Context

From an economic perspective, there is one dominant industry for the Village of Mackinaw City. That industry is tourism. Most employment, tax base or other economic indicators are largely if not totally dependent upon that industry at present. Thus, as that industry "goes, so goes" the Village's economy.

Thus, trends in the industry, particularly in both Michigan and in the general vicinity, are important to recognize in assessing opportunities for Mackinaw City. The following are highlights of the visitor or tourism based industry.

- ✓ About 150 million visitor or person-days and 74 million leisure visitors spend time in Michigan each year. This represents just under 4% of all annual leisure person trips in the United States.
- ✓ About 85% of all "leisure" visitors to Michigan come by ground transportation. The largest group of leisure visitors can be characterized as families with one or more children, whose household income is above $60,000 and whose median age of the head of the household is 40 years old. About 9% of the leisure person-trips are associated with retired individuals.
- ✓ The average length of leisure stay is just less than 3 nights. The primary activities in which people participate are dining, sightseeing, shopping, beach or water related, gambling, and attendance at sporting events. (The Mackinaw area has all of these activities.) About eight of every ten Michigan person-days are for leisure activity or purposes.
- ✓ The largest proportion of leisure travelers and trips in Michigan are derived from Michigan residents. Between one-half and two-thirds of all travelers to Michigan are from Michigan, with the largest proportion being from the Detroit area. This large a proportion of trips from one state can be problematic. Should economic conditions in that state suffer, it is likely that tourism will suffer.

Distinguishing trends in Mackinaw City versus the entire State are difficult. Most studies of tourism done and available through the government divided Michigan into four quadrants and the Upper Peninsula. Mackinaw City is physically located in two of the four quadrants and is adjacent to the Upper Peninsula via the bridge. Thus, in fact only two of the five geographic areas upon which statistical analyses are built are not appropriate for review of trends. While much is difficult to discern because of the locational aberration, it is of note that:

- ✓ The number of persons per trip for leisure travelers in Michigan is greater than for the average for the United States in general. Furthermore, information indicates that larger person leisure trips are associated with much of the Mackinaw area than for Michigan in general.

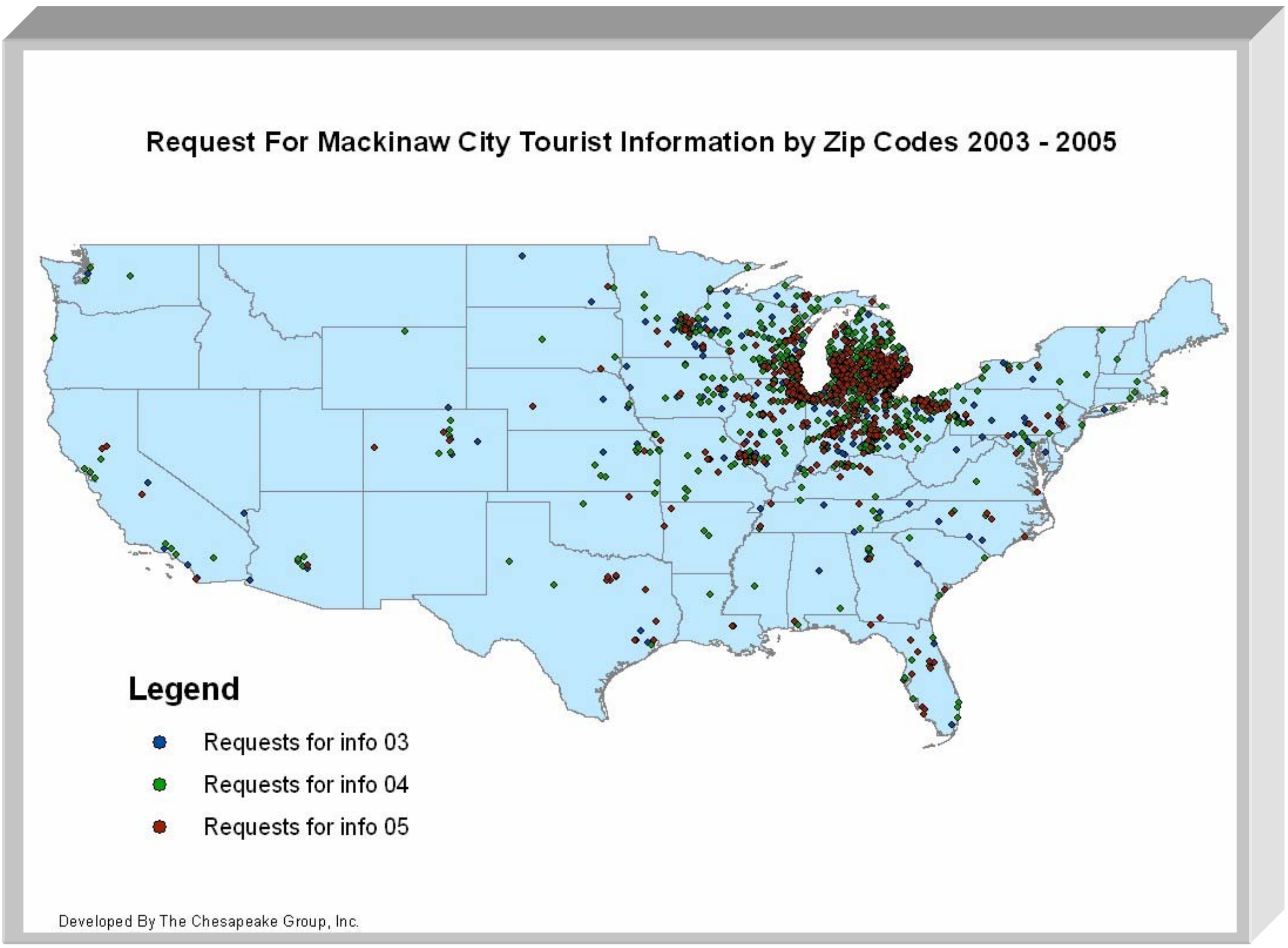
✓ The length of stay for the leisure traveler follows a similar pattern. The length of stay of the leisure traveler in Michigan is greater than for the country as a whole, and the length of stay in the Mackinaw area is longer than for Michigan in general.

✓ The proportion of leisure visitors seeking waterfront activity and sightseeing is greater in the Mackinaw area than for the United States in general.

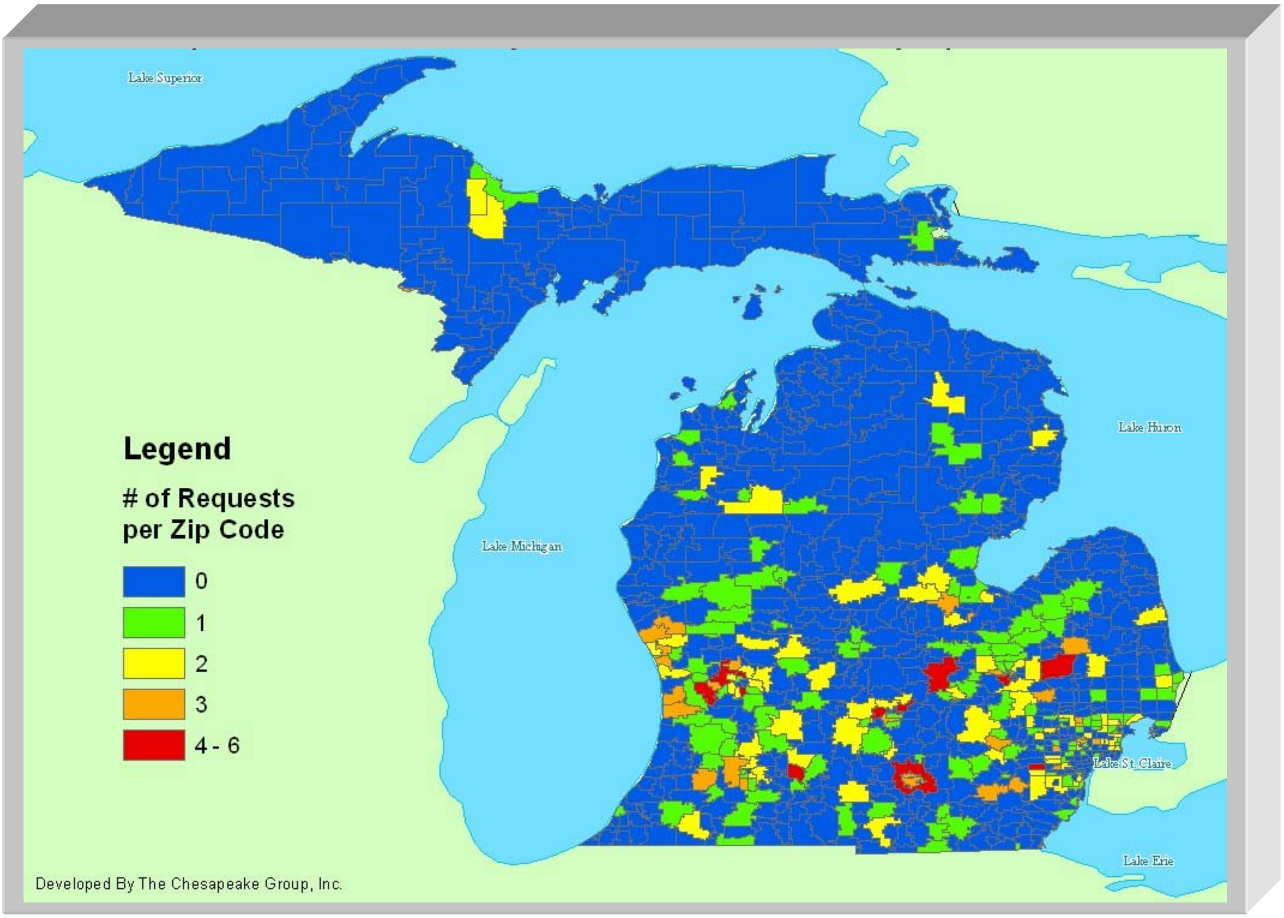
✓ The Mackinaw area is less balanced in terms of leisure visitor trips by season than the United States or Michigan in general.

As a result of the difficulties in dissecting specific data from Michigan and regional analyses, it is more appropriate to look at data at the local level to discern trends for Mackinaw City. Information on local trends was derived from data made available through the Village, the Tourism Board, and individual businesses. That information indicates:

✓ Mackinaw City and surrounding areas serve three visitor markets. These are: Michigan, the larger Great Lakes area, and elsewhere in the country, but with a stronger link to the nearby Midwest and east coast regions. The map that follows shows the residences of purchasers of prepared "visitor packages".



As visually apparent in the above map of the nation, Michigan residents would appear to either be dominant in the Mackinaw City area market, as indicated by the regional and state data, or at least are better aware of available packages and other promotion than out of state residents. As would be anticipated by the population distribution in Michigan, most visitors and potentially market penetration would seem to be the greatest in the Detroit and Grand Rapids areas. The graphic that follows indicates the distribution of packages in Michigan for 2005.



There is little question that tourism activity has transformed Mackinaw City over the years and that it will continue to play the major role in the economic structure of the area. The growth has resulted in significant investment that continues. An examination of non-residential taxable value in Mackinaw City clearly shows the continued investment. For example and as shown in Table 1, taxable value of property in the Village of Mackinaw City, which is located in two separate counties (Cheboygan and Emmet) grew from about $46.9 million to $66.2 million between Fiscal 1998 and 2004. Most of the property and taxable value is found in Cheboygan County throughout the time period noted.

Table 1 - Taxable Value of Commercial, Industrial & Utility Property in Village (in $)*

County	1998	1999	2000	2001	2002	2003	2004
Mackinaw/Cheboygn	36,516,377	41,858,480	43,772,020	47,878,741	48,630,349	50,053,666	53,194,810
Mackinaw/Emmet	9,415, 348	9,752,305	11,148,164	10,411,640	13,674,417	12,347,909	13,029,336
Total	45,931,725	51,610,785	54,920,184	58,290,381	62,304,766	62,401,575	66,224,146

* Taxable Value includes Commercial & Industrial (real & personal property) and Utility (personal) property. Developed by The Chesapeake Group, Inc., 2005.

In total, from Fiscal 1998 to 2004, taxable values of non-residential property in Mackinaw City increased by about $20.3 million. For each year, there was an increase over the previous year, although there has been significant fluctuation. Taxable increases were lowest from Fiscal 2002 to 2003 and highest between Fiscal 1998 and 1999 and 2001 and 2002

Table 2 - $ Changes in Taxable Commercial, Industrial & Utility Property Value of Village*

County	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	1998-2004
Mackinaw/Cheboygn	5,342,103	1,913,540	4,106,721	751,608	1,423,317	3,141,144	16,678,433
Mackinaw/Emmet	336,957	1,395,859	-736,524	3,262,777	-1,326,508	681,427	3,613,988
Total	5,679,060	3,309,399	3,370,197	4,014,385	96,809	3,822,571	20,292,421

* Taxable Value includes Commercial & Industrial (real & personal property) and Utility (personal) property. Developed by The Chesapeake Group, Inc., 2005.

In total, the taxable property values increased by more than 44% from Fiscal 1998 to 2004. With the exception of 2002 to 2003, in recent years the base has increased generally about 6% per year.

Table 3 - % Changes in Taxable Commercial, Industrial & Utility Property Value of Village*

Township	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	1998-2004
Mackinaw/Cheboygan	14.62	4.57	9.38	1.56	2.92	6.27	45.67
Mackinaw/Emmet	3.57	14.31	-6.60	31.33	-9.70	5.51	38.38
Total	12.36	6.41	6.13	6.88	0.15	6.12	44.17

* Taxable Value includes Commercial & Industrial (real & personal property) and Utility (personal) property. Developed by The Chesapeake Group, Inc., 2005.

Yet, while the precise number of visitors to the area is difficult to discern, there is evidence to indicate that:

- ✓ Mackinaw City has evolved to a significant destination where large numbers of people stay overnight “in season”.
- ✓ Tourism activity is not increasing at the rate that it was during the 1990’s.
- ✓ The past few years has seen little growth, no growth, or some decline in visitor activity.
- ✓ The area has been described as essentially “holding its own" at present.

There is both actual and anecdotal evidence to support the above noted trends. First, the bridge crossings from the mainland to the Upper Peninsula peaked in 1999 and has declined since 2002. This indicates that less vehicles and probably people are passing through Mackinaw City along Interstate 75.

Table 4 – Bridge Crossings from 1994 through 2004*

Year	Crossings
1994	4,333,185
1995	4,558,652
1996	4,625,207
1997	4,626,190
1998	4,890,565
1999	4,936,417
2000	4,755,886
2001	4,676,424
2002	4,733,166
2003	4,528,548
2004	4,427,331

*Provided by the bridge authority.

Second, visitor nights recorded by hotels and motels in the Mackinaw City area most likely peaked in 2002, but have remained relatively stable since 1999 based on room use assessment fees collected.

Table 5 – Room Assessment Collections from 1994 to 2004*

Year	Collections
1994	$293,866.30
1995	$317,226.27
1996	$337,197.60
1997	$361,370.33
1998	$436,177.00
1999	$459,164.00
2000	$460,356.00
2001	$469,508.00
2002	$488,145.00
2003	$463,282.00
2004	$466,830.00

*Provided by the Mackinaw Area Visitors Bureau.

Third, the number of visitors to the state park facilities that have history based themes in the area have been stable or in some cases declined as well over the past four years.

Finally, hoteliers have indicated that many of the facilities are simply stable and not increasing as they were during the previous decade.

Importantly, there are numerous factors likely to contribute to the noted trends. However, there are a few which are likely to be dominant. Three of the more significant are likely to be:

- ✓ Difficult economic conditions that have persisted in recent years in Michigan related to declines in its major industrial and economic base activity caused by structural changes in the primary industries.

- ✓ Increasing competition for the visitor activity.

- ✓ The need to evolve further, "go to the next level", or "take the next step" in the tourism arena.

Furthermore, without immediate significant change or a transition indicated in the first and third of these three primary factors, there is likely to be a low probability of strong sustained growth in tourism over the next few years in Mackinaw City. It could well be that, for the short-term, stabilization and minor growth or declines should be viewed as a positive. Being able to "hold your own" in a difficult economic period when the dominant market force or demand generator (residents of Michigan) is having difficulty is often positive. Nonetheless, it is also indicative of need for moving forward in a host of potential definable directions.