# What Does Tourism Mean to the Local Economy?

## Report of the Budget Subcommittee of the TACC
## May 2012

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*"Other variables that indicate an attractive location, like an abundance of tourists, also predict urban success. The correlation seems to hold in England and France, as well as in the United States. People are increasingly choosing areas on the basis of quality of life, and the skilled people who come to attractive areas then provide the new ideas that fuel the local economy. Smart, entrepreneurial people are the ultimate source of a city's economic power, and as those people become more prosperous, they care more about quality of life."*

From: Ed Glaeser, Triumph of the City. 2011, p. 132

Introduction

The Pensacola Bay Area Convention and Visitors Bureau's Tourism Administration and Convention Committee (TACC) was charged in early 2012 with delivering a recommendation to the Escambia County Tourist Development Council (TDC) regarding a proposed budget for fiscal year 2012/2013. The budget is intended to fund destination marketing and other activities that are allowed under Florida's bed tax statutes as implemented by the Escambia Board of County Commissioners (BOCC). The following document represents one of the work products of the TACC Budget Subcommittee that was developed to assist in determining an overall amount of revenues to be investing in competing allowable uses. The sources of revenues are the Local Option Tourist Development Tax that is levied by Escambia County on short term (less than 6 month) rentals, as well as other potential funding sources.

As part of its process, the Budget Subcommittee intends to document the relative importance of tourism within the overall Escambia County economy. It also wished to examine the likely impact on visitation, and thus the local economy, of additional funding for the entities supported by the bed tax, should such funds be allocated by the taxing authority. The following memo describes the role of tourism in our local economy. It first presents overall employment and sales tax collections associated with our visitors. It then looks at the distribution of bed tax revenue within the County. Finally, it examines the ripple effect of tourism through the local economy, along with County revenue impacts, and briefly discusses the economic recovery from the Great Recession.

Employment in Escambia County

The Escambia County Consolidation Study Commission Forecasting and Economic Development Subcommittee noted in 2009: *"It is fair to say that Escambia is a low-tax, low-government expenditure county whose economic structure has shifted away from federal government and manufacturing employment over time, with a resulting secular decline in per capita personal income relative to national averages. These sectoral shifts were largely unavoidable, but those jobs have been disproportionately replaced in the local economic fabric by jobs in tourism and call centers."*

This pattern of job growth in the service sector and decrease in military and manufacturing employment is entirely consistent with trends across the nation. It is attributable to increased use of capital assets and technology that substitute for labor use, particularly in tasks that are repetitive or that can be moved offshore. Unlike much of the rest of Florida, Pensacola had a high density of employment in manufacturing, particularly in paper and chemicals, and military that rendered it vulnerable to these sectoral shifts. Those shifts are permanent, as manufacturing processes are increasingly automated, and as decreases in transoceanic shipping costs due to containerization have intensified global competition to attract capital assets. In the Department of Defense-funded sector, changes are driven by the increasingly important role of technology relative to other assets that include land mass for bases and also employment of soldiers and sailors. In contrast, many service providers, such as those in hospitality and leisure, health care, residential construction, education, and state and local government, remain labor intensive.

It is likely that we will retain many of our key manufacturing firms and our military missions and their high wages. But even assuming good success by our economic development partnerships in recruiting manufacturing firms and in influencing Washington's placement of military missions, these sectors will never be the growth drivers that they once were for our region. Instead, in a 21st century economy and society where skilled entrepreneurs increasingly care about quality of place and quality of life, smart development of our geography-specific assets will lead to a rising economic tide and better living standards.

The importance of the travel and tourism industry to the U.S. economy was noted by U.S. Commerce Secretary Gary Locke in Orlando in 2010. "Generating nearly $1.3 trillion in economic output for the U.S. economy and supporting 8.2 million U.S. jobs, the industry is a key component of our nation's economy. "Today, one out of every 16 Americans work – either directly or indirectly – in travel and tourism-related industries," Locke said. "Attracting more international travelers to the United States will create jobs in America, strengthen the economy, and help the travel and tourism industries thrive" (http://www.commerce.gov/news/press-releases/2010/05/03/commerce-secretary-gary-locke-highlights-importance-tourism-us-econom).

Standard measures of the economic importance of key economic sectors in a community include employment and earning per worker. The following Table is constructed by Economic Modeling Specialists, Inc (EMSI). EMSI is a national data provider that combines information from the federal statistical agencies and state labor market information. As can be seen below, visitors are estimated to be responsible for about 9 percent of all jobs in Escambia County. While smaller than government-related employment and also health care service, the 16,347 jobs generated are more than in most other sectors. In terms of percent of earnings, visitors drive about 6 percent of all earnings, paying some $478 million per year.

Table 1. Escambia County Economy by Major Driver

| Sector | Jobs | Earnings(K) | Jobs % | Earnings % | EPW(K) |
|---|---|---|---|---|---|
| Government | 59,706 | $3,441,284 | 34% | 44% | $58 |
| Services | 35,637 | $1,463,676 | 20% | 19% | $41 |
| Residents` Outside Income | 21,787 | $713,086 | 13% | 9% | $33 |
| Visitors | 16,347 | $477,760 | 9% | 6% | $29 |
| Finance | 14,106 | $538,687 | 8% | 7% | $38 |
| Manufacturing | 8,393 | $449,191 | 5% | 6% | $54 |
| All Other | 6,129 | $301,026 | 4% | 4% | $49 |
| Exogenous Investment | 5,181 | $199,352 | 3% | 3% | $38 |
| Construction | 2,161 | $90,378 | 1% | 1% | $42 |
| Communications | 2,039 | $85,098 | 1% | 1% | $42 |
| Mining | 1,623 | $40,938 | 1% | 1% | $25 |
| Agriculture | 1,122 | $31,527 | 1% | 0% | $28 |

Source: EMSI Complete Employment - 2011.4

## The Tourist and Tax Revenue

In addition to a large number of jobs, visitors tend to contribute a disproportionately large share of total taxes that are collected. This is particularly true for sales and use tax, as most things that our visitors purchased are subject to sales tax. It is also true for property taxes, as evidenced by the relatively low share of owner-occupied dwellings in beachfront areas. The housing units termed "vacant" in census definitions and in the Table below, are largely vacation rentals. An economic environment in which there is increasing demand for our local tourism assets (i.e., beautiful beaches, historic district, Naval Aviation Museum, shopping, dining, etc.) will lead to increased demand for real estate assets to house a growing visitor population. This is a scenario in which local real estate prices can rise, both in the neighborhoods with large concentrations of lodging for visitors, and in neighborhoods where workers and their families live. This scenario will also drive growth in population and values in neighborhoods where longer terms residents attracted to assets such as performing arts, fine dining, historic preservation, health care, and safe streets – i.e., our retiree population, will want to live.

Table 2. Housing Unit Status by Selected Northwest Florida Zip Codes

PopStats 2011 Basic Variables: Housing Units

| Name | % Vacant Housing | % Owner Occupied Housing | % Renter Occupied Housing | Total Housing Units | Median Housing Value |
|---|---|---|---|---|---|
| 32550 Miramar Beach | **67.51%** | 25.61% | 6.88% | 9,875 | $261,421 |
| 32459 Santa Rosa Beach | **58.91%** | 31.92% | 9.17% | 11,121 | $232,961 |
| 32407 Panama City Beach | **53.07%** | 32.64% | 14.28% | 8,684 | $171,029 |
| 32413 Panama City Beach | **50.23%** | 36.39% | 13.38% | 12,560 | $162,340 |
| 32413 Panama City Beach | **50.23%** | 36.39% | 13.38% | 12,560 | $162,340 |
| 32541 Destin | **42.65%** | 41.26% | 16.09% | 10,677 | $240,966 |
| 32408 Panama City | **40.14%** | 38.45% | 21.41% | 13,120 | $187,411 |
| 32561 Gulf Breeze, PnsBch | **26.23%** | 58.81% | 14.96% | 4,231 | $220,954 |
| 32548 Fort Walton Beach | **18.76%** | 50.50% | 30.74% | 12,062 | $125,053 |
| 32507 Pensacola, Perdido | **17.00%** | 55.30% | 27.70% | 13,003 | $118,674 |
| 32566 Navarre | **16.30%** | 68.15% | 15.54% | 14,783 | $156,915 |
| 32563 Gulf Breeze | **7.56%** | 74.13% | 18.31% | 9,260 | $193,023 |
| 32569 Mary Esther | **6.36%** | 64.98% | 28.66% | 4,961 | $138,825 |

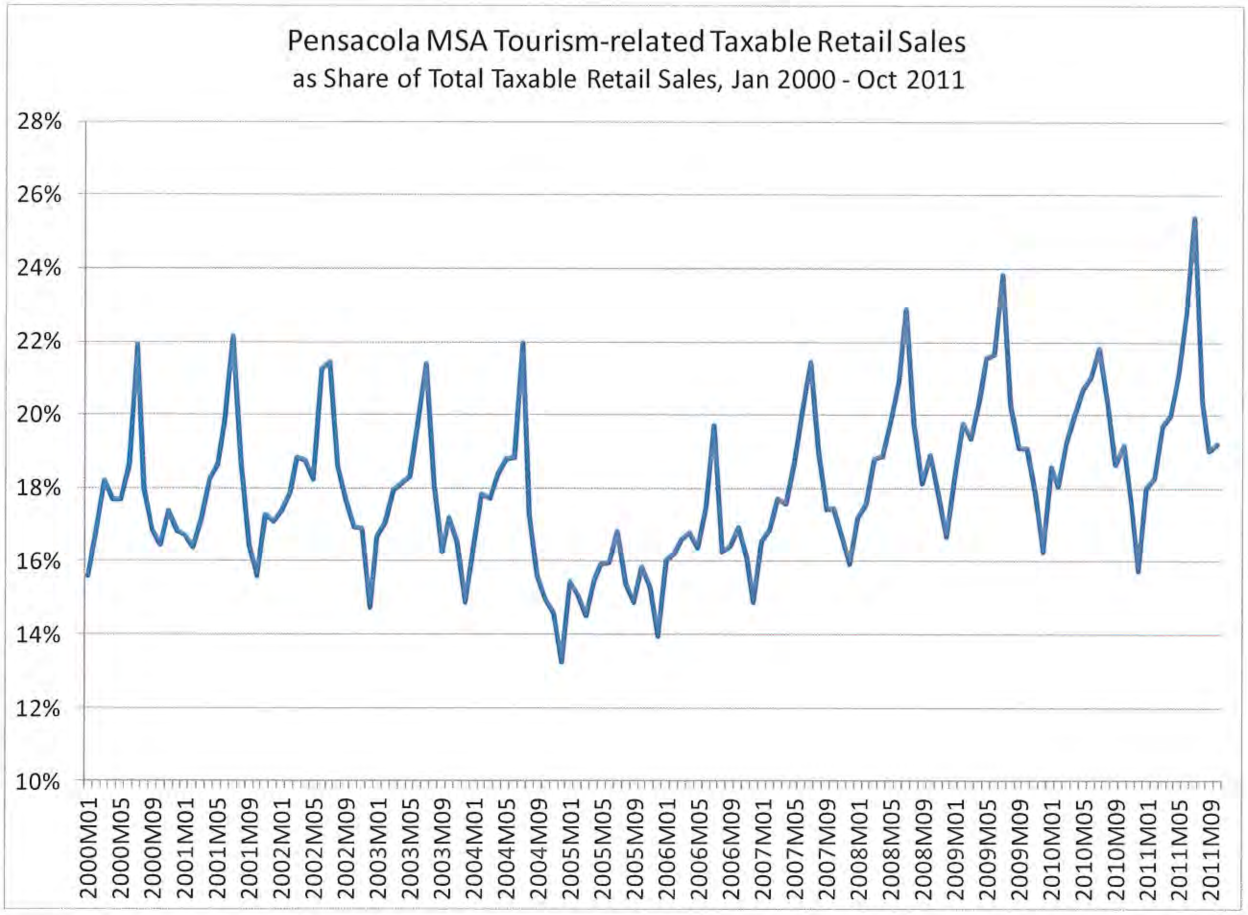
Source: DemographicsNow

Quantification of the contribution of rising property values, and thus area wealth, spending, and local government tax revenue, driven by a growing leisure and hospitality market must await a more complete economic analysis of the tourism sector and its real estate component. However, the 2007 Haas Center study used accepted economic analysis tools to suggest that in Pensacola Beach alone, location price premiums for real property were approximately $500 million. Adding the value of visitor-oriented properties in Perdido Key and other visitor areas will yield an amount that is large relative to a 2010 total county taxable real property value of $13.6 billion (http://dor.myflorida.com/dor/property/resources/pdf/27escambia2010.pdf).

Bed taxes and local option sales and use taxes on visitor expenditures are likely to have at least as large a contribution to the local tax base as do local property tax revenues. Statistical analysis suggests that every additional dollar of hotel and lodging sales in the two-county metro area is associated with an increase in total taxable retail sales for the metro area (counting both the immediate and lagged effects of that spending) of 7.6 dollars. Applying a state sales tax rate of 6% means that every dollar of taxable hotel/lodging sales generates 45.6 cents (i.e., $7.60 x 6%) of sales tax revenue for the state of Florida from our metro area. Applying a 1.5% local option sales tax (LOST) rate means that that same dollar would generate 11.4 cents in LOST, along with the 4 cents in bed tax revenue. This means, for example, that calendar year 2007, which saw a reported $167,805,642 in taxable hotel/lodging sales in the two-county Pensacola metro area, generated approximately $17.4 million in LOST in the metro area (about 95% of it in Escambia), along with the approximately $6.7 million in bed tax revenue. This is in addition to the $76.5 million in sales and use tax revenue to the state.

Expanding our view to Escambia and Santa Rosa, one can see in the chart below that in July 2011 in the Pensacola MSA, tourism-related taxable retail sales, as defined by the Florida Department of Revenue, exceeded 25% of all taxable retail sales. During the winter trough, this share of total taxable retail sales shrinks to about 16%. The magnitude of the seasonal fluctuation is smaller than for Panama City or Fort Walton Beach/Destin, and all of the Northwest Florida metro areas experience their high season in summer, unlike South Florida.

The tourism sector was hit hard by the loss of inventory due Hurricane Ivan in September 2004. Tourism's share of total sales has grown over time as vacation lodging inventory has grown and, more recently, as other sectors of the local economy have stagnated with the Great Recession. These figures are also indicative of a strong underlying economic growth potential once other parts of the economy have recovered. This potential derives at least partly from the fact that our feeder markets may have suffered somewhat less of a downturn than did traditional Florida growth sectors of housing construction and related services.



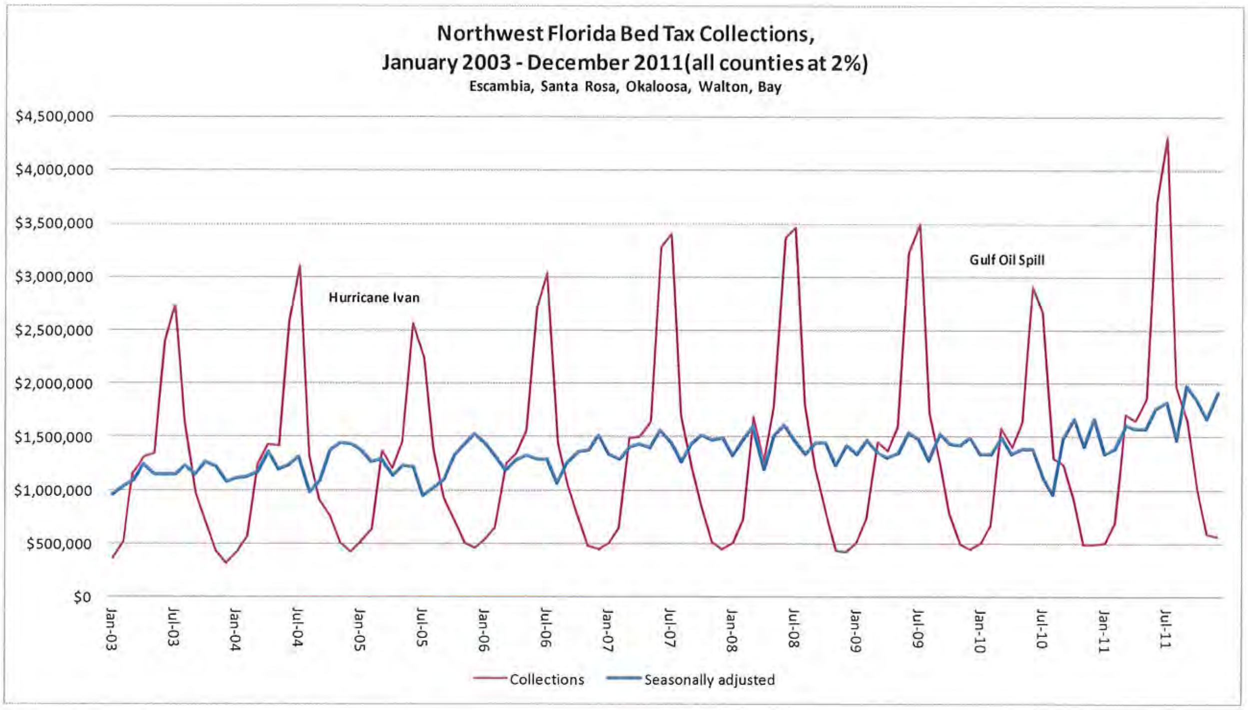

Among those business types most connected to the beach visitor are lodging, attractions, restaurants, retail sales, recreational and sport fishing, and real estate sales.

In the chart above, it should be noted that taxable retail sales in tourism are calculated as sales by those types of retail stores that are classified by the Office of Economic and Demographic Research as being tourism-related. However, in looking at the contribution of visitors to local economic activity, it is important to note that many businesses where visitors spend will fall outside the tourism and recreation categories as defined by the Florida Department of Revenue. The tourism and recreation classification of types of establishments is provided below, with category numbers pertaining to DOR "kind codes."

Tourism & Recreation Category:
8 - Restaurants, Caterers
9 - Taverns & Clubs. Liquor Stores
16 - Jewelry, Leather, Sporting Goods, Bait & Tackle, Pro Shops
39 - Hotels & Transient Rentals
43 - Tobacco Shops
52 - Photographers & Photo Supplies, Art Shops
55 - Gift, Card & Novelty Shops, Toy Stores, Hobby Shops
56 - News Stands, Magazine Subscriptions
59 - Admissions
60 - Holiday Season Vendors
61 - Rental Shops
83 - Parking Lots, Boat Docks, Storage
85 - Hotels & Transient Rentals, Local Option
89 - Exempt Facilities

Other types of retail establishments may well sell most of their output to visitors, either directly (to the visitors themselves) or indirectly (to those who then sell goods and services to visitors), but not be counted as part of the tourism and recreation category. Examples of this include boat dealers and marinas (classified under consumer durables), furniture stores (consumer durables), grocery stores, seafood markets, variety shops, repair shops, fuel dealers, commercial fishermen (all are classified by FL DOR as consumer non-durables), building contractors, roofing, electrical and plumbing, signage (classified under construction), transportation, insurance, packaging (classified as business investment). The implication of this is that a simple measure of tourism-related sales will not fully account for retail sales resulting from the presence of visitors in our economy.

Tourist development tax collections also reflect the importance of tourism in a community. Normalized monthly collections for the period from January 2003 through December 2011 for the five-county coastal region illustrate the stability of the growth of the industry in times without extraordinary events such as deep recessions, hurricanes or other natural/man-made disasters. These data also reflect the industries' ability to rapidly recover from these occurrences, particularly where infrastructure has not been destroyed. This is particularly evident in the increased tax collections subsequent to the influx of marketing dollars from the Deepwater Horizon oil spill.



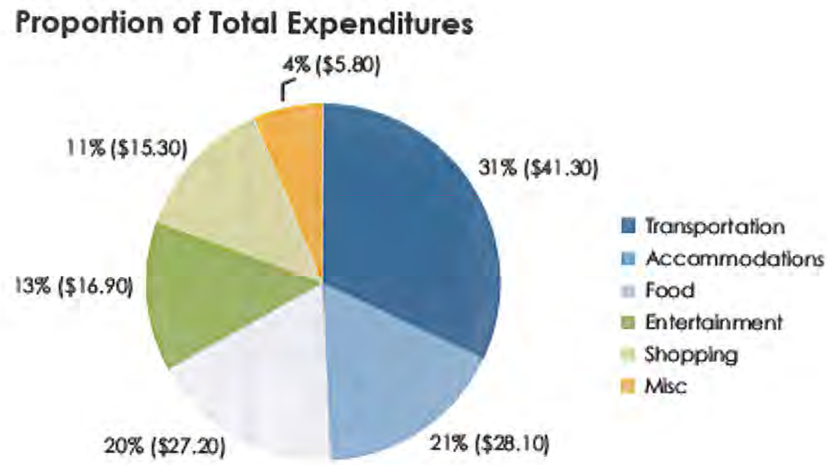

A 2006 report from Florida TaxWatch noted that one important aspect of the tourism industry in Florida is its ability to export some of the tax burden of Florida citizens. As the report states:

*As a state where destination tourism is well-established and significant (along with such states as Hawaii, California, Nevada, New York, Maine, Vermont, as well as the District of Columbia), Florida is able to export consumption taxes to non-residents to a greater extent than states that have less tourism. Florida tourists, for example, pay sales taxes into the state general fund that support programs that benefit residents almost exclusively, such as public education.*

<u>What is the Spending of the Archetypal Tourist?</u>

Recent (2010) data from VISIT Florida paints the following picture of an average Florida tourist and their spending:

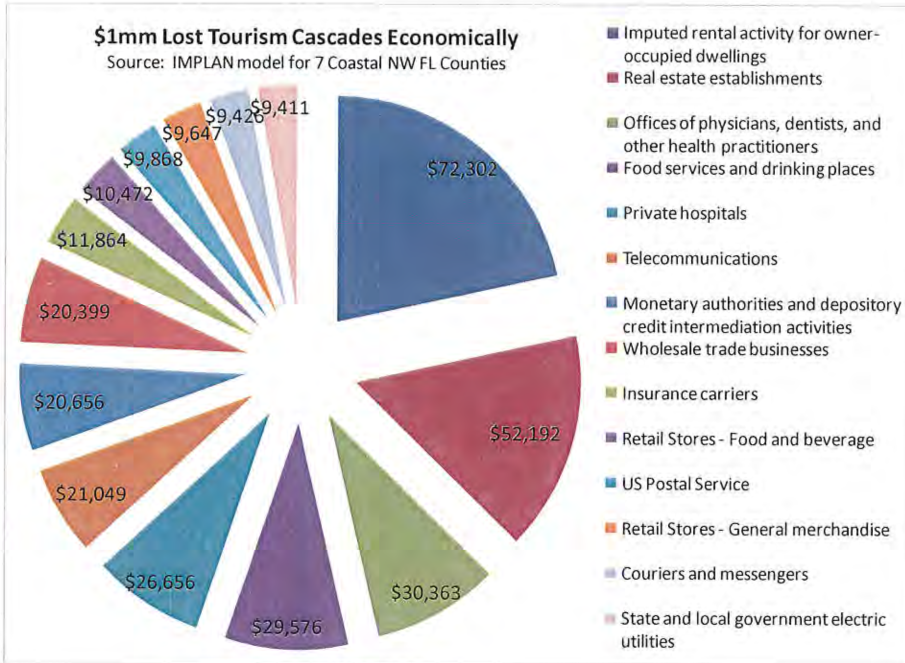
- Drives to the state (53.9% versus 46.1% by air)
- Spends $134.60 per day (including accommodations)
- Arrives in a party of 2.3 people
- Stays 5.75 days
- Spends for the entire trip $1,780




A coordinated effort will be needed to fully identify the tourism market and sub-markets for Escambia County. This is because our tourism assets (beaches, climate, history, etc.) are quite different from other parts of the state, and our visitor characteristics thus differ from those of the average Florida tourist. In Northwest Florida, data from before the oil spill show that 88% of visitors arrived by non-air transport, and that they were more likely to list the beach as a top activity. Daily spending was not substantially different for the Northwest Florida visitor, although our visitors had a somewhat shorter stay and were more likely to visit in summer, versus the South Florida winter/spring high season.

Supply Chain and Induced Impacts

The spending that is done by our visitors at hotels, restaurants, stores and entertainment venues contributes to sales and income generation throughout the economy. A convenient way to examine the economic contribution of visitors to the local economy is to examine what would be the effect of removing $1 million dollars in local spending from the visitor sector. A loss of sales from visitors would ripple through into other areas of the local economy. The following chart shows lost output for the top 14 sectors in terms of supply chain and household income impacts (the so-called "indirect" and "induced" impacts in the parlance of input-output models) that are spread throughout the local economy from a hypothesized reduction of $1 million in output in tourism businesses.




As can be seen in the pie chart above, visitor spending drives economic activity via "spin-off" or "multiplier" impacts that are above and beyond a direct change in visitor spending. For a $1 million drop in the local component of visitor sales, there is an approximate total loss of $1.579 million, once the indirect and induced spending impacts are considered. This includes some $124,494 in losses of imputed rental income to owners and profits to real estate establishments. The input-output model calculates that the indirect and induced impacts will be some $57,019 in lost sales by the offices of physicians, dentists, other health practitioners and private hospitals for every million dollars in lost tourism sales. Thus, even for businesses that might not sell directly to visitors, the economic reality is that spending flowing from this sector drives many other sectors of the local economy in a non-trivial way.

Within-state differences

Visit Florida, Florida's tourism promotion agency, notes in a 2007 research report that Northwest Florida visitors report the highest prevalence of beachfront/water activities as their primary activity than in any of the other eight Florida vacation regions. While a Miami visitor might explore the Everglades, or buy a cigar from the shops on Calle 8, and an Orlando visitor can choose among several theme parks, the Northwest Florida visitor goes to the beach. In the state that vacationers think of for sun, sand, and sea, Northwest Florida (or NW FL) is the most "beach-intensive" region.

Table 3. Waterfront as Top Activity by Region

Percent of Vacationers Listing "Beach/Waterfront" as a Top Activity
by Florida Vacation Regions as defined by Visit Florida

| Region | Percent |
|---|---|
| Central | 10 |
| Central East | 36 |
| Central West | 26 |
| North Central | <4 |
| Northeast | 16 |
| **Northwest** | **52** |
| Southeast | 31 |
| Southwest | 35 |

Source: Visit Florida. 2007 Domestic Visitor Profile by Florida Vacation Region

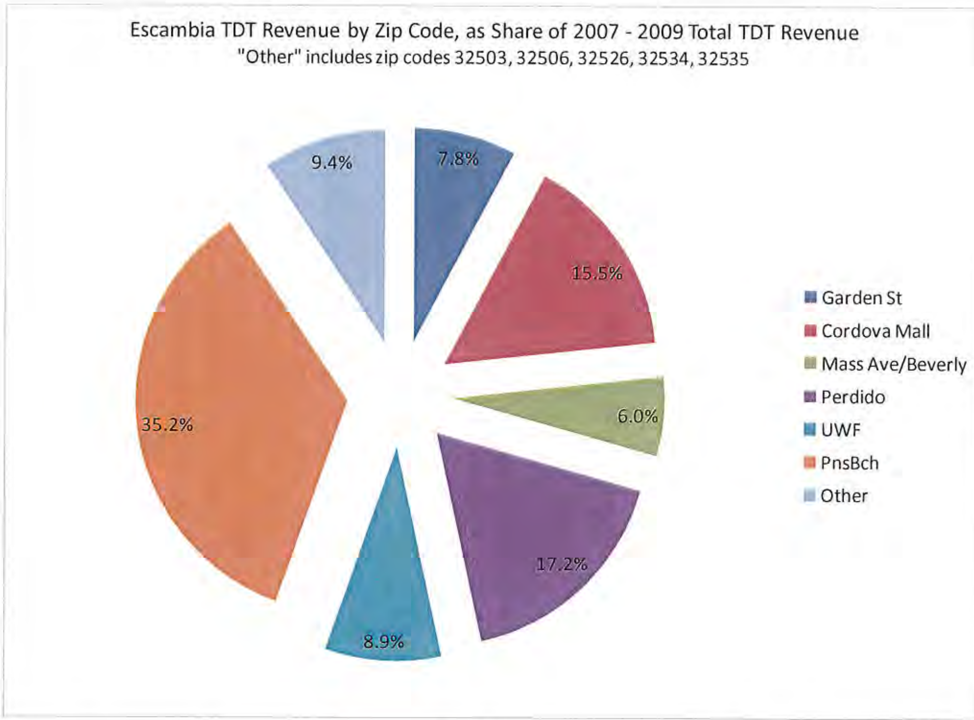
Within-region differences

Looking within Northwest Florida, differences are also apparent between the three coastal metro areas (and non-metro counties), and within those metro areas, between the coastal and the non-coastal areas.

Pensacola is the most diversified of the three coastal metro areas in the disproportionately affected area and as such has the smallest share of its economy reliant on tourism. Data from national data provider EMSI suggest that after adjusting for the different populations of the counties, Bay County has 2.1 tourism-dependent jobs for every one tourism-dependent job in Escambia, while Fort Walton Beach has 1.7. Walton County is the most tourism-intensive of the NW FL counties, with 3.2 tourism-dependent jobs for everyone in Escambia, while Santa Rosa has only .8. Because of the larger population size and overall labor force in Escambia, however, the absolute number of tourism-dependent jobs, at 16,347, is only slightly smaller than the number for Bay, at 17,521 and is larger than the number for Okaloosa, at 14,442, Santa Rosa, at 3,871, and Walton, at 7,646.

Within-county differences

As can be seen in the chart below, for more normal years, the two coastal zip codes in Escambia County (Pensacola Beach and Perdido Key) are responsible for just over 52 percent of revenues during the year. However, this impact is not uniformly distributed across the months of the year. Due to the seasonal nature of NW FL visitor activity, in 2009 this market share for beach zip codes varied from a low of 34 percent in January to a high of 72 percent during July. In contrast, the zip code adjacent to the airport accounted for only 8 percent of county bed tax revenue in 2009.




During 2010, the situation changed dramatically due to the oil spill. During July 2010, bed tax revenue collected fell by 42 percent in Pensacola Beach and by 46 percent for Perdido Key relative to the same month in the previous year. Hoteliers and condo managers described a situation in which advance bookings during spring 2010 for the summer months had been substantial. However, as the seriousness of the oil spill became clear, and the risk of oiling for Florida beach increased, cancellations mounted, particularly with properties requiring advance booking deposits. Occupancy rates fell, and in order to rebook these properties and rooms, managers had to offer substantial discounts to attract bargain seekers. The combination of low occupancy rates and low prices added up to low revenue and low bed tax collections in beach tourist zones.

However, these 2010 beachfront bed tax losses were partially offset by an increase of revenue of 33 percent for the airport zip code. This made sense given the influx of people including press, government, and remediation workers seeking affordable, comfortable and convenient lodging while doing their work in the Central Gulf Coast region. Overall, the increase in revenue near the airport meant that the countywide decrease of 25 percent, in combining excellent performance near the airport with devastating decreases at the beach, masked important differences within the County.

The spill-related changes meant that the share of total revenues attributable to the beachfront areas during July declined markedly, from 72 percent to 54 percent, while the share for the airport zip code rose from 8 percent to 14 percent of total county revenues.

Fiscal Impact

Economic impacts of tourist spending also lead to fiscal impacts, which are changes in government revenues and expenditures. Economic impacts on total business sales, wealth or personal income can affect government revenues by expanding or contracting the tax base. Impacts on employment and associated population levels can affect government expenditures by changing demand for public services. Yet while they are related, fiscal impacts are not the same as economic impacts.

In Escambia County, taxes that are paid by visitors include local option sales taxes, tourist development taxes, tobacco tax and the local option fuel tax. Additionally, there are hunting and fishing license fees and tolls paid by tourists. Property taxes are also paid by the visitor, whether this happens directly, as with a condo owned by someone in Birmingham, or indirectly, when a visiting family pays a nightly room rate at a local property that is responsible for paying property tax.

The 2010 report from VISIT Florida identified spending behaviors of NW FL tourists as follows:

| | 2008 | 2009 | 2010 | % Change '10/'09 |
|---|---|---|---|---|
| **Average** | **$135.40** | **$134.70** | **$150.70** | **11.9%** |
| Transportation | $44.80 | $41.40 | $50.20 | 21.3% |
| Food | $28.20 | $27.20 | $29.70 | 9.2% |
| Accommodations | $23.70 | $28.10 | $29.30 | 4.3% |
| Entertainment | $17.60 | $16.90 | $19.30 | 14.2% |
| Shopping | $15.40 | $15.20 | $15.00 | -1.3% |
| Miscellaneous | $5.70 | $5.80 | $7.30 | 25.9% |

Using information from the archetypal Northwest Florida tourist shown in the table above - a stay of 3.9 days and daily spending of $150.70 distributed in the same manner – it is possible to roughly calculate the potential gross fiscal impact of one additional dollar of tourist spending. Using 3.9 days of sales taxes paid at the local option rate of 1.5 percent on lodging, restaurant food, shopping and entertainment (i.e., $364 x 1.5%), along with bed taxes collected at 4 percent (i.e., $114 x 4%) and 15 gallons of gas taxed at 7 cents per gallon (i.e., $1.05), local tax revenue on each dollar of tourist spending in Escambia County amount to approximately $11.08 per visitor per stay. These are the estimated taxes that would accrue specifically to County coffers; revenues to the State of Florida are in addition to this amount.

This example above is only an illustration as to a method for calculating the fiscal impact of a tourist dollar. The actual figure for current and future years may be quite different if, for example, the 2010 Escambia County tourist behavior referenced by the VISIT FL report varied significantly from typical behavior in terms of length of stay or other spending behavior during the oil affected season. Also, this brief calculation does not look at the revenues to the County that will be generated by the local spin-off effects of tourism spending. In the parlance of economic impact, or input-output models, the $11.08 in tax revenue per visitor per stay represents only the direct effect, not the indirect and induced effects that are commonly referred to as the "multiplier effect." As was referenced earlier, a dollar in additional hotel/lodging sales is statistically associated with $7.60 in additional total taxable sales, and thus $17.60 per visitor per stay (i.e., $29.30 per day x 3.9 days x 7.60 multiplier x 1.5% LOST, plus 4% bed tax x $29.30 x 3.9) in the metro area. Such additional fiscal impact would flow from increased employment and purchases in the sector due to increased spending or visitation. Nor does the calculation take into account revenue generated by property taxes.

Tax revenue numbers of this magnitude imply that in a variety of plausible scenarios, the incremental local tax revenue generated by new visitors would likely be sufficient to cover the additional marketing expense that would have to be incurred to attract them to our area. That is, the marketing could actually be self-funding when the full range of tourism-driven taxable activities is considered. The tourism literature references the return on investment that would likely accrue from additional marketing expenditure as being between $5 and $20 on every dollar expended. While additional research would be needed to apply these findings specifically to the Pensacola market, there are several reasons to think our tax revenue return on additional destination marketing investment would be substantial. One is that our destination has never had the benefit of substantial marketing campaigns and thus has likely not achieved its maximum potential market penetration. Another is that our relatively high local option sales tax rate (Escambia is one of 7 counties with a 1.5% LOST rate in 2012; no other Florida counties have higher) means that visitors contribute substantially to local tax collections, unlike those Florida counties (e.g., Okaloosa) where the entirety of sales tax revenue goes to the state.

<u>Supply Changes and Trends</u>

The post-Ivan period has been one of rebuilding for the tourism infrastructure in Escambia County. It has taken seven years for the number of licensed lodging units to reach pre-Ivan levels. There has also been a shift in the nature of these units away from condos, motels and dwelling to a substantial increase in motel accommodations. Fully 72 percent of new licensed units since 2008 have been for hotel rooms.

Table 4. Number of Licensed Lodging Units

| | 2005 | 2008 | 2012 | New Units since 08 |
|---|---|---|---|---|
| Bed & Breakfast | 8 | 11 | 19 | 16 |
| Resort Condo | 1,892 | 1,410 | 1,513 | 208 |
| Resort Dwelling | 224 | 114 | 138 | 39 |
| Hotel | 1,724 | 2,416 | 3,102 | 686 |
| Motel | 4,968 | 4,331 | 4,043 | 0 |
| Transient Apartment | 24 | 24 | 24 | 0 |
| Transient Rooming House | 2 | 3 | 3 | 0 |
| Total | 8,842 | 8,309 | 8,842 | 949 |

Source: Florida Department of Professional Regulation

The largest additions to area lodging have been the Margaritaville Beach Hotel (162 units), Holiday Inn Resort (206 units) and the Hilton Garden Inn Pensacola Airport (137 units).

Pensacola Civic Center

The Escambia County Board of County Commissioners commissioned the construction of the Civic Center and the facility opened in 1985. Tourist development tax dollars were pledged to fund the tax exempt bonds used to construct the facility.

The Civic Center receives a significant allocation of tourist development tax dollars each year to supplement its operating budget, which is consistently in the red. In 2010, the Civic Center experienced an increase in operating revenues of $507,105 or 14.57%. That increase, however, was not enough to cover the $986,311 or a 17.86% increase in operating expenses. In addition to the Tourist Development Taxes used to subsidize the operating losses at the Civic Center, the County gave the Civic Center a cash subsidy of approximately $900,000 during fiscal year 2010, up from the $520,158 cash subsidy given in fiscal 2009.

Publicly owned civic center operations are frequently not profitable. Civic centers are public because they serve social purposes, yet are not sufficiently profitable to be provided by the private sector. Therefore, civic centers are often considered successful if they can consistently break even or require minimal taxpayer support for their general operation. The Tallahassee-Leon County Civic Center, operated by the independent special district civic center authority, generated an operating profit in FY 2010 when disregarding amortization and depreciation (Source: Tallahassee-Leon Civic Center Authority audited financial statement). Many others, however, continue to require significant subsidies from other revenues. For example, the Mobile Civic Center, a similar sized facility to that of the Pensacola Civic Center, had operating expenses of $4,506,235 in FY2010 while generating revenues of just $2,094,485. It received additional funding from the city of $1,226,869 that same year. (Source: City of Mobile CAFR FY2010).

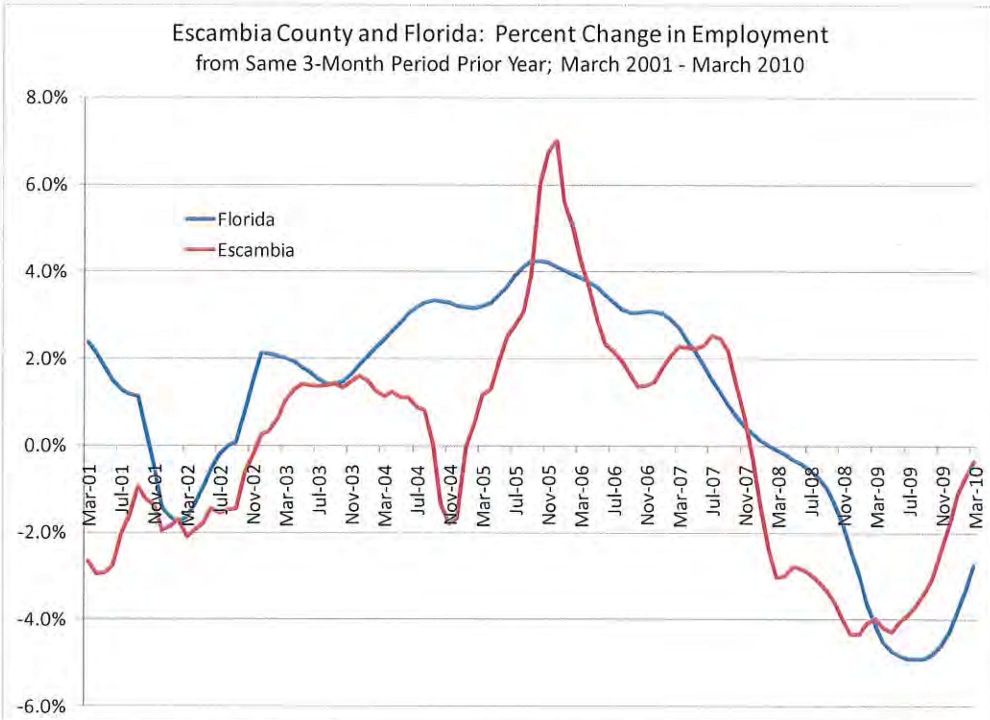
Table 5. Pensacola Civic Center Operations

| Civic Center Operations | Total Operating Revenues | Total Operating Expenditures | Operating Income | Operating deficit as a percentage of total operating expenditures |
|---|---|---|---|---|
| FY 2004 | $3,389,852 | $5,241,532 | ($1,851,680) | 35.30% |
| FY 2005 | $4,168,563 | $5,705,100 | ($1,536,537) | 26.90% |
| FY 2006 | $3,971,999 | $5,868,510 | ($1,896,511) | 32.30% |
| FY 2007 | $4,314,095 | $6,410,538 | ($2,096,443) | 32.70% |
| FY 2008 | $3,632,468 | $6,218,222 | ($2,585,754) | 41.60% |
| FY 2009 | $3,473,104 | $5,522,645 | ($2,049,541) | 37.11% |
| FY 2010 | $3,973,661 | $6,508,956 | ($2,535,295) | 38.95% |

Source: Florida TaxWatch and Escambia County Comprehensive Annual Financial Reports 2004-2010.

Since FY 2004, tax dollars have covered no less than one-quarter of the total operating expenditures of the Pensacola Civic Center. The County is currently under contract with SMG, a private management company for public facilities, to operate the facility – although the County remains responsible for its losses and for reporting its revenue and expenses.

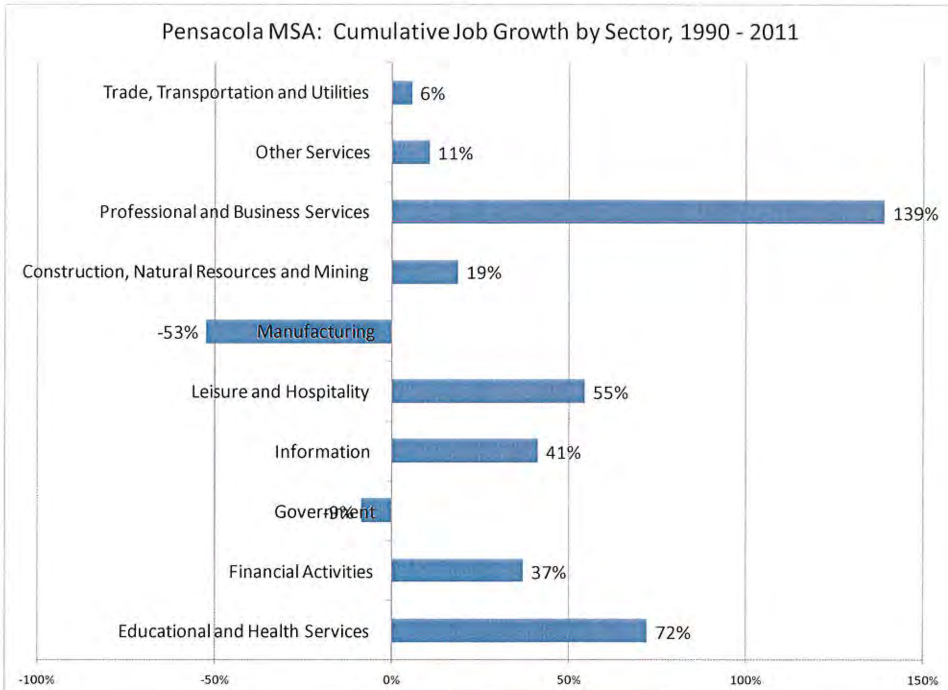
General Growth Trends in the Local Economy



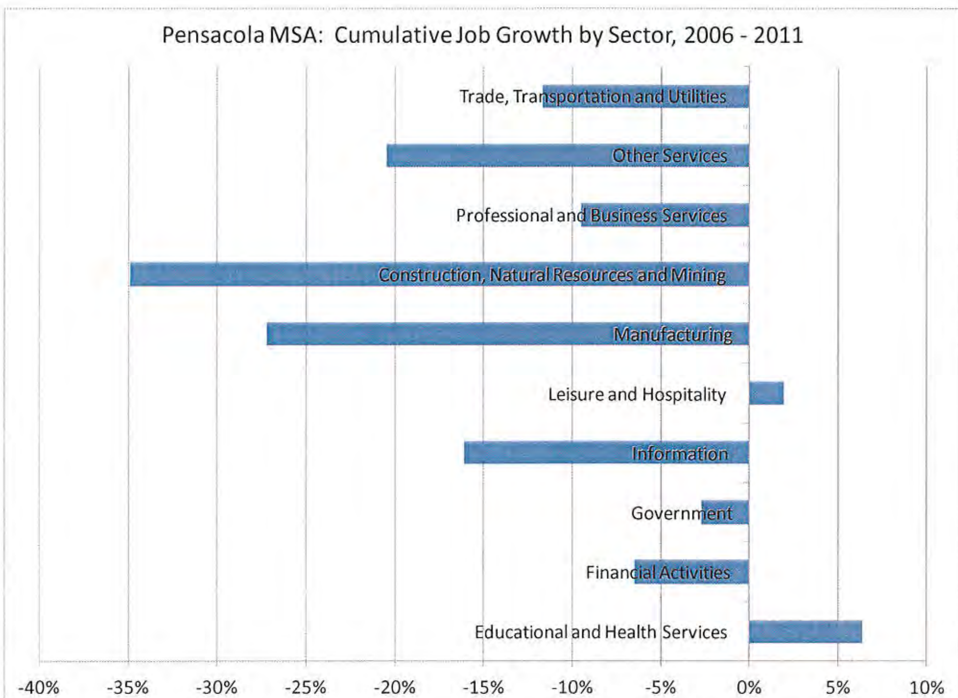

The national economic picture has improved, with the national recession that began in December of 2007 having ended in June of 2009, according to a September 2010 assessment by the National Bureau of Economic Research (NBER). While the recession hit Florida harder than many other states, the sales and employment data cited above clearly show Escambia County and Florida exiting the recession. The Florida Revenue Estimating Conference of August 2010s projects that revenue into state coffers from taxable retail sales will have risen in FY2010/2011 by 5.1% from the prior fiscal year.

Sector Employment Trends

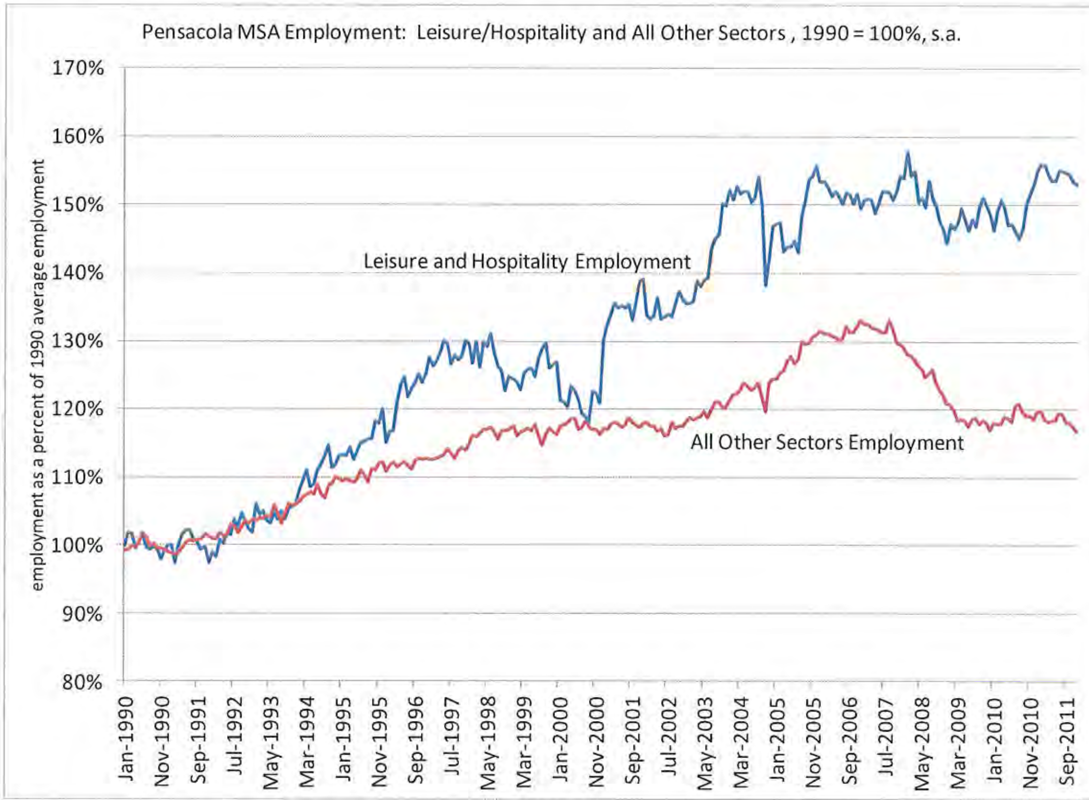
While government continues to be the major employer in the Pensacola metro area, job growth has not kept pace since 1990, with employment shrinking by 9% over two decades. Manufacturing, which was a dominant employer in terms of both jobs and wages several decades ago, has also contracted in terms of employment, shrinking by 53% from 1990 to present. In contrast, business and professional services employment has grown, as has employment in education and health care services. Leisure and hospitality employment has also increased by more than half over this time.




An examination of employment changes since the pre-recession employment peak in 2006 clearly reveals the decline in most sectors in the MSA. Leisure and hospitality, along with education and health care services, are the only sectors to show growth over the 5 years following the peak.




Both government and education/health services represent significant employers in the region. But both of these sectors face significant threats to future growth. Some of this is due to the failure of the deficit reduction super committee to find other areas in which to decrease federal government spending. The sequestration process that will come into play in early 2013 as a result of this failure calls for disproportionately large cuts in both military and health care spending. As can be seen in the Chart below, leisure and hospitality sector employment for the two-county MSA had a cumulative growth rate that was three times (55% vs. 17%) the rate of all other sectors over the past two decades. Notably, the growth gap has widened in the most recent years.




In the governmental sector, future cuts to military spending, shrinking troop levels, calls for another two rounds in 2013 and 2015 of base realignments and closures, along with severe budget cutting at the state and local level, make significant growth or even sustaining current levels in governmental employment doubtful for the near to mid-range future. Along with these threats come significant threats to the health care sector in the form of potential 27 to 32 percent cuts in Medicare and Tricare reimbursements to doctors and other changes in the health care delivery system. While fixes will likely be found, our traditional drivers face challenges.

## Conclusion

Leisure and hospitality is a particularly strong candidate for further job growth in the region. This is due to projected cutbacks in government and health care spending that are projected to begin in 2013, and also due weakness in other sectors, notably housing, of the Florida economy. Growing use of automated processes and falling costs of international transportation mean that the long term decline in manufacturing employment will not be reversed.

Visitor spending has become more important over the last several years in the Pensacola economy. This is in part due to the post-Ivan rebuilding, but also because the rest of the country was in better shape than Florida, so that our visitor sector improved more than sectors that relied more heavily on local spending, e.g., construction. Strong improvement in the overall visitor sales environment due to an improved economy would likely have occurred in Escambia County in 2010 but for the oil spill, and strong growth in visitor activity in 2011 and beyond will help pull us out of the hole left by the Great Recession.

Visitors to our area account for over 16,000 jobs and half a billion dollars in earnings annually. Only the military and health care sectors are larger than tourism. Tourism assets attract both temporary visitors and permanent residents to our area. The influx of workers and retirees attracted by these amenities, and the population growth that results from it, is likely to be the most significant driver of future economic development for our region. Other traditional economic drivers for our region, including military and health care spending, will face overall slowing growth rates due to budgetary pressure in Washington. Tourism is the largest economic sector in which our region can shape its own destiny via decisions made at the local level.

Tourism contributes a disproportionate share of tax revenue per dollar of spending in the local economy. Unlike sectors that are largely not-for-profit (e.g., health care), or that use a large share of purchased inputs to create their product (manufacturing), tourists are exempt from very few types of taxation. Tremendous opportunities exist to expand the scope of our tourism market, particularly in terms of timing. Transitioning from our current Memorial Day through beginning of August 10 week summer beach season to a more year-round market would allow owners of expensive assets (e.g., hotels, restaurants, attractions, etc.) to generate more consistent returns on investments, thereby promoting additional investment and job creation in our region. Our vibrant arts, sports, and heritage sectors can contribute greatly to a larger shoulder season market, as could efforts to attract more convention business.

Tourists do not put children in local schools, yet they (or their hoteliers) pay property tax. They tend to cluster in relatively dense developments, meaning that the County and utility providers need not install as many linear feet of expensive roadways, sewerage, and power lines. This means that the cost per person served of delivering public services is lower than for many other residents. Additional efforts to increase shoulder and winter season visitation would further improve this measure. Calculations based on return on investment measures from the literature suggest that additional dollars spent on destination marketing will be self-funding. The strong summer 2011 tourism performance was enabled at least partly by additional dollars spent by BP on marketing our region. Other factors included a return to growth of the macroeconomy and thus vacation spending, as well as demand for beach visitation that had been repressed by the oil spill.