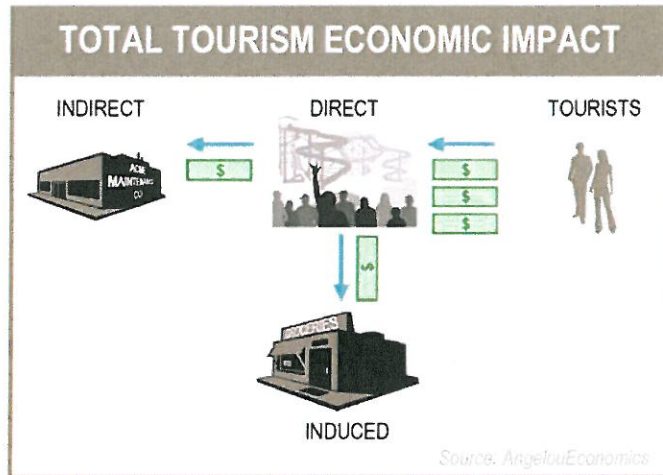
Theoretical Framework

The analysis on the preceding page was limited to economic activity directly generated by the expenditures of tourists within Galveston and the workers that directly serve them. A direct economic impact attributable to Galveston tourists, for example, would include revenues of a local theme park earned through visitor patronage.

The total economic impact of Galveston's tourism industry, however, extends beyond direct visitor expenditures. Tourism generates additional wealth within any community through indirect and induced impacts. A

typical indirect impact attributable to tourism might include the increased revenue of a local company that performs maintenance operations on theme park attractions. Induced effects are the household spending of individuals who experience increased earnings as a result of tourism-related expenditures. Groceries and other goods and services purchased by a theme park employee supported by visitor admissions are representative of induced impacts.

The following indirect and induced impacts are based on calculations provided by the IMPLAN input-output model and are specific to Galveston. These impacts are notably subdued in comparison to other jurisdictions, reflecting the large scale of leakage experienced within the City of Galveston. Given Galveston's proximity to Houston, it is unsurprising that much of the indirect and induced impacts flow outside of the community.



Indirect & Induced Spending, Employment, and Wages

In 2007, the tourism industry in Galveston injected an additional \$247.2 million into the local economy through indirect and induced spending. These expenditures supported 2,250 workers locally. On average, these workers earned \$25,300 annually. Thus, indirect and induced wages generated by Galveston's tourism industry totaled \$ 56.9 million in 2007.

Indirect & Induced Employment Fiscal Implications

Of the 2,250 indirect and induced workers supported by tourism, approximately 46% reside permanently in Galveston (with the remaining workers commuting from nearby communities). Just as direct workers in the tourism industry contribute to public revenues through retail sales and housing expenditures, indirect and induced workers generate sales and property tax through purchases of their own.

In 2007, tourism's indirect and induced workers residing within Galveston spent \$14.9 million on retail purchases, generating \$297,700 in retail sales tax revenues. Retail sales attributable to indirect and induced workers supported additional retail development within Galveston. In 2007, this retail space generated \$287,000 in local commercial property taxes.

In addition to retail sales tax, indirect and induced workers in Galveston's tourism industry also generate property taxes through the purchase of housing and the rental of multi-family units. In 2007, the dwellings of indirect and induced employment related to the local tourism industry generated \$2.3 million in local property tax revenues.

The beaches of Galveston are the city's premier attraction. According to visitor surveys, the vast majority of all tourists to Galveston visit local beaches. Though commonly perceived as the city's most compelling natural feature, existing beaches in Galveston are largely the result of significant funding and deliberate efforts by local, state, and national interests. Due to massive tidal forces, the beaches of Galveston typically lose several feet of visible sand each year; without human intervention, Galveston's most visited beaches would largely vanish within 20 years.

In 1995, the City of Galveston completed an ambitious restoration and renourishment project aimed at enlarging and stabilizing the portion of the beach extending from 10th Street to 61st Street. The cost of the entire project totaled approximately \$27.6 million (*in 2007 dollars*) and was primarily funded through bonds serviced by a .125% sales tax increase. In 2009, the City of Galveston will retire the bonds that initially funded the project; without a voter approved extension, the .125% sales tax dedicated towards beach renourishment will expire.

Still, evidence testifying to the benefits of the past beach restoration project is strong. Between 1990 and 1994, the economic impact of tourism in the City of Galveston contracted at an annual rate of -1.59%. Although this period was marked by a national recession, other tourist destinations within the state showed few signs of sluggishness. From 1990-1994, for example, the economic impact of tourism throughout the entire Gulf Coast region increased at an annual rate of 2.15%. In short, the faltering tourism industry in Galveston demonstrated the relative decline of the city's attractiveness to visitors; while tourists continued to travel, they increasingly explored alternatives to Galveston.

In 1995, however, economic activity related to Galveston's tourism industry enjoyed a sudden surge in fortunes. Galveston has sustained this remarkable increase for the past 13 years; since 1995, the economic impact of tourism in Galveston grew by an annual average of 3.73%. Importantly, the broader Gulf Coast region experienced no similar jump in growth, with the economic impact of tourism increasing slightly from 2.15% to 3.28%.

Closer examination reveals that a significant portion of the Gulf Coast region's increase in tourism-related economic activity above pre-1995 levels can be attributed to Galveston. If, after 1994, the economic impact of Galveston's tourism industry had continued to suffer the pre-renourishment growth rate, the economic impact of tourism throughout the Gulf Coast region would have fallen to just 3.11%. Under such a scenario, 20% of the observed increase in tourism-related economic activity in the Gulf Coast region above and beyond pre-1995 levels would be eliminated.

Ultimately, the weaknesses of Galveston's tourism industry between 1990 and 1994 proved unique and entirely localized. Similarly, the renaissance enjoyed by Galveston's tourism industry since 1995 is without parallel in the Gulf Coast region. As no other local attraction experienced such extensive changes between 1994 and 1995, Galveston's renourished beach provides the most compelling explanation for the change.

