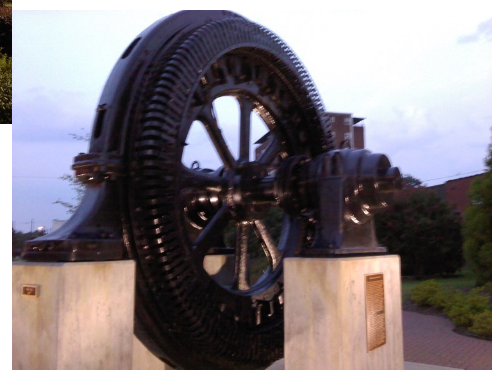

Regional Transactions Concepts, LLC
Economic Modeling

Economic and Fiscal Impact Analysis

Estimated Impact of 2013 Tourist Spending
on Beaufort County, South Carolina

Robert T. Carey
Regional Transactions Concepts, LLC

John Salazar
Lowcountry and Resort Islands Tourism Institute

Prepared for:

Hilton Head Island-Bluffton Chamber of Commerce and Visitor & Convention Bureau
&
Beaufort Regional Chamber of Commerce

September 25, 2014

Robert T. Carey, Ph.D.
Principal

PO Box 675
Pendleton, SC 29670

Phone: 864-502-8025
rtc@regionaltransactions.com

Table of Contents

I. Introduction

This study of the economic and fiscal impact of spending by tourists to Beaufort County in the year 2013 was performed by Regional Transactions Concepts, LLC, in association with Dr. John Salazar of the Lowcountry and Resort Islands Tourism Institute (LRITI) at the University of South Carolina, Beaufort.

The study examines spending by tourists visiting Hilton Head Island, Bluffton, and Beaufort (city), Port Royal, and St. Helena Island. The estimated impact from spending by visitors to each of these destinations is summed in order to indicate the total impact that tourists have on Beaufort County, South Carolina.

This study was prepared for the Hilton Head Island-Bluffton Chamber of Commerce and Visitor & Convention Bureau and the Beaufort Regional Chamber of Commerce.

II. Model and Assumptions

The models generated by Regional Transactions utilized the input-output (I/O) function of the Regional Dynamics (REDYN) economic modeling engine. The REDYN model is a New Economic Geography model, taking into account transportation and labor and resource availability in order to more accurately model economic activity across geographic regions. The model forecasts a baseline level of activity within over 800 Standard Occupation Classifications (SOC) and 703 North American Industry Classification System (NAICS) sectors. Changes to employment, income, or demand for products or services by either the private or the public sector can be input to the model. Based on these inputs, the REDYN model generates a county level estimate of the resultant variation from the projected baseline, as well as the effects on every industry.

This study estimated the economic and fiscal impact of visitor spending at each destination in Beaufort County. Because I/O models are linear, the impacts estimated by each of the models are additive.

Visitor spending for each visitor segment was determined by surveys conducted by LRITI. For the Hilton Head and Bluffton surveys, respondents reported spending in 23 categories, including lodging, food, transportation, and entertainment. The Beaufort/Port Royal/St. Helena survey included reported spending in four categories: lodging, restaurants, recreation, and shopping. Bluffton and Beaufort/Port Royal/St. Helena surveys only include visitors lodging at hotels; the Hilton Head survey also includes spending by visitors lodging in villas and timeshares, as well as non-paying visitors (those lodging with friends or family who own homes on the island) second homeowners and day-trippers. A detailed report of the findings for Hilton Head Island visitors can be viewed in a previous report.

Because no survey data is as yet available for campers at Hunting Island State Park, second homeowners on Fripp Island, or the approximately 113,578 visitors renting villas on Fripp Island in 2013, spending by these visitors is not included in the following analysis. The total number of visitors to each destination used in the analysis is listed in Table 1.

Table 1 – Number of Visitors by Destination 2013

Destination	Visitors
Beaufort/Port Royal/St. Helena	174,535
Bluffton	98,410
Hilton Head Island	2,591,013
Avg. All Visitors*	**2,863,958**

***Total does not include Hunting Island campers or second homeowners and villa renters on Fripp Island.**

The numbers reported in the following include direct, indirect, and induced impacts. Direct impacts are the most immediate effects that an economic activity has on the local economy; for example, direct impacts in this study would include income to hotels from those visitors lodging in hotels during their stay in Beaufort County. Indirect impacts are the jobs, income, and output created by suppliers to the directly-impacted businesses; continuing the previous example, indirect impacts would include revenue to local companies that service the vending machines located in the hotels where visitors are lodging. Induced impacts are the “ripples” that expand out into the local economy as a result of consumer spending of the wage income generated by the direct and indirect impacts.

Impacts are reported using the following metrics:

- *Employment* is the number of jobs or job equivalents created by economic activities resulting through direct, indirect, and induced effects from tourist expenditures.

- *Total compensation* is the aggregated impact on wages paid in Beaufort County, including fringes. This includes wages paid to workers holding jobs in the county who may reside elsewhere; likewise, it excludes wages earned by Beaufort County residents who work outside of the county.

- *Output* is the dollar value of all goods and services produced within the county per year.

- *Net local government revenue* is the revenue collected by local (county and municipal) governments from all sources, including taxes, licensing, and fees, less expenses. Detailed impact estimates for *gross* local government revenues are presented in the Appendix.

- *Net state government revenue* is the estimated impact on revenue collected by state government net of expenses. This impact is aggregated to the state level.

III. Results

Impact estimates for visitors to each destination and the total tourism impact are presented in the Appendix. Output multipliers were also estimated for each visitor segment. The output multiplier is the ratio of total economic impact to direct spending for each segment. These multipliers are presented in Table 2. The estimated multiplier for combined tourist spending for Beaufort County by all five segments is 1.09; this means that every dollar spent by tourists increases output in the Beaufort County economy by a total of $1.09.

Table 2 – Est. Output Multiplier by Destination, 2013

Destination	Multiplier
Beaufort/Port Royal/St. Helena	1.12
Bluffton	1.10
Hilton Head Island	1.08
Avg. All Visitors	**1.09**

Note that the multiplier for some destinations is different from others. This is due to the specific mix of goods and services available and consumed by visitors in each location. The multipliers for all of the locations are very close in terms of size, however.

The overall size of the multipliers is due to several factors, including the number of vendors and suppliers in the county to generate indirect impacts. Additionally, the model contains U.S. Census commuter data, so that it is “aware” that many workers in the hospitality industry in Beaufort County do not reside in the county; as much of the consumer spending by workers will occur in their county of residence, this impacts the size of the multiplier.

Total economic impact (output) on Beaufort County from tourist spending was approximately $1.08 billion in 2013. Tourist spending generated a *net* positive impact on revenues to local governments in Beaufort County of approximately $96.2 million (not including effects on property taxes from second homeowners, detailed in the following section). South Carolina state government realized an estimated net positive impact on revenue of $149.5 million due to economic impacts within Beaufort County and those spilling over into surrounding counties.

In 2013, combined investment by the county in Beaufort County Destination Marketing Organizations was $693,252. To the extent that tourists visited Beaufort County in response to marketing by these DMOs, the estimated return on tax investment (ROTI, defined as the difference between net local fiscal impact, $96.2 million reported above, and DMO spending) of these marketing expenditures was $95.5 million, or approximately **$137.77 per dollar spent** by DMOs.

IV. Effects on Local Tourism Taxes

The estimated impact on net local government revenue, presented in Table 3, includes the impact that visitors to each destination have on accommodations, hospitality, and recreation (collectively referred to as local tourism taxes) tax revenues in Beaufort County.

Table 3 – Estimated Local Tourism Tax Revenue 2013

Destination	Estimate
Accommodations Tax	$12.5 million
Hospitality Tax (food/beverage)	$3.8 million
Tax on Admissions Fees	$590,700
Total	**$16.9 million**

The visitor impact on the 3 percent county accommodations tax was provided by the County; all lodging in hotels are visitors, therefore all accommodations taxes paid are attributable to visitor spending. Taxes on food and beverage attributable to visitor spending was estimated using survey data on direct visitor spending on restaurants and applying the county hospitality tax rate of 2 percent; it is estimated that approximately 47 percent of the hospitality tax collected in Beaufort County in 2013 was paid by visitors. Estimating the visitor impact on the 2.5 percent tax on admissions fees was more complicated, due to numerous exemptions that apply to this tax. For example, visitors attending a concert will pay a 2.5 percent tax on their ticket price; however, if the concert involves only local talent, or if it is sponsored by a religious organization, then the event is exempt from the tax. These exemptions cannot by adequately accounted for using the survey data. As a result, the portion of the admissions tax paid by visitors was estimated assuming that the proportion of visitors to legal residents attending events covered by the admissions tax is equal to the proportion of visitors to legal residents dining in restaurants in the county. This percentage was applied to the total tax collected as provided by the County.

In total, visitors contributed approximately **$16.9 million** to local tourism tax revenues in 2013. In addition to local taxes, the state collects a 2 percent tax on accommodations. The estimated impact on state revenues from this tax paid by visitors to Beaufort County was **$6.9 million** in 2013.

V. Second Homeowners: Additional Effects on Property Tax Revenue

The fiscal impact estimates in Section III include the effect that second homeowners have *indirectly* on revenue from taxes on both residential and non-residential property through the additional economic activity they generate through consumer spending; this economic activity appreciates property values through increased commercial development and through higher incomes which in turn impact the demand for both residential and non-residential real estate, increasing its market value.

In this section we will estimate the more *direct* effect that second homeowners have on property tax revenues in the county:

- they directly increase demand for residential properties by purchasing second homes, then pay property taxes on the now higher-valued property; and in addition,

Table 4 – Est. Property Tax Impact of Second Homeowners, 2013		
	Low Estimate	High Estimate
Impact on Property Tax Rev.	$149.4 million	$252.2 million
Total Gross Fiscal Impact, all sources, incl. above	$215.1 million	$317.9 million
Total Net Fiscal Impact all sources, incl. above	$211.4 million	$314.2 million

- a large proportion of second homeowners pay at the 6 percent tax assessment ratio, as opposed to the 4 percent assessment ratio applied to primary residences.

In order to assess the impact that second homeowners have on property tax revenue through these two mechanisms, we must take into account whether demand for the property and any improvements (i.e. homes constructed) on it would have occurred otherwise. In other words, would a given home have been constructed and/or purchased by someone else had the second homeowner not been in the picture. In the interest of erring toward conservatism in our estimates, we establish a range consisting of a "high" and a "low" estimate. These estimates are presented in Table 4.

- The high estimate is the estimated loss to local governments in the county if second homeowners' economic influence were removed from the county. In essence, it assumes that none of the land occupied by second homeowners would have been developed but for second homeowners.[1]

  This high estimate consists of the property taxes actually paid by second homeowners according to county records plus the impact on property taxes estimated by the REDYN model resulting from the economic activity associated with second-homeowner consumer spending while visiting Beaufort County.[2]

- The low estimate is the estimated impact on property tax revenues were second homeowners to entirely convert their properties in the county to primary residences. This basically assumes that land developed by second homeowners would have otherwise been developed by legal residents had second homeowners not located there.

  The low estimate is calculated by figuring the difference in what second homeowners pay in property taxes (assessed at the 6 percent rate) and what would be paid were those properties occupied by primary homeowners paying at the 4 percent assessment rate.[3] This low estimate can also be understood to be the revenue that would be lost to the county were all second homeowners to begin being assessed at the 4 percent rate.

It should be noted that neither of these scenarios is realistic; clearly not all of the properties in question would have gone undeveloped but for second homeowners, and likewise not all of it would have become otherwise occupied by primary homeowners, but these scenarios are intended to provide us with a range within which the true value of the tax impact of second homeowners is predicted to fall.

[1] Even undeveloped land generates some property tax revenue. The high estimate has been adjusted downward in order to account for this.

[2] In the 2013 tax year, Beaufort County records indicate that $234.9 million in real property tax was collected from second homeowners while $70.7 million was collected from legal residents of the county.

[3] In 2012, total taxes paid by residents paying at the 4% rate amounted to 0.39% of total appraised value; taxpayers paying at the 6% rate paid taxes totaling 0.89% of total appraised value. This difference was applied to account for additional exemptions given to legal residents paying at the 4% assessment rate.

VI. Conclusion

Tourist spending creates income to local businesses and households. Because tourist spending is undertaken by individuals who live outside of the county, it is a true export industry and therefore represents a net inflow of funds to the region. The **17,612 jobs** that comprise the estimated total employment impact generated by the five combined visitor segments in 2013 represent **30.6 percent** of all jobs in Beaufort County.[4] Given this impact, tourism is clearly a major driver in the Beaufort County economy.

[4] Total employment in Beaufort County, South Carolina was 57,581 according to the Bureau of Labor Statistics Census of Employment and Wages in 2012, the most recent year for which annual employment data are available.

Appendix

Table A-1 – Estimated Visitor Spending Impact by Destination Beaufort County (2013)

	Concept	Estimate*
Beaufort/Port Royal/St. Helena Island	Employment	1,234
	Total Compensation ($1000s)	$35,038
	Output ($1000s)	$81,116
Bluffton	Employment	1,060
	Total Compensation ($1000s)	$27,036
	Output ($1000s)	$56,904
Hilton Head Island	Employment	15,318
	Total Compensation ($1000s)	$435,912
	Output ($1000s)	$939,593
Total Impact	**Employment**	**17,612**
	Total Compensation ($1000s)	**$497,985**
	Output ($1000s)	**$1,077,613**
	Net Local Government Revenue ($1000s)**	**$96,204**
Total, South Carolina	**Net State Government Revenue ($1000s)**	**$149,466**

* Totals may not sum exactly due to rounding.

** Net Local Government Revenue does not contain property tax effect from second homeowners as shown in Table 4.

Table A-2 – Estimated Gross Local Governments Revenue from Visitor Spending, All Destinations, Beaufort County (2013)			
Revenue Source	**($1000s)**	**Revenue Source**	**($1000s)**
All Revenue	$82,995.5	**-----Hospitals**	$8,055.4
-General revenue	$76,123.3	**-----Highways**	$0.0
--Intergovernmental revenue	$22,697.9	**-----Air transportation (airports)**	$355.8
---From federal government	$1,709.6	**-----Parking facilities**	$172.0
---From state government	$20,988.3	**-----Sea and inland port facilities**	$0.0
---From local government	$0.0	**-----Natural resources**	$0.3
--General revenue from own sources	$53,425.4	**-----Parks and recreation**	$238.7
---Taxes	$35,472.6	**-----Housing and community development**	$135.6
----Property	$17,297.3	**-----Sewerage**	$1,470.7
----Sales and gross receipts	$17,350.9	**-----Solid waste management**	$769.6
-----General sales	$0.0	**-----Other charges**	$1,376.6
-----Selective sales	$16,948.2	**----Miscellaneous general revenue**	$4,249.7
------Motor fuel	$0.0	**-----Interest earnings**	$2,295.1
------Alcoholic beverage	$0.0	**-----Special assessments**	$147.2
------Tobacco products	$0.0	**-----Sale of property**	$82.9
------Public utilities	$402.7	**-----Other general revenue**	$1,724.5
------Other selective sales	$0.0	**-Other than general revenue**	$6,872.1
----Individual income	$0.0	**--Utility revenue**	$6,877.1
----Corporate income	$0.0	**---Water supply**	$3,158.2
----License taxes	$108.3	**---Electric power**	$2,252.7
-----Motor vehicle license	$108.3	**---Gas supply**	$1,404.4
-----Other license taxes	$0.0	**---Transit**	$61.8
----Other taxes	$1,650.1	**--Liquor store revenue**	$0.0
---Charges and miscellaneous general revenue	$17,952.8	**--Insurance trust revenue**	($5.0)
----Current charges	$13,703.1	**---Unemployment compensation**	$0.0
-----Education	$1,128.4	**---Employee retirement**	($5.0)
------Institutions of higher education	$0.4	**---Workers' compensation**	$0.0
------School lunch sales (gross)	$434.0	**---Other insurance trust revenue**	$0.0
------Other education	$694.0		