Florida's Beaches:

Economic Evaluation & Return on Investment

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Presentation based on 1/15/2015 EDR Study

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Basis of the Analysis...

At the request of Speaker Will Weatherford, the Office of Economic and Demographic Research (EDR) undertook an **economic evaluation** of the state's investment in beach management and restoration projects. The evaluation:

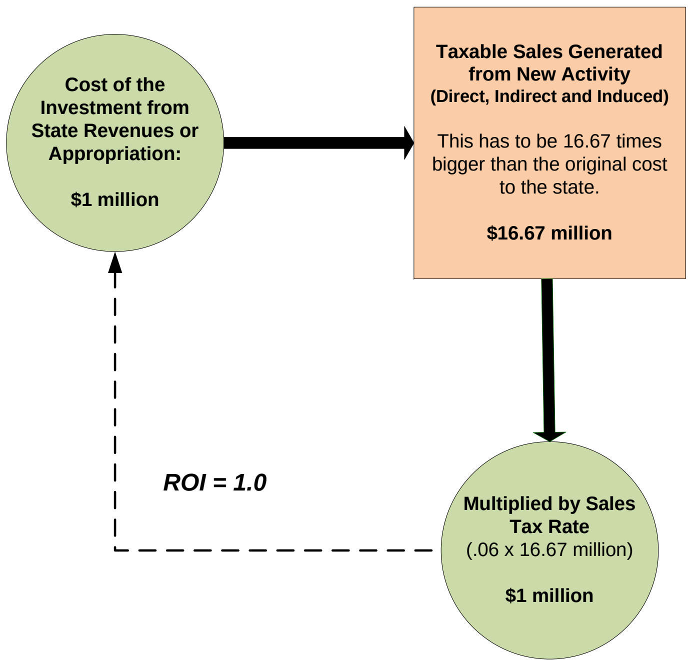
- Identified the strength of the relationship between Florida's beaches and the state's attractiveness as a tourism destination, including the impact on the state's brand;
- Calculated the state's overall return on investment from its current expenditures on beach management and restoration projects; and
- Assessed the impact of the potential shocks such as major storm damage or other disasters, including a discussion of the state's economic risk.

Return on Investment (ROI)...

- In EDR's analysis, the term "Return on Investment" is synonymous with the statutory term "economic benefits" which is defined in s. 288.005, Florida Statutes.

"The direct, indirect, and induced gains in state revenues as a percentage of the state's investment. The state's investment includes state grants, tax exemptions, tax refunds, tax credits, and other state incentives."

Sales Tax Example...



- This measure does not address issues of overall effectiveness or ecological or societal benefit; instead, it focuses on tangible financial gains or losses to state revenues.

Meaning of Returns...

Returns can be categorized as follows:

- **Greater Than One (>1.0)…**the program more than breaks even; the return to the state produces more revenues than the total cost of the incentives.
- **Equal To One (=1.0)…**the program breaks even; the return to the state in additional revenues equals the total cost of the incentives.
- **Less Than One, But Positive (+, <1)…**the program does not break even; however, the state generates enough revenues to recover a portion of its cost for the incentives.
- **Less Than Zero (-, <0)…**the program does not recover any portion of the incentive cost, and state revenues are less than they would have been in the absence of the program because taxable activity is shifted to non-taxable activity or the economy is overall worse off. For example, another type of investment would have been better for the state.

The review period for this study is Fiscal Years 2010-11 through 2012-13. The baseline is what would have happened if the investment hadn't taken place.

Economic Benefits from Beach Investment...

3-Year Period: FYs 2010-11, 2011-12, and 2012-13	ROI for 3-Year Period	Average Annual State "Expenditures"	Avg Annual Disposable Income	Average Annual GDP	Average Annual Jobs
Beaches	**5.4**	$14.7 M	$2.1 B	$2.4 B	16,567

The state's investment in the Beach Management and Restoration Program generated a positive return on investment of **5.4**. The ROI was estimated using tax revenues resulting from visitor spending induced by the state's investment in beaches. A return of greater than 1 means that the tax revenue generated by tourists to the state of Florida who were primarily attracted by the existence of Florida's quality beaches more than covers the state's expenditure.

Factors that affect the positive return on investment are:

- Tourists purchase many products that are taxable with money that is new to the state.
- Money generated from the purchase of tourism-related products is generally kept within the local economy.
- The investment in Florida's beaches is relatively low compared to the amount of economic activity generated by tourists.

Comparison to Reviewed Programs...

Ranked Incentives and Investments	Type of State Support	ROI	STATUS
Qualified Target Industry (QTI)	A	6.4	More than Breaks Even (State makes money from the investment)
Florida Sports Foundation Grant Program	A	5.6	
Economic Evaluation of Florida's Investment in Beaches	**A**	**5.4**	
VISIT FLORIDA Advertising	A	3.2	
Capital Investment Tax Credit (CITC)	T	2.3	
Brownfield	A	1.1	
Quick Action Closing Fund (QACF)	A	1.1	
High-Impact Sector Performance Grant (HIPI)	A	0.70	Does Not Break Even (however, the state recovers a portion of the cost)
Entertainment Industry Sales Tax Exemptions (STE)	T	0.54	
Entertainment Industry Financial Incentives Program (Tax Credit or FTC)	T	0.43	
Professional Sports Franchise Incentive	T	0.30	
Innovation Incentive Program (IIP)	A	0.20	
Spring Training Baseball Franchise Incentive	T	0.11	
Urban High-Crime Area Job Tax Credit	T	0.07	
Enterprise Zones	T	-0.05	State Loses All of Its Investment (plus incurs additional costs)
Professional Golf Hall of Fame Facility Incentive	T	-0.08	
International Game Fish Association World Center Facility Incentive	T	-0.09	

Types of State Support: A = Appropriation; T = Tax Incentive

The numerical ROI can be interpreted as return in tax revenues for each dollar spent by the state. For example, a ROI of 2.5 would mean that $2.50 in tax revenues is received back from each dollar spent by the state.

Florida's Brand...

- Studies indicate that destination attractiveness is one of the primary non-economic factors affecting tourism.

  "The tourism sector relies on the natural amenities in the destination and also on publicly provided infrastructure and public goods. Tourism development is not a free good...The environment is important in attracting tourism flows with their attendant economic effects. Conservation of valued environmental features can help to maintain tourism visitation and tourism's contributions to the economy...the range and quality of such resources can influence tourism flows." Tourism Economics and Policy; pages 23, 26 and 27.

- This analysis addresses the fact that Florida's brand itself attracts tourists and that separate state investments in the brand are nested within the marketing efforts. While many features comprise the state's unique brand, the key component is Florida's pristine beaches.

EDR determined that the state's brand is made up of nine features that attract visitors. Beaches are the most important feature of Florida's brand, accounting for **25.5%** of the state's attractiveness to visitors.

Table 1. Features of Florida that Attract Tourists

Feature	Portion of State Brand
Beaches	25.5%
Theme Park	24.3%
Retail/Dining/Nightlife	21.8%
Outdoor Recreation	7.1%
Access to International Ports or Airports	6.7%
Sports	6.0%
Festivals	4.3%
Parks/Natural Site	2.7%
Historical Significance	1.6%

Source: EDR analysis of self-conducted survey results

Analyzing the Visitors...

- While beaches are the most attractive feature to visitors, they generally do not directly generate revenue. Instead, they facilitate an array of expenditures that collectively comprise the cost of the tourism experience. In addition, most visitors do not engage in only one feature; it is a combination of features, or the state's brand as a whole, that draws tourists to Florida.

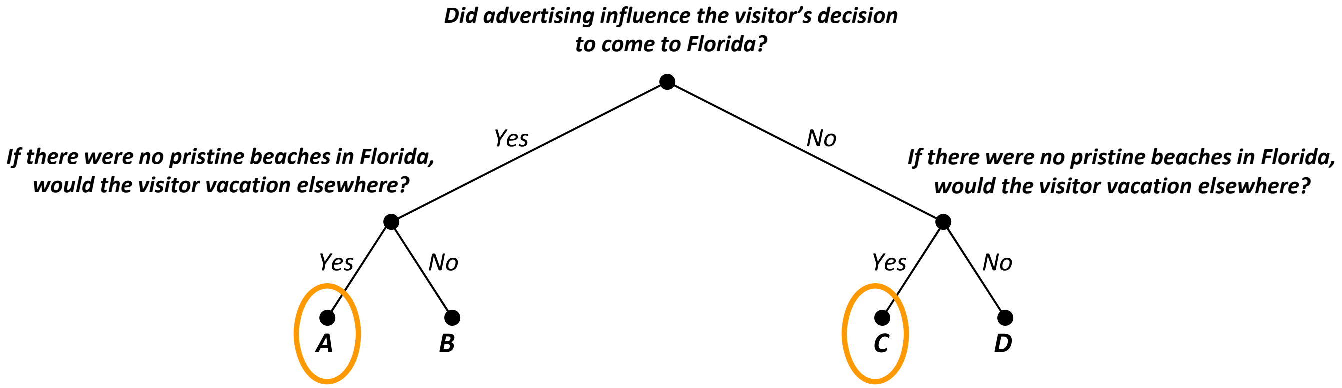
- These features are the product that Florida has to offer its potential visitors. Beach restoration is essentially a form of quality control for that product, and VISIT FLORIDA and other advertising sources market the ultimate product to consumers. In combination, these are the tools that sell Florida to visitors.

- Within the ROI framework, the economic benefit to the state typically comes from out-of-state visitor spending because this activity is new to the economy. In this regard, in-state visitors are excluded from the analysis altogether.

    - Typically, spending by in-state visitors does not generate new spending; rather, it leads to reduced spending in other sectors of the economy. This is referred to as the ***substitution effect***. Essentially, residents will substitute one purchase for another (for example, a day at a beach versus a day at an amusement park) in order to live within a personal budget.

Allocating Out-Of-State Visitors...

Figure 2. Florida Visitor Influence Tree



- The analysis assumes that not all visitors to the state of Florida come as a result of Florida's beaches and that other factors influence visitors' destination decisions. **[Excludes B&D]**
- For those tourists who are primarily drawn by Florida's beaches **[A+C above]**, only a subset of them (and their associated spending) are directly attributable to the state's investment in the beach management and restoration program (about 30% for "**C**" and 3% for "**A**").

Table 3. Total Beach Visitors and Spending

	FY 2010-2011	FY 2011-2012	FY 2012-2013
Advertising related beach visitors	9,327,421	9,625,638	10,243,074
Non-advertising related beach visitors	7,921,503	8,131,931	8,391,405
Total Beach Visitors	**17,248,924**	**17,757,569**	**18,634,480**
Total beach visitor spending credited to the state's investment in beaches	**$1,770,413,796**	**$1,788,264,102**	**$2,011,342,436**

Cautions...

- If the state were to increase its investment in beaches, it does not necessarily mean that the ROI will increase or that Florida would gain additional tourists. Maintaining the beaches at a level of high quality is important, but once the beaches have reached that level, there would be diminishing economic returns to beach investment. This is because additional spending on beaches that are not in need of maintenance will attract little to no additional visitors.

- Similarly, if the state were to reduce or eliminate funding for beaches, the result would not necessarily be an immediate reduction in tourism. Rather, any reduced tourism would likely occur over time, depending on the degree of erosion to Florida's beaches and how discernible it is to tourists.

- The potential economic impact from an increase in the property value of beach front properties has not been included in the analysis. While the value of certain beach-front properties may increase due to the state's investment in beaches, any subsequent increase in ad valorem revenues generated for local governments would reduce the disposable income of the property owners from higher taxes. The overall effect on the economy is indeterminate. Regardless, state revenues likely benefit very little, if at all, from increased ad valorem revenues.

Beach-Related Economic Risk from Natural Disasters...

- Hurricanes, tropical storms and other shocks have a negative effect on the attractiveness of the state to visitors and state tax revenues. Depending on the magnitude of the shock, the state may need to spend additional dollars to restore the beaches while also experiencing a loss in revenues from reduced tourism activity.

Table 6. Estimated Impact of Potential Shocks in Millions of 2014 Dollars

	High-impact Disaster	Medium-impact Disaster	Low-impact Disaster
Storm-specific Beach Restoration Appropriation	$79.9	$33.9	$13.1
State Tax Revenue Loss from Reduced Visitor Spending	$56.8	$30.0	$3.3
	14% of annual beach tourists lost for an entire year.	14% of annual beach tourists lost for approximately one-half of the year.	14% of beach tourists lost for 3 weeks.

- From an economic perspective, it is important to quickly address severe storm-related damage. To maintain Florida’s brand, potential visitors need to observe recovery occurring quickly after a disaster. Since tourism is strongly based on “habit persistence,” any break can lead to a permanent change.

Project Selection Criterion...

- Project-specific ROI analyses would likely prove infeasible to perform on an ongoing basis because:
  1) The projects are small and numerous;
  2) The studies are time-consuming; and
  3) The burden would likely fall on local governments with inconsistencies across projects.

- While it may not be feasible to develop ROIs on a project-by-project basis, it is possible to include broader measures of local economic value as part of the ranking process. Potential measures include:
  1) The value of property protected as a result of the project, particularly government-owned;
  2) The value of tourist development tax revenues as a percentage of all county revenues;
  3) Factors that weight sales tax collections by the number of tourist accommodations;
  4) Share of county sales taxes coming from tourists; or
  5) Share of county employees in tourism-related occupations as a percentage of all employees in the county.

- Ranking or preference adjustments for damage related to natural disasters should be feasible, so long as the general criteria are identified. For example, federal disaster declarations (emergency or major disaster) could be used.