

Newport Beach Harbor Economic and Fiscal Impact Analysis

May 4, 2018



BEACONECONOMICS

This publication was prepared by:

Beacon Economics, LLC

Christopher Thornberg
Founding Partner
310.571.3399
Chris@BeaconEcon.com

Dustin Schrader
Research Manager
424.646.4653
Dustin@BeaconEcon.com

And by:

Taner Osman
Senior Research Associate
424.666.2166
Taner@BeaconEcon.com

Chris Chau
Research Associate
424.666.2165
Chris.Chau@BeaconEcon.com

For further information about Beacon Economics, please contact:

Rick Smith
Director of Business Development
858.205.0502
Rick@BeaconEcon.com

Or visit our website at www.BeaconEcon.com.

Executive Summary

The Newport Beach Harbor is home to over 5,000 recreational and commercial vessels, serving as one of Orange County's biggest tourist destinations. Because of its abundance of visitor traffic, the harbor is also a thriving economy of its own, home to businesses offering charter cruises, ferry services, shipyards, fueling facilities, sailing, and fishing, as well as retail stores and hotels. Within a ¼-mile of the harbor itself are over 1,100 establishments employing 9,200 workers. The economic and fiscal impacts of businesses at Newport Beach Harbor are substantial. These businesses, through their revenues, directly generate hundreds of millions of dollars in economic activity each year. Failure to dredge and maintain the harbor would not only have a significant direct impact on businesses at the harbor, it could have an impact on the roughly \$1 billion in economic activity the harbor generates across the United States, as commercial activity at the harbor moves down the supply chain or disappears.

Key Economic and Fiscal Impact Findings

- Harbor commercial activity generates substantial economic impacts through the revenue generated by these businesses and the workers they hire. Each year, commercial activity at the harbor directly generates **\$391.9 million** in economic output, supports **4,807 jobs**, and generates **\$167.5 million** in labor income.
- Revenue generated by businesses in the harbor gets spent down the supply chain, generating indirect economic effects. Each year, Newport Beach Harbor commercial activity indirectly generates **\$640.7 million** in economic output, supports **3,587 jobs**, and generates **\$198.9 million** in labor income across the United States.
- Altogether, Newport Beach Harbor commercial activity directly and indirectly generates **\$1.0 billion** in economic output, supports **8,394 jobs**, and generates **\$366.4 million** in labor income across the United States each year.
- In Orange County alone, harbor commercial activity generates a total of **\$671.5 million** in economic output, supports **6,584 jobs**, and generates **\$276.3 million** in labor income each year.
- Harbor businesses also generate tax dollars to support federal, state, and local services. Harbor commercial activity generates a total of **\$85.8 million** in federal tax revenue each year, as well as **\$55.4 million** in state and local tax revenue across California, of which **\$19.8 million** in tax revenue flows to governments across Orange County.

In addition, the harbor generates a range of non-commercial impacts. The city and county revenues it generates through business licenses, mooring fees, and other fees total an estimated \$7 million each year. Its annual Christmas Boat Parade generates roughly \$6.5 million each year from its 1 million attendees. Homes that surround the harbor benefit from higher assessed value at just over \$3 million. The federal government also adds value to the harbor through its Coast Guard station, patrol operations, and Immigration and Customs Enforcement workers that operate in the area. In all, Newport Beach Harbor generates a substantial impact not only locally through industries such as its intrastate ferry service to Catalina Island but nationwide. Dredging and maintaining the harbor is essential to promoting and maintaining this key source of economic activity.

Newport Beach Harbor History

Newport Beach Harbor is among the nation's most popular recreational boat harbors. Home to over 5,000 recreational and commercial vessels, Newport Beach Harbor serves as a destination for tourism and maritime recreation for its surrounding area and the broader Southern California region. Popular activities supported by Newport Beach Harbor include sailing, fishing, charter cruises, and whale watching expeditions. On land, a thriving tourism industry composed of hotels, restaurants, and retail shops cater to the harbor's large number of tourists who also visit the City's vast network of ocean and in-bay beaches. Additionally, Newport Beach Harbor also includes many residential areas that surround the harbor and its islands populated by private waterfront homes with docks for a variety of vessels. For these reasons, Newport Beach Harbor generates significant economic activity and revenues for Newport Beach and Orange County.

Newport Beach Harbor Economy

Surrounding the harbor is the city of Newport Beach, a large seaside community in Orange County with an approximate population of 86,800 residents. Median household income in Newport Beach was \$113,300 in 2016, making it one of the wealthiest areas in Orange County and attracting the higher income population to the harbor and beaches. The area's high income in part supports the local economy surrounding the Newport Beach Harbor, which is based predominantly on recreation and tourism.

According to data from the California Employment Development Department ("EDD") for the Newport Beach Harbor—which in this report is defined as the harbor itself and a ¼-mile distance from the harbor's boundary—as of the second quarter of 2017, the Newport Beach Harbor supports 1,148 businesses which employ 9,208 workers.

Newport Beach Harbor has dozens of restaurants. Indeed, Newport Beach Harbor is known for its vibrant restaurant scene that caters to the area's tourists and residents. Popular restaurants include the Bluewater Grill, Fly 'N' Fish Oyster Bar, and Bear Flag Fish Co. Retail stores are also popular in the Newport Beach Harbor, with establishments spread across the harbor in areas like Marine Avenue on Balboa Island, replete with fashion boutiques and gift shops.

Because Newport Beach Harbor is such a popular tourist attraction, there are many Amusement establishments in the harbor. The area's waterfront makes the harbor a center for recreational activities such as sailing and kayaking. In addition, the Balboa Fun Zone, a family amusement destination, attracts seven million annual visitors per year.

The Newport Beach Harbor directly supports many of the maritime-related industries in the economy. Fish markets are some of Newport Beach Harbor's most popular tourist destinations and supply the area's many seafood restaurants. Establishments like Pearson's Port, one of

California's only floating seafood markets, and Dory Fleet, a fishing cooperative founded in 1891, contribute to Newport Beach Harbor's unique tourist appeal.

At the same time, sightseeing is a key component of the economy of Newport Beach Harbor. Local businesses offer charter service and boat tours, whale watching expeditions, and intrastate ferry service via the Catalina Flyer to and from Catalina Island.

Shipyards are also a vital component of the Harbor's infrastructure as they provide a valuable service to the immediate area as well as to neighboring harbors. The economic benefit is significant. In order to maintain these maritime and tourist activities that make Newport Beach Harbor so attractive for tourists and other consumers, the harbor needs to be dredged and maintained to its proper navigation depth so that vessels may safely pass through. A number of studies have shown that federal dredging of harbors provide a net positive economic benefit.¹² They suggest that the costs of dredging harbors are relatively low compared to the significant amount of economic activity that harbors, like the Newport Beach Harbor, generate.

Direct Impacts of the Harbor from Commercial Activities

The commercial activity across businesses in various industries at Newport Beach Harbor generates substantial direct economic impacts, in the form of economic output (revenues) generated by businesses operating in the harbor, the jobs these businesses support, and the labor income these businesses generate for their employees. For the purposes of determining the direct economic impact of Newport Beach Harbor, the geography of the harbor is defined a ¼-mile zone surrounding the boundary of the harbor itself, as noted above, and all of the businesses operating within that zone.

To determine the direct economic impact of the harbor on various commercial activities, Beacon utilized GIS mapping to build a shapefile representing the ¼-mile zone of the harbor. Estimates of economic activity for such a small geography are not readily available through public data. As a result, Beacon provided the California Employment Development Department ("EDD") with its GIS shapefile, and the EDD in turn provided Beacon with employment, wages, and establishment counts by industry within the zone.

¹ http://msaag.aag.org/wp-content/uploads/2013/05/8_Waxmonsky.pdf.

² https://www.santabarbaraca.gov/SBdocuments/Advisory_Groups/Harbor_Commission/Archive/2014_Archives/03_Staff_Reports/2014-11-20_November_20_2014_Report_4.pdf.

Geographical Boundary of Newport Beach Harbor



Source: ArcGIS; Shapefile designed by Beacon Economics

For such a small geography as the Newport Beach Harbor, where total employment and establishment counts are low, confidentiality prevented the EDD from providing employment and establishment counts for every industry.³ The EDD provided Beacon with data by North American Industry Classification System (“NAICS”) code at the most detailed level possible. For some industries, such as Agriculture, Forestry, Fishing, and Mining, employment and establishment counts were left completely confidential. However, despite the data limitations due to confidentiality, Beacon determined nine key industries in the local economy that were directly impacted by the Newport Beach Harbor.

Beacon then gathered revenue and employment data from the U.S. Census Bureau’s Economic Census to determine employment counts and output for each of these nine industries within the Newport Beach Harbor. This effectively reflects the direct impact of the harbor by way of the businesses in these industries.

³ If a geography is sufficiently small such that employment details for one or a few businesses can be identified in industry-level data (that is, one or a few businesses represent all businesses in that industry), the EDD maintains confidentiality for that industry.

Commercial activities at Newport Beach Harbor can be combined into three major categories:

1. **Tourism** – This category includes **(1) Scenic and Sightseeing Recreation**, which reflects businesses involved in harbor tours, charter vessels for corporate events and weddings, whale watching, and sport fishing. The category also includes **(2) Vehicle Rental and Leasing**, reflecting boat rentals at the harbor. The category includes **(3) Hotels and Motels**, which includes all hospitality businesses operating at the harbor, as well as **(4) Limited Service Restaurants** (e.g. fast food establishments) and **(5) Full Service Restaurants and Bars** (or so-called “sit-down restaurants”) at the harbor.
2. **Industrial and Maritime** – This category includes **(6) Retail – Motor Vehicle and Parts**, which reflects commercial dock and marina activity, such as boat part sales and fueling. It also includes **(7) Ship Building and Repair**, which reflects activity related to shipyard repair and maintenance for vessels at the harbor. Lastly, the category includes **(8) Fitness and Recreation Centers**, which reflects businesses involving sailing and yacht clubs, paddle boarding, or regattas at the harbor.
3. **Commercial Fishing** – Economic activity in commercial fishing is represented by two primary industries: Agriculture, Forestry, Fishing, and Mining and Water Transportation. EDD confidentiality provided no data on employment or establishment counts within Agriculture, Forestry, Fishing, and Mining. However, data from the U.S. Census Bureau’s Longitudinal Employer-Household Dynamics program using the Newport Beach Harbor shapefile described above shows that the industry has a very small presence in the Newport Beach Harbor—fewer than 10 jobs, as of 2015, the most recent year of data. Rather, most of the local jobs related to commercial fishing activities, such as lobster, crab, or longline fishing, are likely found in the **(9) Water Transportation** industry. Water Transportation also reflects ferrying at the harbor.

Tourism

The Newport Beach Harbor is one of the most scenic areas of Southern California, and as a result, the harbor has a thriving leisure and hospitality sector. Tourists contribute a substantial amount to the total economic activity of the harbor, and tourism-related businesses are a fundamental driver of local economic output. The direct impact of the harbor is most pronounced in the various industries that make up local tourism.

Scenic and Sightseeing Recreation

The Scenic and Sightseeing Recreation industry, which includes businesses involved in boat tours and whale watching, generates an estimated **\$25.7 million** in economic output in the harbor each year, supports **270 jobs**, and generates **\$10.5 million** in labor income. This

demonstrates how large an economic engine sightseeing activities represent in the total harbor economy.

Vehicle Rental and Leasing

Vehicle Rental and Leasing, which includes Newport Beach Harbor boat rentals, is a sizable industry of its own in the local economy. The industry generates **\$8.7 million** in economic output, supports **60 jobs**, and generates **\$2.0 million** in labor income each year.

Hotels and Motels

The hospitality industry is one of the largest industries in the Newport Beach Harbor. Hotels are a key driver of the local economy, each year generating **\$71.5 million** in economic output, supporting **669 jobs**—high-skilled and low-skilled workers alike—and generating **\$23.0 million** in labor income for those workers. At the same time, the Hotels and Motels industry provides a platform for generating additional economic activity across other industries, encouraging tourists to spend more of their dollars on food and drink, retail, and recreation in the harbor, rather than in the proximity of hotels in other nearby communities.

Limited Service Restaurants

The Limited Service Restaurant industry is a relatively small part of the Newport Beach Harbor economy, but these restaurants nonetheless generate millions of dollars in economic activity each year. In all, these restaurants generate **\$4.5 million** in economic output, support **80 jobs**, and generate **\$3.1 million** in labor income.

Full Service Restaurants and Bars

Full service restaurants and bars are the most fundamental component of economic activity in the Newport Beach Harbor. These “sit-down” restaurants and drinking places, at all price points, draw in substantial amounts of revenue to the harbor each year. In total, the Full Service Restaurants and Bars industry generates **\$177.7 million** in economic output, supports **3,136 jobs**, and generates **\$85.8 million** in labor income at the harbor.

Industrial and Maritime

Retail – Motor Vehicle and Parts

Commercial dock and marina activities, such as boat part sales and fueling, represent an essential part of marine activity at Newport Beach Harbor. For a relatively small geography as the harbor, there are many workers in the harbor’s Retail – Motor Vehicle and Parts industry, and these workers generate a significant amount of economic output. Each year, the Retail –

Motor Vehicle and Parts industry generates an estimated **\$55.9 million** in economic output in the Newport Beach Harbor, supports **163 jobs**, and generates **\$26.9 million** in labor income.

Ship Building and Repair

Ship Building and Repair has a smaller presence in the Newport Beach Harbor, but it is nonetheless significant in the context of the harbor economy. Each year, the industry generates **\$23.7 million** in economic output, supports **54 jobs**, and generates **\$8.1 million** in labor income in the harbor.

Fitness and Recreation Centers

The harbor's businesses involved in sailing and yacht clubs, regattas, and paddle boarding are in fact a much bigger part of the harbor economy than businesses involved in ship building and repair. Each year, these businesses in the Fitness and Recreation Centers industry generate an estimated **\$21.3 million** in economic output, support **372 jobs**, and generate **\$7.7 million** in labor income in the Newport Beach Harbor.

Commercial Fishing

As noted above, commercial fishing at Newport Beach Harbor is represented by jobs and output at businesses in the local Water Transportation industry.

Water Transportation

Using data from the California EDD and the U.S. Economic Census, it is estimated that each year the Water Transportation industry generates **\$2.9 million** in economic output in the Newport Beach Harbor and supports **three jobs**, with total labor income of **\$383,000**. While these values may appear small for businesses involved in commercial fishing, note that businesses may be coming from all around the region to operate at the harbor, and these businesses may be servicing other nearby areas, as well. As a result, this likely reflects a conservative estimate of commercial fishing in the Newport Beach Harbor.

Total Direct Economic Impact of Harbor Commercial Activities

Together, these nine industries generate an estimated **\$391.9 million** in economic output, support **4,807 jobs**, and generate **\$167.5 million** in labor income each year in the Newport Beach Harbor. Furthermore, as shown below, the revenue generated by businesses in these industries ripples through the county, state, and national economies, generating additional *indirect* economic impacts and tax revenues that extend well beyond the comparatively small direct effects.

Indirect Economic Impacts

The nine industries described above that represent commercial activity of Newport Beach Harbor generate an estimated \$391.9 million in economic output in the harbor directly each year. However, the revenue that the businesses in the harbor generate gets spent down the supply chain, at firms throughout Orange County, the state of California, and other states across the nation. This spending, in turn, generates additional economic output, jobs, and labor income. These “multiplier” effects represent indirect economic impacts of commercial activity at the harbor.

To generate these estimates of indirect economic impacts, as well as fiscal impacts shown below, this report used the IMPLAN input-output system. IMPLAN models the impact of dollars input into an economy (such as spending at a retail store) by looking at the patterns of spending and modeling them as changes in demand for the sectors supplying those inputs. For example, a \$5 million purchase of boat parts at Newport Beach Harbor would be modeled as a \$5 million increase in demand in the Retail – Motor Vehicle and Parts industry. Other spending patterns are modeled as changes in demand in the each of their respective industries. IMPLAN determines the spending and wage patterns of each industry to estimate how dollars move from industries to businesses or workers in other industries. This reflects the multiplier effect of each dollar spent in the local economy.

Indirect economic impacts come in two forms: spending by businesses at Newport Beach Harbor at other businesses down the supply chain (for instance, spending toward towels and linens by Newport Beach Harbor hotels), and spending by workers down the supply chain from income attributable to spending by businesses at Newport Beach Harbor. For example, assume a Newport Beach Harbor hotel spends \$1 million on linens at an Orange County supplier. Some of that \$1 million will then be disbursed by that supplier in the form of wages for its employees. Those employees will spend some of that income at sit-down restaurants, generating an economic impact on the Full Service Restaurants and Bars industry. The combined total of spending generated by businesses and workers down the supply chain reflects the total indirect economic impact of businesses at Newport Beach Harbor.

United States

The goods and services purchased by businesses at Newport Beach Harbor, as well as businesses down the supply chain, are sourced from throughout the United States. As a result, the total indirect economic impact of the Newport Beach Harbor across the United States is substantial. Each year, the harbor’s commercial activities generate an estimated **\$640.7 million** in economic output, support **3,587 jobs**, and generate **\$198.9 million** in labor income.

Indirect Economic Impacts of Newport Beach Harbor Commercial Activity – United States

	Employment	Labor Income (\$)	Output (\$)
Water Transportation	25	1,530,227	4,710,237
Retail - Motor and Vehicle Parts	420	22,688,820	70,861,888
Ship Building and Repair	241	14,199,299	45,417,446
Fitness and Recreation Centers	181	9,602,497	31,758,928
Scenic and Sightseeing Recreation	288	16,094,936	46,859,507
Vehicle Rental and Leasing	56	3,146,382	9,892,553
Hotels and Motels	569	31,458,490	97,453,271
Limited Service Restaurants	51	2,798,478	9,497,747
Full Service Restaurants and Bars	1,757	97,336,873	324,213,880
Total of These Industries	3,587	198,856,002	640,665,456

Much like the direct impacts of these industries at the harbor, the biggest generators of indirect economic impacts are concentrated in tourism-related businesses, largely due to the presence of Full Service Restaurants and Bars, which generates **\$324.2 million** in economic output on its own. Hotels and Motels are also a key source of indirect economic output, as well as employment, nationwide. Leisure and hospitality businesses often operate at relatively low margins, and thus much of their revenue gets re-spent at businesses down the supply chain.

In addition, each of the three industries related to Industrial and Maritime activity at the harbor are significant economic generators through indirect effects. Retail businesses spend money at wholesalers throughout the country, for instance. In total, the roughly **\$392 million** in economic output generated by businesses at Newport Beach Harbor generates an additional **\$641 million** in economic output nationwide.

California

Narrowing the scope of economic impacts to the state of California, the total indirect economic impact of commercial activity at Newport Beach Harbor remains substantial. Businesses at Newport Beach Harbor generate an estimated **\$373.8 million** in economic output, support **2,134 jobs**, and generate **\$130.3 million** in labor income through indirect effects, or spending down the supply chain across the state.

Indirect Economic Impacts of Newport Beach Harbor Commercial Activity - California

	Employment	Labor Income (\$)	Output (\$)
Water Transportation	15	1,034,234	3,032,819
Retail - Motor and Vehicle Parts	246	14,689,010	41,562,815
Ship Building and Repair	135	8,567,727	23,573,884
Fitness and Recreation Centers	122	7,156,308	21,572,987
Scenic and Sightseeing Recreation	182	10,866,232	28,905,061
Vehicle Rental and Leasing	37	2,303,719	6,615,984
Hotels and Motels	367	22,293,256	60,951,313
Limited Service Restaurants	30	1,757,208	5,313,862
Full Service Restaurants and Bars	1,002	61,603,473	182,317,251
Total of These Industries	2,134	130,271,165	373,845,976

Much like the indirect economic impacts across the United States, the impacts in California come primarily from a handful of major industries—Full Service Restaurants and Bars, most of all. This is largely due to the substantial amount of revenue businesses in these industries generate that gets spent down the supply chain. The direct impact of businesses at Newport Beach Harbor is nearly doubled as those dollars move through the state economy, generating indirect economic impacts.

Orange County

Narrowing the scope of impacts even further, commercial activity at Newport Beach Harbor generates a significant indirect impact on the economy of Orange County, with large contributions from all nine major industries at Newport Beach Harbor. The \$391.9 million in revenues generated by businesses in the harbor each year generate an additional **\$280.0 million** in economic output, support **1,777 jobs**, and generate **\$100.0 million** in labor income for Orange County workers through indirect effects.

Indirect Economic Impacts of Newport Beach Harbor Commercial Activity – Orange County

	Employment	Labor Income (\$)	Output (\$)
Water Transportation	12	715,414	2,134,244
Retail - Motor and Vehicle Parts	210	11,479,167	32,764,184
Ship Building and Repair	111	6,539,534	17,126,174
Fitness and Recreation Centers	102	5,529,575	16,947,058
Scenic and Sightseeing Recreation	151	8,504,083	21,945,883
Vehicle Rental and Leasing	30	1,777,383	5,028,909
Hotels and Motels	323	17,522,098	47,626,316
Limited Service Restaurants	23	1,305,562	3,741,863
Full Service Restaurants and Bars	814	46,487,659	132,345,753
Total of These Industries	1,777	99,860,474	279,660,384

Commercial Fishing, Industrial and Maritime, and Tourism operations at Newport Beach Harbor are an important generator of economic activity in the county economy. Add in the direct impacts of commercial activity at the harbor, and the total economic effects on each of these geographies is substantial, despite a relatively small number of businesses operating in the ¼-mile area surrounding the harbor.

Total Economic Impacts – Combining Direct and Indirect Effects

Together, the direct and indirect economic impacts of commercial activity at Newport Beach Harbor generate an estimated **\$1.0 billion** in economic output, support **8,394 jobs**, and generate **\$366.3 million** in labor income across the United States each year. The total indirect economic output (\$640.7 million) nearly doubles the direct impact of commercial activity (\$391.9 million) as it ripples through the national economy, moving down the supply chain. For a relatively small, tourism-oriented area, the nationwide economic impact is very large.

Total Economic Impacts of Newport Beach Harbor Commercial Activity – United States

	Employment	Labor Income (\$)	Output (\$)
Water Transportation	28	1,913,301	7,571,237
Retail - Motor and Vehicle Parts	583	49,575,680	126,781,889
Ship Building and Repair	295	22,291,821	69,091,445
Fitness and Recreation Centers	553	17,324,804	53,011,929
Scenic and Sightseeing Recreation	558	26,570,030	72,597,507

Vehicle Rental and Leasing	116	5,178,467	18,596,553
Hotels and Motels	1,238	54,446,837	168,948,270
Limited Service Restaurants	131	5,913,781	14,031,747
Full Service Restaurants and Bars	4,893	183,173,597	501,899,886
Total of These Industries	8,394	366,388,318	1,032,530,463

Across the state of California each year, commercial activity at Newport Beach Harbor generates an estimated **\$765.7 million** in economic output, supports **6,941 jobs**, and generates **\$297.8 million** in labor income for California workers. Much like the United States, the economic activity generated across California is attributable in large part to a thriving tourism sector in Newport Beach Harbor.

Total Economic Impacts of Newport Beach Harbor Commercial Activity – California

	Employment	Labor Income (\$)	Output (\$)
Water Transportation	18	1,417,308	5,893,819
Retail - Motor and Vehicle Parts	409	41,575,870	97,482,816
Ship Building and Repair	189	16,660,249	47,247,884
Fitness and Recreation Centers	494	14,878,614	42,825,988
Scenic and Sightseeing Recreation	452	21,341,326	54,643,060
Vehicle Rental and Leasing	97	4,335,804	15,319,984
Hotels and Motels	1,036	45,281,603	132,446,313
Limited Service Restaurants	110	4,872,511	9,847,862
Full Service Restaurants and Bars	4,138	147,440,197	360,003,257
Total of These Industries	6,941	297,803,481	765,710,984

Lastly, commercial activity generates an estimated **\$671.5 million** in economic output, supports **6,584 jobs**, and generates **\$276.3 million** in labor income each year within Orange County alone. Generating such a substantial amount of economic activity and thousands of jobs, the Newport Beach Harbor is clearly a major economic engine in the county economy overall.

Total Economic Impacts of Newport Beach Harbor Commercial Activity – Orange County

	Employment	Labor Income (\$)	Output (\$)
Water Transportation	15	1,050,527	4,995,244
Retail - Motor and Vehicle Parts	373	38,314,065	88,684,185
Ship Building and Repair	165	12,811,708	40,800,173
Fitness and Recreation Centers	474	14,802,398	38,200,059
Scenic and Sightseeing Recreation	421	18,604,388	47,683,883
Vehicle Rental and Leasing	90	4,286,701	13,732,909
Hotels and Motels	992	42,732,191	119,121,316

Limited Service Restaurants	103	4,551,240	8,275,863
Full Service Restaurants and Bars	3,950	139,189,458	310,031,759
Total of These Industries	6,584	276,342,677	671,525,392

Fiscal Impacts

As revenues generated by businesses at Newport Beach Harbor move through the local, state, and national economy, they generate tax revenues, as governments tax the spending and earnings that accumulate as dollars move from business to business.

For instance, a share of the revenues generated by commercial activity will flow to the federal government, in the form of taxes on corporate profits and worker earnings. At a more local level, a share of spending generated by commercial activity will flow to county and municipal governments in the form of sales taxes. Much of the commercial activity at Newport Beach Harbor generates federal, state, or local tax revenues. The total value of these tax revenues are detailed below.⁴

Commercial activity at Newport Beach Harbor generated an estimated **\$85.8 million** in federal tax dollars as harbor business revenues moved through the U.S. economy, generating additional economic output. Industries such as Full Service Restaurants and Bars and Hotels and Motels are relatively labor-intensive, with a greater proportion of business revenues being used to pay worker wages, generating federal income tax dollars, in turn. (As shown in the table, these two industries generate over half of all federal tax revenues nationwide from Newport Beach Harbor commercial activity each year.)

Fiscal Impact of Newport Beach Harbor Commercial Activity – U.S. Federal Taxes

	Federal Taxes (\$)
Water Transportation	475,450
Retail - Motor and Vehicle Parts	12,095,509
Ship Building and Repair	5,052,630
Fitness and Recreation Centers	4,271,477
Scenic and Sightseeing Recreation	5,912,398
Vehicle Rental and Leasing	1,415,510

⁴ This section presents total fiscal impacts, rather than direct and indirect impacts. The IMPLAN input-output system used to estimate fiscal impacts makes assumptions about the tax burden of spending at the local, state, or national level. Estimates of fiscal impacts reflect many assumptions about the tax rates for spending across different industries. To avoid confusion that direct tax impacts represent tax dollars paid by businesses in the Newport Beach Harbor, rather than estimates based on spending patterns, direct and indirect tax impacts were combined.

Hotels and Motels	13,767,968
Limited Service Restaurants	1,254,730
Full Service Restaurants and Bars	41,566,243
Total of These Industries	85,811,917

Within the state of California, economic activity connected to businesses at Newport Beach Harbor generates a substantial variety of state-level and local-level tax revenues, whether through state income tax, sales tax, property tax, or other taxes. In total, businesses at Newport Beach Harbor generate a total of **\$55.4 million** in state and local taxes throughout communities in California. These are the tax dollars that support local services like police or fire and state resources like parks.

Fiscal Impact of Newport Beach Harbor Commercial Activity – California State and Local Taxes

	State and Local Taxes (\$)
Water Transportation	222,315
Retail - Motor and Vehicle Parts	14,861,578
Ship Building and Repair	2,041,510
Fitness and Recreation Centers	2,037,645
Scenic and Sightseeing Recreation	2,329,867
Vehicle Rental and Leasing	963,378
Hotels and Motels	8,176,656
Limited Service Restaurants	634,104
Full Service Restaurants and Bars	24,147,934
Total of These Industries	55,414,986

Narrowing the scope to Orange County, commercial activity at Newport Beach Harbor generates a substantial amount of tax revenue for municipal governments within the county itself. In fact, roughly 35% of the \$55.4 million in tax revenues generated across all of California by harbor businesses is concentrated in Orange County—a total of **\$19.8 million** in all. Every major industry of the Newport Beach Harbor economy generates \$65,000 in tax revenues for municipal governments throughout the county, with many industries generating millions of dollars in tax revenues.

Fiscal Impact of Newport Beach Harbor Commercial Activity – Orange County Local Taxes

	Local Taxes (\$)
Water Transportation	66,849
Retail - Motor and Vehicle Parts	6,367,103
Ship Building and Repair	587,553
Fitness and Recreation Centers	568,790
Scenic and Sightseeing Recreation	594,444
Vehicle Rental and Leasing	317,448

Hotels and Motels	2,877,769
Limited Service Restaurants	191,720
Full Service Restaurants and Bars	8,245,634
Total of These Industries	19,817,309

In all, commercial activity at Newport Beach Harbor contributes tens of millions of dollars in estimated tax revenue each year to support public services at the local, state, and national level.

Non-Commercial Impacts - City and County Fees and Revenues Generated by the Harbor

The harbor generates both revenues and costs for the city government. Revenues are generated from residential pier permit fees, mooring permits, the license fees paid by adjacent businesses, as well as the sales revenues these businesses generate. The harbor generates costs in the form of harbor leases, harbor moorings and harbor patrol. Overall, the revenue generated by the harbor more than offset the costs the harbor creates, generating a positive balance of around **\$7 million** in 2017.

Non-Commercial Impacts - City and County Fees and Revenues Generated by the Harbor

In 2018, total harbor operations and harbor related human resources will cost the city **\$2,399,012⁵**. The majority of this money will be spent on salaries, contractors and harbor maintenance and management. The City Harbormaster and harbor service workers will earn 451,825. In addition, \$345,000 will be spent on mooring management. A further \$184,352 will be spent on harbor-related employee benefits. The city budgets over \$600,000 for harbor maintenance and repair. This includes \$350,000 which will be spent on contractors, such as equipment rental services and property management. It also includes \$257,500 which will be spent on pier, beach and marina management.

Non-Commercial Impacts - Christmas Boat Parade

In 2017, Newport Beach hosted the 109th Christmas Boat Parade. The boat parade consists of hundreds of boats decorated in festive lights and draws over 1 million attendees to the event⁶.

⁵ <http://ecms.newportbeachca.gov/Web/0/edoc/1228318/Budget%20Detail%202018.pdf>

⁶ <http://www.christmasparadeboats.com>

The four-day event generates significant revenues for the city, which have been estimated at around **\$6.5 million** per year.

Non-Commercial Impacts – Residential (Home Values)

Newport Beach is home to some of the most expensive real estate in the United States. The median listing price for a home in the city currently stands at \$2,875,000 compared to \$472,900 for the state of California⁷. A number of factors influence property values, including the physical characteristics of a particular property – such as the number of bedrooms – and its location. In relation to location, the performance of the local economy, access to certain amenities, such as parks, as well as proximity to negative externalities, such as a freeways and power stations, all shape property values.

A waterfront can positively influence property values in several ways. First, there is an amenity or recreational value from being close to a waterfront. This is especially the case for properties that are directly adjacent to water, since they can benefit from enhanced water access for sailors or boat owners via their residential pier. Second, people are willing to pay a premium for a view of water, which is seen as more desirable than a view of a street or another home. Finally, waterfront properties are relatively scarce. A desirable commodity in scarce supply creates a high price premium.

A number of studies have sought to measure the impact of waterfronts on property values. Generally, waterfront properties are worth more than double the value of non-waterfront properties⁸. According to Zillow, in 2014 the median value of a waterfront property in the U.S. was \$370,900 compared to \$171,600 for non-waterfront properties⁹. Within individual cities, the difference in waterfront and non-waterfront properties can be even more stark. In Laguna Beach, California – home to the most expensive waterfront properties in the U.S. – the median value of a waterfront property in 2014 stood at \$10,068,500, compared to \$1,611,900 for other properties in the city. These descriptive figures, however, do not account for underlying differences in the physical character of properties in waterfront and non-waterfront homes.

When such differences are taken into account, the relationship between waterfront locations and property prices stand. In Tampa Bay, Florida, oceanfront properties are, on average, double the price of non-waterfront properties, after allowing for differences in property and other locational characteristics (Dumm et al. 2014¹⁰). Furthermore, studies typically find that the impact of a waterfront on property values decays with distance. For example, a 2001 study of

⁷ <https://www.zillow.com/newport-coast-ca/home-values/>

⁸ Note that waterfront properties include homes adjacent to both oceans and lakes.

⁹ <https://www.zillow.com/research/what-is-waterfront-worth-7540/>

¹⁰ <http://pages.jh.edu/jrer/papers/pdf/forth/accepted/Price%20Variation%20in%20Waterfront%20Properties%20Over%20the%20Economic%20Cycle.pdf>

property values in South Orange County found that moving away the coast by one mile decreased the value of a property by \$42,000 (Boarnet and Chalermpong 2001¹¹). In San Diego County in 2006, it was found that the value of a property decreases by \$8,680 with each mile that it moves from the coast (Conroy and Milosh 2011¹²).

In Newport Beach, proximity to Newport Beach Harbor generates a clear benefit to city revenues. In 2017, the average assessed value of waterfront homes in Newport Beach stood at just over \$3 million, compared to an average assessed value of \$1.4 million for all non-waterfront homes within a quarter of a mile of the ocean. Discerning the precise impact of dock access is challenging since not everybody who owns a waterfront property uses the water for recreational activities, yet they are still willing to pay a premium to live by the ocean.

Non-Commercial Impacts – Federal

Federal resources also contribute to the maintenance and security of Newport Beach Harbor. Since 2001, the U.S. Coast Guard 87' Narwhal Cutter has patrolled the harbor in a first-responder capacity, primarily engaged in search-and-rescue, interdiction of drugs and illegal immigrants, maritime safety and environmental protection activities. The cutter has a crew of 11, who most likely live and work in the local community. Salaries for the Coast Guard can range from \$28,000 to around \$100,000, depending on the rank and position of a guard. The Narwhal Cutter likely generates further expenditures in the community in the form of docking, maintenance and fuel costs. Additional federal resources are deployed in the community through immigration and customs enforcement. The level of expenditures related to such enforcement activities are unknown and will vary depending on the level of enforcement activity in the community at any given point in time.

Conclusion

Beacon's analysis of the Newport Beach Harbor economy reveals significant fiscal and economic impacts derived from its harbor and maritime accessibility. The primary commercial activities directly related to the harbor are in Tourism, Industrial and Maritime, and Commercial Fishing. These categories include some of the area's most prominent businesses and industries, such as Restaurants, Hotels, Boat Rentals, Water Recreation, and Water Transportation. Overall, the nine major industries that reflect commercial activity at the harbor *directly* generate **\$391.9**

¹¹ Boarnet, M. and Chalermpong, S. (2001). New highways, house prices, and Urban development: A case study of toll roads in orange county, Ca. Housing Policy Debate.

¹² Conroy, S and Milosch, J. (2011). An Estimation of the Coastal Premium for Residential Housing Prices in San Diego County. Journal of Real Estate, Finance and Economy

million in economic output, support 4,807 jobs, and provide \$167.5 million in labor income each year.

Additional economic benefits stem from the multiplier effect of direct revenues and employment circulating through the local and national economy. Aggregating direct and indirect effects, Newport Beach Harbor commercial activity generates **\$1.0 billion** in economic output each year across the United States. The majority of this total, \$671 million, is generated within Orange County. Newport Beach Harbor commercial activity also supports an estimated **8,394 jobs** and generates **\$366.4 million in labor income** nationwide each year.

Commercial activity dependent on the harbor provides substantial federal, state, and local tax revenues. The harbor's commercial activity each year generates **\$85.8 million in federal taxes**, as well as **\$55.4 million in state and local taxes** across California, of which \$19.8 million goes to governments within Orange County. Additionally, the harbor generates significant benefits for its surrounding real estate as seen through the large price premiums of waterfront and harbor adjacent property in Newport Beach.

Crucial to the continual financial benefits of Newport Beach Harbor is its maintenance and structural integrity. Accumulated sediment in Newport Beach Harbor has affected the depths of the harbor's water. Especially during low tide, areas of shallow water in the harbor have made navigation by larger vessels difficult. To maintain ideal water depth, efforts must be taken to adequately dredge the harbor. If not, the businesses that depend on harbor activity may face a significant drop-off in tourist and consumer traffic, which in turn could reduce business revenues substantially. As demonstrated above, the economic and fiscal impact of these revenues are large, so the result could be a significant decrease in economic activity connected to the Newport Beach Harbor across the United States, and much of the decrease would be concentrated in Orange County.

Recent survey data indicates that approximately 1.2 million cy of sediment require maintenance dredging to achieve authorized design depths. While the current depths generally allow business to continue (although some limitations are experienced at low tides), re-establishing and maintaining the harbor to its authorized depth can promote new and expanded markets that would compound the current economic contribution locally and regionally.

For example, the Trans Pacific Yacht Race is an annual race that commences in San Pedro (Los Angeles) and terminates in Honolulu, Hawaii. The vessels that race range from 50 feet up to 100 feet; the larger vessels (greater than 65 feet) typically draw a minimum of 10.5 feet. While the Newport Harbor entrance channel can generally support that draft, channels extending to the back of the harbor are more limited restricting the navigation for these larger vessels. Although there is no certainty that the Trans Pacific Yacht Race would relocate its starting point to Newport Beach, establishing and maintaining a consistent depth would support other venues or opportunities similar to the Trans Pacific Yacht Race. (Newport Harbor has been home to

several Trans Pacific Yacht Race sailboats over the decades, and the harbor does routinely host vessels prior to the regatta because of its close proximity to San Pedro.)

Additionally, as previously discussed, Newport Harbor is home to the last remaining shipyards and on-water marine serving facilities able to service/support larger recreational and small to median commercial vessels between the large ports of Long Beach/Los Angeles and San Diego. However, these shipyards are located towards the back of the harbor where depths are limited, therefore severely limiting or even restricting access for these deep keeled sailboats. Re-establishing and maintaining the harbor to the authorized depths could expand the range of vessels that the shipyards could service and further contribute to the local and regional economy.

While these are just two examples of new and expanded economic activities resulting from dredging and maintaining Newport Harbor, the list could also include other uses such as attracting larger commercial vessels for tourist travel, or promoting Tall Ships to visit Newport Harbor as a destination port for recreation and educational opportunities.

About Beacon Economics

Beacon Economics, LLC is a leading provider of economic research, forecasting, industry analysis, and data services. By delivering independent, rigorous analysis we give our clients the knowledge they need to make the right strategic decisions about investment, growth, revenue, and policy. Learn more at www.BeaconEcon.com.

Services

- Economic & Revenue Forecasting
- Business, Industry, & Market Analysis
- Economic Development Analysis
- Ports & Infrastructure Analysis
- Public Speaking
- Expert Testimony

Contacts

- **Sherif Hanna**
Managing Partner
(424) 646-4656
Sherif@BeaconEcon.com
- **Rick Smith**
Director of Business Development
(858) 205-0502
Rick@BeaconEcon.com
- **Victoria Pike Bond**
Director of Communications
(415) 457-6030
Victoria@BeaconEcon.com