

South Shore Vision

Destination Economic Impact Analysis



Environment · Economy · Community

4.0



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Project Overview

Background

Lake Tahoe has been one of the most popular destination areas in the Western United States. The area boasts year-round recreation, including skiing and gaming, along with numerous other outdoor activities. Over the past decade the South Shore of Lake Tahoe has experienced a significant decline in economic activity including the following areas:

- Decline in gaming revenue
- Decline in rooms rented
- Decline in occupancy
- Decline in retail sales activity

As a result of this decline the local governments, including City of South Lake Tahoe and Douglas County, have experienced a significant reduction in the tax revenues that are used to provide local community services. This trend, while magnified by the recent recession, has been occurring over a much longer period of time. The causes for the decline can be attributed to several key reasons:

- The introduction of tribal gaming
Perhaps the most competitive dynamic was the introduction of tribal gaming throughout the core northern California market. During the past decade many new tribal casinos have been developed, including Thunder Valley in Lincoln, Cache Creek in Brooks, Jackson Rancheria in Jackson and Red Hawk in Placerville. The impact of these casinos on the South Shore tourism market has been significant. Gaming revenues have dropped from \$341M in 2001 to \$198M in 2011, a reduction of 42%. **Additionally employment within South Shore casinos has declined from 7,074 to 3,423, a reduction of 52%¹.**
- A dramatic increase in non-gaming competition
In addition to the introduction of tribal casinos, communities throughout California (both urban and rural) have identified tourism as a key economic driver. As such there has been an increased emphasis on tourism promotion activities in many destinations. **The traditional core northern California market now has many more choices of areas to spend its tourism dollars.** Many of these competing areas feature new hotel lodging choices, often with global distribution marketing systems that make them accessible to northern California and beyond.

¹ Nevada Gaming Abstracts

- Technology marketing
With the advent of online and social media marketing tools, destinations now have the capacity to promote themselves and their events and activities in an efficient manner that was not previously possible. **These promotional messages, often with greater reach than traditional marketing messages, now compete with South Shore, further adding to a competitive environment.**
- An increase in tourism promotion funding
Historically South Shore has enjoyed a competitive advantage with the availability of promotional dollars with the advent of Tourism Business Improvement Districts (TBID) as a funding mechanism for tourism promotion. **That advantage has been significantly eroded as many of South Shore's competitor destinations have multi-million promotional budgets.** Additionally, many destinations that previously had a small or no tourism promotion budgets now have promotional funding through the formation of their own TBIDs.
- Decline in the South Shore product offering
Due to the regulatory nature of the Lake Tahoe basin, continued improvements in the infrastructure have been difficult to implement. As such, the effort to continually improve and update the infrastructure to enhance the visitor experience has not met the competitive challenge.

To meet this changing and challenging environment, South Shore has responded with marketing and limited product/experience improvements. The Lake Tahoe Visitors Authority (LTVA) has shifted its emphasis to promoting the recreational offerings of the area, as well as a significantly increased focus on interactive technology marketing. The community, with the support of the City of South Lake Tahoe, Douglas County and the Lake Tahoe Visitors Authority has increased its emphasis on developing and promoting special events designed to involve both local community members as well as attract visitors to the area.

In an effort to improve the experience for visitors and local residents and to increase South Shore competitiveness in order to strengthen the local economy, tourism leaders and asset owners recognized the need to make significant changes to the South Shore product infrastructure. To that end the **South Shore Vision Team** has developed a conceptual Vision Plan to revitalize the South Shore area between Kahle Park on the Nevada side and Ski Run Blvd. on the California side. **The proposed changes are designed to dramatically transform the South Shore into a destination resort that increases the overall economic impact of visitors to the area.** This proposed revitalization will shift the

focus of the destination to that of a recreation, entertainment and pedestrian street scape orientation. Specific improvements would include the following (see next page):

- Development of the loop road that would facilitate traffic around the casino core and the reduction of Highway 50 to 3 lanes, dramatically changing the downtown area into a more pedestrian location
- Improved opportunity for bringing recreation into the core area (bike trail access, climbing walls, snowboard rails, etc.)
- Permanent amphitheater to facilitate additional entertainment
- Streetscape along Highway 50 and Stateline Avenue to the beach
- Synergy for art and visual performance activities
- Investment by property owners on both the California and Nevada side of Stateline

When considering tourism there is a framework on how destinations can be viewed. In order to be successful, each destination must have a variety of elements that, when combined, comprise the overall tourism experience. South Shore, like all other destinations, has a variety of these elements as well as a different quality of these elements that help to define the experience. These elements are outlined by McIntosh, Goeldner and Ritchie², and include natural resources, infrastructure, hospitality, visitor services, attractions and organizational.

Table 1
Elements of Tourism

Tourism Element	Characteristics
Natural Resources	Natural assets unique to the region.
Infrastructure	Air access, roads, utilities, etc. All elements that help support the visitor’s experience.
Hospitality	Human elements that interact and serve the visitor.
Visitor Services	Hotels, F&B and retail services designed to assist the visitor.
Attractions	Natural and built facilities, events and local residents that provide visitors with experiences.
Organizational	Organization and processes that work to attract visitors to the destination using a variety of promotional techniques.

The South Shore does possess a number of important tourism elements identified in Table 1 above. Most relevant to this project, the proposed Vision Plan changes would not only change the physical characteristics of the area, but are also designed to enhance the experience of visitors and local residents alike. Specifically, the proposed changes would improve the area infrastructure and the built facilities that enhance the overall destination experience.

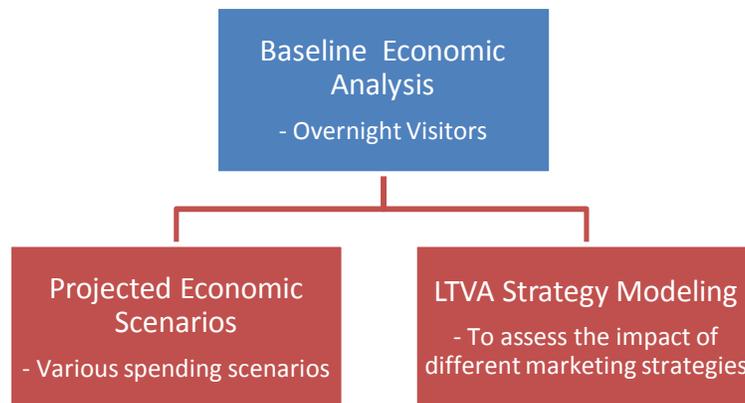
² Tourism, Principles, Practices and Philosophies, and the Strategic Marketing Group

Project Purpose and Objectives

This report is designed to assess the economic impact of the proposed changes to the study area and the overall impact to the South Shore market. Specifically, **it is intended to understand the different scenarios of traveler spending and the economic impact that might be achieved given a variety of different revenue growth rates** which could be achieved with the changes proposed by the Vision Plan and to compare those with a projected growth rate of the status quo.

The project objectives were developed with several distinct but complementary needs in mind. These include developing a baseline economic impact, and using the baseline model to assess both LTVA marketing strategies and the different spending scenarios that might be realized under the Vision Plan.

Project Objectives Framework



Specific Project Objectives

1. Develop a baseline economic model of the current South Shore overnight visitor impact.

Discussion: *This objective is designed to develop a current baseline economic model for South Shore in an effort to understand the decline of economic activity, including revenues, taxes and employment.*

2. Development of projected economic activity including revenues, taxes and employment based on the implementation of the South Shore Vision Plan.

Discussion: *This projection would take into account the economic impact of increased tourism activity, the successful attraction of new visitors (longer stay, higher economic impact including revenues, transient occupancy, sales and property tax and employment) that would be attracted to the destination with the proposed changes to the infrastructure and visitor experience.*

3. Develop a baseline model that can be used by the LTVA to measure the potential impact of the new marketing strategies.

Discussion: *The baseline economic model can be utilized by the LTVA to assist in developing different marketing strategy scenarios. (e.g. What would happen if the geographic mix of visitors changed, what would happen if the average length of stay increased, what would happen if occupancy were increased, etc.?) This information could be used to adjust and modify current strategies.*

The development of this model is designed to assist policy makers in making future decisions. As such it should be noted that at all times SMG has attempted to use the best information available, and in making assumptions the most conservative approach was used.

Project Funding

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Project funding was provided by the following organizations:

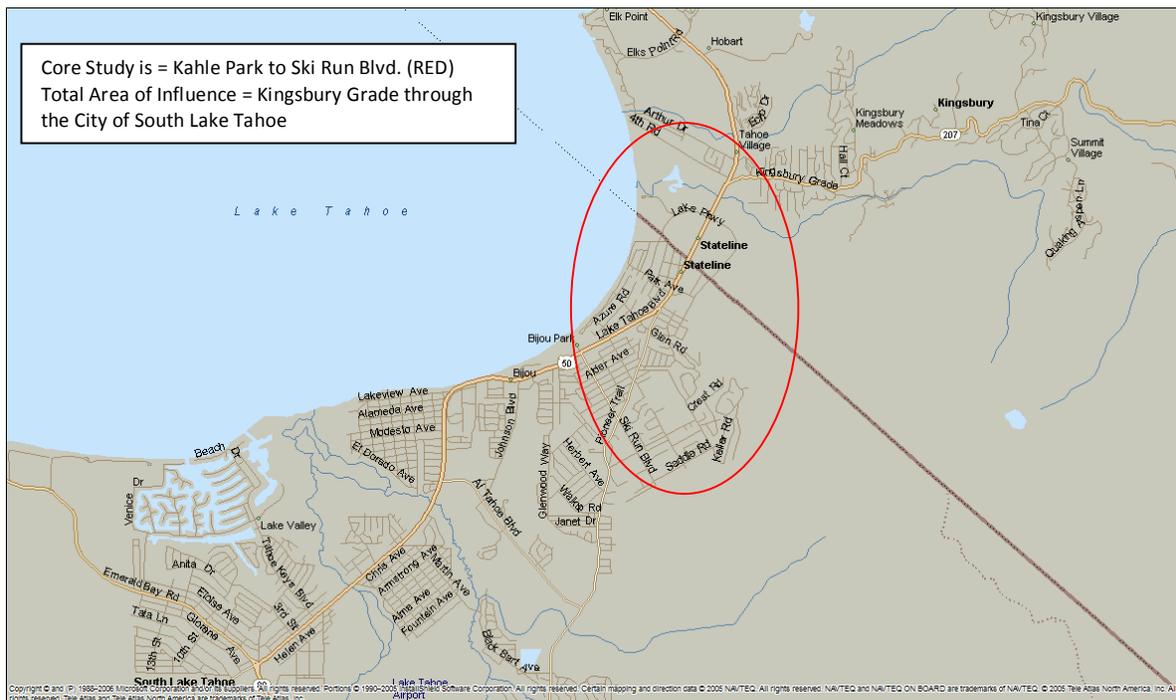
- City of South Lake Tahoe
- Douglas County, Nevada
- Lake Tahoe Visitors Authority
- South Tahoe Alliance of Resorts

The Core Study Area

For the purpose of this analysis we are defining the core study area in the following two ways:

1. **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. This area is the prime recipient of proposed redevelopment and transportation infrastructure changes.
2. **Influence Area** - While the core study area will be the primary area for infrastructure change the influence area encompasses all of South Shore, including the City of South Lake Tahoe and the Stateline to Kingsbury Grade area.

South Shore Study Area



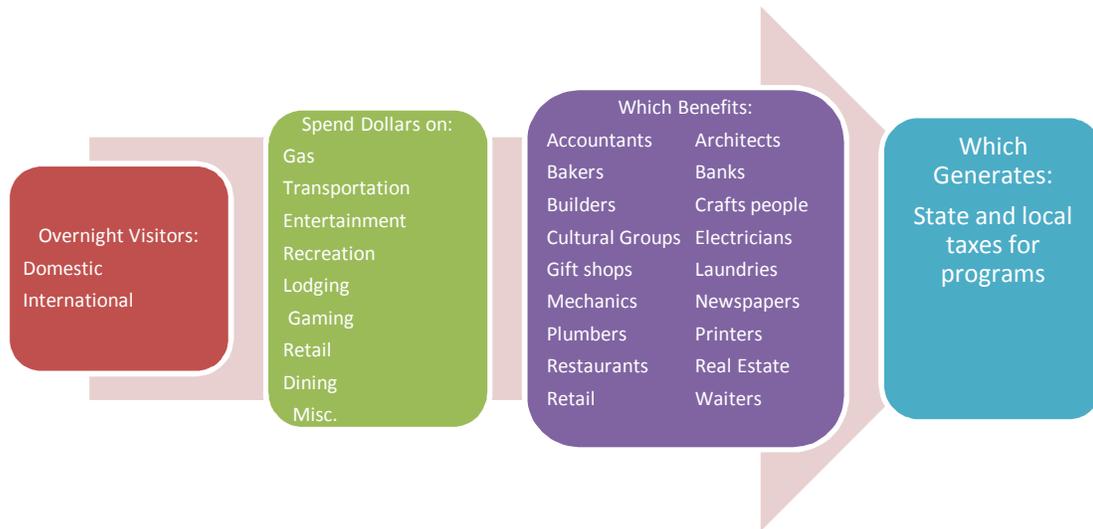
Key to implementing the Vision Plan is **the need to develop an economic impact analysis to better understand the potential revenues once the revitalization is complete.** In addition to developing an economic impact model that takes into account overall revenues, employment and taxes generated, the model can also be used by the LTVA to assess the impact different marketing strategies and their impact on the South Shore economy.

Additionally it should be noted that **the focus of this report is the overnight visitor**. It is estimated represents he represents approximately 85-90% of the visitor market and overall economic impact to the region.

Travel Spending Impact Framework

It is important to understand the framework of tourism economic impacts. As the figure below identifies, overnight visitors spend directly into the local economy and this spending benefits a wide variety of individuals and organizations. That spending, along with local spending, generates a variety of state and local taxes. **Clearly the more revenue that is generated the more revenue is available for local residents (businesses and employees) as well as local government.**

Tourism Impact Framework



Sources of Data and Assumptions

In the preparation of this report SMG used the best and most recent available data and has sourced the use of that data throughout. In all cases the most conservative assumptions have been identified and utilized.

About IMPLAN

For the analysis SMG utilized the IMPLAN input output model that quantifies direct, indirect and induced impacts of an economic activity in a specific region. In the case of tourism the “direct” impact is the amount of money spent by tourists in the area for goods and services. The “indirect” impact is the amount paid by tourist businesses to employees and vendors for goods and services needed to provide their final product or service to the

customer. “Induced” impact is the amount of dollars that households (employees and business owners) then recirculate in the area economy.

Study Limitations

It is important to understand that all economic impact models are based on a set of assumptions necessary to make such modeling possible. The assumptions, however, also introduce certain restrictions that are important to understand. Used properly, the estimates can provide very useful information about a community, the economic interrelationships in a local economy, and how change can affect those relationships. Still, the model's estimates should be viewed as a range of possible impacts.

It is also important to remember that the results should be used as only one part of a discussion about a possible change. Non-economic factors, such as public health, quality of life, environmental impacts, and social and cultural history, are not directly integrated into the analysis. Other concerns and issues in the community must balance the model estimates.

Report Organization

The report is organized into sections which provide detailed information about the travel spending and economic impact of overnight visitors to the South Shore.

- **Part 1: The South Shore Tourism Economy**
This section includes an overview of the characteristics of the current tourism based economy.
 - **Part 2: Current Tourism Spending Economic Impact**
This section includes the development of a baseline of existing visitor levels as well as a baseline economic impact.
 - **Part 3: The Destination Vision Economic Impact**
This section includes the development of overnight visitor economic impacts under a number of scenarios based on the implementation of the proposed vision plan.
 - **Part 4: Vision Plan Phasing**
This section includes estimates for the timeframe of the implementation of the Vision Plan.
-

Executive Summary

Lake Tahoe has been of the most popular destinations in the Western United States. The region boasts year-round recreation, including skiing and gaming, along with a host of other activities. As a destination and community Lake Tahoe is also characterized as having a built environment that is out of sync with its breathtaking natural beauty, one that is contributing to environmental decline and one that local municipalities rely on for tax revenues that is much less competitive than other destinations. Without change it will become even less competitive.

Policy makers are facing two distinct choices that include the basic continuation of the status quo and one of transformation. The **status quo** is based on the current pace and level of investment that has been experienced over the past decade; **small incremental changes that will not materially generate the kinds of revenues needed for a sustainable economy**. As result the destination is likely to see further stagnation along with continued loss of revenues (in both real and nominal dollars) as well as taxes and employment, which in turn further will likely discourage future investments, continuing the existing slow downward trend.

The second choice is to **transform the destination by reducing the excess supply of lodging, making the necessary investments to upgrade the South Shore infrastructure, roads and lodging** which would improve the competitiveness of the destination and **attract an overnight guest that spends more** thus increasing revenues, jobs and taxes.

It is clear from the analysis that South Shore as destination and economic entity has suffered as competitor destinations have done a better job of increasing tourism spending by updating lodging, attractions, recreation, retail shopping and dining opportunities. As such it is critical to improve the economy not just at an economic level but at a social level. Increased revenues create funding for environmental improvement, funding for local services, better employment and increased pay. None of these are likely to occur if the South Shore economy continues on its existing path.

- The current South Shore lodging inventory includes non-casino hotel units which account for 34% of the total units, timeshare/fractional units which account for approximately 28% of the units, casino hotel units 15% and property management and campgrounds units at 9%.
- Seventy-one percent of South Shore lodging units are located on the California side. Within the Stateline area 42% of units are located on the California side and 29% located on the Nevada side. Overall 85% of this lodging segment is located between the Stateline and Bijou areas.

- Overall it is estimated there are approximately 1.6 million visitors to the South Shore with Quarter 3 having the highest concentration of visitors at 36%, followed by Quarter 1 at 22.5%, Quarter 2 at 22.2% and Quarter 4 at 19%.
- Overall the baseline economic impact for South Shore is projected to be approximately \$1.1B. Of that \$838M is direct economic impact, \$139M is indirect spending and \$182M is induced spending.
- The economic impact for the summer season is estimated to be approximately \$817M and the winter season \$343M.
- In terms of employment approximately 13,985 jobs are generated by overnight tourism spending. Of those jobs fully 70% are generated during the summer season with 30% during the winter season.
- Currently the South Shore performs at levels well below competition of other destinations. **South Shore was ranked last in occupancy rate 44% and Average Daily Rate (ADR) at \$102** among eight summer and winter destination competitors that were included in this study. **Travel spending in South Shore has not even kept pace with inflation.**
- **It should also be noted that in addition to the cyclical changes in the marketplace there are structural changes that have impact the destination included increased competition both from a marketing and product improvement dimensions.**
- **South Shore has almost twice the number of lodging units as does its competitors.** Given that it has an occupancy rate of 40%, it is clear it has an oversupply of in terms of the number of lodging units as well as the quality of these lodging units.
- Economic impact projections were completed under four different scenarios: average daily lodging rates of \$150, \$175 \$200 and \$250. Depending upon which pricing levels can be achieved incremental spending could range from \$270M to \$1B with resulting taxes flowing from those economic impacts.
- If travel spending declines by one-half percent, there could be a reduction of \$60M and if it is reduced by 1%, annual spending would be reduced by \$117M.
- A second potential benefit along with increased revenues and taxes that right sizing lodging infrastructure would bring is a reduction in land coverage as those excess units would be taken out of supply. **It is estimated that if 40 units of lodging are eliminated an acre of coverage can also be reduced, minimizing the environmental impact of the built environment.**
- The choices are clear. **Policy makers can either make changes to grow the South Shore revenue pie or continue with the status quo**, which will not drive the desired revenue growth, and will likely continue the current stagnation and downward trend.

Part 1: South Shore Tourism Economy

Part 1 of this report is designed to understand the South Shore tourism economy as it currently exists and to acquaint the reader with a basic understanding of the South Shore tourism economy.

The recently completed Lake Tahoe Prosperity Plan report identifies *tourism and visitor services* as the single largest economy economic cluster within the Lake Tahoe Basin.³

As such, the importance of tourism within the basin in general and South Shore specifically as a revenue, tax and employment generator cannot be overstated. The need to revitalize and strengthen this element of the economy in the face of ever increasing competition is critical.

A. Location

Historically, Lake Tahoe has been one of the most popular destination areas in the United States. The area boasts year-round recreation including skiing and gaming as well many other outdoor activities. The area is in close proximity to major population centers as indicated in Table 2 below.

Table 2
Proximity Markets

City	Population	Distance	Time by Car	Primary Acces
Carson City, NV	55,974	25 Miles	45 Minutes	Auto
Reno, NV	193,882	60 Miles	1 Hour 15 Minutes	Auto
Sacramento, CA	1,352,445	110 Miles	2 Hours	Auto
SF/Bay Area	3,400,000	200 Miles	3 Hours 30 Minutes	Auto
Los Angeles	9,937,739	475 Miles	8 Hours	Air/Auto

Source: US Census Bureau

These proximity markets serve as the primary feeder markets for the tourism economy, though the region has significant competition from other destinations that also access the northern California population base. Tourism destinations like Napa, Sonoma, San Francisco, Monterey, Santa Cruz, along with a host of smaller destinations all compete for a piece of the important northern California market too.

³ Lake Tahoe Prosperity Plan 2010

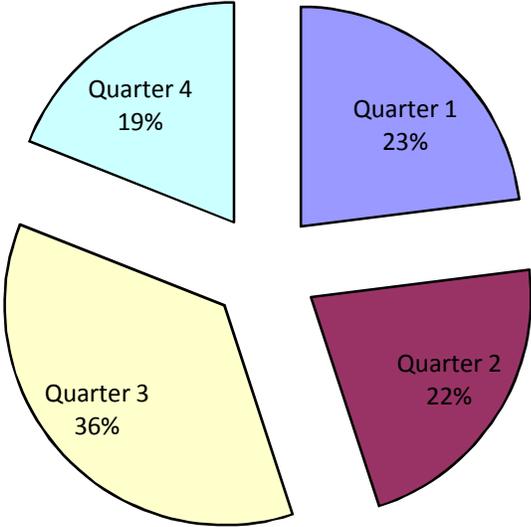
Figure 1
Lake Tahoe Feeder Market Map



B. Market Seasonality

Perhaps the most pronounced characteristic of the South Shore economy is the destination’s seasonality. This economy has traditionally been highly seasonal with the summer representing the largest season of activity followed by the winter. Figure 2 below identifies the percentage of room nights generated in each season.

Figure 2
South Shore Seasonality
Projected Visitors 2011



Source: City of South Lake Tahoe, Douglas County, NV

As can be seen in Figure 2 on the previous page, there are clearly times of pronounced demand. The summer season is characterized by great weather, easy access and a variety of outdoor recreation, gaming and entertainment opportunities. Quarter 1, the second strongest season, is dominated primarily by outdoor winter activities including skiing and snowboarding, along with gaming opportunities. It should be noted that while the previous chart is presented to provide a quarterly view, the winter season can often run into April and sometime May, as was the case in 2011.

What has been a specific historical challenge for the South Shore marketplace is the shoulder season, which includes mid-April through mid-June and late October through Christmas. Efforts to stimulate demand during those periods of the year, including a proposed convention/meeting facility which would attract specific groups, have so far not met with success⁴.

⁴ Project 3 which is currently located at Stateline on the California side is slated to have some type of meeting/performance facility but that project failed to secure financing and as of this writing has not been built.

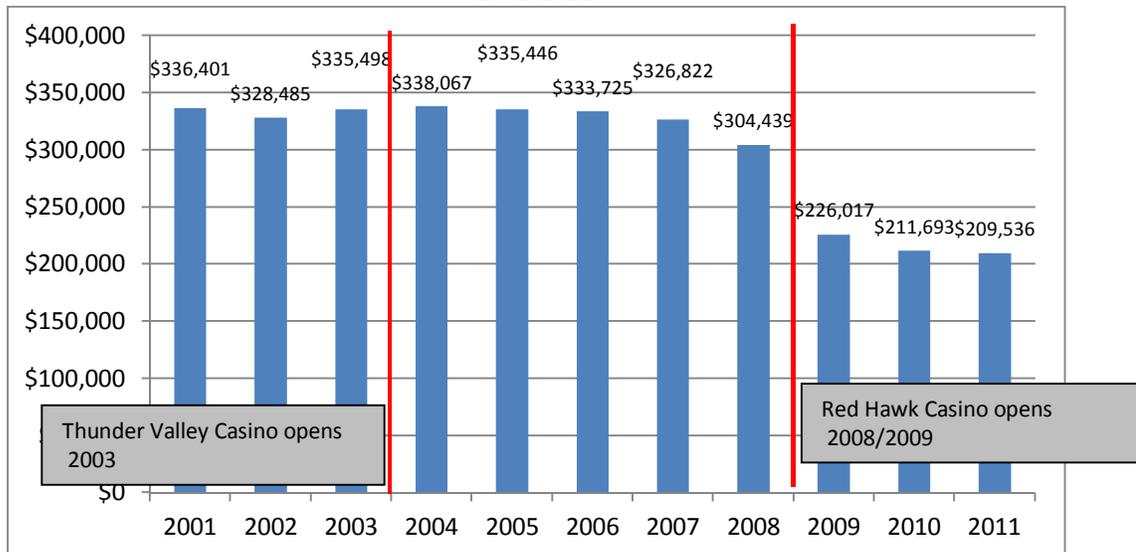
C. Historic Demand Drivers

Historic demand drivers for the South Shore primarily include gaming and skiing, in addition to other forms of outdoor recreation as well as the scenic beauty of the area. Both primary demand drivers are reviewed below.

1. South Shore Gaming Revenues

In the South Shore market, gaming revenues have declined significantly from a high of \$338 million in 2004 to \$209 million in 2011, a decrease of 38%. This decline is due to two primary factors; (1) the introduction of tribal gaming in the core northern California market, which has seen major casinos open including Red Hawk, Jackson Rancheria, Cache Creek and Thunder Valley, and (2) Southwest Airlines has a significant number of flights from core markets including Sacramento, San Jose and San Francisco to its Las Vegas hub, which has greatly facilitated access to Las Vegas, a global gaming destination.

Figure 3
South Shore Gaming Revenue (Less Baccarat)
(000's Omitted)
2001-2011



Source: Nevada Gaming Commission

***It is important to note it is estimated that approximately 60% of casino employees are California residents.⁵**

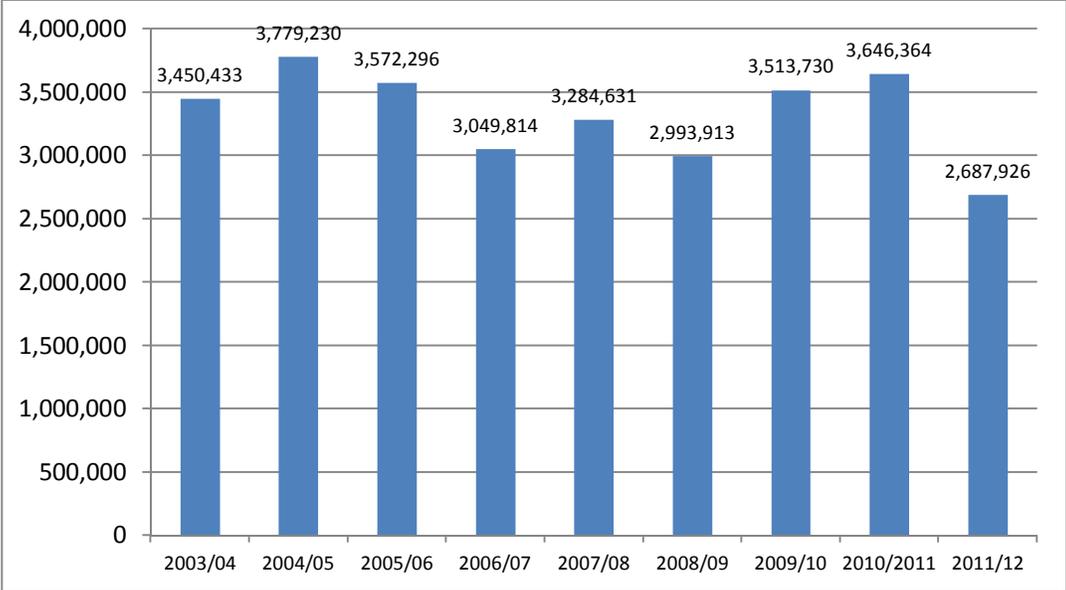
Gaming revenues represent a key indicator in the structural change of the market place. **This sector has seen a significant impact as a result of increased competition and access to gaming from both established destination like Las Vegas and newer tribal gaming competitors.**

⁵ South Shore Casino interviews

2. Lake Tahoe Skier Days

The Lake Tahoe market includes seven major ski resorts. In South Shore, resorts include Heavenly, Kirkwood, and Sierra-at-Tahoe. North Shore resorts include Squaw Valley, Alpine Meadows, Northstar California and Mt Rose-Ski Tahoe. Combined these resorts generated approximately 3.6 million skier days during the 2010/11 season.

Figure 4
Lake Tahoe Skier Days
2003/4-2011/12



Source: Ski Lake Tahoe

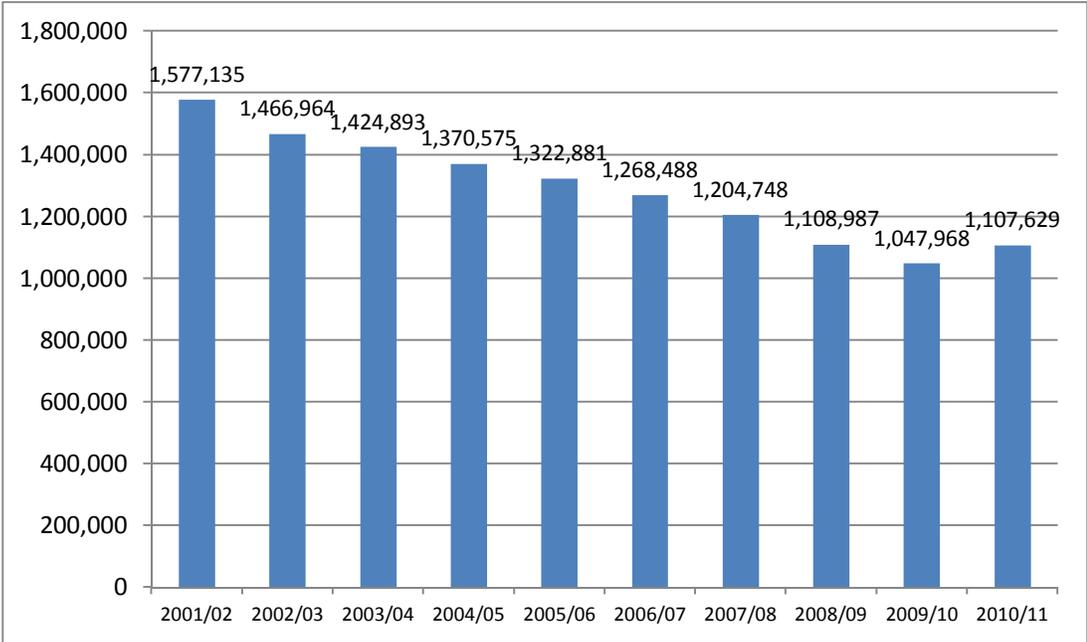
As can be seen skier days for the 2011/12 season are down significantly due to lack of snow. It should also be noted there has been both new ownership and consolidation within the local ski industry. Vail Resorts currently owns Heavenly, Northstar and most recently, Kirkwood. KSL Capital which purchased Squaw Valley several years ago recently acquired Alpine Meadows. This now means that two companies own five of the Lake Tahoe ski resorts.

In addition to gaming and skiing, the area boasts plenty of other outdoor recreation opportunities including boating, beach play, golf, bicycling, mountain biking, snowmobiling, fishing, climbing and hiking along with special events and cultural activities.

D. Lodging

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% decline**.

Figure 5
South Shore Rooms Rented
2001/02-2010/11



Source: City of South Lake Tahoe, Douglas County

Closer analysis reveals that the room night reductions were 38% on the California side and 22% on the Nevada side.

Table 3
Rooms Rented Trend
2000/01-2010/11

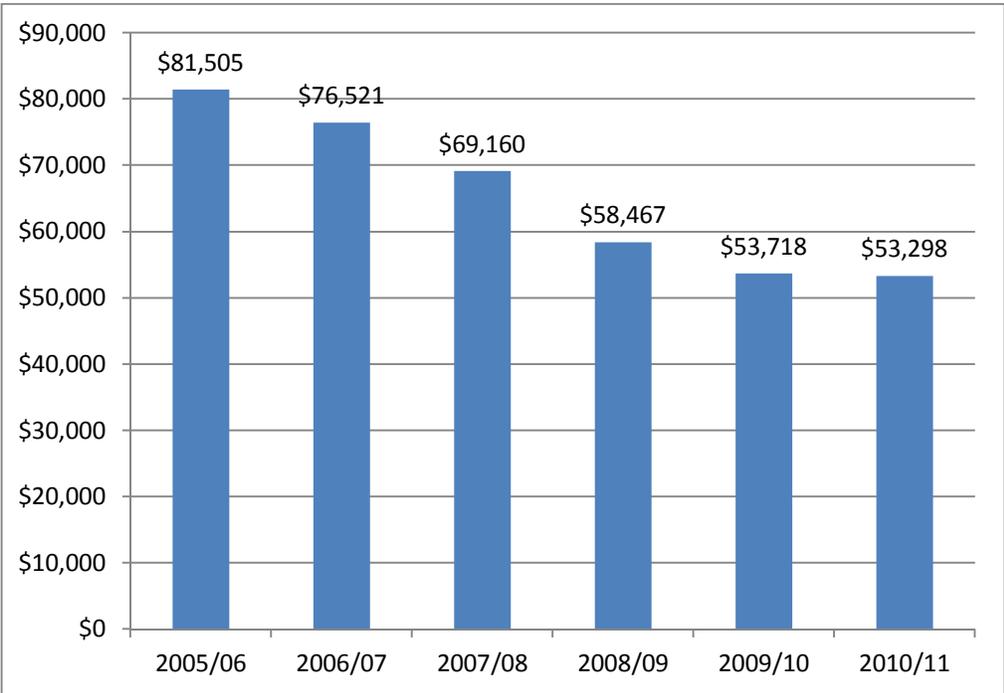
	Casino	SLT	Total
2000/01	775,973	802,162	1,578,135
2001/02	759,450	707,514	1,466,964
2002/03	780,047	644,846	1,424,893
2003/04	780,047	590,046	1,370,093
2004/05	780,529	565,732	1,346,261
2005/06	757,149	519,465	1,276,614
2006/07	749,023	497,501	1,246,524
2007/08	707,247	441,935	1,149,182
2008/09	667,052	441,935	1,108,987
2009/10	622,584	425,384	1,047,968
2010/11	606,625	501,004	1,107,629
Pct Change	-22%	-38%	-30%

Source: City of South Lake Tahoe, Douglas County

E. Retail Sales

Tracking retail sales within the South Shore is challenging in that Douglas County only tracks retail sales at the county level. For the most recent calendar year CY 2010/11 approximately \$532M in sales were generated within Douglas County. It is estimated that less than 10% of those sales are generated within the Lake Tahoe Township. Within the Lake Tahoe Township retail is primarily clustered in the casino core, Kingsbury Grade and Round Hill.

Figure 6
Douglas County (Lake Portion)
Estimated Retail Sales
(000's) Omitted

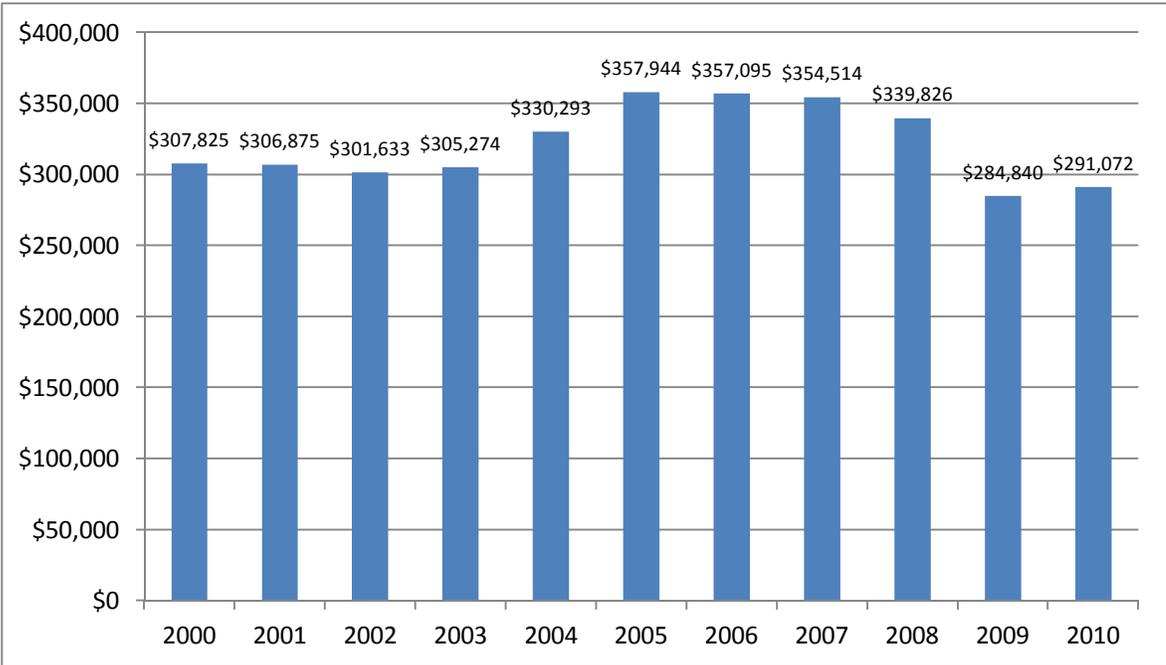


Source: State of Nevada

Within the City of South Lake retail sales for 2010 (the most recent data available) were \$291M. Retail sales clusters include the Crescent V, Ski Run, Bijou/Al Tahoe and the Y (Note: Meyers is also a retail cluster but SMG was unable to obtain data from the unincorporated area of the county). 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.**

Note: the data below reflects total retail spending, not just spending generated by overnight visitors and is provided for trend analysis.

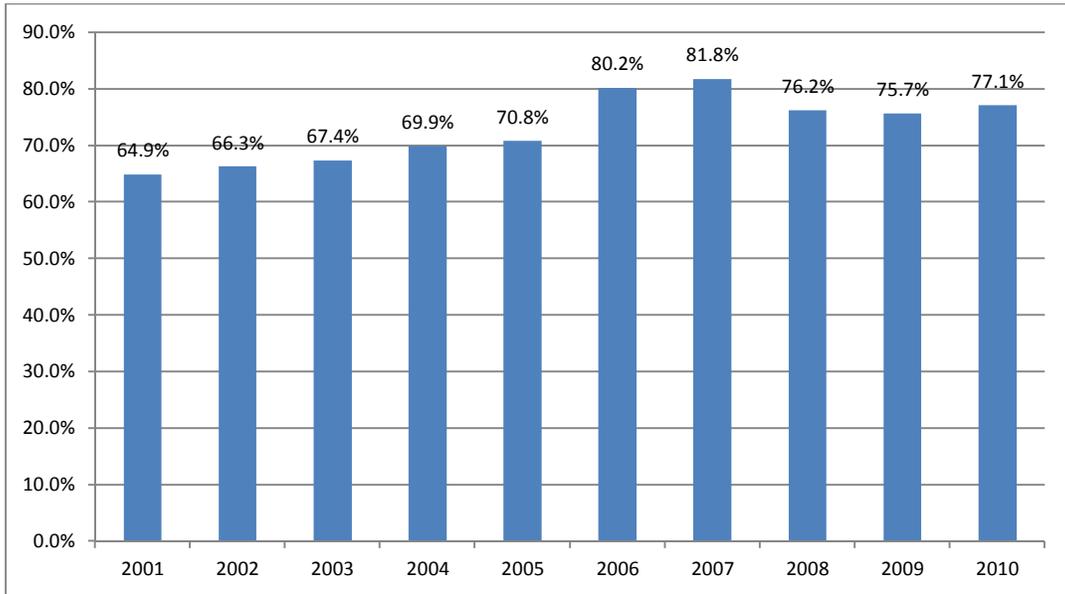
Figure 7
City of South Lake Tahoe
Retail Sales (000's) Omitted



Source: State of California Board of Equalization

It is interesting to note that retail sales increased in 2005 in conjunction with the introduction of the Heavenly Village. The introduction of new and exciting retail opportunities is key to generating increased spending. Another destination that also exhibits this characteristic is Truckee, which it should be noted is outside the regulatory environment. That said, it has consistently upgraded its retail experience, and Figure 8 on the following page illustrates that Truckee’s share of South Shore’s retail sales has increased from 64.9% in 2001 to 77.1% in 2010.

Figure 8
Truckee Retail Sales as % of South Lake Tahoe



Source: California State Board of Equalization

In terms of retail sales, transactions and taxable sales by retailers within the City of South Lake Tahoe⁶ are highest in the South Y and in the Stateline/Ski Run areas, which when combined **represent 56% of spending.**

Table 4
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

It should be noted this study was conducted in 2005. At that time the South Y Commercial Plan area did include sales transactions from two additional car dealers which have since left the market.

⁶ City of South Lake Tahoe Retail Market Analysis, December 2005

F. Local Tax Impact

As can be seen below, the South Shore tourism economy has experienced significant decline which has also impacted the tax revenues for both Douglas County and the City of South Lake Tahoe. (Note: Douglas County Transient Occupancy Tax increase in 2010/11 was due to a tax increase.)

As can be seen in Table 5, **Douglas County Transient Occupancy Tax fell by a significant 25%** between 2005/06 and 2009/10 before the Transient Occupancy Tax rate was increased in 2010/11.

**Table 5
South Shore Local Tax Trend**

	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		\$3,579,440	
2006/07	\$9,770,321	-7%	\$3,570,950	0%
2007/08	\$9,827,508	1	\$3,540,000	0%
2008/09	\$8,019,107	-14%	\$3,339,000	-6%
2009/10	\$8,200,466	-9%	\$2,848,400	-15%
2010/11	\$7,871,291	-4%	\$2,910,720	2%

Sources: Douglas County, City of South Lake Tahoe

Notes: Douglas County gaming tax is collected countywide

It is evident that the South Shore tourism economy (as measured by gaming revenue, rooms rented), has seen significant long term decline, which SMG believes to be structural and not just cyclical in nature. Retail sales which saw a significant jump with the advent of the Heavenly Village has seen and overall decline though the most recent years shows an uptick. Given the decline in the gaming industry, the overall poor visitor infrastructure and increased competition it would be challenging for South Shore tourism spending to grow significantly to previous peak levels let alone growth beyond those levels over the long term. **This decline has also significantly impacted local government tax receipts (including Transient Occupancy Tax, gaming tax and sales tax) which are used to fund local resident services.**

G. Cyclical vs. Structural Decline

When reviewing the rooms rented trend it is important to consider two important issues, cyclical and structural decline. **Cyclical decline refers to those declines that are related to the business cycle** while **structural declines are caused by a structural dislocation in the current market**. For example, the reduction in the gaming market in South Shore would be more related to the increase in tribal gaming competition (an alternative gaming product being placed closer to the population base) than just the decline in the business cycle. As can be seen on the previous page, South Shore's decline in visitation preceded the economic recession, suggesting that structural decline has played a significant role in the South Shore's economy.

To further understand the impact of cyclical vs. structural change in the local economy table below identifies the peak year of each economic sector including gaming, skiing, lodging and retail sales and measures the difference of the peak year and the current year economic activity.

	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%

Note: Within the Ski sector the analysis used was from 2010/11 and not the more recent 2011/12 season to take into account the poor snow conditions

Historically only the ski and retail sectors have shown any growth within the last ten years. These sectors did see some growth despite decreases in gaming and lodging that have been declining since 2001. Skier days did grow 22% between the 2008/09 and 2010/11 seasons. As such it is realistic to assume the industry can recapture lost skier days in the future (assuming normal winter weather patterns). California side retail spending did climb between 2002 and 2005 by 19%, due in large part to the Heavenly Village redevelopment. Both gaming and lodging have suffered the most significant decline off their peak years 38% for gaming and 30% for lodging.

Clearly as the cyclical nature of the national business cycle improves it is assumed South Shore business levels will too. However, it is not clear if gaming, lodging and California retail revenues will reach their peak years and if they do how long it would take. Skier days given a normal weather pattern and continued investment and improvement in the ski experience can likely surpass its past peak season.

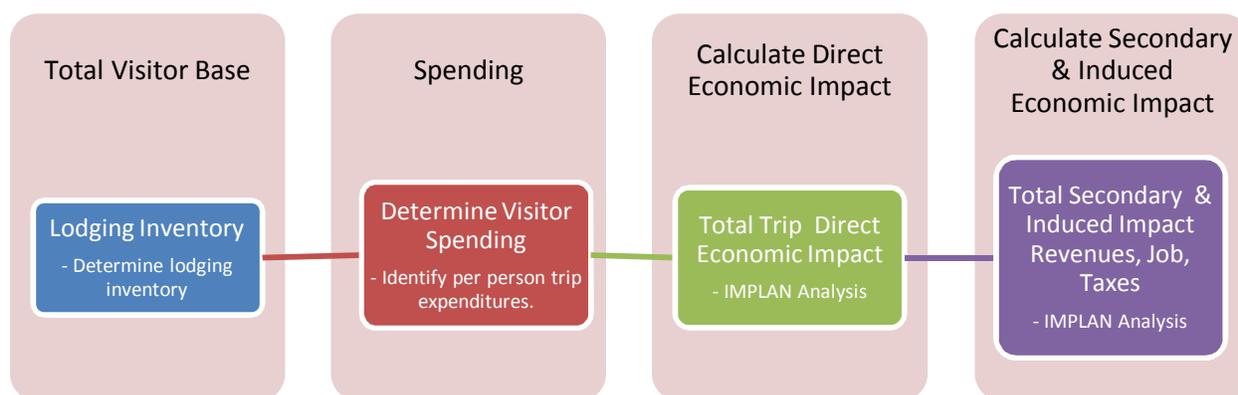
It is important to note that with infrastructure improvement both California retail sales (Heavenly Village) and skier days (new lodges, lifts) have seen growth at some point over the past decade. In contrast gaming and lodging with little to no capital investment and structural changes have fared the worst.

Part 2: Current Tourism Spending Economic Impact

A. Methodology

The following methodology⁷ has been identified in an effort to estimate the current level model (CLM) of overnight tourism spending within the South Shore market.

Economic Impact Estimation Steps



Step 1: Includes the identifying the number of lodging units available within the total South Shore study area (Kingbury Drive through Meyers). The commercial lodging inventory includes casino/hotels, non-casino hotels/motels, property management, timeshare/fractional and campgrounds.

Step 2: Includes determined visitor spending using collected survey data.

Step 3: Includes an IMPLAN⁸ analysis of direct economic impact.

Step 4: Includes a secondary and induced impact analysis of revenue, jobs and taxes.

Once the current level of tourism economic impact expenditures are determined, the model can be used by the LTVA to assess future destination strategies and assess the economic impact of those strategies, as was identified in the project objectives of this report.

The current level model (CLM) will then serve as a baseline for developing future assumptions which would include the proposed vision developed by STAR.

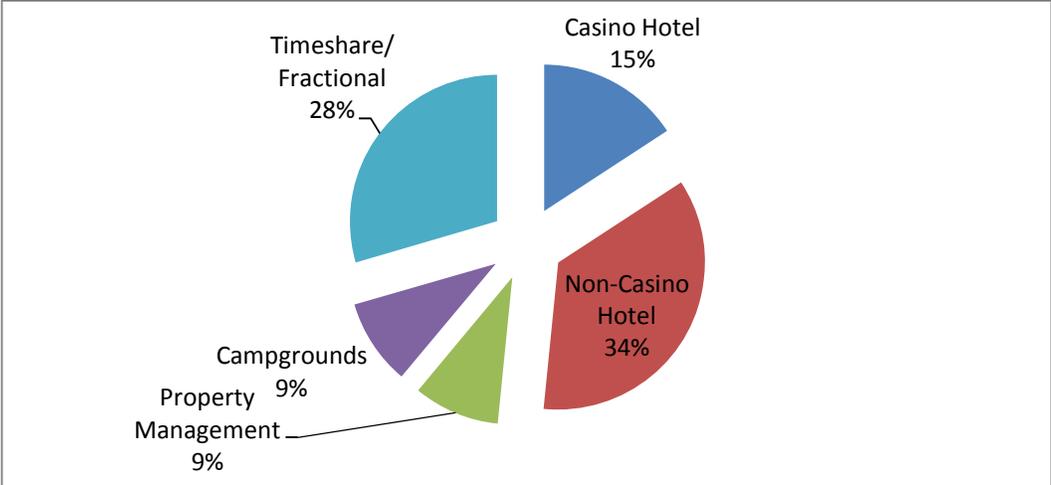
⁷ California Visitor Impact Model

⁸ IMPLAN Economic Impact software www.implan.com

B. Current Lodging Inventory

The South Shore lodging inventory is dominated by non-casino hotel units which account for 34% of the total units and timeshare/fractional units which account for approximately 28% of the total units. This inventory is followed by casino hotel units at 15% and property management and campgrounds units at 9%.

**Figure 9
South Shore Lodging Inventory**



A more detailed analysis in Table 6 below identifies that approximately 33% of all units are in Douglas County and 67% are located on the California side.

**Table 6
South Shore 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.

To get a sense of the geographic breakdown of the lodging segment, Table 7 below illustrates that overall 71% of South Shore lodging units are located on the California side. Within the Stateline area 42% of total units are located on the California side and 29% are located on the Nevada side. **Overall 85% of this lodging segment is located between the Stateline and Bijou areas.**

Table 7
South Shore Casino & Non-Casino Hotel/Motel Room Location

Zone	Geographic Area	Pct
	Stateline NV	29%
Zone 1	Stateline CA	42%
	Total Stateline	71%
Zone 2	Ski Run, Heavenly, Bijou	15%
Zone 3	Al Tahoe Area	7%
Zone 4	Sierra Tract, East Y area	5%
Zone 5	West Y and Emerald Bay Road Areas	2%

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

It should be noted that within the City’s five lodging zones the highest occupancy rates can be found in Zone 1, the Stateline area and Zone 3, the Bijou area. *Note: A map of these zones can be found in the Appendix.*

Zone Definitions:

- Zone 1: Stateline along Highway 50 beach to Ski Run to Moss road to Montreal Road.
- Zone 2: Moss road along the South side of Highway 50 to Al Tahoe up to Heavenly
- Zone 3: Ski Run along the North side of Highway 50 to El Dorado Ave to Argonaut Avenue
- Zone 4: Al Tahoe to Argonaut to Tahoe Island Drive back to Barbara Ave.
- Zone 5: Tahoe Island Park to Highway 89 within the City Limits

Table 8
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

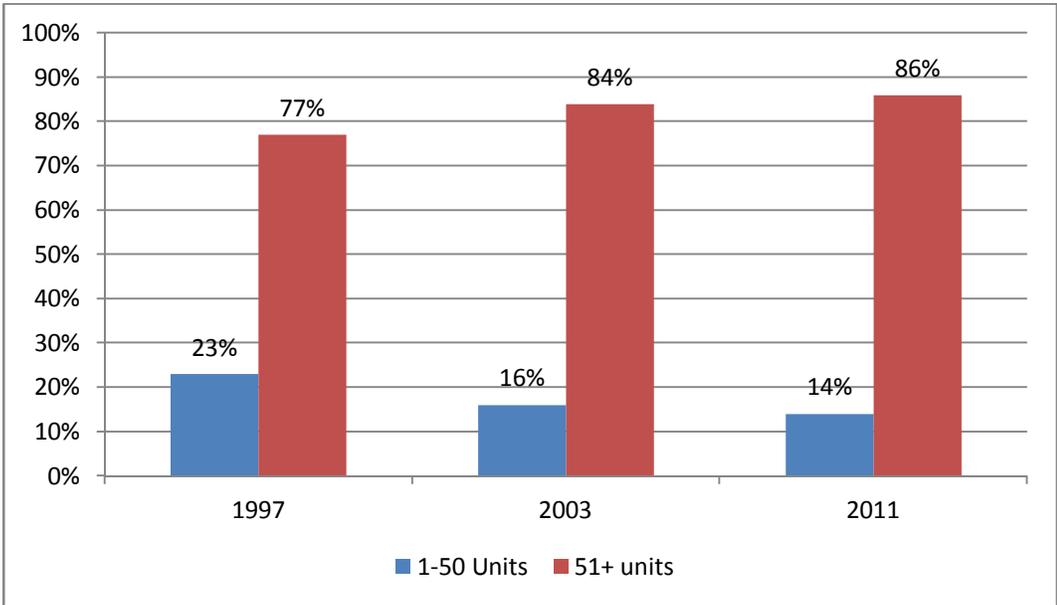
Source: City of South Lake Tahoe Monthly Transient Occupancy Tax Reports

Within the Stateline area the casino hotels generated 61% occupancy for 2010/11, or twice what the California side lodging properties did in the same time period. **It is clear that the California Stateline area, while having more overall lodging units, generates a higher Average Daily Rate due in large part to Embassy Suites, but well underperforms Nevada in occupancy.** It is interesting to note that in 2010/11 if Stateline lodging had

operated at the same 61% occupancy as did the casino hotels at the \$124 average daily rate it would have meant an additional \$32M in lodging revenue and approximately \$3.2M in Transient Occupancy Tax.

One additional element worth noting within the lodging industry is the trend of smaller properties continually losing market share to larger properties. **Within the California side only those properties with 50 or less units have seen their share of rooms booked decline from 23% in 1997 to 16% in 2003 to 14% in 2010/11.** Figure 10 below illustrates this decline.

Figure 10
Rooms Rented by Property Size
City of South Lake Tahoe



Source: City of South Lake Tahoe

As the overall market has declined on the California side it is clear that larger properties have consistently taken market share from the smaller properties, often creating a significant economic challenge for smaller property owners. This is unlikely to be remedied in the current market environment.

C. Key Model Variables

Key model variables include the number of days in month, occupancy percentage, the number of people per unit, length of stay, and visitor spending by category. Table 9 below identifies variables and spending by season.

Table 9
Key Variables (Summer & Winter)

Summer	Per Party/ Per Day	Per Party/ Per Trip	Party Size	Per Person Per Trip
Lodging	\$84.95	\$288.83	3.1	\$93.17
Food & Beverage	\$98.13	\$333.64	3.1	\$107.63
Entertainment	\$40.09	\$136.31	3.1	\$43.97
Retail Shopping	\$45.83	\$155.82	3.1	\$50.27
Daily Transportation	\$40.57	\$137.94	3.1	\$44.50
Gaming	\$93.60	\$318.24	3.1	\$102.66
Recreation	\$45.81	\$155.75	3.1	\$50.24
Other	\$11.10	\$37.74	3.1	\$12.17
	\$460.08	\$1,564.27		\$504.60
Winter	Per Party/ Per Day	Per Party/ Per Trip	Party Size	Per Person Per Trip
Lodging	\$105.00	\$325.50	4.4	\$73.98
Food & Beverage	\$140.00	\$434.00	4.4	\$98.64
Entertainment	\$28.67	\$88.88	4.4	\$20.20
Retail Shopping	\$65.00	\$201.50	4.4	\$45.80
Daily Transportation	\$8.80	\$27.28	4.4	\$6.20
Gaming	\$119.00	\$368.90	4.4	\$83.84
Recreation	\$156.00	\$483.60	4.4	\$109.91
Other	\$6.70	\$20.77	4.4	\$4.72
	\$629.17	\$1,950.43		\$443.28

Source: Spending data from LTVA Summer 2011 & Winter 2010 research. Data was collected as per party trip expenditure and revised to per person/per trip expenditures. Note: Summer length of stay=3.4, Winter= 3.1

D. Number of Visitors

In an effort to estimate the number of visitors, SMG developed a *South Shore Visitor Output* spreadsheet model. The model variables included those previously identified in the previous section.

Overall it is estimated that there are approximately 1.6 million visitors to the South Shore annually. A seasonal breakdown shows that Quarter 3 has the highest concentration of visitors at 36% followed by Quarter 1 at 22.5%, Quarter 2 at 22.2% and Quarter 4 at 19%. It should be noted that this model was developed using the most recent complete data available which was for calendar year 2011. It should also be noted that the ski season during 2011 went well into Quarter 2 and may have increased that quarter's numbers.

The table bellows illustrates the number of visitors by the type of lodging unit and clearly shows that the casino hotel lodging segment is the most productive type of lodging in South Shore. **Casino hotels units represent 15% of the lodging base but 36.3% of the visitors. Similarly campgrounds represent 9% of the units and 15.3% of visitors.**

Table 10
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
<u>Campground</u>	<u>255,024</u>	<u>15%</u>	<u>9%</u>	<u>6</u>
Total	1,660,328	97%	95%	

Source: SMG Estimates

The following should be noted:

- Of all the lodging types the least productive were the non-casino hotel units which represented 34% of the lodging inventory but only saw 20% of the total visitors. This large discrepancy may in fact be due to lack of demand for that specific lodging type.
- In contrast 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.

The following pages include a summary of estimated visitors by month and lodging type.

E. Baseline Economic Impact

Overall the baseline economic impact for South Shore is projected to be approximately \$1.1B. This is based on direct spending, indirect spending and induced spending.

Note: Glossary of terms can be found in the Appendix section.

Table 11
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

Table 12 below identifies the baseline economic impact to South Shore by season. As indicated below the economic impact for the summer season is estimated to be approximately \$817M and the winter season is at \$343M.

Table 12
Baseline Economic Impact Summer and Winter

Impact Summary	
Impact Type	Output
Direct Effect	\$589,352,146
Indirect Effect	\$100,670,042
Induced Effect	\$127,879,396
Total Effect	\$817,901,585
WINTER	
Impact Summary	
Impact Type	Output
Direct Effect	\$249,359,048
Indirect Effect	\$39,276,185
Induced Effect	\$54,789,520
Total Effect	\$343,424,753

Source: SMG IMPLAN Analysis

Notes: Summer season is defined as May through November and Winter season is December through April.

F. State and Local Taxes - Total

It is estimated that approximately \$116M in both local and state taxes are generated annually by overnight visitors to the South Shore, as illustrated by the below table. Of that amount approximately \$105M are generated from indirect business taxes.

Table 14

State and Local 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

G. State and Local Taxes - Summer

It is estimated that approximately \$90M in both local and state taxes are generated annually by overnight visitors to the South Shore, as indicated in Table 15. Of that amount approximately \$82M are generated from indirect business taxes.

Table 15
State and Local Taxes - Summer

Description	Employee Compensation	Indirect Business Tax	Households	Corporations	Total
Dividends				\$68,844	
Social Ins Tax- Employee Contribution	\$578,118				
Social Ins Tax- Employer Contribution	\$1,339,444				
Indirect Bus Tax: Sales Tax		\$43,061,311			
Indirect Bus Tax: Property Tax		\$26,152,767			
Indirect Bus Tax: Motor Vehicle Lic		\$530,654			
Indirect Bus Tax: Severance Tax		\$329,706			
Indirect Bus Tax: Other Taxes		\$9,590,232			
Indirect Bus Tax: S/L NonTaxes		\$2,409,572			
Corporate Profits Tax					
Personal Tax: Income Tax					
Personal Tax: NonTaxes (Fines- Fees			\$3,233,634		
Personal Tax: Motor Vehicle License			\$507,015		
Personal Tax: Property Taxes			\$233,952		
Personal Tax: Other Tax			\$2,960,071		
Total State and Local Tax	\$1,917,562	\$82,074,242	\$6,934,672	\$68,844	\$90,995,320

Source: SMG IMPLAN Analysis

Note: The tax estimates are based on the IMPLAN Social Account relationships. State and local taxes collected are not all retained by the city or county.

H. State and Local Taxes - Winter

It is estimated that approximately \$25M in both local and state taxes are generated annually by overnight visitors to the South Shore, as indicated in Table 16. Of that amount approximately \$23M are generated from indirect business taxes.

Table 16
State and Local Taxes - Winter

Description	Employee Compensation	Indirect Business Tax	Households	Corporations	Total
Dividends				\$21,040	
Social Ins Tax- Employee Contribution	\$182,894				
Social Ins Tax- Employer Contribution	\$423,748				
Indirect Bus Tax: Sales Tax		\$12,160,347			
Indirect Bus Tax: Property Tax		\$7,385,439			
Indirect Bus Tax: Motor Vehicle Lic		\$149,829			
Indirect Bus Tax: Severance Tax		\$93,108			
Indirect Bus Tax: Other Taxes		\$2,708,244			
Indirect Bus Tax: S/L NonTaxes		\$680,454			
Corporate Profits Tax					
Personal Tax: Income Tax					
Personal Tax: NonTaxes (Fines- Fees)			\$965,826		
Personal Tax: Motor Vehicle License			\$151,436		
Personal Tax: Property Taxes			\$69,877		
Personal Tax: Other Tax			\$51,555		
Total State and Local Tax	\$606,642	\$23,177,421	\$1,238,694	\$21,040	\$25,043,797

35

Source: SMG IMPLAN Analysis

Note: The tax estimates are based on the IMPLAN Social Account relationships. State and local taxes collected are not all retained by the city or county.

Part 3: The Destination Vision Economic Impact

Overview

In determining the potential impacts of the improved South Shore SMG has developed the following five-step framework.



Step 1: Confirm the Baseline

For the purpose of moving forward we will be using the following baseline data:

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: Identify Potential Destination Changes: Meyers to Kahle Park

In considering the potential of transforming the South Shore **it is important to view the potential as a holistic approach to upgrading the entire community, one that encompasses the area from Meyers to the Y to Harrison Avenue to the Ski Run area to the Stateline/Kahle Park area**, and not simply the Core Area mentioned earlier in this report.

The best chance for the South Shore to succeed in increasing tourism spending and the resulting economic impact is to view all the changes that are occurring in the area as they work together to improve the overall community/destination.

Currently there are five areas throughout the South Shore that are either in the planning stages of change or are undergoing positive change. Below is a summary of those areas.

A. Meyers

Meyers, which has traditionally been viewed as the “Gateway” area to South Lake Tahoe, is in the process of developing a new vision that would reposition the area as a destination within South Shore, offering access to a wide variety of outdoor recreation. Grass roots community leadership within the area is in the process of implementing a variety of community programs to enhance the image of the area as well as engage El Dorado County to complete a community plan update which would improve the presentation of the area including signage and streetscape.

B. The Y

The Y area is a major economic hub for the City of South Lake Tahoe and is currently in the process of a new community plan. The plan includes mixed use in an effort to create a more walkable area, which will serve as an important hub within the community. The area also serves as both a portal to South Lake Tahoe and the west shore recreation and beach area. It is viewed as more of a locals area though visitor use is also high.

C. Harrison Avenue

The Harrison Avenue project includes several blocks adjacent to the new El Dorado Beach/Lakeview commons area and will result in improved parking and streetscape. This project is also adjacent to the “56 Acres” project which is a major re-imagining of the area that currently includes the campground, library, visitor center and senior center.

D. Ski Run Area through Kahle Drive

The largest project of the South Shore transformation is the Ski Run through Kahle Park area which includes the Stateline/tourism for which a conceptual vision plan has been developed.

1. The Ski Run Area

The ski Run area is a mixed use area that includes attractions, business, lodging and restaurants. It has been implementing changes for a number of years including the 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. It is anticipated this area will continue to improve with additional investment.

2. The Stateline Area

The Stateline area has a number of significant changes proposed, including the following:

- Development of a loop road that would facilitate traffic around the casino core and reduce Highway 50 to 3 lanes, dramatically changing the downtown area into a more pedestrian friendly location.
- Improved opportunity for bringing recreation into the core area through the addition of bike trail access, climbing walls, and snowboard rails, etc.
- The addition of a permanent amphitheater to facilitate additional entertainment
- Creation of streetscape along highway 50 and Stateline Avenue to the beach.
- Synergy for art, visual performance activities.

The Stateline area is of unique importance because of its economic contribution to the South Shore. As such, the proposed changes to create a more pedestrian friendly area will put South Shore on par with other competitive destinations. **This change is critical for both attracting the capital investment required to bring about the much-needed changes and visitor spending to generate long term revenue and economic sustainability.**

All of the proposed changes are designed to dramatically transform the South Shore to a destination resort that attracts a longer-stay greater economic impact visitor. This revitalization of South Shore will shift the focus of the destination to that of a more recreation, entertainment and pedestrian streetscape orientation all designed to create a unique and differentiated experience for visitors and local residents.

It is important to understand that future environmental benefits and economic vitality are linked through the intelligent and strategic redevelopment of the South Shore

infrastructure. By completing these projects South Shore can most effectively improve the environment and revitalize the tourism economy by providing the type of experience visitors are seeking while reducing the built environment impact on Lake Tahoe with newer and more environmental friendly infrastructure. By doing so it will also strengthen the local community by **generating more tax revenue and employment at the local level.**

3. Kahle Drive Area

Kahle Drive includes the area by the Kahle Community park and lower Kingsbury drive which is primarily retail and Office. The park provides community sports and activities.

South Shore Area Map



Step 3: Review the Competition

Currently the South Shore performs at levels well below that of its competition. For the purpose of this analysis SMG reviewed the Smith Travel Data for eight competitive summer and winter destinations. As can be seen below in Table 17 **South Shore was ranked last in occupancy rate, Average Daily Rate (ADR) and RevPAR.**⁹

Table 17
2011 Competitive Destination Data

Destination	Occupancy Rate	AVG Daily Rate	Revenue Per Avail. Room
Santa Barbara	71%	\$175	\$124
Monterey County	61%	\$157	\$95
Sonoma County	64%	\$111	\$71
San Luis Obispo County	62%	\$113	\$71
Mammoth Lakes	52%	\$158	\$82
Summit County UT	46%	\$227	\$105
Summit County CO	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

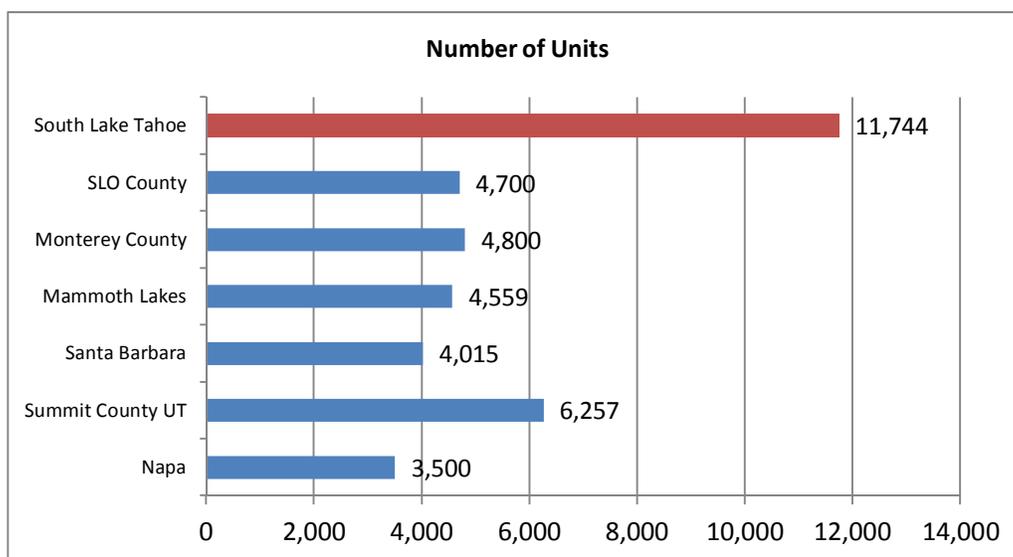
Source: Smith Travel Research 2011, Nevada Commission on Tourism, Douglas County NV

It is interesting to note that the South Lake Tahoe occupancy rate is significantly lower than both the state average for Nevada and California. It important to ask why the South Shore, one of the most scenic areas listed above, generates the lowest occupancy, Average Daily Rate (ADR) and RevPAR of its competitors?

In terms of available rooms it is interesting to note that of those in the comp set **the South Shore has significantly more inventory than its competitors.** As was previously identified in this report South Shore has over 11,000 non-camping units. Figure 11 on the following page illustrates that South Shore has almost twice the number of lodging units as does many of its competitors and given the occupancy rate of 40%, clearly has an oversupply in terms of the number of lodging units as well as the quality of those lodging units.

⁹ RevPAR=Revenue per available room

Figure 11
South Shore Comp Set Lodging Units

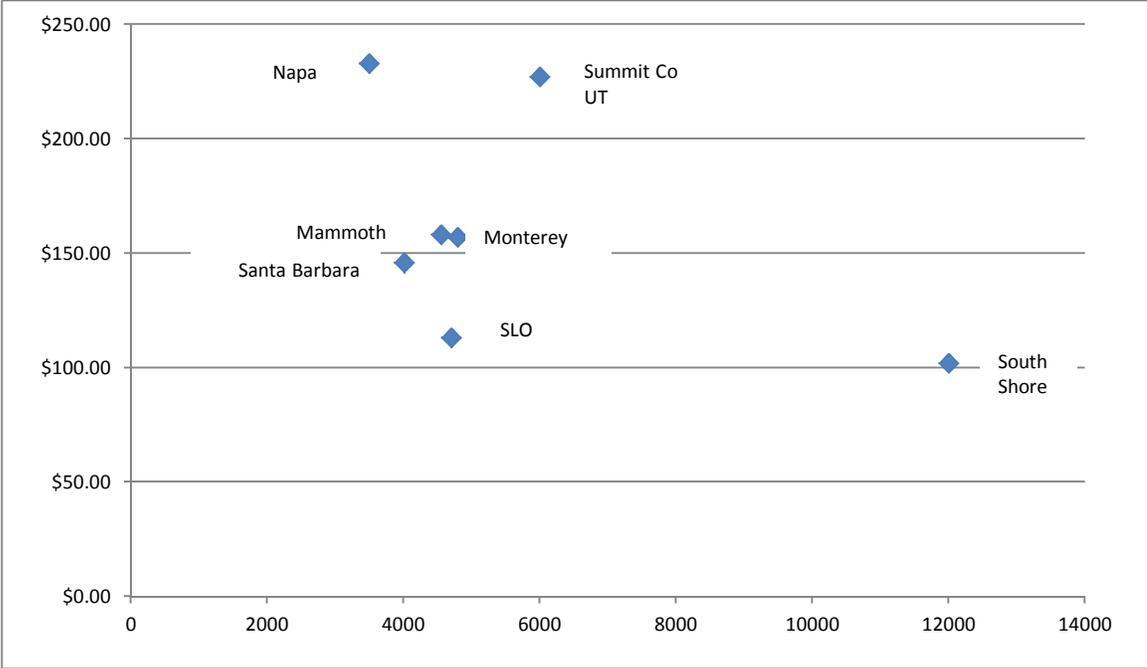


Source: Napa Valley, Park City Resorts Association, Mammoth Lakes Tourism, Monterey County, San Luis Obispo County

Historically the supply of rooms expanded with the growth and anticipated growth of gaming revenue. Gaming revenues (and the associated demand) peaked at about \$360M and now is approximately \$210M, **representing a 42% decline**. At the same time the supply of rooms has remained almost constant. There has not been a matching demand to fill the rooms. **As such the South Shore has a significant oversupply of rooms relative to the level of demand.** As is often the case with excess supply the industry is prone to price cutting (which has occurred over the years) and as price cutting occurs, operating margins are reduced and operators stop reinvesting and reducing costs.

On the following page Figure 12 illustrates the relationship of South shores lodging inventory and average daily room rate as compared with competitors. This chart clearly shows different South Shore is. This difference is primarily a result of the destination evolving with gaming as a primary demand driver. The build out of lodging inventory was based on the growth of that industry and while historic occupancy rates have not been over 50% for decades as a result the excess inventory exists and has worked works to create the current oversupply situation.

Figure 12
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

From an economic standpoint it is clear that Lake Tahoe adds value. That can be seen in the price premium that is paid both for lakefront homes and lakefront lodging. As can be seen in table on the following page in a sample of lakefront hotel room rooms prices, there is a price premium for those rooms when compared to the South Shore market as a whole. During the fall season the price premium for lakefront is 15%, which increases to 55% during summer season. This makes sense given that is the season that would be of the highest value to be on the lake. Clearly the lakefront location adds value to some degree all year long.

Table 18
Lakefront Lodging Seasonal Pricing

	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

It's also easy to see the value that a lakefront location provides when it comes to residential living. As can be seen below in Table 20, the per square foot pricing of a lakefront home on the California side is between three and four and half times the market average. On the Nevada side a lakefront home is between three and a half and four and a half times the market average.

Table 19
Lakefront Residential Price per Square Foot

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	1089	293	3.7
2010	1183	264	4.5
2009	1104	272	4.1

Source: Larry Sabo Real Estate

It is clear from the examples above that the lakefront location does add value. However this value does not translate to the destination as a whole. As was evidenced previously, lodging in the City of South Lake Tahoe is far below the comp set in every category, while the lodging on the Nevada side exceeds the occupancy but is well below in other categories.

Table 20
Selected Lodging Data South Shore vs. Comp Set

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

Based on the presented data on the preceding page there appears to be a significant gap between South Shore and other destinations, this despite having Lake Tahoe, which data clearly indicates adds value.

The Vision Plan, combined with all other elements, is designed to improve the quality of the infrastructure as well as the visitor experience. In doing so it will be able to capture the true value the destination provides and as a result grow revenue, increase tax collections and stimulate employment while doing it in a more environmentally friendly way.

To achieve potential increased value, the Vision Plan fully recognizes several key elements, including **the need to diversify into a more recreation based economy, the need to further leverage Lake Tahoe's history with entertainment in a unique in environment, and the need to upgrade the visitor experience throughout South Shore in providing walkable areas that feature upgraded visitor and community based experiences.** The end result will be the ability to attract visitors that will spend more money to match the true value that Lake Tahoe provides and in doing so improve the overall South Shore economy.

Step 4: Establish Projection Assumptions

Key Projection Assumptions:

In developing projections for the potential economic impact of the new investment SMG has developed the following projection assumptions:

1. For the purpose of this analysis the number of visitors will be held constant.

This constant number will be maintained in an effort to isolate the potential future economic impact based on what changing the built environment would do. At its simplest the question becomes what would happen if South Shore replaced the current visitors with those who could and would spend more dollars on their visit to the destination? It also assumed occupancy would go up as the supply of hotel motel rooms would be reduced.

2. Improved infrastructure will improve spending.

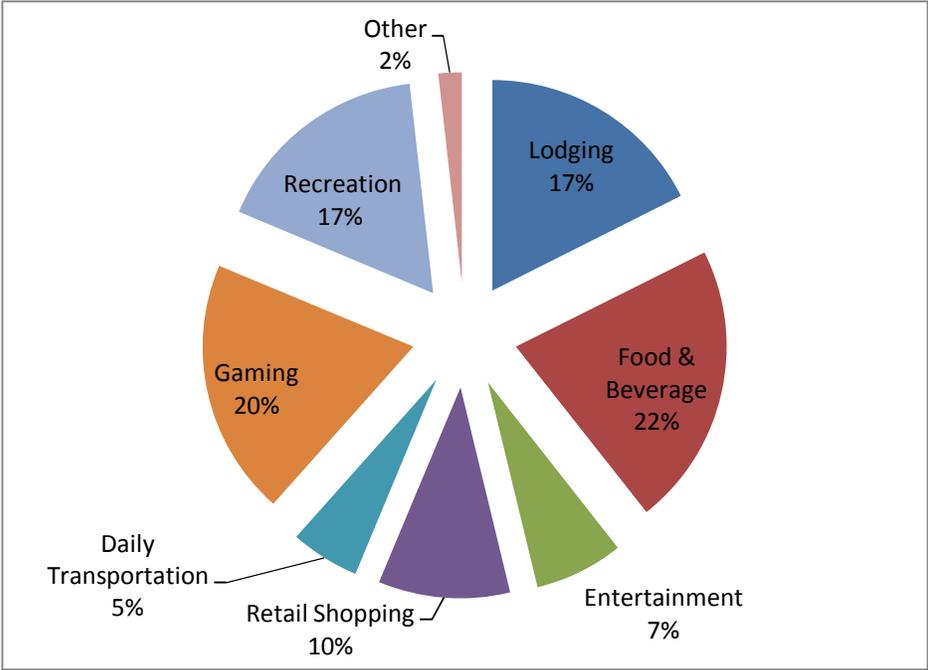
One of the core assumptions is that by making the infrastructure changes (that includes all of those previously discussed), the South Shore will be able to attract visitors that will spend more while visiting. It is assumed the proposed changes will provide a destination experience that is better than what is currently being offered, taking advantage of the scenic beauty of the area and making South Shore much more competitive with other destinations.

3. Lodging expenditures as a percentage of total visitor expenditure will be held constant.

Currently South Shore generates approximately \$144M in lodging revenue which is approximately 17% of visitors total spending while visiting the area. The model projection assumption is that in the short term, as projects are implemented the amount spent on lodging as a share of a visitor's total expenditure will climb, but as new retail and dining options emerge the percentage will fall back to historical levels. This is based on the assumption that unlike other destinations with stronger retail offerings, South Shore has significantly more upside potential to grow those segments of visitor spending. For the purpose of this analysis calculations were conducted using the following spending category percentages¹⁰.

¹⁰ Source LTVA Winter and Summer research combined

Figure 13
Overnight Visitor Category Spending Percentages



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

Step 5: Develop Economic Impact Scenarios

A. Projections

SMG conducted South Shore overnight visitor expenditure projections with four different scenarios, which include the following:

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

Each of these was measured against the current direct impact baseline.

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 and corresponding destination spending 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 and corresponding destination 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 and corresponding destination the difference from the current base level of revenue would be \$635M annually.

Scenario 4: \$250 Projection

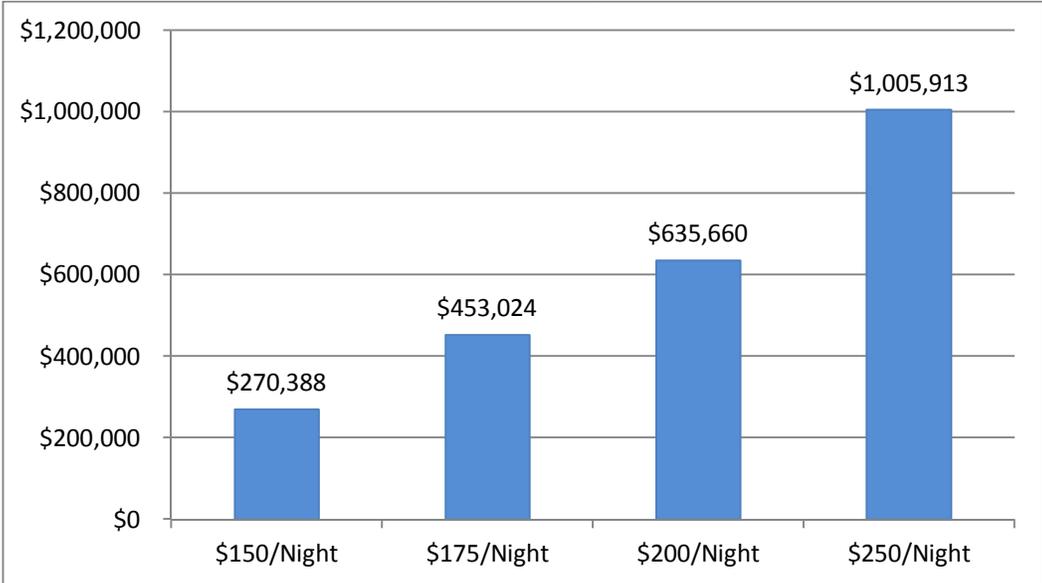
\$250 Projection scenario		
	Employment	Output
Current Baseline	10,902	\$838,711,000
Direct Effect	23,389	\$1,844,624,000
Change	12,487	\$1,005,913,000

Source: SMG IMPLAN Analysis

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

Figure 14 below illustrates the opportunity of achieving the travel spending levels with each room rate scenario.

Figure 14
South Shore Travel Spending Opportunity Cost
(000's omitted)



Source: IMPLAN, SMG

B. Projected Travel Spending Growth Rates

SMG calculated the different annual growth rate to reach the target economic impact both on a 15 and 20 year time horizon. **As can be seen below, for the South Shore to reach the 20 year projection for the \$250/night scenario, overnight visitor spending would have to grow at 4.02% annually.** To reach that level in 15 years, overnight visitor spending would have to grow by 5.39% annually.

Table 21
South Shore Projected Travel Spending Growth Rate Scenarios

	Economic Impact	15 years	20 years
Baseline	\$838,711,000	0	0
\$150 Scenario	\$1,109,099,104	1.88%	1.41%
\$175 Scenario	\$1,291,735,184	2.92%	2.18%
\$200 Scenario	\$1,474,371,260	3.83%	2.86%
\$250 Scenario	\$1,844,624,408	5.39%	4.02%

Source: SMG

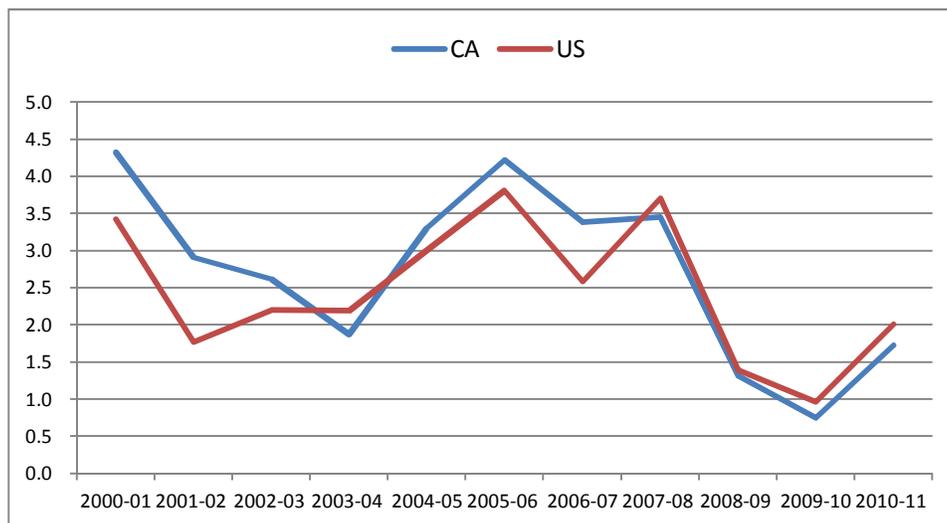
C. The Impact of Inflation

Considering these growth rate scenarios it should be noted that there is a significant impact with regard to inflation difference between what is referred to as real dollars vs. what is referred to as nominal dollars. A nominal dollar is the worth of a dollar or any currency in the present economy and does not take into account inflation. Because of this, the nominal dollar is often opposed to the "real" dollar when considering the value of money in different years. **The "real" dollar accounts for inflation; the nominal dollar does not.**

For example if the economic impact growth rate grows at 1% annually but the inflation rate is 2.5% annually, in terms of real dollars the economic impact is not keeping up. If on the other hand the economic impact growth rates are growing at 3.5% annually and the inflation rate is 2.5%, then in terms of real dollars economic impact growth is growing faster than the rate of inflation.

Within the context of real vs. nominal dollars it is important to understand that it is important for the local economy to see "real dollar" growth. The figure below outlines the Consumer Price Index, the inflation rate for both California and the U.S. economy. Between the years 2000/01 and 2010/11 the average inflation rate within California was 2.7% and for the United States it was 2.5%.

Figure 15
California and U.S. Consumer Price Rate Change



Source: U.S. Bureau of Labor Statistics, California Department of Finance

Comparing the historical inflation rates of both California and the U.S. with potential annual growth rates in overnight visitor spending, it is clear that in order to for the South Shore economy to grow in terms of real dollars under the 15 year scenario, **spending must grow at least to the \$175 room rate scenario**. Even then it just barely creates real revenue growth. A more likely scenario will be the need to achieve the \$200 night scenario to see growth in real dollar terms.

In the 20 year time timeframe real dollar revenue growth could be achieved in the \$200 room rate scenario but more likely in the \$250 per night scenario.

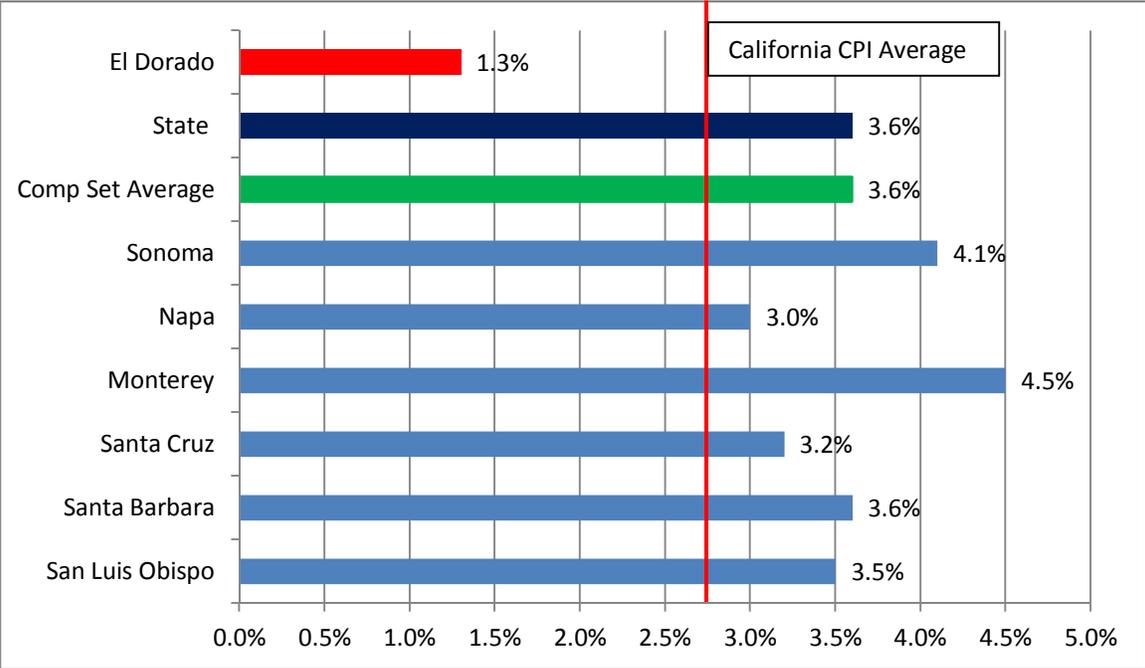
Table 22
Revenue Growth Scenarios vs. CA CPI

	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 Estimates

As such spending growth is important in maximizing revenues for the local economy. **When compared with other comp set destinations, El Dorado County has seen annual spending grow at 1.3% during the period of 1992-2010 compared with the state average of 3.6% for the same period of time.** If South Shore travel spending could grow at a rate slightly above the state average over the next fifteen years it could potentially mean an additional \$635M in travel spending in the marketplace.

Figure 16
Travel Spending Growth Rates
1992-2010



Source: Visit California

D. Spending Shifts

In addition to travel spending revenue growth scenarios, SMG reviewed the potential of shifts in spending category percentages. Table 24 below reflects estimated revenues within the current spending patterns based on travel spending levels at \$150, \$175, \$200 and \$250 ADR levels.

Table 24
Baseline Travel Spending

	Pct Spending	\$150 ADR	\$175 ADR	\$200 ADR	\$250 ADR
		\$1,109,099,104	\$1,291,735,184	\$1,474,371,264	\$1,844,624,000
Lodging	17%	\$188,546,848	\$219,594,981	\$250,643,115	\$313,586,080
F&B	22%	\$244,001,803	\$284,181,740	\$324,361,678	\$405,817,280
Entertainment	7%	\$77,636,937	\$90,421,463	\$103,205,988	\$129,123,680
Retail Shopping	10%	\$110,909,910	\$129,173,518	\$147,437,126	\$184,462,400
Daily Transportation	5%	\$55,454,955	\$64,586,759	\$73,718,563	\$92,231,200
Gaming	20%	\$221,819,821	\$258,347,037	\$294,874,253	\$368,924,800
Recreation	17%	\$188,546,848	\$219,594,981	\$250,643,115	\$313,586,080

Source: SMG Estimates

As has been mentioned the vision plan has been developed to provide in part a new overall experience with an increased focus on recreation, entertainment, shopping. To that end it would be expected that consumer spending patterns would shift based on new opportunities available. All of the following scenarios are based on revenue growth.

Scenario 1: Lodging emphasis/decrease in gaming

This scenario is based on the assumption that as South Shore increases new lodging a greater share of visitor spending will also shift to lodging, with a decreased share going to gaming, though total gaming dollars will increase.

Table 25
Scenario 1: Lodging Emphasis/Decrease in Gaming

	Pct spending	\$150 ADR	\$175 ADR	\$200 ADR	\$250 ADR
		\$1,109,099,104	\$1,291,735,184	1,474,371,264	\$1,844,624,000
Lodging	19%	\$210,728,830	\$245,429,685	\$280,130,540	350,478,560
F&B	22%	\$244,001,803	\$284,181,740	\$324,361,678	405,817,280
Entertainment	7%	\$77,636,937	\$90,421,463	\$103,205,988	129,123,680
Retail Shopping	10%	\$110,909,910	\$129,173,518	\$147,437,126	184,462,400
Daily Transportation	5%	\$55,454,955	\$64,586,759	\$73,718,563	92,231,200
Gaming	18%	\$199,637,839	\$232,512,333	\$265,386,828	332,032,320
Recreation	17%	\$188,546,848	\$219,594,981	\$250,643,115	313,586,080

Source: SMG Estimates

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

This scenario is based on the assumption that as South Shore improves its infrastructure a greater share of visitor spending will also shift to shopping and F&B, with a decreased share going to transit and gaming.

Table 26
Scenario 2: Shopping and F&B Emphasis/Decrease in Gaming and Transit

	Pct spending	\$150 ADR	\$175 ADR	\$200 ADR	\$250 ADR
		\$1,109,099,104	\$1,291,735,184	1,474,371,264	\$1,844,624,000
Lodging	17%	\$188,546,848	\$219,594,981	\$250,643,115	313,586,080
F&B	24%	\$266,183,785	\$310,016,444	\$353,849,103	442,709,760
Entertainment	7%	\$77,636,937	\$90,421,463	\$103,205,988	129,123,680
Retail Shopping	13%	\$144,182,884	\$167,925,574	\$191,668,264	239,801,120
Daily Transportation	4%	\$44,363,964	\$51,669,407	\$58,974,851	73,784,960
Gaming	18%	\$199,637,839	\$232,512,333	\$265,386,828	332,032,320
Recreation	17%	\$188,546,848	\$219,594,981	\$250,643,115	313,586,080

Source: SMG Estimates

Scenario 3: Recreation emphasis/decrease in gaming and transportation

This scenario is based on the assumption that as South Shore improves its infrastructure a greater share of visitor spending will also shift to recreation, with a decreased share going to transit and gaming.

Table 27
Scenario 3: Recreation Emphasis/Decrease in Gaming and Transit

	Pct spending	\$150 ADR	\$175 ADR	\$200 ADR	\$250 ADR
		\$1,109,099,104	\$1,291,735,184	1,474,371,264	\$1,844,624,000
Lodging	17%	\$188,546,848	\$219,594,981	\$250,643,115	313,586,080
F&B	22%	\$244,001,803	\$284,181,740	\$324,361,678	405,817,280
Entertainment	7%	\$77,636,937	\$90,421,463	\$103,205,988	129,123,680
Retail Shopping	10%	\$110,909,910	\$129,173,518	\$147,437,126	184,462,400
Daily Transportation	4%	\$44,363,964	\$51,669,407	\$58,974,851	73,784,960
Gaming	18%	\$199,637,839	\$232,512,333	\$265,386,828	332,032,320
Recreation	20%	\$221,819,821	\$258,347,037	\$294,874,253	368,924,800

Source: SMG Estimates

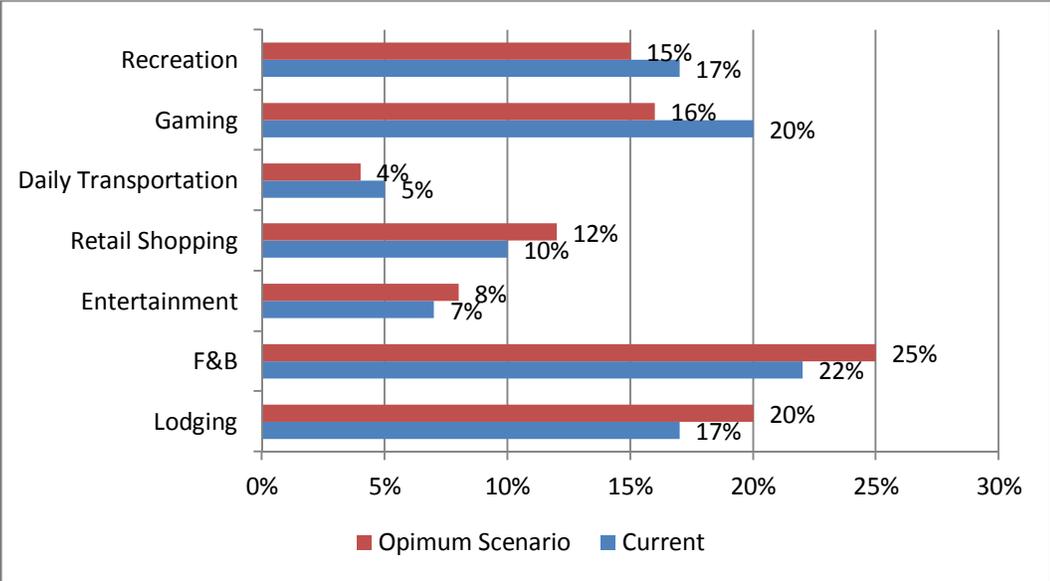
Scenario 4: Optimum Target

Scenario 4 is based upon a comprehensive assessment of what could happen given the changes of the Vision Plan. These changes are designed to shift the current economy to a more recreation and entertainment based economy that includes much upgraded lodging and additional restaurants and shopping. It should also be noted that all sectors of the economy including gaming and recreation could grow in dollar volume but the shifts in spending reflect the conscious design of the Vision Plan to broaden the destination and spending opportunities. The assumptions include the following:

Assumptions:

- 1. 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.
- 2. 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, etc.), though recreation based visitation will drive lodging, F&B, entertainment and retail.
- 3. Lodging share will increase as the lodging product is upgraded and Average Daily Rate increases.
- 4. Retail and F&B will increase as they are upgraded and pricing increases.
- 5. Entertainment spending share will increase as a new facility is developed.
- 6. Transit share will decline as visitors spend less on fuel and mass transit is incrementally improved.

Figure 17
Current vs. Optimum Spending Shifts



Source: SMG Estimates

Table 28 below illustrates potential spending in each of the categories reflected by the optimum scenario.

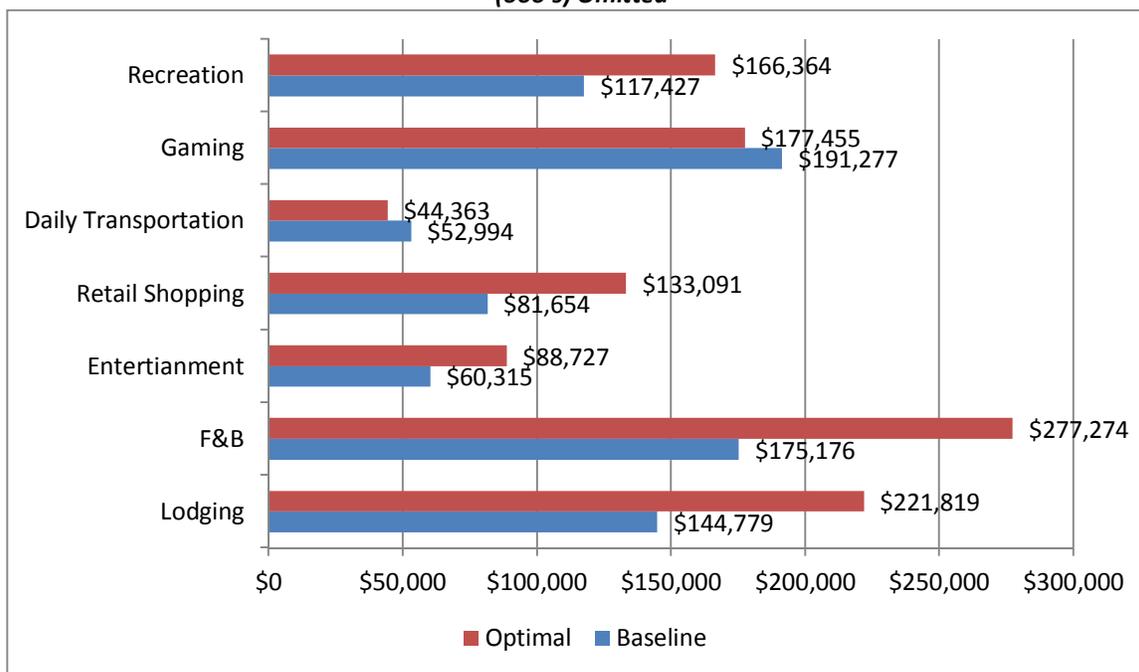
Table 28
Optimum Target Dollar Output

	Pct spending	\$150 ADR	\$175 ADR	\$200 ADR	\$250 ADR
		\$1,109,099,104	\$1,291,735,184	1,474,371,264	\$1,844,624,000
Lodging	20%	\$221,819,821	\$258,347,037	\$294,874,253	368,924,800
F&B	25%	\$277,274,776	\$322,933,796	\$368,592,816	461,156,000
Entertainment	8%	\$88,727,928	\$103,338,815	\$117,949,701	147,569,920
Retail Shopping	12%	\$133,091,892	\$155,008,222	\$176,924,552	221,354,880
Daily Transportation	4%	\$44,363,964	\$51,669,407	\$58,974,851	73,784,960
Gaming	16%	\$177,455,857	\$206,677,629	\$235,899,402	295,139,840
Recreation	15%	\$166,364,866	\$193,760,278	\$221,155,690	276,693,600

Source: SMG Estimates, Numbers may not foot due to rounding

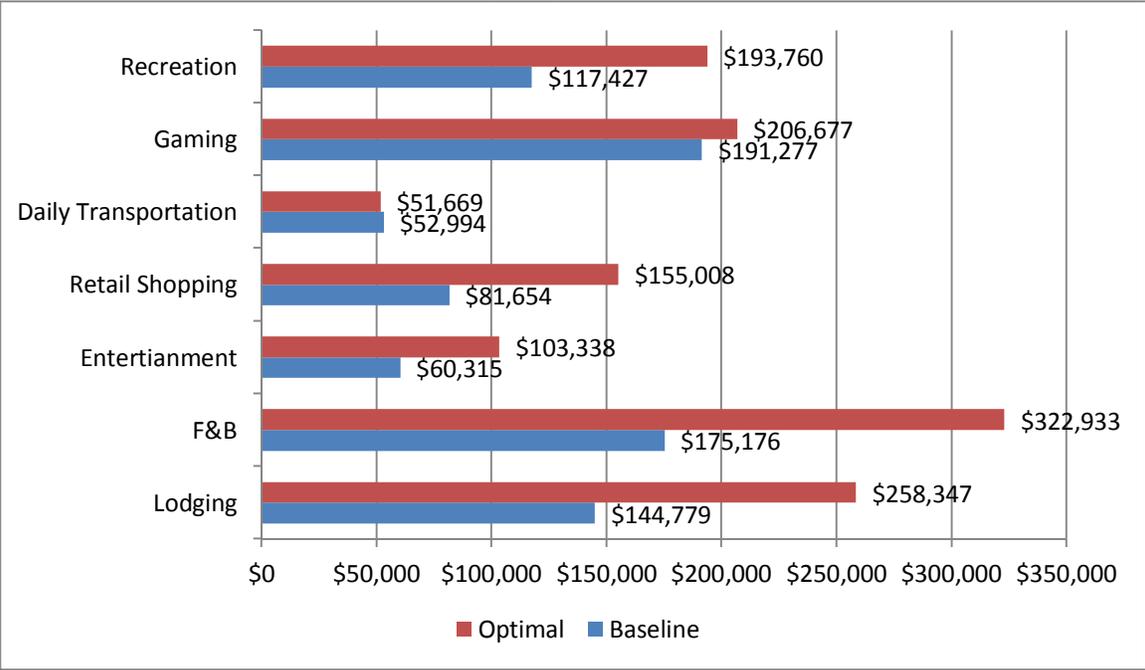
Figures on the following page graphically illustrated the difference in projected revenue for the current spending pattern as well as the optimal spending pattern scenario base on travel spending levels at \$150, \$175, \$200 and \$250 levels.

Figure 18
Current Baseline Percentage Spending vs. Optimal Spending Level Pattern Change
Based on \$150 ADR
(ooo's) Omitted



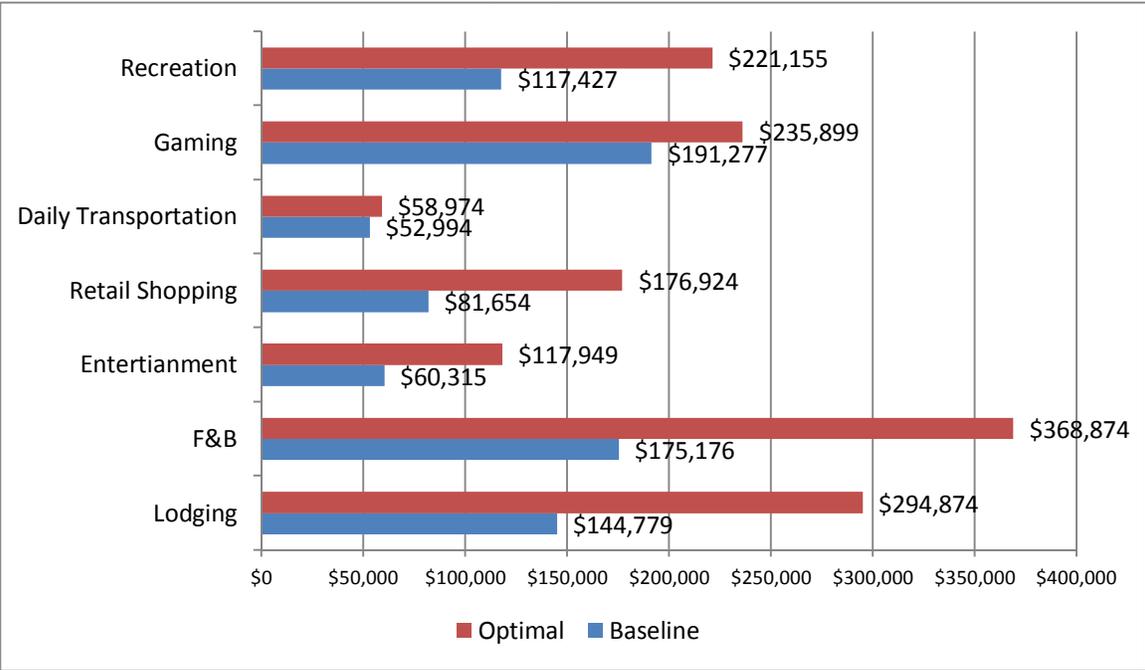
Source: SMG Estimates

Figure 19
Current Baseline Percentage Spending vs. Optimal level & Spending Pattern Change
Based on \$175 ADR
(ooo's) Omitted



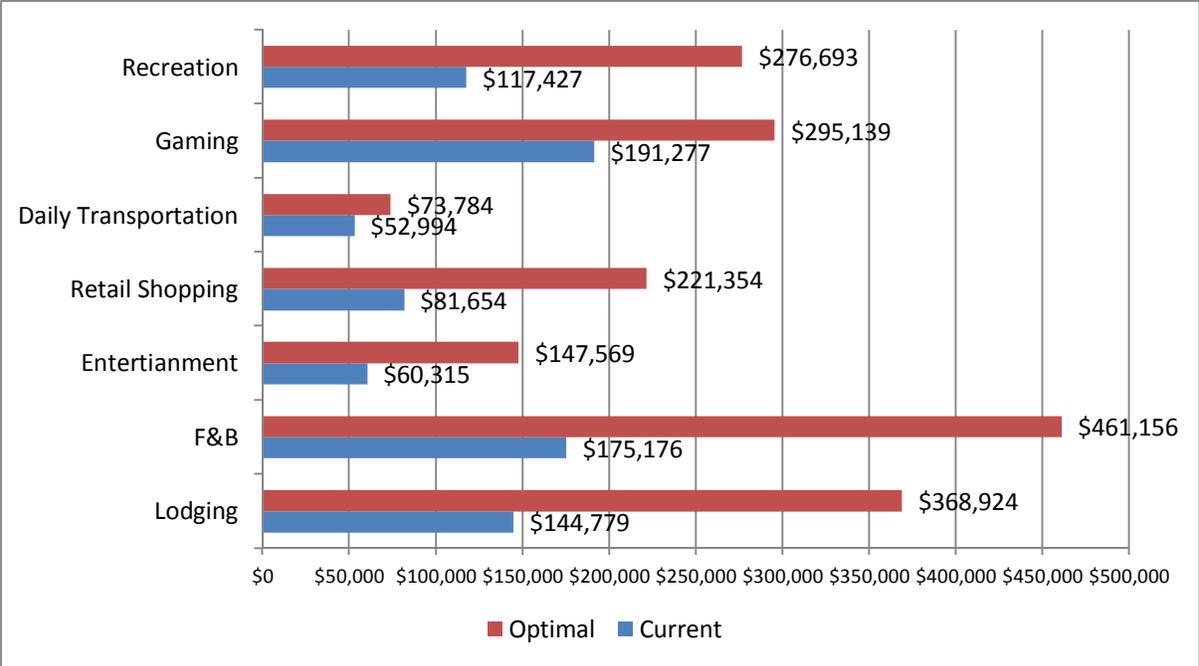
Source: SMG Estimates

Figure 20
Current Baseline Spending vs. Optimal Level & Pattern Change
Based on \$200 ADR
(ooo's) Omitted



Source: SMG Estimates

Figure 21
Current Baseline Spending vs. Optimal Spending Level & Pattern Change
Based on \$250 ADR
(ooo's) Omitted



Source: SMG Estimates

E. Potential Tax Scenarios

Based on the optimum target projections SMG has developed the following local tax projections for South Shore, as illustrated in the table below.

**Table 29
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%

As can be seen there is potential to grow tax revenues from Transient Occupancy Tax and retail sales and to a much lesser degree gaming tax. This reflects the greater opportunity available to the South Shore economy.

Part 4: Vision Plan Phasing

In terms of project phasing the actual phasing is unknown as there are a significant number of major issues that need to be considered, including but not limited to the following:

- TRPA regional plan resolution
- Potential regional plan litigation
- Permit and approval process
- Land entitlements
- Land acquisition and preparation

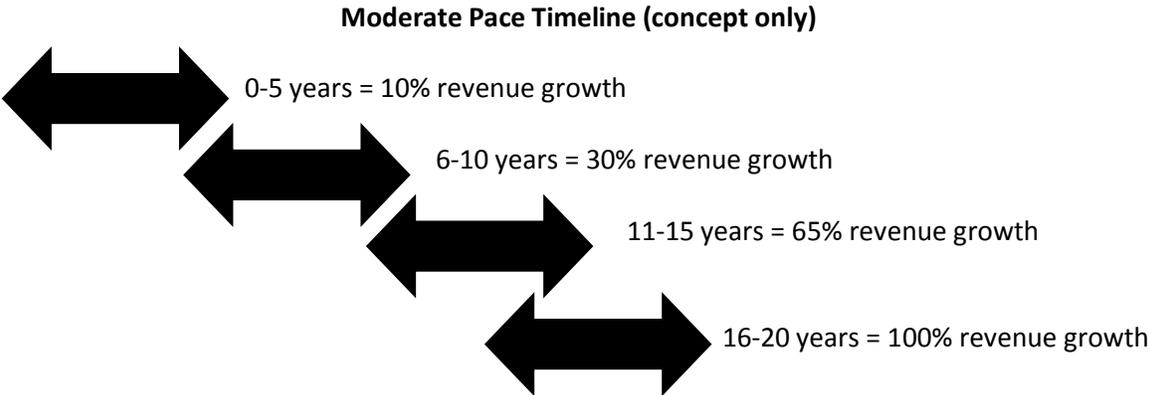
Additionally, there are a variety of other issues that would impact the transition timeline.

As such, developing a phasing timeline would be challenging as best. However, to give the planning timeline some context the following scenarios have been developed using five year increments. The following scenarios include a straight average of revenue growth as well as slow, moderate and aggressive revenue growth.

		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%

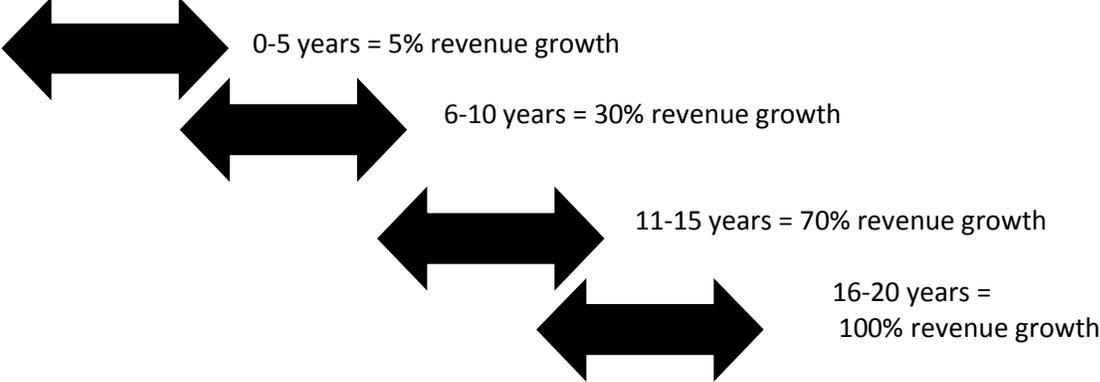
Given the level of planning and issues related to development it would be anticipated that the slow and moderate phasing would be more realistic.

The moderate timeline is based on percent of revenue growth and assumes that over twenty years the destination would achieve 100% of the projected revenue grow. For example over five years with some investment it might be reasonable to assume the destination could see 10% revenue growth from the current baseline level. Over ten years one might assume achieving a 30% gain over current levels etc. Additionally, this scenario assumes a smaller level growth in the near term and more revenue growth over the long term.



A more likely scenario would be the slow growth which takes into account the need for resolution of the regional plan all related approvals as well as potential infrastructure improvements

Slow Pace Timeline (concept only)



Given this perspective, it is important to realize that the potential transformation of South Shore is a mid to long term strategy.

Part 5: Supplementary Analysis

SMG has developed supplementary analysis based on an addition of visitors to the South Shore. Previously for ease of analysis SMG used the existing baseline of the level of visitors to provide an analysis of potential scenarios for the vision plan. This supplementary analysis provides an estimate for a both 5% and 10% increase in visitors to the South Shore.

As can be seen in Table 30 below, an increase in visitors **in addition** to spending increases significantly increases direct economic impact to the South Shore.

Table 30
Estimated Overnight Visitor Spending with 5% & 10% Visitor Growth Scenarios

	Baseline Impact	5% Increase	10% Increase
Baseline # of Visitors	1,660,328	N/A	N/A
Projected Visitors		1,743,344	1,826,360
Incremental Visitors Over Baseline		83,016	166,032
Projected Direct Economic Impact:			
\$150 per room	\$838,711,000	\$1,164,553,000	\$1,220,008,000
Difference from Baseline		\$325,842,000	\$381,297,000
\$175 per room	\$838,711,000	\$1,356,321,000	\$1,420,908,000
Difference from Baseline		\$517,610,000	\$582,197,000
\$200 per room	\$838,711,000	\$1,548,089,000	\$1,621,807,000
Difference from Baseline		\$709,378,000	\$783,096,000
\$250 per room	\$838,711,000	\$1,936,853,000	\$2,029,085,000
Difference from Baseline		\$1,098,142,000	\$1,190,374,000

Source: IMPLAN/SMG

Baseline column includes the current level of visitors and the current level of direct economic impact. The 5% and 10% columns illustrate the estimated direct economic impact assuming a 5% increase in Visitors and 10% increases in visitors as a result of the Vision Plan.

Table 31 below illustrates the difference of the baseline number of visitors with the estimated direct economic impact of the previously identified spending levels associated with room spending at \$50 through \$150 as compared with similar spending levels with an increase of visitors.

Table 31
Estimated Overnight Visitor Spending with 5% & 10% Visitor Growth Scenarios
VS. Projected Spending Scenarios Using Existing Baseline Number of Visitors.

	Baseline Impact	5% Increase	10% Increase
Baseline # of Visitors	1,660,328	N/A	N/A
Projected Visitors		1,743,344	1,826,360
Incremental Visitors Over Baseline		83,016	166,032
Projected Direct Economic Impact:			
\$150 per room	\$1,109,099,000	\$1,164,553,000	\$1,220,008,000
Difference from Baseline		\$55,454,000	\$110,909,000
\$175 per room	\$1,291,735,000	\$1,356,321,000	\$1,420,908,000
Difference from Baseline		\$64,586,000	\$129,173,000
\$200 per room	\$1,474,371,000	\$1,548,089,000	\$1,621,807,000
Difference from Baseline		\$73,718,000	\$147,436,000
\$250 per room	\$1,844,624,000	\$1,936,853,000	\$2,029,085,000
Difference from Baseline		\$92,229,000	\$184,461,000

Source: IMPLAN/SMG

It is important to note that this supplementary analysis is designed to provide policy makers with an addition view of the potential of overnight visitors spending under the scenario of both increased spending and an increase in the number of visitors to South Shore.

Part 6: 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. Other reasons include a dramatic 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. This situation has in turn reduced the level of revenues, employment and taxes available to local government for community services.

South Shore policy makers are at a unique juncture, one that could have a profound impact for years to come. The choices are starkly different; to create a path that transforms the destination into one that significantly increases visitor spending 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 the continuation of a local economy that is slowly failing.**

The proposed changes outlined by the Vision Plan are a much needed attempt to put the South Shore on a path of transformation, one that at long last recognizes the need to shift the focus to a more recreation and entertainment strategy, and one that optimizes the opportunity to increase retail and dining options in an effort to significantly increase visitor spending and its resulting revenues, employment and taxes.

The core concept of the Vision Plan seeks to accomplish this by transforming the core downtown area, in both California and Nevada, into a more pedestrian friendly area. An area that facilitates new retail and dining with upgraded lodging, all designed to provide a better experience for both visitors and local residents alike.

The focus on the core is critical. While it is important to consider other areas of the South Shore that also need to undergo transformation, it is absolutely essential that the City of South Lake Tahoe and Douglas County focus attention on the Kahle Park to Ski Run Blvd area. Put simply **this area has the highest concentration of lodging and retail, produces the highest number of local employment** and its regeneration as a higher revenue generating part of South Shore is imperative if the destination and local community are to thrive.

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, and 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.**

The economic analysis presented in this report clearly outlines the existing conditions and also identifies the potential opportunities if visitor spending were increased. Put simply, in order to generate increased visitor spending it will be necessary to attract higher paying visitors, and to do that the destination must generate significant capital investment to create the level of experiences through community design, architecture, lodging, dining and retail options that consumers have come to expect in competing destinations. This is what will generate the level of spending that can sustain the local economy. This is not to say South Shore should copy what other destinations do but rather improve the quality of its offerings to meet these visitor needs, **which in many cases meets local needs as well.**

The study also presented in detail the destination's inability to drive competitive lodging rates despite the unique benefit of Lake Tahoe. The report demonstrated the value the lake creates with regard to lodging rates generated by properties located on the lake as well as the increased value of residential real estate located on the lake, but more importantly **how that value is not translated to and captured by the destination as a whole.**

The report also identifies the excess supply of lodging that produces very low occupancy rates. This situation reflects a time when the lodging supply better matched the needs of a gaming industry that was generating \$360M and not the current \$210M in gaming revenue that exists today.

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.**

Appendix

Appendix 1 – Model Calibration

In an effort to calibrate the economic model and to check for its accuracy SMG was able to identify two key economic sectors and compare model projections vs. actual known numbers. It is important to remember that the model is designed to project overnight visitor travel spending. As such it does not capture day visitor spending which is a very small part of the spending total, nor does it capture direct local resident spending, though the model does captured indirect and induced local spending. (See Glossary of Terms in Appendix 3 for definitions)

The model projection for gaming revenue was \$191M compared with the actual collections for the time period under study at \$209M. Again, this does not include local gaming expenditures.

1. Gaming Revenue

2011 Actual Gaming Revenue (Douglas County Lake Portion)	\$209,536,000
Model Projection	\$191,277,000

The model projection for lodging revenue was \$144M while in actual fact, the time under study was \$144M.

2. Lodging Revenue

Lodging Revenue				
NV		Tax Rate		
Casino Hotels	\$32,538,435	12%	\$3,904,612	
Other	\$11,891,247	12%	\$1,426,950	
	\$44,429,682		\$5,331,562	
SLT				
Motel/Hotels	\$59,468,000	12%	\$7,136,160	
Property Rentals	16,859,000	12%	\$2,023,080	
Campgrounds	\$7,331,770	12%	\$879,812	
	\$83,658,770		\$10,039,052	
Total	\$128,088,452		\$15,370,614	\$143,459,066
Model Projection				\$144,000,000

Based on these two data points we believe the model projects reasonable estimates.

Appendix 2a – Visitor Output Model

<i>Shouth Shore Economic Model</i>													
<i>Part 1- Number of Visitors</i>													
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Total Lodging Inventory													
Casino Hotel													
Units Available	2266	2266	2266	2266	2266	2266	2266	2266	2266	2266	2266	2266	
Number of Days	31	29	31	30	31	30	31	31	30	31	30	31	
Occupancy %	73%	80%	69%	63%	55%	70%	96%	94%	89%	63%	53%	69%	
People/Unit	2	2	2	2	2	2	2	2	2	2	2	2	
Length of Stay	2	2	2	2	2	2	2	2	2	2	2	2	
# of People	51,280	52,571	48,470	42,827	38,635	47,586	67,436	66,031	60,502	44,255	36,029	48,470	604,093
# of Visitor Days	102,559	105,142	96,939	85,655	77,271	95,172	134,872	132,062	121,004	88,510	72,059	96,939	1,208,186
Non Casino Hotel													
Units Available	5174	5174	5174	5174	5174	5174	5174	5174	5174	5174	5174	5174	
Number of Days	31	29	31	30	31	30	31	31	30	31	30	31	
Occupancy %	26%	26%	31%	22%	18%	15%	24%	40%	39%	17%	13%	26%	
People/Unit	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	
Length of Stay	3.2	3.2	3.2	2.9	2.9	2.9	2.9	2.9	2.9	2.9	3.2	3.2	
# of People	32,580	30,478	38,845	29,438	24,889	20,072	33,185	55,308	52,186	23,506	15,765	32,580	388,832
# Visitor Days	104,256	97,530	124,305	85,371	72,177	58,208	96,236	160,394	151,340	68,167	50,447	104,256	1,172,687
Propert Management													
Units Available	1541	1541	1541	1541	1541	1541	1541	1541	1541	1541	1541	1541	
Number of Days	31	29	31	30	31	30	31	31	30	31	30	31	
Occupancy %	25%	27%	17%	8%	6%	18%	44%	36%	16%	7%	7%	24%	
People/Unit	6.3	6.3	6.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	6.3	6.3	
Length of Stay	4.6	4.6	4.6	5.2	5.2	5.2	5.2	5.2	5.2	5.2	4.6	4.6	
# of People	16,356	16,525	11,122	3,058	2,370	6,881	17,381	14,221	6,117	2,765	4,432	15,702	116,932
# Visitor Days	75,239	76,016	51,163	15,903	12,325	35,782	90,383	73,950	31,806	14,379	20,387	72,230	569,563

Appendix 2b – Visitor Output Model (Continued)

	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total	
Campgrounds														
Units Available		1350	1350	1350	1350	1350	1350	1350	1350	1350	1350	1350	1350	
Number of Days		0	0	0	30	31	30	31	31	30	31	0	0	
Occupancy %					48%	45%	65%	85%	85%	68%	47%			
People/Unit					4.6	4.6	4.6	4.6	4.6	4.6	4.6			
Length of Stay					3.3	3.3	3.3	3.3	3.3	3.3	3.3			
# of People					27,098	26,251	36,695	49,586	49,586	38,389	27,418			255,024
# of Visitor Days					89,424	86,630	121,095	163,634	163,634	126,684	90,480			841,579
Timeshare/Fractional														
Units Available		2162	2162	2162	2162	2162	2162	2162	2162	2162	2162	2162	2162	
Number of Days		31	29	31	30	31	30	31	31	30	31	30	31	
Occupancy %		49%	52%	50%	42%	37%	50%	53%	66%	65%	40%	33%	48%	
People/Unit		3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	
Length of Stay		4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	
# of People		25,155	24,972	25,668	20,866	18,994	24,840	27,208	33,882	32,292	20,534	16,394	24,641	295,447
# of Visitor Days		118,227	117,371	120,640	98,068	89,273	116,748	127,878	159,244	151,772	96,512	77,054	115,814	1,388,601
Total														
# People		125,371	124,547	124,105	123,288	111,140	136,074	194,796	219,028	189,486	118,479	72,620	121,393	1,660,328
# of Visitors days		400,281	396,059	393,047	374,421	337,676	427,005	613,003	689,284	582,607	358,048	219,946	389,239	5,180,616

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Notes:

Data sources include Douglas County, City of South Lake Tahoe, and interviews with property management firms and fractional/timeshare management.

of people = the number of visitors, visitors days = 1 person stays; 3 nights = 3 visitor days.

Note: Winter based on 2011, a very strong snow year

Appendix 3 – Density and Coverage Calculations

Density and Coverage Calculations													
Mixed Use Development (1 acre)													
	Units or SF	Average Density Units/Acre	Site Acres	Average Coverage Acres/Acre	Coverage Acres	BMP's	Storm Water System	Transfer TAU's	Restore TAU Site	Net Coverage Reduction	% Existing Site Coverage Reduction	Acres Existing Site Coverage Reduction	Acres Total Potential Coverage Reduction
Old Motels	40	40	1.00	90%	0.90	No	No						
Old CFA	15,000	34%	1.00	90%	0.90	No	No						
Old Model			2.00	90%	1.80	No	No						
High Density Units	40	40	1.00	70%	0.70	Yes	Yes	Yes	Yes	0.90	90% to 70%	0.2	1.10
High Density CFA	10,000	0	-	0 in the 70%	-	Yes	Yes	Yes	Yes	0.90	-	-	0.90
Total New Model		40	1	70%	0.7					1.80	0	0.2	2.00
Difference		0	(1.00)	-20%	(1.10)					1.80	-	0.20	2.00
					-61%								-111%
Difference in TAU Coverage					-22%								-61%

Comments

This is the maximum coverage reduction. You're retiring two 2-acre sites at an average of 90% coverage or 1.8 acres, and going to an existing site with 90% coverage that will be reduced to 70% coverage for an additional .2 acres, for a total of two acres coverage reduction.

If it wasn't mixed use, only residential, and you and you didn't restore the site but converted it to some other use and didn't reduce coverage, you'd get zero for the sending site and .2 acres for the receiving site assuming you reduced coverage on the redevelopment site from 90% to 70%. This scenario represents the other extreme.

Appendix 4 – Potential Retired Coverage Estimates

As was mentioned previously in this report there is an excessive supply of lodging units available. From a conceptual point a reduction in the supply of non-casino hotel/motel units could serve two important purposes.

First, it would reduce the supply of lower cost, less productive units, which would also reduce the downward pressure on pricing. This concept assumes that if there were fewer units in this category, but the exact same demand with an increase in pricing (which would be projected given the reduced supply), there could be a positive effect on lodging revenue and Transient Occupancy Tax.

For example the table below illustrates four different scenarios in reducing excess lodging inventory, including a reduction of 250, 500 and 750 rooms. Assuming there is the same demand as there is currently is, 472,128 occupied rooms, one can see a projected increase in occupancy from current levels of 25% to 29.2% under a scenario that reduces the number of rooms by 750 units. Also assume that as the supply increases and room rates increase (because of the reduced supply), overall room rates and tax revenues would increase.

The data in this report is clear in that there is an excess supply of rooms given the chronic low occupancy of the destination. This table serves to illustrate the concept that if excess supply were eliminated, while demand was held constant and room rate increased assuming properties are continually upgraded, there would be an overall increase in room revenues and Transient Occupancy Tax. It is recommended that if this policy is pursued a comprehensive lodging supply and analysis study be conducted to determine a more precise level of needed lodging supply in order to right-size the supply to optimize revenues.

Table 32
Potential Impact of Excess Lodging Unit Reductions

Non- Casino Hotel Room Reductions	Baseline	-250	-500	-750
% Room Reduction		-4.8%	-9.7%	-14.5%
Units Available	5,174	4,924	4,624	4,424
Number of Days	365	365	365	365
Rooms Available	1,888,510	1,797,260	1,687,760	1,614,760
# Occupied Rooms	472,128	472,128	472,128	472,128
Occupancy	25.0%	26.3%	28.0%	29.2%
ADR	\$102	\$150	\$150	\$160
Revenue	\$48,157,056	\$70,819,200	\$70,819,200	\$75,540,480
Projected T.O.T.	\$5,778,847	\$8,498,304	\$8,498,304	\$9,064,858

Source: SMG Estimates

A second potential benefit along with increased revenues and taxes that right sizing lodging infrastructure would bring is a reduction in land coverage as those units would be taken out of supply. This would reduce the impact of the built environment on Lake Tahoe.

The table below estimates the number of acres of reduced coverage under the same scenarios above. For example with 250 units of lodging reduction 5.6 acres of coverage can be retired.

Table 33
Retired Coverage Estimates

Units Reduced	250	500	750
Units/Acre	40	40	40
Coverage/Acre	90%	90%	90%
Coverage Retired (acres)	5.625	11.25	16.875

Source: SMG Estimates, Tahoe Regional Planning Agency

As one can see the potential benefits for excess unit reduction can include both increased revenue as well as reduced coverage. Additional analysis is needed to determine the optimum number of units and coverage reductions.

What needs to be understood at this juncture is the actual mechanism with which to buy lodging property owners out and retire their mortgages.

Appendix 5 – Glossary of Terms

Direct Effect - The set of expenditures applied to the predictive model (e.g. I/O multipliers) for impact analysis

Indirect Effect - Additional impacts caused by industries purchasing from industries in I/O analysis.

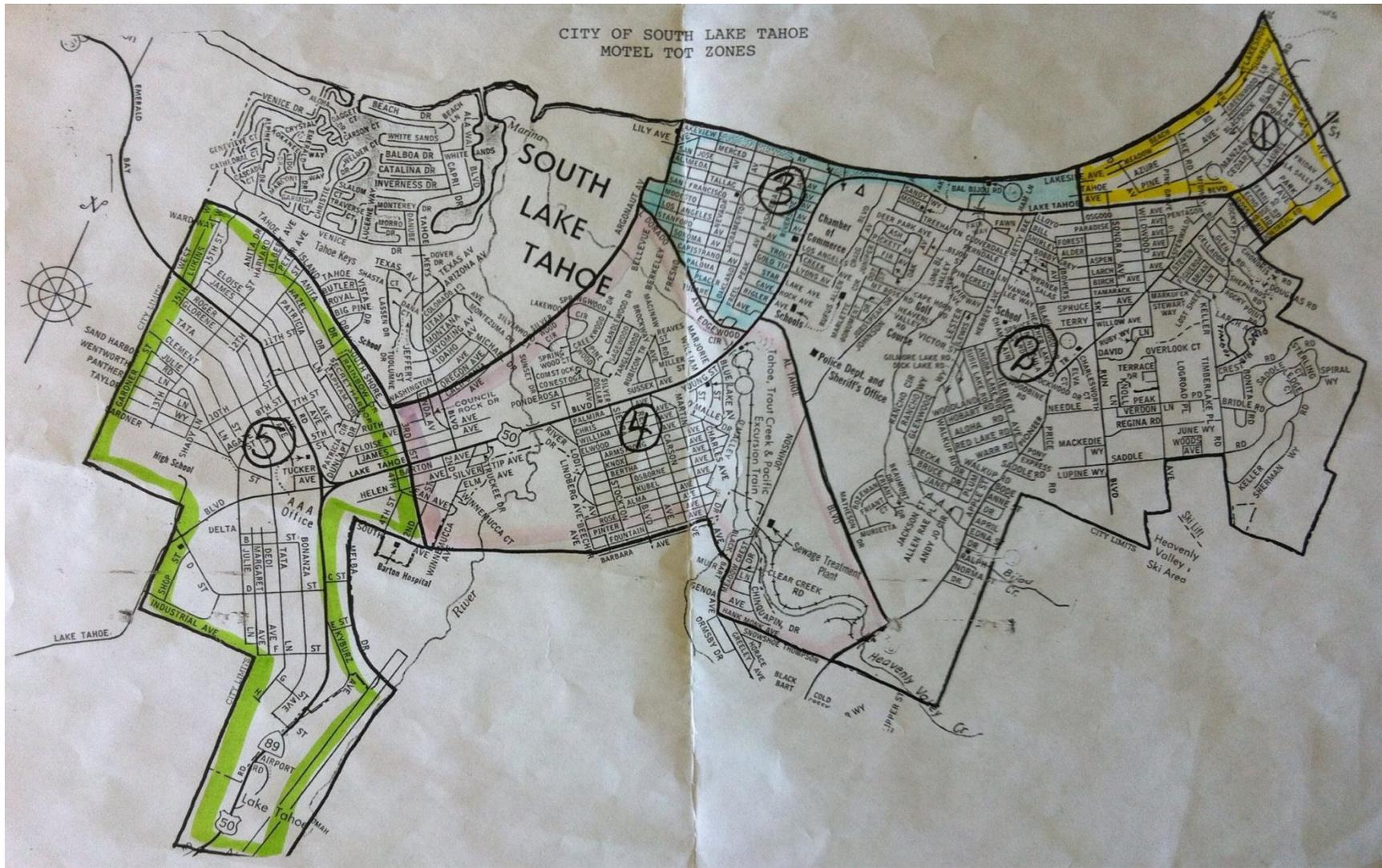
Induced Effect - The impacts of household expenditures in I/O analysis.

Indirect Taxes - Sales, excises and other taxes paid during the normal operation of industry. This does not include taxes paid based on net income.

Appendix 6 – Data and Information Sources

- US Census Bureau
- City of South Lake Tahoe, Douglas County, NV
- Nevada Gaming Commission
- Ski Lake Tahoe
- State of California Board of Equalization
- City of South Lake Tahoe Retail Market Analysis, December 2005
- California Visitor Impact Model
- IMPLAN Economic Impact Software - www.implan.com
- Spending data from LTVA Summer 2011 & Winter 2010 research. Data was collected as per party trip expenditure and revised to per person /per trip expenditures.
- Smith Travel Research 2011, Nevada Commission on Tourism, Douglas County NV
- Napa Valley Visitors Bureau
- Park City Resorts Association
- Mammoth Lakes Tourism
- Monterey County
- San Luis Obispo County Visitors and Conference Bureau
- U.S. Bureau of Labor Statistics, California Department of Finance
- Visit California
- Tahoe Regional Planning Agency

Appendix 7 – City of South Lake Tahoe Motel TOT Zones



The Strategic Marketing Group is a tourism recreation and hospitality consulting firm that provides marketing, technology and economic consulting services to a wide range of destinations, resorts, recreation and lodging providers.

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