South Shore Vision

Destination Economic Impact Analysis

Environment·Economy·Community

STRATEGIC MARKETING GROUP SMG

Project Sponsors

- Lake Tahoe Visitors Authority
- Douglas county Nevada
- City of South Lake Tahoe

Project Objectives

- Develop a **baseline economic model** of the current South Shore overnight visitor impact.
- Develop a **baseline model that can be used by the LTVA** to measure the potential impact of the new marketing strategies.
- Develop **projected economic activity** including revenues, taxes and employment based on the implementation of the South Shore Vision Plan.

Project Objectives Framework

Baseline Economic Analysis

- Overnight visitors

Projected Economic Scenarios

- Various spending scenarios

LTVA Strategy Modeling

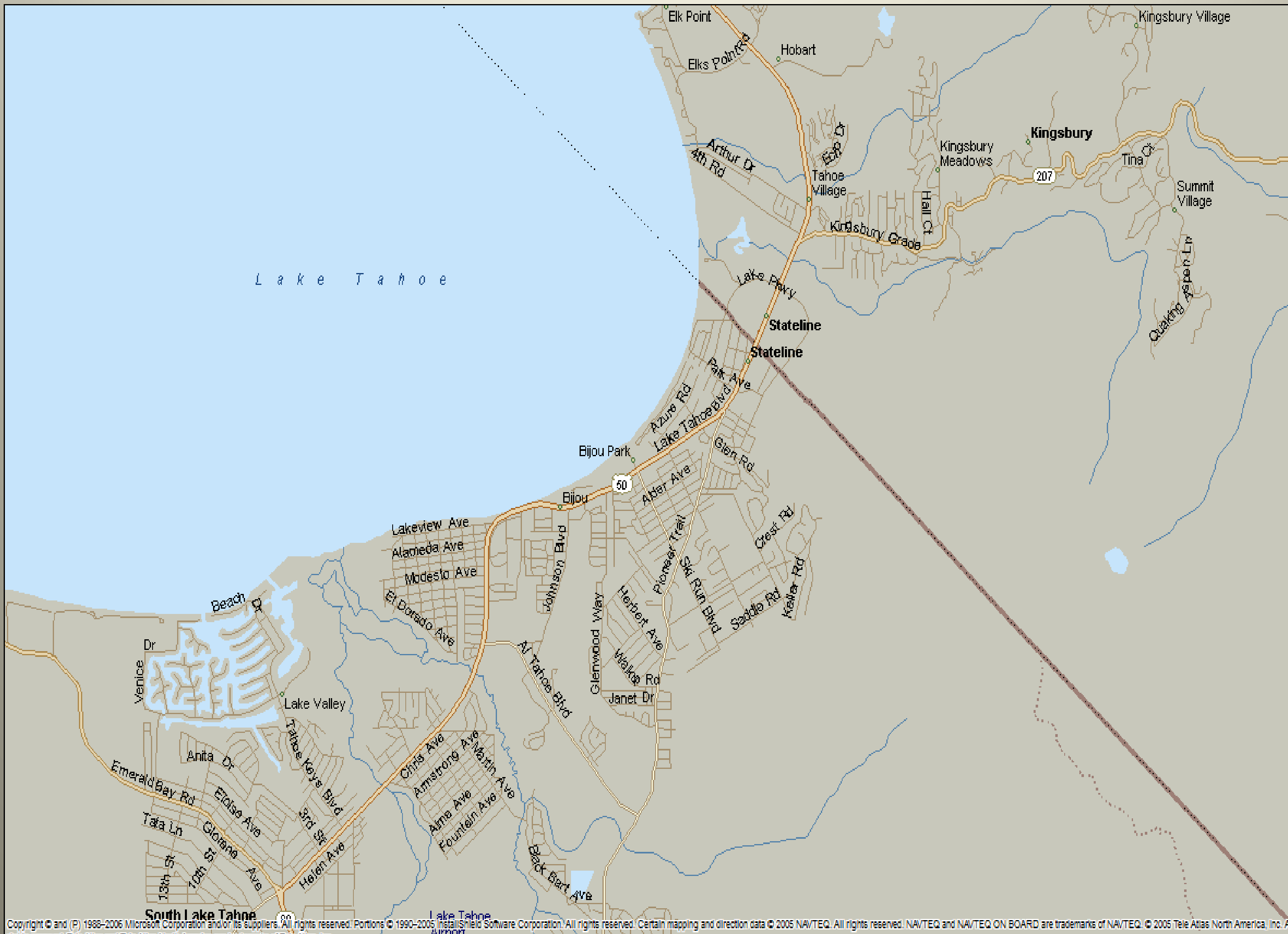
- To assess the impact of different marketing strategies

The Core Study Area

- ***Core Study Area*** - Kahle Park to Ski Run Blvd. This core study area links Douglas County with the City of South Lake Tahoe creating a unified South Shore improvement area.

- ***Influence Area*** - While the core study area will be the primary area for infrastructure change the influence area will be all of South Shore, including the City of South Lake Tahoe and the Stateline to Kingsbury Grade area.

The Core Study Area



Tourism Impact Framework

Overnight Visitors:

Domestic

International

Spend Dollars on:

Gas

Transportation

Entertainment

Recreation

Lodging

Retail

Dining

Gaming

Misc.

Which Benefits:

Accountants	Architects
Bakers	Banks
Builders	Crafts people
Cultural Groups	Electricians
Gift shops	Laundries
Mechanics	Newspapers
Plumbers	Printers
Restaurants	Real Estate
Retail	Waiters

Which Generates:

State and local taxes for programs

The Vision Plan

Purpose and Need

- **Define the content of the Regional Plan Update**.

- Identify strategies for **overcoming current code and regulatory hurdles** that have thus far been an impediment to redevelopment.

- The plan serves as an **essential tool for attracting new capital investment** which is crucial to achieving the physical, economic and environmental improvements that will benefit the area.

A need to evolve the economy

Gaming Dominated
Destination Economy

Recreation + Entertainment
Destination Economy

Shift the Destination to Recreation and Entertainment

Part 1: The South Shore Tourism Economy

Your view of the tourism economy depends on where you stand

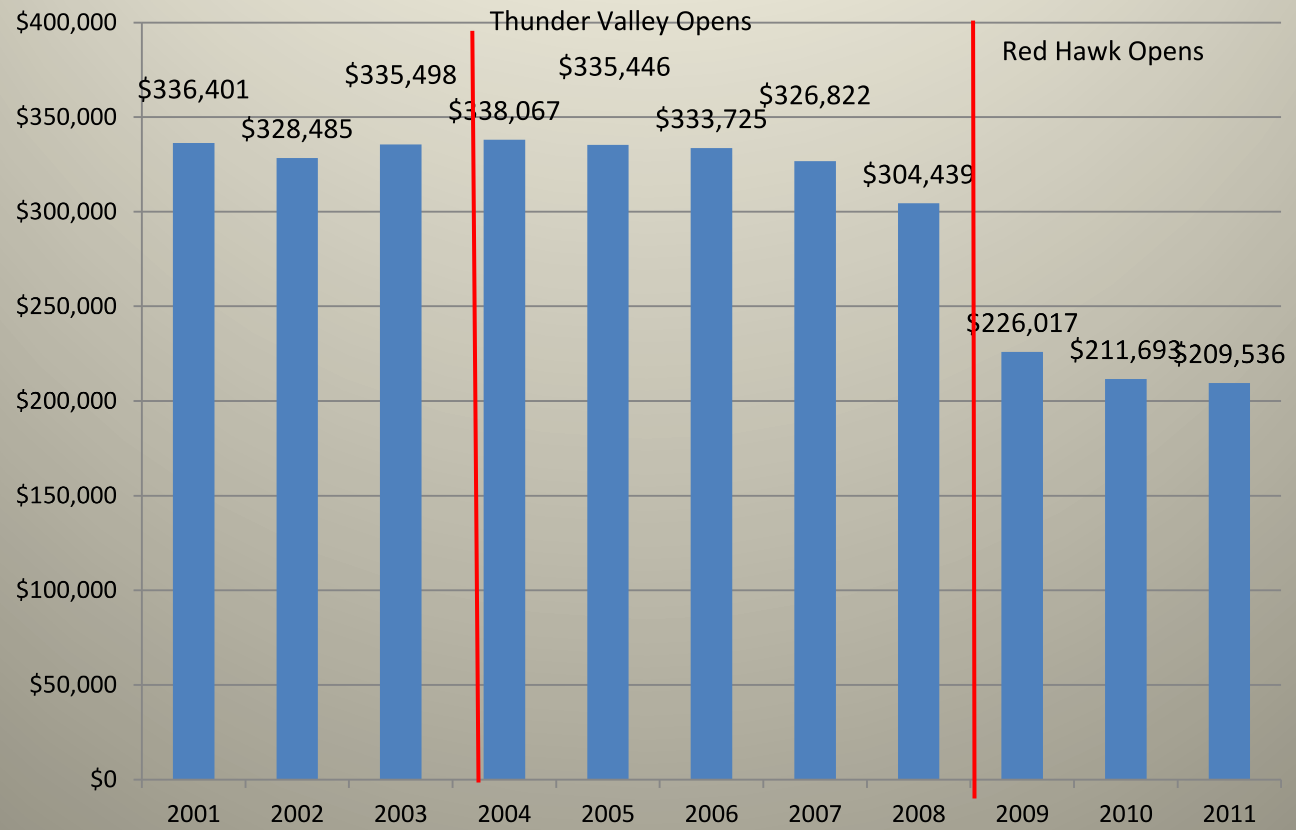
Different Perspectives

- Resident (Employment & Wages)
  - If you have a job
  - If you don’t have a job
- Business Owner (Revenues)
  - Have a ongoing business
  - Have a troubled business
- Local government (Tax Revenue)
  - Revenues meeting costs
  - Revenues not meeting costs

South Shore View

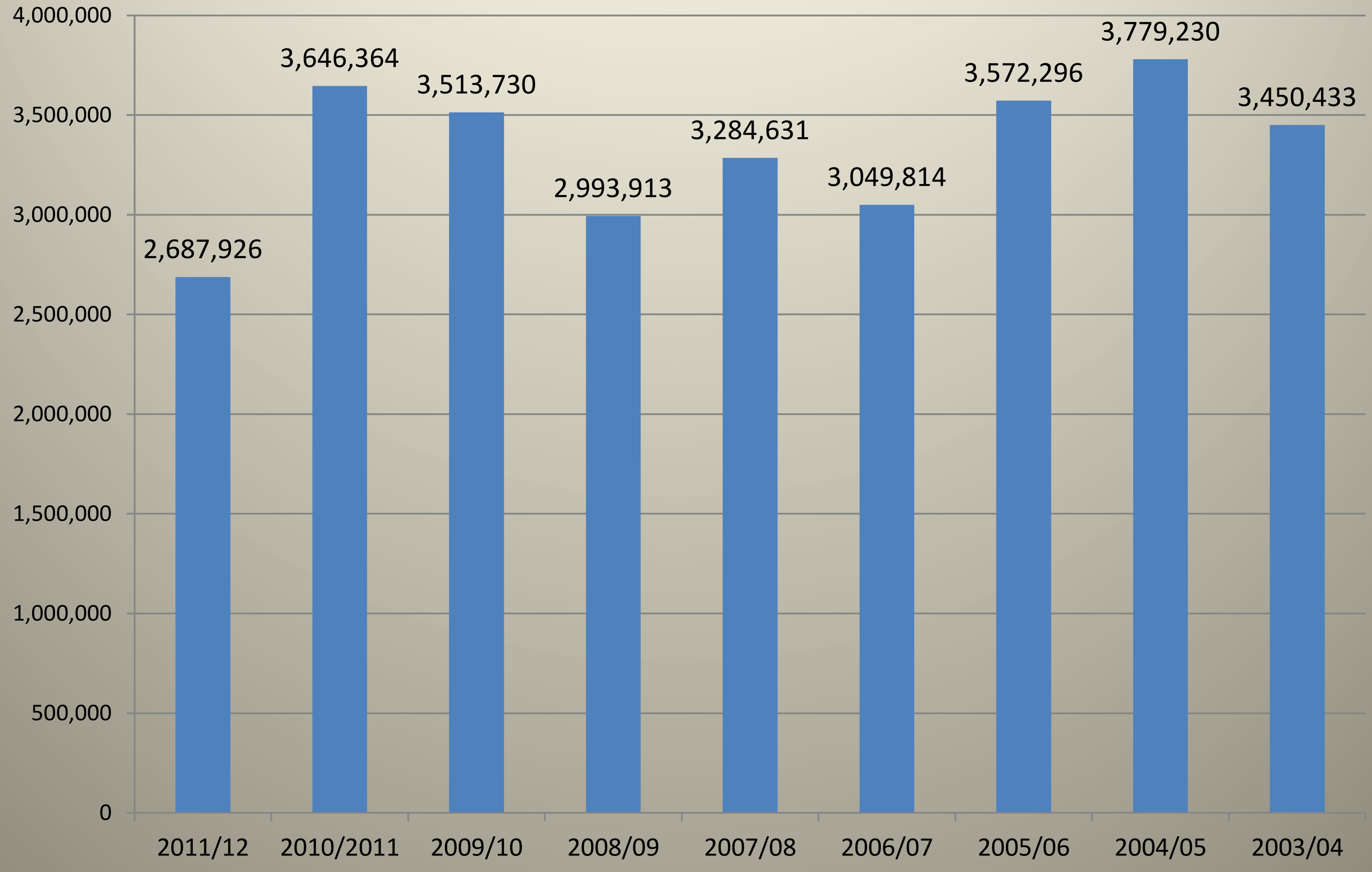
Gaming Revenues

Gaming revenues have decreased significantly from a high of $338 million in 2004 to $209 million in 2011, **a decrease of 38%.**



Source: Nevada Gaming Commission

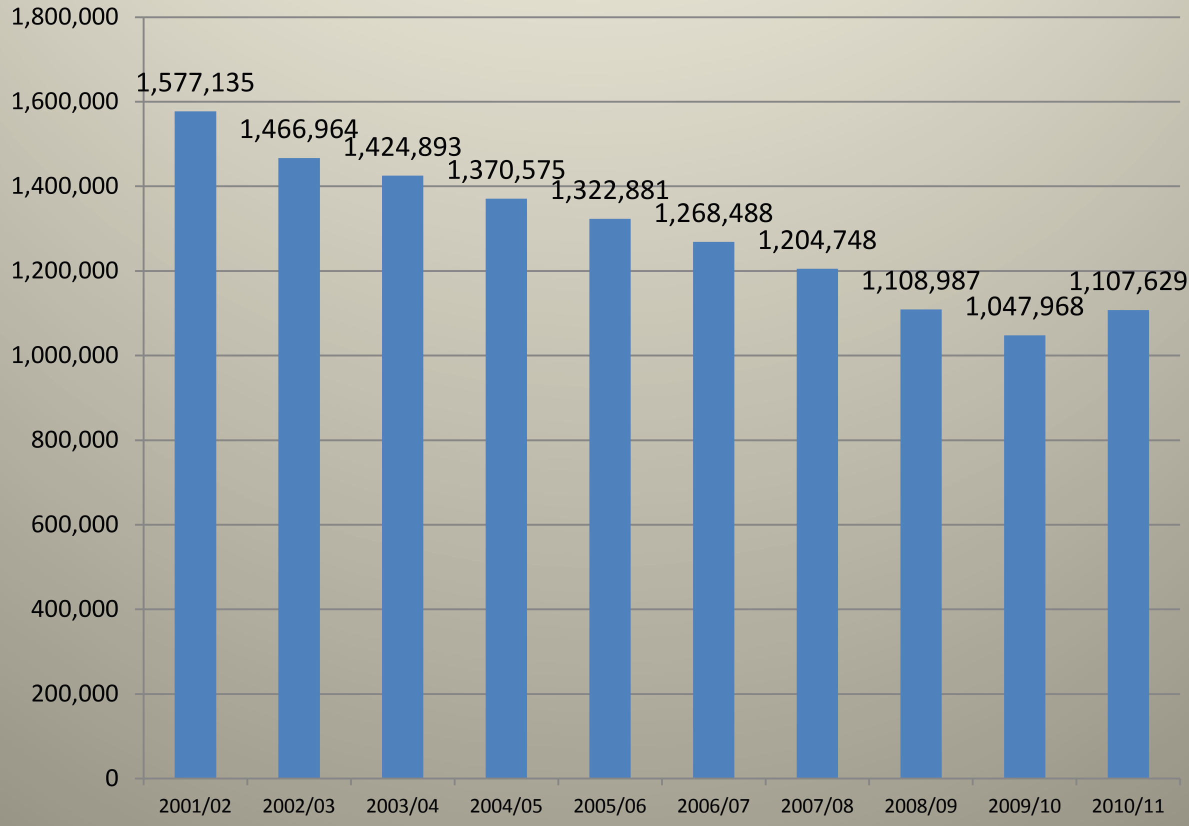
Lake Tahoe Skier Days



Source: Ski Lake Tahoe

South Shore Rooms Rented

Demand for lodging has decreased significantly since 2001/02. The destination has seen a demand for casino and non-casino hotel rooms rented fall by 469,506 rooms, **a 30% reduction**.



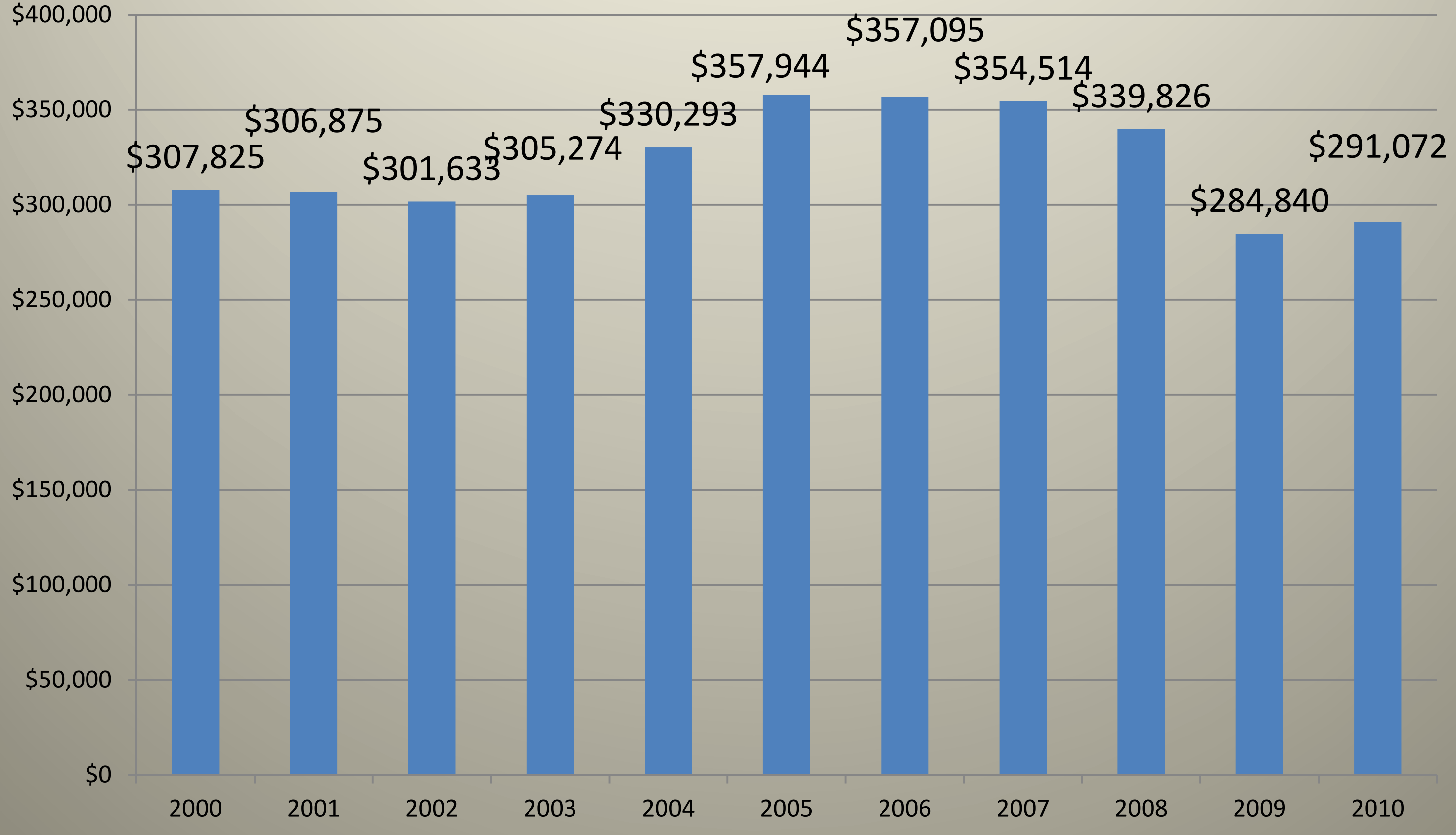
Source: City of South Lake Tahoe, Douglas County

Nevada Retail Sales

Source: State of Nevada

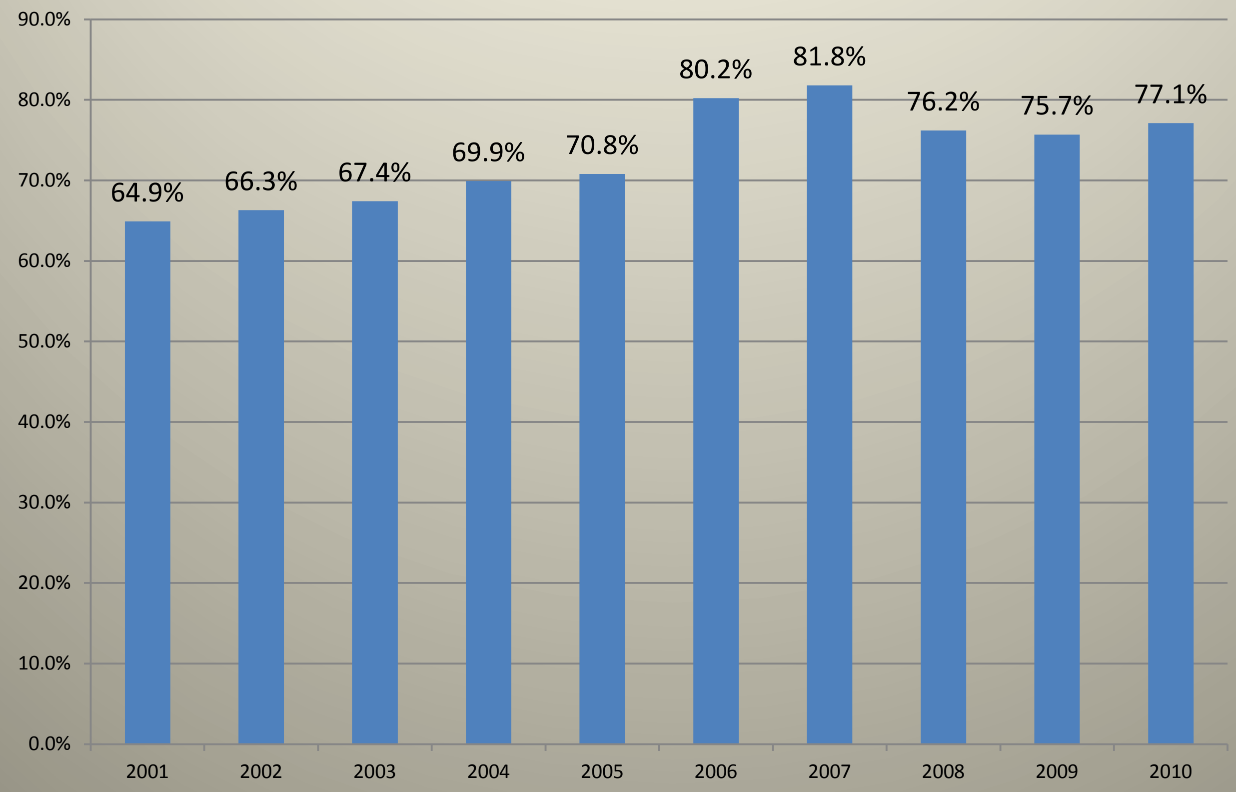
City of South Lake Tahoe Retail Sales

Between the years 2000 and 2005 retail sales increased by approximately $50M, or nearly 16%. Since 2005 retail sales have fallen approximately $66M, or 19%, to $291M.



Source: State of California Board of Equalization

Truckee Retail Sales as % of South Lake Tahoe



Source: State of California Board of Equalization

Taxable Sales by Retailers – By Location

Location	% of Sales
South Y Commercial Community Plan Area	32.2%
Sierra Area	9.9%
Bijou/Al Tahoe Community Plan Area	13.2%
Stateline/Ski Run	24.1%
Other	3.8%
Mixed-Permittee has establishments in multiple areas	16.7%

City of South Lake Tahoe Retail Market Analysis, December 2005

South Shore Local Tax Trend

Douglas County				
	Transient Occupancy Tax	% Change	Gaming Tax	% Change
2005/06	$5,968,695		$1,221,251	
2006/07	$5,876,995	-2%	$1,276,014	5%
2007/08	$5,761,939	-2%	$1,216,770	-5%
2008/09	$4,934,002	-14%	$1,135,063	-7%
2009/10	$4,463,093	-10%	$901,017	-21%
2010/11	$5,613,864	26	$765,513	-15%
City of SLT				
	Transient Occupancy Tax	% Change	Sales Tax	% Change
2005/06	$10,535,555			
2006/07	$9,770,321	-7%		
2007/08	$9,827,508	1%	$4,062,983	
2008/09	$8,019,107	-14%	$3,696,375	-9%
2009/10	$8,200,466	-9%	$3,225,698	-13%
2010/11	$7,871,291	-4%		

Sources: Douglas County, City of South Lake Tahoe

(Note: Douglas County Transient Occupancy Tax increase in 2010/11 was due to a tax increase.)

Structural vs. Cyclical Changes

- **Cyclical decline refers to those declines that are related to the business cycle** while **structural declines are cause by a structural dislocation in the current market**

	Peak Year	Peak Year Revenue	Current Year	% Difference
Gaming	2001	$336,401	$209,530	-38%
Skiing	2004/05	3,779,230	3,646,364	-4%
Lodging	2001	1,577,135	1,107,689	-30%
CA Retail	2005	$357,944	$291,072	-20%

Part 2: Current Tourism Spending Economic Impact

Economic Impact Estimation Steps

Total Visitor Base

Lodging Inventory

- Determine lodging inventory

Spending

Determine Visitor Spending

- Identify per person trip expenditures.

Calculate Direct Economic Impact

Total Trip Direct Economic Impact

- IMPLAN Analysis

Calculate Secondary & Induced Economic Impact

Total Secondary & Induced Impact Revenues, Job, Taxes

- IMPLAN Analysis

Current Lodging Inventory

	South Lake Tahoe	Douglas County	Total	Pct
Casino Hotel				
Units Available		2,246	2,246	15%
Non-Casino Hotel				
Units Available	5,124	50	5,174	34%
Property Management				
Units Available	1,320	95	1,415	9%
Campgrounds				
Units Available	1,146	204	1,350	9%
Timeshare/Fractional				
Units Available	2,162	2,162	4,324	28%
Total	9,752	4,757	14,509	100%

Sources: Lodging sources include the following: Lake Tahoe Visitors Authority, Douglas County, SMG hand count of Douglas County fractional units, property management interviews, county campgrounds included in campground count.

South Shore Casino & Non-Casino Hotel/Motel Room Location

Geographic Area	Pct
Stateline NV	29%
Stateline CA	42%
Total Stateline	71%
Ski Run, Heavenly, Bijou	15%
Al Tahoe Area	7%
Sierra Tract, East Y area	5%
West Y and Emerald Bay Road Areas	2%

Source: City of South Lake Tahoe Zone Map, Douglas County

City of South Lake Tahoe Hotel Motel Performance by Zone

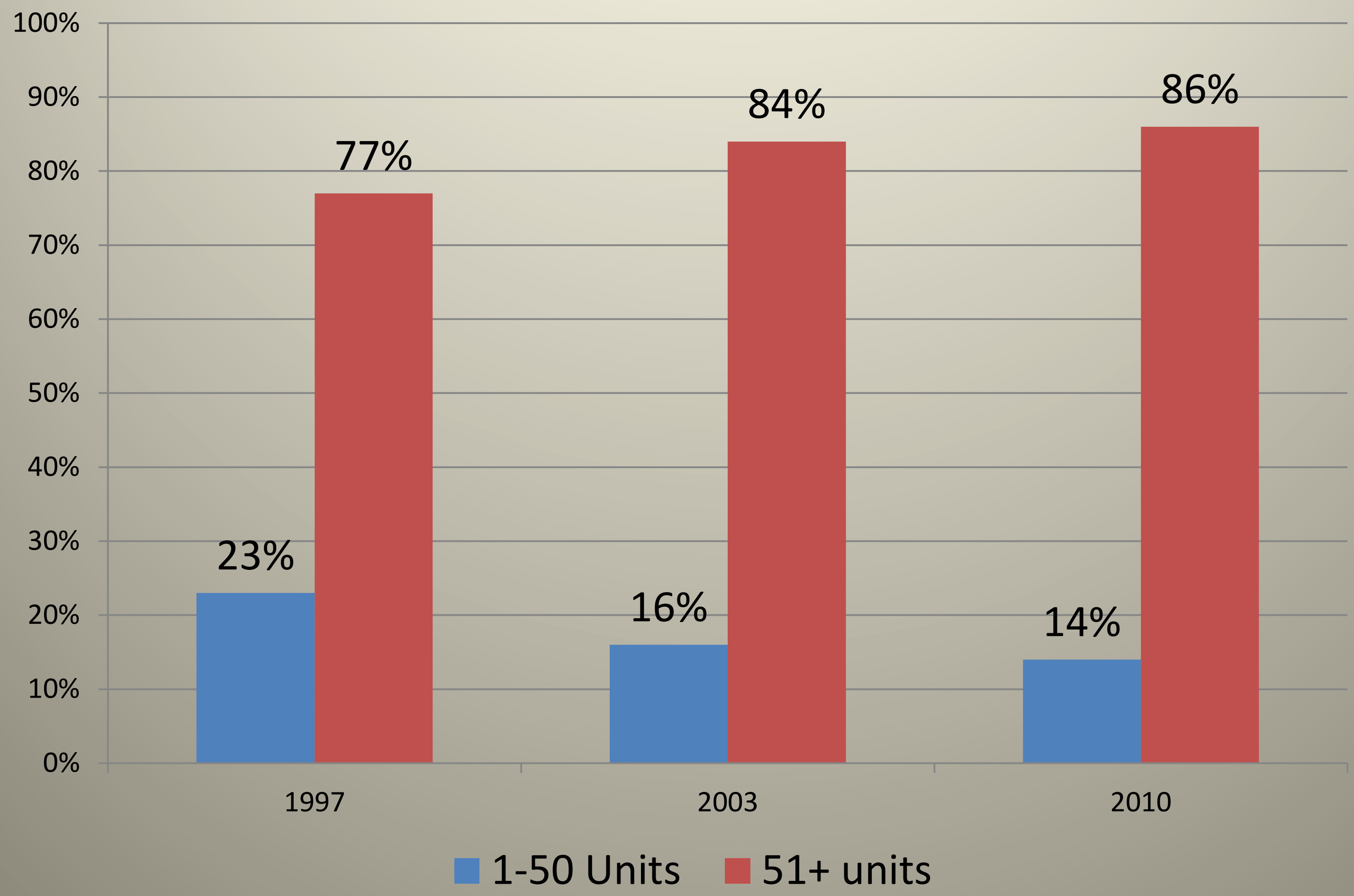
	Description	Occupancy	Average Daily Rate
Zone 1	Stateline CA	29%	$124
Zone 2	Ski Run, Heavenly, Bijou	16%	$90
Zone 3	Al Tahoe Area	19%	$116
Zone 4	Sierra Tract, East Y area	24%	$65
Zone 5	West Y and Emerald Bay Road Areas	16%	$120
	Stateline NV	61%	$60

Source: City of South Lake Tahoe Monthly Transient Occupancy Tax Reports

Notes

1. The area with the highest concentration of lodging generates a 29% occupancy rate.
2. Embassy Suites influences higher room rate.

Rooms Rented by Property Size City of South Lake Tahoe



Source: City of South Lake Tahoe

Number of People by Lodging Type

Lodging Type	# of Visitors	%	% of Lodging Inventory	Difference
Casino Hotel	604,093	36%	15%	21
Non-casino	388,832	20%	34%	-14
Property Management	116,932	7%	9%	-2
Timeshare	295,447	18%	28%	-10
Campground	255,024	15%	9%	6
Total	1,660,328	97%	95%	

Source: SMG Estimates

- Least productive: Non-casino hotel units which represented 34% of the lodging inventory but only saw 20% of the total visitors.
- Most productive: Casino hotel rooms represented 15% of the lodging inventory but 36% of visitors.
- Campgrounds were also much more productive, accounting for 9% of total available lodging but 15% of visitors.

Baseline Economic Impact

TOTAL				
Impact Type	Employment	Labor Income	Total Value Added	Output
Direct Effect	10,902	$339,633,007	$517,791,286	$838,711,194
Indirect Effect	1,445	$41,007,829	$84,085,268	$139,946,227
Induced Effect	1,638	$48,285,275	$113,305,320	$182,668,916
Total Effect	13,985	$428,926,111	$715,181,874	$1,161,326,337

Source: SMG Implan Analysis

Baseline Taxes

Description	Employee Compensation	Indirect Business Tax	Households	Corporations	Total
Dividends				$89,844.00	
Social Ins Tax- Employee Contribution	$761,012				
Social Ins Tax- Employer Contribution	$1,763,192				
Indirect Bus Tax: Sales Tax		$55,221,658			
Indirect Bus Tax: Property Tax		$33,988,206			
Indirect Bus Tax: Motor Vehicle Lic		$680,483			
Indirect Bus Tax: Severance Tax		$422,814			
Indirect Bus Tax: Other Taxes		$12,298,476			
Indirect Bus Tax: S/L NonTaxes		$3,090,026			
Corporate Profits Tax					
Personal Tax: Income Tax					
Personal Tax: NonTaxes (Fines- Fees			$4,199,460		
Personal Tax: Motor Vehicle License			$658,461		
Personal Tax: Property Taxes			$303,829		
Personal Tax: Other Tax			$3,011,626		
Total State and Local Tax	$2,524,204	$105,701,663	$8,173,376	$89,844	$116,489,087

Source: SMG Implan Analysis

State and local taxes collected are not all retained by the city or county.

Part 3: The Destination Vision Economic Impact

Framework

Step 1: Confirm the Baseline

Step 2: Identify the Destination Changes

Step 3: Review the Competition

Step 4: Establish Projection Assumption

Step 5: Develop Economic Impact Model Scenarios

Step 1: Confirm The Baseline

Item	
Number of overnight visitors	1,660,328
Baseline economic impact	$838,711,194*
Baseline employment	10,902**
Baseline state and local taxes	$116,489,087***

*Direct economic impact

**Direct employment

*** Includes state and federal taxes which flow through

Step 2:
Potential Destination Changes

Meyers

- Meyers has traditionally been the viewed as the “Gateway” area to South Lake Tahoe
- Developing a new vision that would reposition the area as a destination within South Shore.
- Offers access to a wide variety of outdoor recreation.

Step 2:
Potential Destination Changes

The Y

- a major economic hub for the City of South Lake Tahoe.
- New Community plan-
  - Mixed use
  - More walkable area, which will serve as an important hub within the community.
- Serves as both a portal to South Lake Tahoe and the west shore recreation and beach area.

Step 2:
Potential Destination Changes

Harrison Avenue

- Several blocks adjacent to the new El Dorado Beach/Lakeview commons.
- This project is also adjacent to the “56 Acres” project
    - A major re-imagining of the area that currently includes the campground, library, visitor center and senior center.

Step 2:
Potential Destination Changes

<u>Ski Run Area – CA/NV Stateline</u>

- Ski Run Area
  - Mixed use area that includes attractions, business, lodging and restaurants.
  - Addition of sidewalks and gutters which contribute to an overall improved streetscape as well as the development of programming that including street fairs, farmers markets, etc

Step 2:
Potential Destination Changes

The Stateline Area

- The Stateline area has a number of significant changes proposed, including the following:
  - Development of a loop road reduce Highway 50 to 3 lanes, transition into a more pedestrian friendly location.
  - Bringing recreation into the core area through the addition of bike trail access, climbing walls, and snowboard rails, etc.
  - Year-round amphitheater to facilitate additional entertainment
  - Creation of streetscape along highway 50 and Stateline Avenue to the beach.

Step 3:Review the Competition

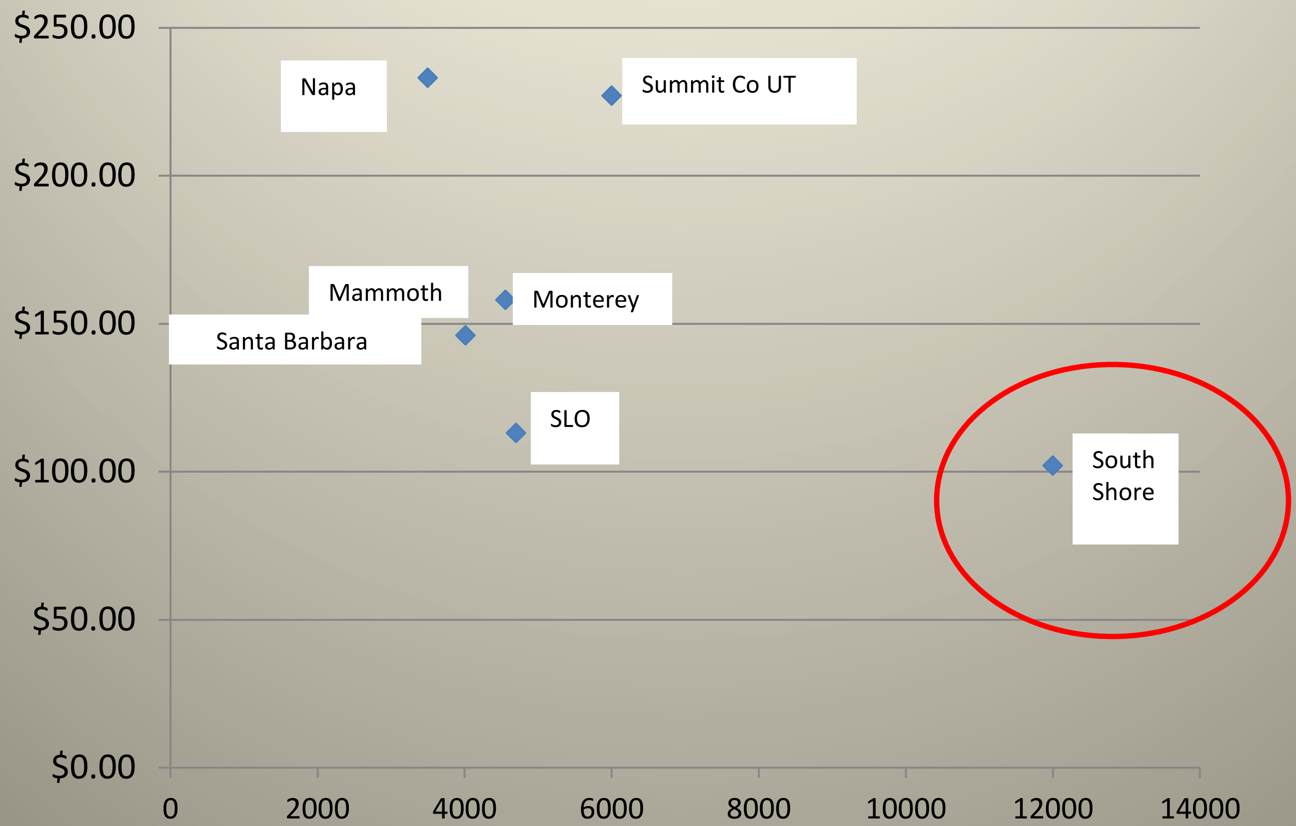
Destination	Occupancy Rate	AVG Daily Rate	Revenue Per Avail. Room
Santa Barbara	71%	$175	$124
Monterey Co.	61%	$157	$95
Sonoma Co.	64%	$111	$71
San Luis Obispo Co.	62%	$113	$71
Mammoth Lakes	52%	$158	$82
Summit County UT	46%	$227	$105
Summitt Co Colorado	50%	$214	$106
Napa	65%	$233	$150
City of South Lake Tahoe	43%	$102	$44
Stateline NV	61%	$60	$36
State of CA	66%	$116	$77
State of NV	78%	N/A	N/A

Source: Smith Travel Research 2011, Nevada Commission on Tourism, Douglas County NV

South Shore Comp Set Lodging Units

Source: Napa Valley, Park City Resorts Association, Mammoth Lakes Tourism, Monterey County, San Luis Obispo County

Average Daily Rate vs. Hotel/Motel Room Supply



Source: Smith Travel, Napa Valley, Park City Resorts Association, Mammoth Lakes Tourism, Monterey County, San Luis Obispo County

Missing the Value of Lake Tahoe

Lakefront Lodging Seasonal Pricing

The Lake creates premium value for lakefront lodging.

	Winter	Spring	Summer	Fall
Lakeshore Lodge	$199	$199	$199	$129
Best Western	$98	$98	$215	$89
Lakeland Village	$129	$129	$175	$109
Sample Average	$142	$142	$196	$109
SLT Average	$123	$95	$127	$97
Sample Average Premium	15%	49%	55%	12%

Source: Tahoe Lakeshore Lodge, Best Western Timbercove Lodge, Lakeland Village, City of South Lake Tahoe

Lakefront Residential Price per Square Foot

The lake creates premium value for lakefront residential property.

California			
	Lakefront	Other	Multiple
2012	$1,025	$227	4.5
2011	$695	$208	3.3
2010	$751	$183	4.1
2009	$682	$169	4.0

Nevada			
	Lakefront	Other	Multiple
2012			
2011	$1,089	$293	3.7
2010	$1,183	$264	4.5
2009	$1,104	$272	4.1

Source: Larry Sabo Real Estate

Lake Value Does Not Translate

That value does not translate in terms of a premium for the destination when compared with other destinations.

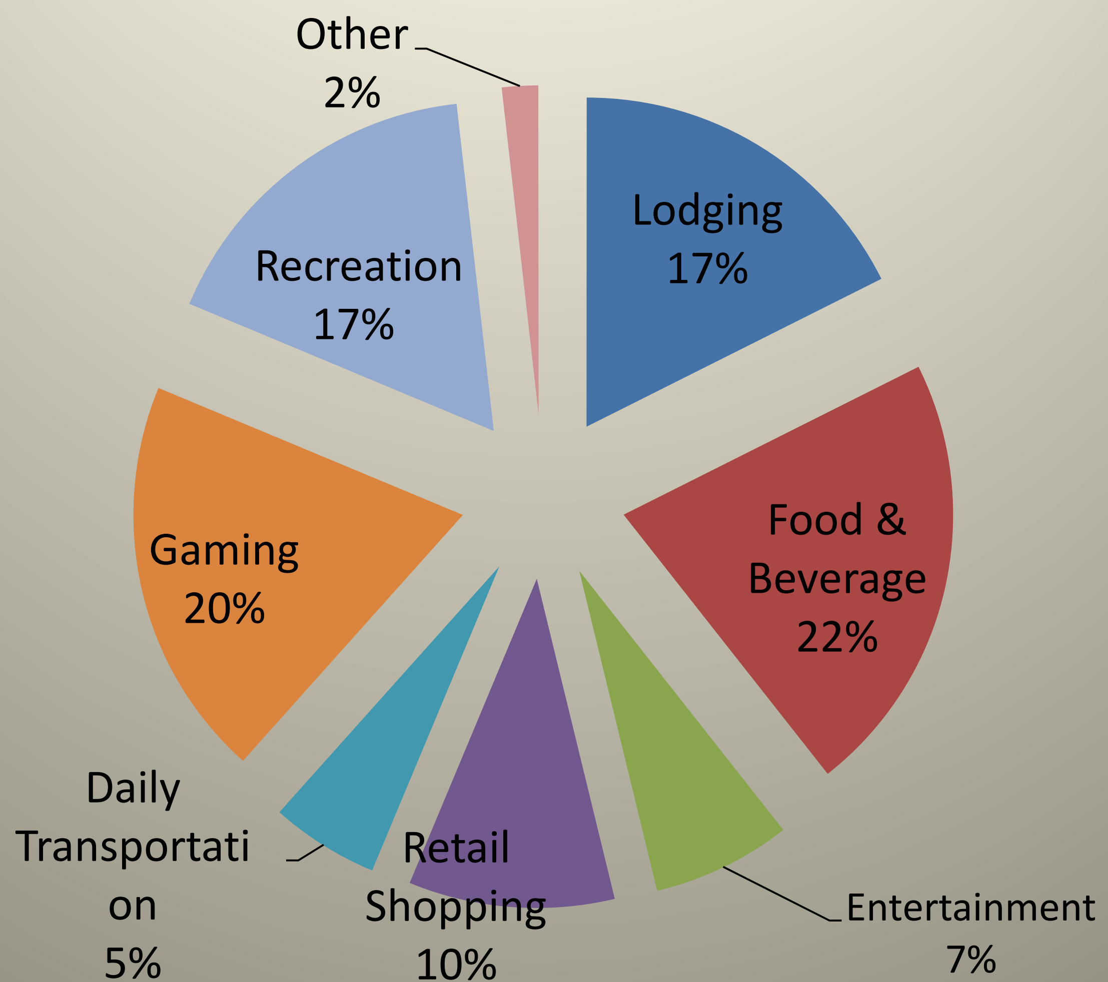
Destination	Occupancy Rate	AVG Daily Rate	Revenue Per Avail. Room
Comp Set	59%	$174	$101
South Lake Tahoe	43%	$102	$44
Stateline NV	61%	$60	$36

Source: Smith Travel Research 2011, Nevada Commission on Tourism, Douglas County NV

Step 4:
Establish Projection Assumptions

- For the purpose of this analysis the number of visitors will be held constant.
- Improved infrastructure will improve spending.
- Lodging expenditures as a percentage of total visitor expenditure will be held constant.

Overnight Visitor Category Spending Percentages



Source: Lake Tahoe Visitors Authority. Numbers may not foot due to rounding

Step 5:
Develop Economic Impact Scenarios

- That the destination could generate **$150 per room night** and see a corresponding increase of other spending over the next 15-20 years.
- That the destination could generate **$175 per room night** and see a corresponding increase of other spending over the next 15-20 years.
- That the destination could generate **$200 per room night** and see a corresponding increase of other spending over the next 15-20 years.
- That the destination could generate **$250 per room night** and see a corresponding increase of other spending over the next 15-20 years.

Scenario 1: $150 Projection

$150 Projection Scenario		
	Employment	Output
Current Baseline	10,902	$838,711,000
Direct Effect	14,070	$1,109,099,104
Change	3,168	$270,388,104

Source: SMG IMPLAN Analysis

By achieving a $150 average room rate the difference from the current base level of revenue would be $270M annually.

Scenario 2: $175 Projection

$175 Projection Scenario		
	Employment	Output
Current Baseline	10,902	$838,711,000
Direct Effect	16,271	$1,291,735,184
Change	5,369	$453,024,184

Source: SMG IMPLAN Analysis

By achieving a $200 average room rate the difference from the current base level of revenue would be $453M annually.

Scenario 3: $200 Projection

$200 Projection Scenario		
	Employment	Output
Current Baseline	10,902	$838,711,000
Direct Effect	18,688	$1,474,371,264
Change	7,786	$635,660,264

Source: SMG IMPLAN Analysis

By achieving a $200 average room rate the difference from the current base level of revenue would be $635M annually.

Scenario 4: $250 Projection

$250 Projection scenario		
	Employment	Output
Current Baseline	10,902	$838,711,000
Direct Effect	23,389	$1,844,624,000
Change	12,487	$1,005,913,000

Source: SMG IMPLAN Analysis

By achieving a $250 average room rate the difference from the current base level of revenue would be $1B annually.

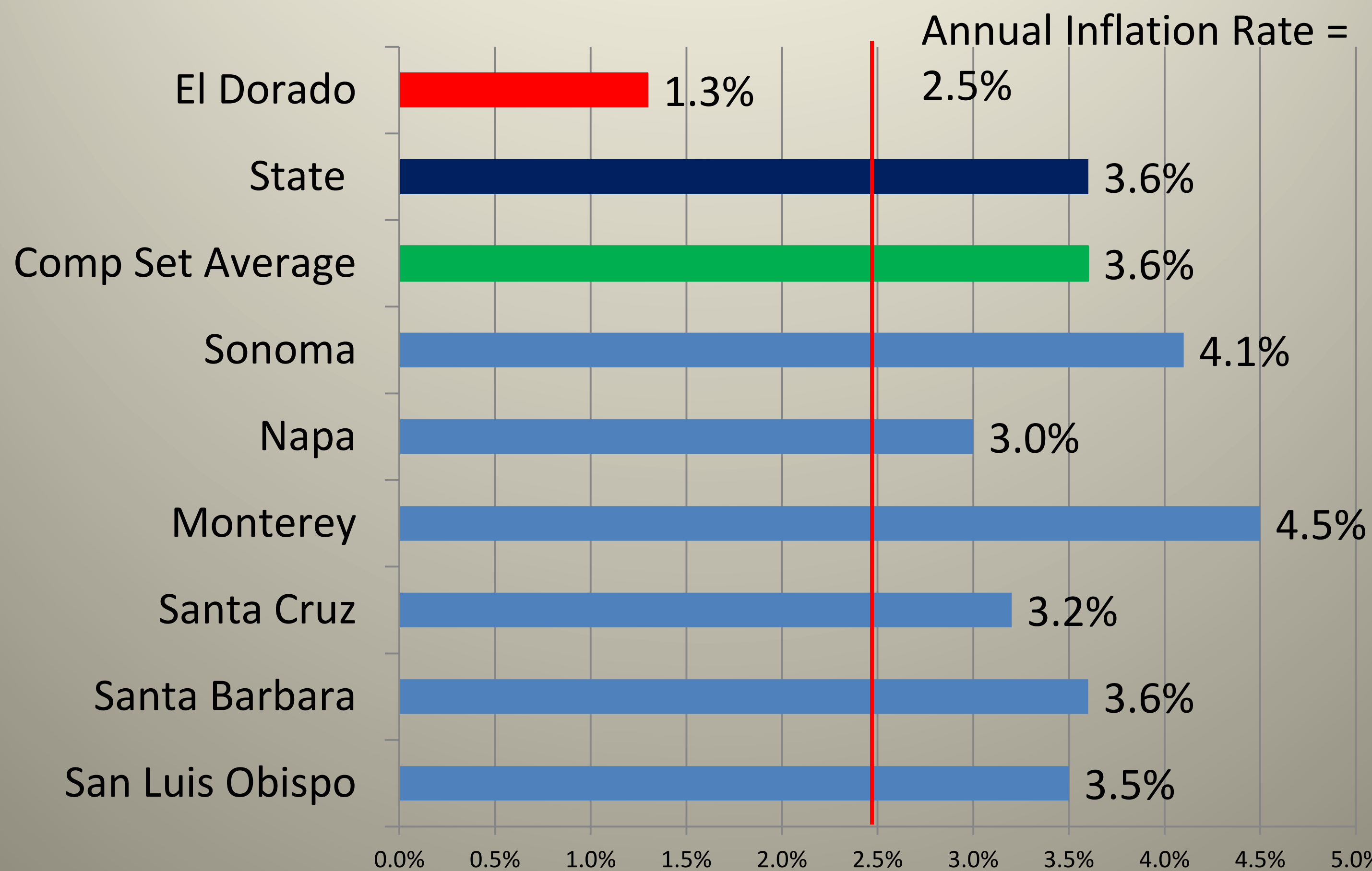
Projected Travel Spending Growth Rates

	15 years	20 years	CA CPI Avg.
$150 Scenario	1.88%	1.41%	2.7%
$175 Scenario	2.92%	2.18%	2.7%
$200 Scenario	3.83%	2.86%	2.7%
$250 Scenario	5.39%	4.02%	2.7%

Source: SMG

If travel spending does not grow at the inflation rate can the destination attract investment?

Travel Spending Growth Rates 1992-2010



Source: Visit California

Spending Shifts

- As the destination changes so will the spending patterns
- The Vision Plan shifts focus to increased recreation, shopping, dining and entertainment
- The shifts also take into account the increase in overall travel spending

Scenario 1: Lodging emphasis/ decrease in gaming

- South Shore upgrades new lodging a greater share of visitor spending will also shift to lodging.

Scenario 2: Shopping and F&B emphasis/decrease in gaming and transportation

- As South Shore improves its infrastructure **a greater share of visitor spending will also shift to shopping and F&B**,
- A decreased share going to transit and gaming.

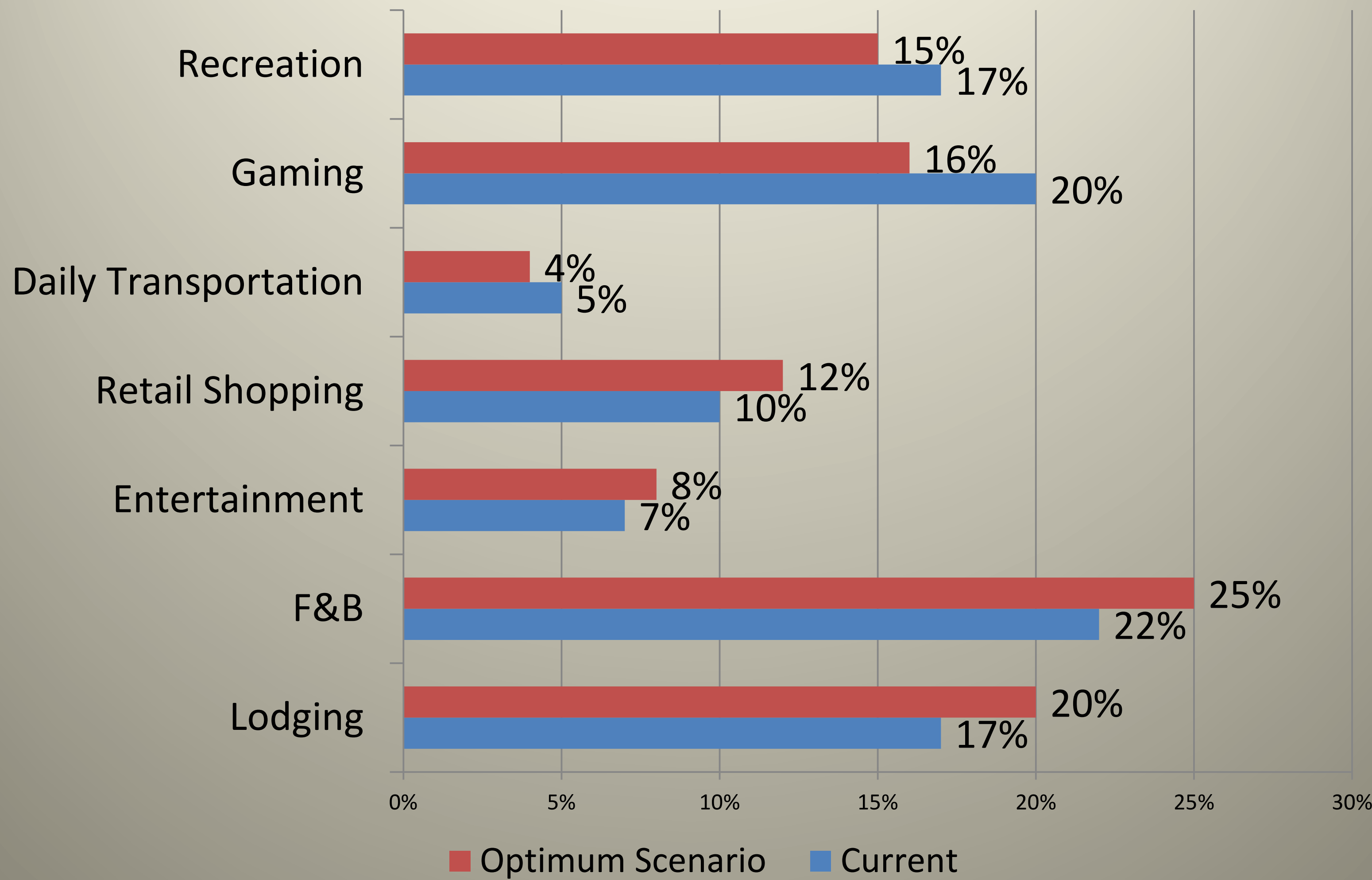
Scenario 3: Recreation emphasis/decrease in gaming and transportation

- As South Shore improves its infrastructure **a greater share of visitor spending will shift to recreation**
- A decreased share going to transit and gaming.

Optimum Target

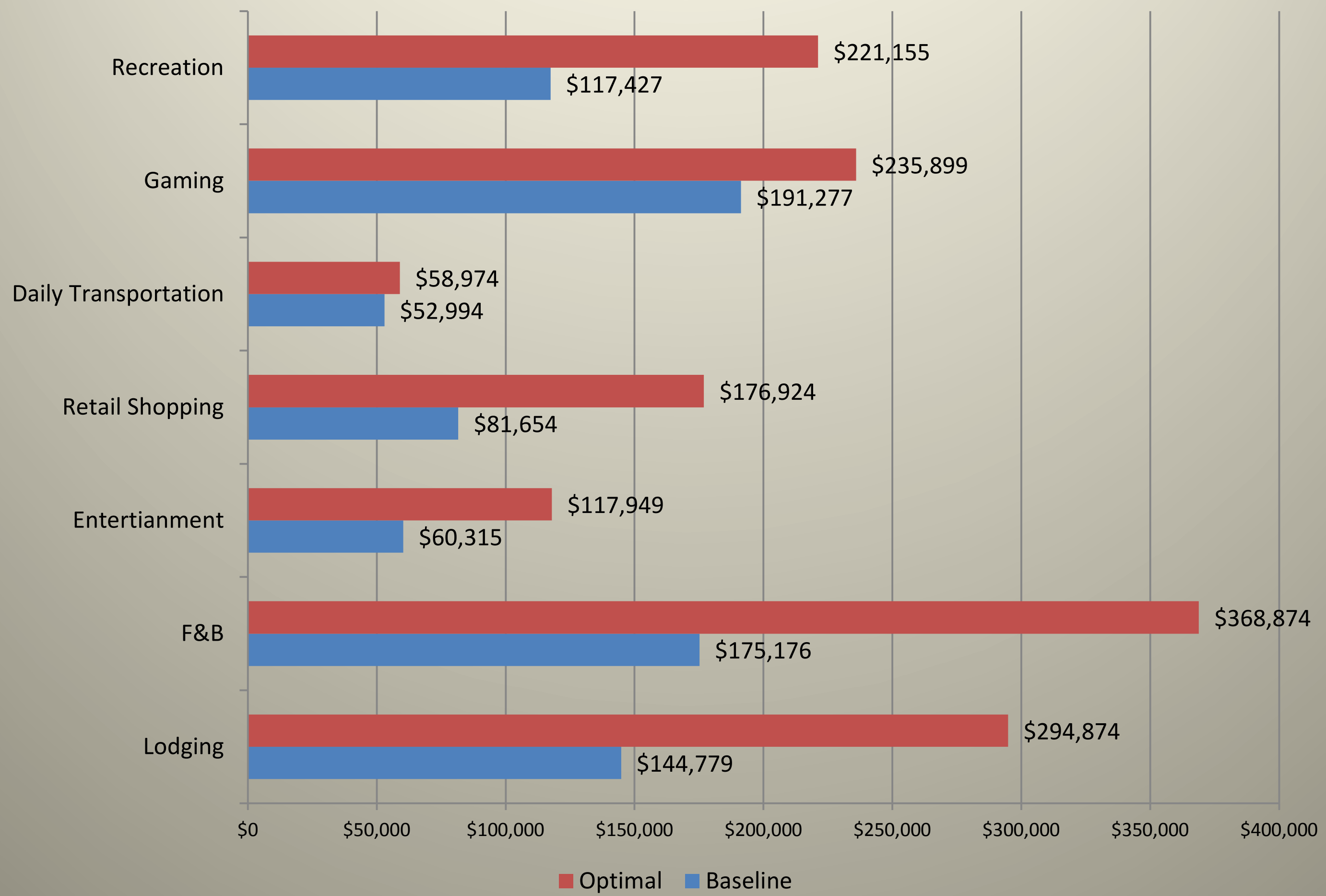
- Gaming share will decrease due to increase in competition, but overall dollars will grow. South Shore visitors will spend less of their share of trip budget on gaming.
- Recreation share will decline but overall dollars will increase as most of the emerging recreation will not involve fees or admissions (e.g. hiking, biking, youth sports, etc.), though recreation based visitation will drive lodging, F&B, entertainment and retail.
- Lodging share will increase as the lodging product is upgraded and Average Daily Rate increases.
- Retail and F&B will increase as they are upgraded and pricing increases.
- Entertainment spending share will increase as a new facility is developed.
- Transportation share will decline as visitors spend less on fuel and mass transit is incrementally improved

Current vs. Optimum Spending Shifts



Source: SMG Estimates

Current Baseline Spending vs. Optimal Level & Pattern Change Based on $200 ADR (000's Omitted)



Source: SMG Estimates

The Benefits

- Resident
  - Opportunity for better employment & wages
- Business Owner
  - Opportunity for increasing revenue and opportunity
  - Increased entrepreneur opportunities (primary and secondary spending)
- Local government
  - Opportunity to improve quality of life for residents

Potential Local Tax Scenarios

	$150 ADR	$175 ADR	$200 ADR	$250 ADR
Lodging:				
Lodging revenue	$221,819,000	$258,347,037	$294,874,253	$368,924,800
Projected tax revenue	$26,618,280	$31,001,644	$35,384,910	$44,270,976
Retail Sales:				
Retails sales revenue	$133,091,892	$155,008,222	$176,924,552	$221,354,880
Projected sales tax revenue	$1,330,919	$1,550,082	$1,769,246	$2,213,549
Gaming:				
Gaming revenue	$177,455,857	$206,677,629	$235,899,402	$295,138,840
Projected gaming tax	$887,279	$1,033,388	$1,179,497	$1,475,694
Total	$28,836,478	$33,585,115	$38,333,653	$47,960,219

Source: SMG Estimates Douglas County, City of South Lake Tahoe. Tax rates: Transient Occupancy Tax 12%, Retails Sales Tax local portion 1%, Gaming Tax local portion.05%

Vision Plan Phasing

Vision Plan Phasing

5 Year increments

		YR 1-5	Yr 6-10	YR11-15	Yr16-20
Scenario 1	Slow	5%	30%	70%	100%
Scenario 2	Moderate	10%	30%	65%	100%
Scenario 3	Aggressive	20%	50%	75%	100%

Conclusions

- The South Shore economy has been in a long decline, most recently exacerbated by the recession.
  - The reasons for the decline are many, and include excessive regulation that, while intending to limit growth, also created barriers to change and infrastructure improvement.
  - Increase in competition from both gaming and non-gaming destinations which combined to significantly reduce investment in the community and reduce the overall level of competitiveness of the South Shore.

Conclusions

- South Shore policy makers are at a unique juncture. The choices are starkly different;
    1. to create a path that transforms the destination into one that significantly increases visitor spending
    2. or to essentially remain on its current trajectory
- Neither is an easy choice. Creating a path to transformation requires significant community change which can always be a challenge, but **keeping the South Shore on its present course is a continuation of a local economy that is slowly failing.**

Conclusions

- The proposed changes outlined by the Vision Plan are a much needed attempt to put the South Shore on a path of transformation.
  - It recognizes the need **to shift the focus to a more recreation and entertainment direction**
  - It optimizes the opportunity to increase retail and dining options in an effort to significantly increase visitor spending and its resultant revenues, employment and taxes.

Conclusions

- The focus on the core is critical
  - Simply put **this area has the highest concentration of lodging and retail, produces the highest number of local employment**
  - Its regeneration as a higher revenue generating part of South Shore is imperative if the destination and local community are to thrive.

Conclusions

- It is also clear that neither local government nor private business can make this change alone.
  - Private business needs local government to enact the policies that will facilitate investment and bring about change.
  - Local government needs private business to make the investments necessary to bring about the needed changes.
  - **If this partnership does not occur the status quo will effectively remain in place**

Conclusions

- The Vision Plan and its proposed changes are needed to generate a sustainable level of visitor spending growth that at least matches the rate of inflation, and preferably leverages the scenic beauty of the lake, and matches its competitors.
- **In its current configuration the status quo does not provide a level of revenue that is sustainable for the community.**