



Economic Impact Study

Hotel and Conference Center in Victoria, Texas

Prepared For:

Ms. Charmelle Garrett
City of Victoria
P.O. Box 1758
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Prepared By:

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Ms. Charmelle Garrett
Deputy City Manager
City of Victoria
P.O. Box 1758
Victoria, Texas 77902

Dear Ms. Garrett:

In accordance with our engagement letter dated December 7, 2010, we have completed an Economic Impact Analysis for the proposed Hotel and Conference Center in Victoria, Texas. The economic impact includes the direct and indirect spending related to construction and operation of the proposed 150-room hotel and 25,000-square foot conference center. In addition, we have provided a fiscal impact summary that details the estimated tax receipts that the City of Victoria would obtain from the proposed facility.

The Economic Impact Study assumes that the proposed Hotel and Conference Center would open on January 1, 2014. The Hotel and Conference Center market study issued by PKF Consulting USA to the City of Victoria on August 15, 2011 is utilized as the supporting documentation for computing the economic and fiscal impacts.

Although the proposed property's future performance has been conscientiously prepared using information obtained during the course of this study and our experience in the industry, it is based on estimates and assumptions, which are subject to uncertainty and variation, and we do not represent them as results that will actually be achieved. This report is subject to the same Statement of Assumptions and Limiting Conditions as set forth in the Hotel and Conference Center market study.

We would be pleased to hear from you if we may be of further assistance in the interpretation and application of our findings and conclusions. We express our appreciation to you and your associates for the cooperation extended to us during the course of this assignment.

Respectfully submitted,

PKF Consulting USA

A handwritten signature in black ink that reads "G. Randle McCaslin".

G. Randle McCaslin
Vice President / Practice Leader

ECONOMIC IMPACT

Total economic impact is a product of new direct and indirect spending within the local economy. We have analyzed the direct spending relative to operations, employment and construction from the development and activities associated with the proposed Hotel and Conference Center in Victoria, Texas. Each new dollar spent (direct) has a multiplied effect on the economy in the form of increased revenues (spin off activity) to local businesses, increased employment and increased wages (indirect). An example of this would be a retailer who hires more employees as a result of an increase in sales volumes. Each new employee is a new consumer who then re-spends the money within the local economy. Therefore, direct economic impacts are all expenditures that can be linked directly to construction and operations, while indirect impacts are generated when these new dollars are re-spent within the local economy. These direct and indirect expenditures represent the total impact to the economy.

Our methodology separates economic impact into three categories: Construction, Operations Direct Spending and Operations Employment. We then utilized the Regional Input-Output Modeling System (RIMS II) for the Victoria Metropolitan Statistical Area (MSA) developed by the U.S. Department of Commerce's Bureau of Economic Analysis. Based on these multipliers, we developed estimates for total economic impact, the increased wages to the area and the increased employment.

- Construction - The impact from the physical construction of the Hotel and Conference Center and the one-time increase it has on spending. The construction spending also influences employment in many sectors of the local economy. Economic impact from the construction of the Hotel and Conference Center comes in the form of wages paid to construction personnel as well as the purchase of construction materials.
- Operations Direct Spending - The spending that occurs as a direct result of the events and activities that occur in the Hotel and Conference Center. For example, convention attendees' or hotel guest's expenditures on hotel rooms and meals are a direct economic impact. To accurately assess the economic impact on direct spending, PKF Consulting only analyzed the incremental (new) demand and has not associated any direct spending benefits related to transfer spending. Transfer spending refers to demand that is already utilizing rooms and meeting venues in the area.
- Operations Employment – The creation of jobs and paying of wages to the employees of the proposed facility. This figure represents increased payroll expenditures, excluding benefits paid to workers locally. It also expresses how the employees of local business share in the increased outputs.

Economic Impact from Construction

In addition to the ongoing impacts from the operation of the facilities, the construction of the Hotel and Conference Center would create a one-time increase in spending. After discussions with several brand representatives, we estimated the cost to develop the 150-room hotel at \$115,000 per room or \$17.3 million and the conference center at \$4.0 million. The total estimated development cost of the hotel and conference center is approximately \$21,250,000. These costs provide an order of magnitude estimate of the development costs for the proposed hotel and conference center in order to assess economic impact. The estimates should not be considered as a substitute for the design and costing of the project by qualified architects, engineers and contractors.

PKF Consulting interviewed large developers and local builders to determine a reasonable assumption (20%) of materials and labor that will originate from within the Victoria MSA. The following table uses the multipliers supplied by the RIMS II model for the Victoria MSA to estimate economic impact resulting from construction.

Hotel and Conference Center - Victoria, Texas		
Economic Impact from Construction		
Total Construction Cost		\$21,250,000
Cost Generated		
From Within Victoria County ⁽¹⁾	20%	\$4,250,000
Output - represents the dollar increase in area		
output for every dollar increase in direct spending	1.5909	\$6,761,325
Wages - represents the dollar increase in area		
household income for every dollar increase in direct spending	0.5084	\$2,160,700
Total Economic Impact From Construction		\$8,922,025
Jobs - represents the increase in area jobs for every		
\$1 million in direct spending	12.8076	54 Jobs
⁽¹⁾ According to local developers and builders		
Multiplier Source: US Department of Commerce - Bureau of Economic Analysis		

Economic Impact from Operations Direct Spending

Communities typically build conference centers because they wish to enjoy the additional spending that delegates bring into the community. Full-service, conference center hotels are designed to not only accommodate existing demand (which they usually do at a higher level of accommodations and price point) but also increase group and meetings demand to the market area. In addition, the new visitor demand associated with the proposed Hotel and Conference Center will in turn generate induced related spending into the market.

PKF Consulting estimated the direct new spending that would take place in the local economy due to the development of the proposed Hotel and Conference Center. The induced room night demand was extrapolated from the Hotel and Conference Center market study dated August 15, 2011. We utilized the stabilized year of operation (2016) to represent the effective level of performance for the facility and the related economic impacts associated with direct spending.

Hotel and Conference Center - Victoria, Texas	
Induced Room Night Generation	
New Room Nights Induced to Market	Room-Nights
Transient	7,500
Group	18,000
Total Induced Room Nights	25,500
Source: PKF Consulting USA	

In order to determine reliable spending estimates for meeting attendees and transient guests, we utilized three key sources. The spending that occurs within the hotel is sourced from the proposed Hotel and Conference Center market study issued by PKF Consulting. In estimating the group attendee spending outside of the hotel, we utilized the assumptions from the Destination Marketing Association International's (DMAI) EXPACT study. DMAI is the best and most trusted source of visitor spending data available and the figures from the latest study were updated to reflect inflation. The Corporate Travel Index (CTI) survey focuses on spending patterns specific to the top 100 business destinations in the country and we used these figures to estimate visitor spending outside the hotel related to transient guests.

Hotel and Conference Center - Victoria, Texas		
Attendee Spending		
Spending Categories	Transient	Group
Lodging	\$140	\$135
F&B	\$65	\$90
Transportation	\$42	\$35
Shopping	\$48	\$40
Recreation	\$15	\$11
Spending Per Attendee	\$310	\$311
New Room Nights Induced to Market	7,500	18,000
Direct New Spending	\$2,325,000	\$5,598,000
Source: PKF Consulting USA, DMI, CTI		

In the stabilized year, 2016, PKF has estimated direct new spending of \$7.9 million. To provide the City of Victoria with an estimated impact on an annualized basis, PKF Consulting applied a discount to each of the start-up years. Conversely, PKF Consulting applied a 3% inflation rate to project the annual impact on direct spending from 2017 to 2022. The impact from direct spending is presented in the following table.

Hotel and Conference Center - Victoria, Texas	
Total Local Economic Impact From Direct Spending	
Estimated Economic Impact	
Year	From Direct Spending
2013	--
2014	\$5,070,720
2015	\$6,338,400
2016	\$7,923,000
2017	\$8,160,690
2018	\$8,405,511
2019	\$8,657,676
2020	\$8,917,406
2021	\$9,184,928
2022	\$9,460,476
2023	\$9,744,291
Total	\$81,863,098
Source: PKF Consulting USA	

Economic Impact from Operations Employment

Direct economic impact from employment is generated by the creation of jobs and the paying of wages to the employees of the proposed facility. According to our comparables, a hotel and conference facility would have payroll costs of approximately 30% of its total revenue. As much as 30% of these wages are typically withheld for taxes and savings and are not spent, which leaves 70% of these wages to be spent on household products and services. For purposes of the analysis, we estimated that 50% of the wages would be reinvested within the local Victoria economy.

After calculating the amount spent by employees in the local economy, we then applied the multipliers provided by the U.S. Department of Commerce's Bureau of Economic Analysis. Indirect impact occurs when the industries that produce these products and deliver these services hire more persons and pay more wages. The local economic impact from operations is presented in the following table.

Hotel and Conference Center Victoria, Texas Local Economic Impact From Operations Employment							
	Total Revenue¹	Total Payroll (30% of Total Revenue)	Taxes & Savings - (30% of Payroll)	Amount Spent In Local Economy (50%)	Economic Impact		Total Impact From Operations Employment
					Output² 1.4582	Wages² 0.3965	
2014	\$6,135,000	\$1,840,500	\$552,150	\$644,175	\$939,336	\$255,415	\$1,194,751
2015	\$6,613,000	\$1,983,900	\$595,170	\$694,365	\$1,012,523	\$275,316	\$1,287,839
2016	\$7,109,000	\$2,132,700	\$639,810	\$746,445	\$1,088,466	\$295,965	\$1,384,432
2017	\$7,276,000	\$2,182,800	\$654,840	\$763,980	\$1,114,036	\$302,918	\$1,416,954
2018	\$7,442,000	\$2,232,600	\$669,780	\$781,410	\$1,139,452	\$309,829	\$1,449,281
2019	\$7,611,000	\$2,283,300	\$684,990	\$799,155	\$1,165,328	\$316,865	\$1,482,193
2020	\$7,781,000	\$2,334,300	\$700,290	\$817,005	\$1,191,357	\$323,942	\$1,515,299
2021	\$7,993,000	\$2,397,900	\$719,370	\$839,265	\$1,223,816	\$332,769	\$1,556,585
2022	\$8,166,000	\$2,449,800	\$734,940	\$857,430	\$1,250,304	\$339,971	\$1,590,275
2023	\$8,341,000	\$2,502,300	\$750,690	\$875,805	\$1,277,099	\$347,257	\$1,624,356
Total	\$74,467,000	\$22,340,100	\$6,702,030	\$7,819,035	\$11,401,717	\$3,100,247	\$14,501,964

¹PKF Consulting performance projections for the Hotel and Conference Center from the market study dated 8/15/11.

²Multiplier Source: US Department of Commerce - Bureau of Economic Analysis

Source: PKF Consulting USA

Total Economic Impact

The following table summarizes the local economic impact of the proposed Hotel and Conference Center located in Victoria, Texas beginning with construction in 2013 through the proposed facilities first 10 years (2014 through 2023) of operations.

Hotel and Conference Center - Victoria, Texas Total Local Economic Impact From Direct Spending				
Estimated Economic Impact				
Year	From Construction	From Direct Spending	From Employment	Total Economic Impact
2013	\$8,922,025	--	--	\$8,922,025
2014	--	\$5,070,720	\$1,194,751	\$6,265,471
2015	--	\$6,338,400	\$1,287,839	\$7,626,239
2016	--	\$7,923,000	\$1,384,432	\$9,307,432
2017	--	\$8,160,690	\$1,416,954	\$9,577,644
2018	--	\$8,405,511	\$1,449,281	\$9,854,792
2019	--	\$8,657,676	\$1,482,193	\$10,139,869
2020	--	\$8,917,406	\$1,515,299	\$10,432,705
2021	--	\$9,184,928	\$1,556,585	\$10,741,513
2022	--	\$9,460,476	\$1,590,275	\$11,050,752
2023	--	\$9,744,291	\$1,624,356	\$11,368,646
Total	\$8,922,025	\$81,863,098	\$14,501,964	\$105,287,088

Source: PKF Consulting USA

FISCAL IMPACT

In addition to the economic impact, we have also identified the fiscal benefit to the local community. This analysis estimates fiscal impacts for the governmental units that levy taxes in the jurisdiction. The fiscal impacts are tax revenues that result from the spending and income related to the activities at the new Hotel and Conference Center. PKF Consulting estimated fiscal impact by multiplying the applicable tax rates by the estimated amounts of direct and indirect spending.

Hotel Occupancy Tax

The City of Victoria will benefit from the collection of a 7% City Hotel Occupancy Tax levied on the rooms revenue of the subject hotel. The following table summarizes the potential hotel occupancy taxes for the first 10 years of hotel operations.

Hotel and Conference Center, Victoria, Texas			
Potential Hotel Occupancy Tax			
Year	Forecasted Subject Hotel Room Revenue	Victoria Lodging Tax	Total Potential Victoria Tax Revenues
2014	\$4,807,000	7%	\$336,490
2015	\$5,213,000	7%	\$364,910
2016	\$5,632,000	7%	\$394,240
2017	\$5,754,000	7%	\$402,780
2018	\$5,875,000	7%	\$411,250
2019	\$5,997,000	7%	\$419,790
2020	\$6,119,000	7%	\$428,330
2021	\$6,281,000	7%	\$439,670
2022	\$6,402,000	7%	\$448,140
2023	\$6,524,000	7%	\$456,680
Total	\$58,604,000	7%	\$4,102,280

Source: PKF Consulting USA

Sales Tax

The following table summarizes the potential sales taxes generated by the proposed Hotel and Conference Center. The table presents the taxable revenues realized by the City of Victoria from the operation of the facility (room rental, food and beverage, etc.) and the additional tax receipts associated with the new direct and indirect forecasted spending.

Hotel and Convention Center - Victoria, Texas			
Potential Sales Tax Revenues			
Year	Estimated F&B Revenue	Total Economic Impact	Potential Sales Tax Revenues Total (1.5%)
2013	\$0	\$8,922,025	\$133,830
2014	\$1,206,000	\$6,265,471	\$112,072
2015	\$1,267,000	\$7,626,239	\$133,399
2016	\$1,332,000	\$9,307,432	\$159,591
2017	\$1,372,000	\$9,577,644	\$164,245
2018	\$1,413,000	\$9,854,792	\$169,017
2019	\$1,455,000	\$10,139,869	\$173,923
2020	\$1,499,000	\$10,432,705	\$178,976
2021	\$1,544,000	\$10,741,513	\$184,283
2022	\$1,590,000	\$11,050,752	\$189,611
2023	\$1,638,000	\$11,368,646	\$195,100
Total	\$14,316,000	\$105,287,088	\$1,794,046

Source: PKF Consulting USA

Property Tax

The total property tax rate in 2011 including City of Victoria taxes (CVC, GVC, JRC, NAV, RDB, SVC, WWD) is \$2.56 per \$100. We have used the projected property tax estimates from the Hotel and Conference Center market study as a baseline for estimating the expected property tax receipts related to the development. For purposes of this analysis, PKF Consulting has assumed no tax rebates are associated with the development.

Hotel and Conference Center Victoria, Texas Forecasted Property Tax	
Year	Forecasted Property Tax
2014	\$169,000
2015	\$172,000
2016	\$176,000
2017	\$179,000
2018	\$183,000
2019	\$186,000
2020	\$190,000
2021	\$194,000
2022	\$198,000
2023	\$202,000
Total	\$1,849,000
Source: PKF Consulting USA	

TOTAL PROJECTED LOCAL ECONOMIC AND FISCAL IMPACT SUMMARY

The table below presents the **Total Projected Local Economic and Fiscal Impact** that the proposed Hotel and Conference Center in Victoria, Texas will have on the local community over the period 2013 through 2023.

**Total Projected Local Economic & Fiscal Impact
Hotel and Conference Center, Victoria, Texas
2013 - 2023**

Economic Impact

From Construction	\$8,922,025
From Operations	\$96,365,063

Job Creation

From Construction	54
From Operations	40 ⁽¹⁾

Fiscal Impact

Hotel Occupancy Tax	\$4,102,280
Sales Tax Revenues	\$1,794,046
Property Tax	\$1,849,000

(1) Based on comparable facilities

Source: PKF Consulting USA
