

Business Revenue Projections HHI FY 2018 Budget				
	General Fund	Debt Service	Capital Improvement	Consolidated
Business Fees	\$9,983,007	\$0	\$0	\$9,983,007
HTAX	\$3,492,245	\$2,324,350	\$425,000	\$6,241,595
ATAX-Local	\$3,312,968	\$0	\$0	\$3,312,968
ATAX-State	\$1,565,900	\$0	\$0	\$1,565,900
Business Total	\$18,354,120	\$2,324,350	\$425,000	\$21,103,470
Percent Budget	46%	11%	1%	31%

1. Town of HHI will rely on Business Fees and Hospitality/Accommodations Taxes to fund 46% of its operating budget and 31% of its consolidated budget in FY2018. A similar distribution of revenue sources is anticipated in future years. Property taxes, even with a 6.8% rate increase in 2018, will fund 33% of the town's operating budget and 30% of its consolidated budget. The 2018 budget and those projected over the next couple of years are austere (1.7% annual growth) and the town is close to its self-imposed borrowing cap. Consequently, any erosion in business and hospitality base revenues caused by workforce shortages could only be offset by increases in prices and the rates at which property and services are taxed.

2. FY2018 revenue projections are based on anticipated increases in revenues (HTAX-2.9%, ATAX-5%, Business Tax-8%) that are optimistic given historical FY2017/FY2016 performance (HTAX-2.4%, ATAX-6.6%, Business Tax-1.3%). Hurricane Matthew diminished tourism during part of FY2017 and the business tax rate was increased for FY2018. Consequently, these disparities are not alarming, but they underscore the fact that there's not much cushion in the town's fiscal future.

3. The impact of workforce shortfalls on the service and hospitality industry revenue base can not be calculated confidently but can be approximated. For instance, if labor shortages force restaurants/bars to cut one day of service a week, projected HTAX revenues could be diminished by almost \$900,000 in FY2018. In lodging and other businesses, a 5% workforce shortfall could translate into tax revenues close to \$600,000 below plan. These town revenue shortfalls would primarily diminish funds available for day to day operations. The 4% or so operating budget deficit would not be crippling in 2018. However, the cumulative effect of underperforming hospitality and service industries on the cost of living and quality of life on HHI would become decidedly negative if it persisted.

4. To illustrate the impact of hospitality workforce availability on the town's tax base, the table below extrapolates from 2017 data on industry revenues from CSI Market.com and town and

county employment statistics. Average revenue per employee varies widely in the hospitality industry nationally; so two measures are shown - national median revenue/FTE and median revenue/FTE for the lowest 25th percentile of businesses. Current hospitality job openings are calculated as 15% of the latest job openings reported for the county, since 15% of employment on HHI is in this sector.

	Median Revenue/FTE	Unfilled FTEs Hospitality	Lost Revenue - Annual
Restaurant Industry - National	\$143,396	300	\$43,018,800
Restaurant Industry - Bottom 25%	\$65,502	300	\$19,650,600

These calculations are imprecise because of the underlying data. However, they do display the magnitude of the impact of workforce shortages on HHI economic activity. For every 100 unfilled positions, the HHI hospitality industry alone forgoes between \$6.5M and \$14.3M in revenues annually.

4. Over the past 23 years, HHI has been able to maintain the quality of services provided to residents and visitors without significantly increasing property taxes because of the steady increase in taxable revenue generated by the hospitality and services industries. Growing that revenue stream at even a modest pace is directly dependent on the availability of a qualified workforce, as is the attractiveness of HHI as a high end tourist destination and residence. Limited on-island availability of housing which workers from entry level personnel through mid-level managers can afford is not the only condition generating workforce shortages and diminishing economic potential. Nevertheless, town officials have recognized it as a major contributing factor since the mid-1990's, but progress to resolve it has been negligible. The town made a sizeable investment recently to provide educational opportunities for hospitality industry professionals. The return on that investment is threatened if those qualified individuals elect to work elsewhere because there are few affordable opportunities to settle themselves and their families here.

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