

TUSCAN VILLAGE WILL STIMULATE CITY OF CHELAN DOWNTOWN MARKET

New commercial developments in tourism markets often raise concerns about drawing market share away from existing businesses, especially when they are in areas outside of the main business core. Whether those concerns are valid or not depends on whether the new developments will expand the market for all businesses or simply compete for a slice of an existing pie.

Elesco's market analysis of September 2008, along with analysis of similar developments in other areas, show conclusively that Tuscan Village will expand the demand for all business services in the Chelan area in both the tourism and non-tourism sectors. Existing businesses in downtown Chelan will *benefit* from Tuscan Village because of increased spending by tourists as well as by the part-time and full-time residents who live there. There will also be significant economic benefits from initial and continuing construction and real estate activity.

Specifically, Tuscan Village will:

- Expand tourist visits and revenues by attracting “wine industry tourism” to the Chelan Valley. This is a fast-growing new market for tourism that is having dramatic benefits in areas such as Walla Walla, the Yakima Valley, and the Okanagan Region of British Columbia. It is a major tourist stimulus in the Willamette Valley in Oregon.
- Provide an expanded second home market for people in the Puget Sound Region and other urban centers who want enhanced lifestyle opportunities within a reasonable driving distance of their primary homes. Recreational opportunities at Lake Chelan will be enhanced by the “wine country” experience.
- Expand opportunities for retirees and business entrepreneurs to establish their primary residences in the Chelan area, spending their incomes on purchases from local businesses.

The main purpose of the market analysis was to evaluate the economic feasibility of Tuscan Village. It assessed the various components of the lodging and residential markets, but did not attempt to provide an impact analysis for the larger community of businesses in the City of Chelan. Instead, it used population forecasts from the Washington Office of Financial Management and estimated the share of growth that could be captured by Tuscan Village. It also examined tourism data for Chelan County and verified that this market sector would also provide growth opportunities for Tuscan Village.

The Tuscan Village concept is similar to destination resorts such as Suncadia at Roslyn, Washington, and Sunriver Resort in Oregon. Its projected external economic impacts can be estimated by examining existing destination resort communities where studies of those impacts have been documented. Elesco Limited recently developed an economic impact analysis for the Sunriver Resort in Deschutes County, Oregon, and the results of that study provide insights into the impacts that can be expected from Tuscan Village. Much of the data and findings include impacts from Eagle Crest Resort and Pronghorn Resort in addition to Sunriver.

SUMMARY OF BENEFITS OF DESTINATION RESORTS TO DESCHUTES COUNTY

Destination Resorts provide important economic and quality of life benefits to Deschutes County and its residents. Major benefits are summarized below and described in more detail on the following pages.

A DIRECT ECONOMIC BENEFITS

- More than 2.5 million people visit Central Oregon annually, mostly for vacation travel
- Direct visitor spending in Deschutes County was more than \$470 million in 2007
- Total direct and indirect visitor spending in Deschutes County was \$659 million
- 5,440 direct jobs in Deschutes County were attributed to the visitor industry in 2007
- Total jobs (direct and indirect) attributed to visitors was 6,528 workers
- More than \$121 million was spent by visitors for wages, salaries, and proprietor income
- Total wages and salaries attributed to the visitor industry was more than \$164 million
- Five Destination Resorts employed 1,469 workers in Central Oregon in 2007
- Their total payrolls were \$40.5 million for an average annual wage of \$27,566
- Destination Resorts' average payrolls were 67% higher than the whole hospitality sector
- Destination Resorts generate construction and service industry employment and revenues
- \$7.7 million in transient room taxes were paid to Deschutes County and cities in 2007/08
- Three Destination Resorts paid \$1.7 million in property taxes to Deschutes County in 2005/06

B SECONDARY ECONOMIC BENEFITS

- Destination Resorts provide an economic stimulus for nearby communities
- Destination Resorts make nearby communities more viable for economic development
- Destination Resorts promote Deschutes County and Central Oregon to national markets
- Destination Resorts' events help fund local charities
- Destination Resorts help provide the markets to expand local air services
- Destination Resorts support economic development through business recruitment
- Destination Resorts create awareness of Central Oregon as a great place to live
- Destination Resorts provide a home base for business professionals

C QUALITY OF LIFE BENEFITS

- Destination Resorts are active participants in environmental protection and enhancement
- Destination Resorts create environmental awareness through education
- Destination Resorts protect the region's history and culture
- Destination Resorts provide community resources for their neighbors
- Destination Resorts provide major funding for transportation improvements
- Destination Resorts provide essential public safety services and facilities

Some of the detailed data showed that destination resort properties in Central Oregon are currently valued at \$2.5 billion of Real Market Value created by on-site construction. In 2007, payrolls for resort construction and support services were \$72 million. All of that was reflected in the property taxes collected by local governments in 2007 (includes non-Resort owned properties located within the Resort designation).

- Deschutes County: \$ 4.2 million
- Deschutes County Sheriff: \$ 3.8 million
- Deschutes County 911: \$ 1.0 million
- Education Districts (Common School Fund) \$ 18.3 million
 - Bend La Pine School District \$ 9.0 million
 - Redmond School District \$ 3.9 million
 - Sisters School District \$ 3.2 million
 - Central Oregon Community College \$ 1.8 million
 - High Desert ESD \$ 247,350
- Other Districts (Library, Fire, etc.) \$ 8.4 million

The study found that while these resorts paid substantially above-average property taxes, their costs of tax-supported services were significantly below average. For example, Eagle Crest Resort near Redmond generated only 17 students to the Redmond School District in 2005 although 24% of its residential units were occupied by full-time residents. Sunriver and Black Butte Ranch have their own police and fire districts, supported by separate tax levies, yet still pay taxes to the County for those services.

A detailed study of the consumer spending patterns associated with Tuscan Village visitors and residents would indicate the magnitude of the private-sector economic benefits that could accrue to the businesses located in the City of Chelan and surrounding area. Just looking at the visitor sector, the market report quoted figures that showed total spending at the destination by visitors to Chelan County in 2006 were estimated at \$314.8 million. These were broken down by sectors:

Accommodations	\$ 73.0 million
Food & Beverage Services	\$ 98.3 million
Food Stores	\$ 18.3 million
Ground Transportation & Motor fuel	\$ 28.5 million
Arts, Entertainment & Recreation	\$ 49.9 million
Retail Sales	\$ 46.5 million
Air Transportation (visitor only)	<u>\$ 0.2 million</u>
Total Spending	\$ 314.8 million

To estimate the benefits to the City of Chelan area could be accomplished by estimating Chelan's share of the county totals. The projected growth rates in the market study could then be used to show the increases in visitor spending that could be attributed, at least in part, by the increased visitor traffic stimulated by Tuscan Village. A similar process could be used to show the increased consumer spending that could be expected from the full-time and part-time residents who would buy homes at Tuscan Village and spend their incomes locally.



TSILLAN CELLARS TUSCAN Wine Club

Lake Chelan AVA Becomes a Reality

What is an AVA?

By now most of our wine club members have read about the Tobacco Tax and Trade Bureau, a division of the federal Treasury Department, bestowing the distinction of an AVA upon the Lake Chelan wine region. This begs the question: What is an AVA? An AVA denotes an American Viticulture Appellation. An appellation derives from a French term used to distinguish a defined grape growing area that has certain characteristics. An AVA must be shown to contain unique grape growing qualities. The French term for these unique characteristics is "terroir". "Terroir" encompasses soil, climate, geography, sun exposures and distribution, wind characteristic and countless other micro factors that will influence the character of the grapes grown on that property.

Origin of the AVA

The concept of distinct viticulture regions is a centuries old European legacy. In the tradition of French, Italian and German wine culture wine exhibits a sense of "place". No other agricultural crop will express the uniqueness of the micro "terroir" than vinifera wine grapes. In France wines from a specific vineyard will command many times the price of a vineyard only a few hundred feet distant because of the unique "terroir" distinguishing each vineyard. The wines of Europe are typically denoted by the region, often very small, where the grapes were grown. In the United States and other New World growing regions the wines are identified by variety; i.e. Riesling, Chardonnay, Syrah etc.

History of Washington Wine AVA

An AVA can be huge, or it can be small. The Columbia Valley AVA is a region that extends from the Columbia River to the Canadian border, from the Cascade Mountains to southeastern Washington adjacent to Idaho and Oregon. Obviously, the larger the AVA regions have less distinctive common characteristics. The wines of Walla Walla will be very different from Lake Chelan but they both belong to the Columbia Valley AVA. Therefore, in recent years the larger AVAs are broken down into sub-appellations. These sub-appellations are much more distinct and unique. They express a much greater sense of "place" similar to the French and Italian legacy of wine being an expression of a very small viticulture area.

Why the Lake Chelan AVA is unique

The new Lake Chelan AVA is undoubtedly the most unique of the 11 Washington State AVA regions. Nestled in the Cascade Mountain range along 12 miles of 55 mile long, 1500 feet deep Lake Chelan the scenic and viticulture characteristics are unmatched. Every other Washington AVA owes their unique soil and growing characteristics to the outburst floods from glacial Lake Missoula in western Montana approximately 10,000 years ago. This flood had virtually no impact on the Chelan Valley. No other existing AVA is set in a deep, natural alpine glacial valley with rich volcanic soils and climate tempered by an adjacent large lake.

The Lake Chelan AVA lies downwind of the Glacier Peak volcano that showered our Valley with deep pumice during a catastrophic eruption about 12,000 years ago. The huge water volume of Lake Chelan acts as a heat reservoir that exerts a profound influence moderating potential winter cold events.

Those of you that visit Chelan in the summer enjoy the hot summer days but have learned to have a sweater handy when the sun goes down. The difference in daytime high temperatures and night time low temperatures is called *diurnal* shift. It may be 100F in July or August but cools into the mid or low 60'sF at night. Thus, the perfect growing conditions for clean crisp white wines and cooler climate red wines that have already won acclaim for Tsillan Cellars.

Tsillan Cellars and the New AVA

Tsillan Cellars from the beginning has been about "sense of place". The vineyards have always been the foundation of our search for excellence. The growing conditions on the gentle slopes of the south shore are the most favorable in the Valley. Under the management of Mr. Bal Flores, vineyard manager, our viticulture practices evolve and continue to set the standard in the Chelan Valley. Our wine is an expression of our vineyards. I am very proud of Bal and his crew, their attention to detail and commitment to being the "best".

What's New in the Vineyards

Malbec! Ok, I'm an admitted fan of Malbec. Our first half acre of Malbec vineyard was planned in 2001 simply to be a blender for future Tsillan Cellars blends. Tasting our first vintage of Malbec in barrel quickly yanked it from a blender to future super star. But was it a one year wonder or was that promise of greatness warranted? Two more great Malbec vintages were enough to convince me that this could be one of the great Malbec growing areas in the world. The most famous Malbec presently is grown in the Mendoza region of Argentina. It is about the same latitude as Chelan, lies close in the lee of the Andes Mountains similar to Chelan and the Cascade Mountains, has the same dry continental climate and a history of growing quality tree fruit. As you approach Tsillan Cellars vineyards from Wenatchee you will see a new vineyard along the highway where you can watch the Malbec grow in anticipation of Malbec in your Wine Club shipment in four years. Cheers!



Dr. Bob Jankelson
Owner, Tsillan Cellars

2009 EVENTS CALENDER

The Paperboys
July 3rd & 4th at 7pm
Wine Club \$20.00

Fall Wine Club Party
September 12, 2009
12-4pm

Sorrento's Ristorante
Open Monday thru Sunday for
lunch and dinner from 11am -
10pm. For reservations or
questions contact Sorrento's at
509-682-5409

For more information regarding
Tsillan Cellars Events visit:
www.tsillancellars.com

Staff at Tsillan Cellars

Dr. Bob Jankelson, Owner
Max Harshman, Chief Operations Manager
Ken Cain, General Manager/Director of Sales
Shane Collins, Head Winemaker/Viticulturalist
Bal Flores, Vineyard Foreman
Anne Rose, Accounting
Katie Pippins, Wine Club Coordinator
Lindsay McKenney, Events Coordinator



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EXHIBIT J