



**INVESTING IN FLORIDA SEAPORTS  
AND THE FUTURE OF THE STATE'S ECONOMY**

*AN ECONOMIC ANALYSIS OF FSTED COUNCIL  
RECOMMENDATIONS FOR SECURITY AND TRANSPORTATION  
PROJECT FUNDING*

*Prepared For:*

THE FLORIDA SEAPORT TRANSPORTATION  
AND ECONOMIC DEVELOPMENT COUNCIL

*Prepared By:*

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## EXECUTIVE SUMMARY

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- ❑ **Florida seaports are important economic assets to the State**, and to the economies of the metro areas where they are located. Nearly \$44 billion worth of international trade flowed through Florida seaports in 2002, representing approximately two-thirds of all merchandise trade shipped through Florida. The State's manufacturers exported nearly \$25 billion worth of goods in 2002, and 56 percent of those exports were shipped via Florida seaports.
- ❑ Florida seaports act also as the home port of call to over 9.6 million cruise passengers. Cruise passengers spent an estimated \$356 million in Florida prior to- or after their cruise in 2002.
- ❑ A recently completed study of Florida seaports concludes that Florida ports **directly** supported 90,000 jobs and \$4.1 billion in payroll in 2002 by making possible the international movement of goods across Florida's borders, the export of Florida manufactured goods and ocean cruises.
- ❑ Simulations with an input-output model of Florida's economy indicate that Florida seaports in 2002 had a combined economic impact of 290,000 jobs; \$11.2 billion in household income; \$16.3 billion in Gross State Product; and \$1.1 billion in State and local government taxes and fees.
- ❑ Florida seaports have an important role to play in positioning the State to capture significant future economic benefits from the potential expansion of Florida's international trade sector and its cruise industry. There are new and growing market opportunities in the Western Hemisphere, Asia, Africa and elsewhere that can profoundly impact the State's economic future.
- ❑ The seaports face increasing competition from modern ports in the Americas, and it is essential, therefore, that they maintain their competitive strength with targeted capital investments and innovative operational and marketing strategies in order to sustain and even grow their share of U.S. trade.

- **If Florida seaports successfully meet the competitive challenges that they face, then the economic benefits in terms of jobs, income and State and local government revenues will be substantial.** The projected expansion in ocean vessel cargo would:
- Increase annual employment by approximately 50,000 jobs by 2008;
  - Lead to additional annual household income of \$2.0 billion by 2008;
  - Have a cumulative impact of \$5.9 billion in additional income for Florida households over the 2004-2008 period;
  - Increase Gross State Product (GSP) by \$2.9 billion by 2008, and result in \$8.6 billion of additional GSP over the 2004-2008 period; and
  - Result in an additional \$549 million in State and local government revenues over the 2004-2008 period.
- **Seaport capital improvement programs** are designed to meet the infrastructure requirements of Florida's trade expansion **and make possible the realization of the projected economic impacts indicated above.** Florida's seaports have identified a number of capital improvement projects that are necessary for strengthening their competitive edge and expanding Florida trade into new markets.
- The identified capital improvement projects are aimed at increasing capacity, efficiency and intermodal transportation connectivity of the seaports necessary to bring goods to final users. They are, therefore, essential for allowing Florida to take advantage of market opportunities in trade between the U.S., the Caribbean Basin, Mexico, South America, Asia and Africa.
- **Capital improvement programs support trade expansion, and to the extent they involve physical construction of a project, also produce economic impacts from the construction itself.** These programs are funded through a matching system that leverages State funding with self-generated revenues from the ports, and, thereby, increase the economic development impact of invested State revenues.

- The economic multiplier impacts of construction of port facilities and acquisition of new capital equipment are substantial. Our analysis indicates, for example, that for each \$10 million in State funds invested in port construction and equipment, the “typical” economic impact would:
  - Generate \$16.9 million in additional Gross State Product and \$12.9 million in additional compensation to workers;
  - Create 309 employment positions per year, with an average salary of \$41,600;
  - Enhance the State’s “**Statewide Economic Development Plan**” for 2004-2008, with its emphasis on transportation projects with significant economic development impacts.
  
- **State financial support for the capital improvements** necessary to maintain and increase the competitive strength of these valuable economic assets **is especially critical at this time. Increasing operating costs associated with security at Florida ports (which this year are projected to rise 256 percent over 2001) are straining port financial resources.** Florida faces a significant competitive challenge to its status as a trade “Gateway” State in the years ahead.

## THE CRITICAL ROLE OF FLORIDA SEAPORTS IN THE STATE'S ECONOMY

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### *Florida Seaports as Economic Assets*

Florida seaports are key economic assets to the State, and to the economies of the metropolitan areas where they are located. Nearly \$44 billion worth of international trade flowed through Florida seaports in 2002, representing approximately two-thirds of all merchandise trade shipped through Florida's two U.S. Customs Districts. Florida firms exported nearly \$25 billion worth of goods in 2002, and 56 percent of those exports were shipped via Florida seaports. Florida is also the multi-day cruise capital of the world, and the State's seaports acted as the home port of call to over 9.6 million cruise passengers in 2002. Many of those passengers traveled from out-of-state to embark on those cruises, and a significant proportion of those passengers spent some time visiting Florida destinations prior to- or after their cruise. Florida tourism expenditures by cruise passengers are estimated at \$356 million in 2002.<sup>1</sup>

A recent study of the economic impact of Florida seaports concludes that the international movement of goods across Florida's borders, the export of Florida manufactured goods and the ocean cruises made possible by Florida seaports **directly** supported 90,000 jobs and \$4.1 billion in payroll in 2002.<sup>2</sup> Additional economic impacts occur, however, via seaport supported transportation and non-transportation economic activities through 1) the supply chain relationships between firms, and 2) through the consumer spending of income generated directly by production activity. These economic interactions are captured in a quantitative model of Florida's economy.<sup>3</sup> This model was used to estimate the total economic impact of Florida seaports. These economic impacts include not only their direct effects, but also the *indirect* and *induced* economic effects as well. Our analysis indicates that Florida ports in 2002 had a combined economic impact of 290,000 jobs; \$11.2 billion in household income; \$16.3 billion in Gross State Product

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<sup>1</sup> *The North American Cruise Industry's Contribution to the Florida Economy in 2001* (International Council of Cruise Lines, 2002) reported per passenger spending in Florida at \$37.54. A recent survey of over 700 Port of Miami cruise passengers by Lambert Advisory reported landside spending at \$36.80 per passenger. Our estimate of cruise passenger spending in Florida is based on \$37 per passenger.

<sup>2</sup> Study details are available in *A Forecast of Florida's International Trade Flows and the Economic Impact of Florida Seaports* (November 2003), a report prepared by The Washington Economics Group and available at [www.flaports.org](http://www.flaports.org).

<sup>3</sup> The Washington Economics Group utilized an input-output IMPLAN model of the state's economy to estimate the total economic impact of Florida ports. A detailed methodology is provided in the report cited in the previous footnote.

(representing the sum of compensation to workers, returns on investment to capital, and indirect business taxes); and \$1.1 billion in state and local government taxes and fees.

Florida seaports, moreover, have an important role to play in positioning the State to realize significant future economic benefits from the potential expansion of Florida's international trade sector and its cruise industry. Total U.S. merchandise trade increased by 7.0 percent in 2003, recovering nearly all the decline in trade that occurred between 2000 and 2002, and several factors suggest that an expansion in U.S. merchandise trade is likely to continue in the years ahead. Florida ports, however, face increasing competition from ports along the eastern seaboard. U.S. trade with Asia (especially China), moreover, is likely to continue to represent the largest source of expansion in U.S. trade, and Florida ports are at a geographic disadvantage with respect to trade with that part of the world. It is essential, therefore, that Florida ports maintain their competitive strength with targeted capital investments to expand capacity, efficiency and connectivity, with the rest of the economy.

The potential for a significant expansion of Florida trade and cruise passengers exists. Florida's demographics, geography, cultural connections and its status as a commercial hub for trade with South America and the Caribbean provide market-expanding opportunities for the State. Regional trade agreements are now part and parcel of this trade expansion process. According to the Inter-American Development Bank, regional integration, including sub-regional and unilateral trade liberalization, reduced tariff rates from a high of 40 percent during the 1980's to less than 12 percent in 1999, while simultaneously stimulating trade. This trend toward freer trade will continue, despite a growing concern for the short-term labor displacement effects that may sometimes occur in a dynamic global business environment. The long-term mutual benefits of international trade are not disputed.

There are new and growing market opportunities in the Western Hemisphere that can profoundly affect Florida. These opportunities include the recently passed U.S.-Chile Free Trade Agreement, growing Florida-Mexico trade under the North American Free Trade Agreement (NAFTA), the U.S.-Central American Free Trade Agreement (U.S.-CAFTA) and the Free Trade Area of the Americas (FTAA). Although FTAA has gotten off to a slow start, FTAA will provide the potential to increase ocean cargo significantly over the next 5 to 15 years.

Expanding the capacity and efficiency of seaports is necessary for Florida to reap the full benefits of growing U.S. trade. Seaports must develop and execute strategies that keep them competitive with other U.S. ports and potential new offshore transshipment centers. The State's seaports must continuously work to move cargo faster, cheaper and smarter. Ports also must develop and implement effective strategies to expand into new markets – particularly Asia – and, finally, ports must find the financial resources to expand capacity and increase efficiency, while also addressing the need for greater homeland security.

We have developed a forecast of Florida international trade shipments through the State's seaports over the next five years and estimated the impact of the anticipated growth in trade on jobs, income, state and local revenues and other macroeconomic indicators. This forecast is based on Florida ports successfully meeting the competitive challenges that they face and funding the capital improvements necessary to expand capacity, increase efficiency and provide security.<sup>4</sup> If these capacity and efficiency improvements do not materialize due to lack of funding, the positive impacts would be significantly reduced.

Our forecast envisions trade shipments (both exports and imports) through Florida ports increasing from \$46.1 billion in 2003 to \$62.0 billion in 2008. This increase represents an annualized rate of growth of 4.8 percent, after adjusting for anticipated price inflation, over the 2003-2008 period.<sup>5</sup> **The anticipated increase in trade shipments through Florida ports would have a significant impact on Florida's economy.**

The projected expansion in ocean vessel cargo would increase annual employment by approximately 50,000 jobs by 2008 and lead to additional annual household income of \$2.0 billion by 2008.<sup>6</sup> The projected expansion of cargo over 2004-2008 period would have a cumulative impact of \$5.9 billion in additional income for Florida households. By 2008, the expansion in ocean vessel trade shipments would increase Gross State Product by \$2.9 billion and result in \$8.6 billion of additional GSP over the 2004-2008 period. The increase in economic activity resulting from the

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<sup>4</sup> The details regarding the methodology used to develop this forecast are provided in *A Forecast of Florida's International Trade Flows and the Economic Impact of Florida Seaports*, previously cited.

<sup>5</sup> Total trade shipments by sea for 2003 are an estimated value. Total trade in 2002 was \$43.8 billion according to the U.S. Census Bureau. By way of comparison, the annual growth rate in total trade in the five-year period prior to the 2001 recession was 5.3 percent (inflation adjusted).

<sup>6</sup> All dollar figures in the forecast are expressed at constant 2002 prices.

expansion of trade shipments through Florida ports would also have a positive impact on State and local government revenue in Florida. Over the 2004-2008 period, the growth of trade shipments would result in an additional \$549 million in State and local government revenues.

### ***The Economic Impact from Capital Improvement Programs in Support of Trade Expansion***

The Florida Seaport Transportation and Economic Development (FSTED) Council has identified a variety of capital improvement projects from across the State necessary for expanding capacity, increasing operating efficiency, improving intermodal transportation connectivity, and reaching new world markets. These projects are consistent with not only meeting the infrastructure requirements of Florida's trade expansion, but also realizing the projected growth in international commerce over the next five years and their associated economic impacts.

### ***The Economic Impact from Capital Spending on Construction and Equipment***

Capital spending on construction and equipment, designed to strengthen the ports' competitive edge and expand trade into new markets, themselves, also has significant economic impacts as well. Capital improvements are funded through a matching system that leverages State funding with self-generated seaport revenues, and, thereby, increase the economic development impact of invested State tax revenues. For instance, for each \$10 million in State spending on port construction and capital equipment, \$16.9 million in additional Gross State Product is generated. Similarly, every \$10 million of State funding for improvements leads to \$12.9 million in additional compensation to workers within the State and creates approximately 309 employment positions with an average salary of \$41,600.<sup>7</sup> State and local government revenues rise by \$83,000 for each \$10 million in State financial support to capital improvements. **These economic impacts are in addition to those that result from an expansion of ocean vessel cargo.**

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<sup>7</sup> These projections are based on simulations with an IMPLAN model of Florida's economy.

## **The Economic Impact of FSTED Capital Spending on Construction and Equipment**

Economic Impact of State's Share of CIP Funding on:	Multipliers*			Impact Per \$10 million of State Funding		
	Direct	Indirect and Induced	Total	Direct	Indirect and Induced	Total
Gross State Product (\$)	0.6905	1.0051	1.6956	6,905,034	10,050,590	16,955,624
Labor Income (\$)	0.6084	0.6793	1.2877	6,083,769	6,793,245	12,877,014
Employment (jobs per \$ million)	12.0833	18.8542	30.9375	121	189	309
Average Annual Compensation to Workers				50,348	36,030	41,623
State and Local Govt Revenues (\$)	NA	NA	0.0834	NA	NA	83,368

\* Based on characteristics of the "typical" seaport capital improvement project.

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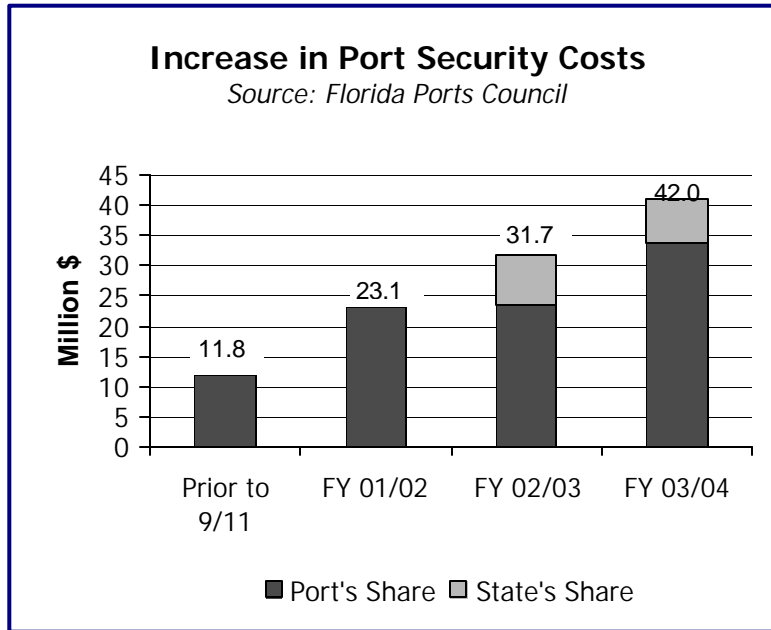
### ***Homeland Security Costs Affecting Ability to Self-finance Capital Improvements***

Many of Florida's ports are under significant financial pressure as a result of rapidly increasing costs of providing homeland security. Florida ports have increased their law enforcement and security personnel by 122 percent in three years, and by next year port security forces will have grown by another 10 percent. Law enforcement and security operating costs at Florida ports have risen from \$11.8 million per year prior to September 11, 2001 to \$42.0 million in the fiscal year ending 2004. This represents an increase of 256 percent in four years, and the strain of these security costs on operating budgets is expected to grow to \$44.7 million in the 2004-05 fiscal year. Given the uncertainty regarding future terrorist threats, one should expect that operating costs associated with securing our ports would continue to rise over the near term.

Providing security at our ports is undoubtedly a paramount priority, and yet the financial strains associated with homeland security must be recognized. While State funds were made available in 2002 and 2003 to assist Florida's ports with increased security costs, the ports have had to shoulder most of the financial burden of added security. Florida ports covered nearly three-quarters of the cost of security in FY 2002-03. In FY 2003-04, the ports carried 80 percent of the financial burden themselves.

The rapid increase in security costs has constrained the ability of ports to finance the capital improvements necessary to maintain competitiveness and accommodate growth. State financial assistance for capital projects is now critical for continuing the stimulus to economic growth that Florida's seaport can provide. The State's ports are an essential component of the transportation network that sustains international trade and

tourism in Florida, and, as of 2002, they support nearly 300,000 jobs and \$11.2 billion in annual payroll.



In summary, an analysis of current trends suggests that there are new and growing market opportunities in the Western Hemisphere (and in other parts of the world as well) that can profoundly affect Florida's economy. By keeping Florida seaports competitive and efficient, Florida can reap substantial benefits from the potential expansion of trade. The anticipated expansion in ocean vessel cargo would increase annual employment by approximately 50,000 jobs by 2008 and lead to additional annual household income of \$2.0 billion by 2008. Over the 2004-2008 period, Florida households would benefit from an additional \$5.9 billion in income, and an additional \$549 million in state and local government revenues would also be generated. The jobs supported by Florida's ports, either directly or indirectly, are good jobs that pay above average salaries. It is important, therefore, that adequate levels of financial support be devoted to maintaining and increasing the competitive strength of these valuable economic assets. The economic impacts from capital improvement projects, moreover, are significant in themselves.

*J. Antonio Villamil*  
*Robert D. Cruz*

## **Appendix: THE WASHINGTON ECONOMICS GROUP QUALIFICATIONS**

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### ***J. Antonio “Tony” Villamil***, Principal Advisor

Tony Villamil is Chief Executive Officer of The Washington Economics Group, Inc., serving until the summer of 2000 as Director of the Governor’s Office of Tourism, Trade and Economic Development of Florida. He is currently Chairperson of the Governor’s Council of Economic Advisors, and a member of the Board of Directors of Enterprise Florida. Mr. Villamil has over 25 years of successful experience as a business economist and as a public official of both the federal and State of Florida governments. He served as U.S. Undersecretary of Commerce for Economic Affairs in the administration of President George H. Bush. Tony earned his Bachelor and Master’s degrees in Economics from Louisiana State University (LSU), where he also completed coursework for the Ph.D. degree. In 1991, he was awarded a Doctor of Science degree in Economics (Hon.) by Florida International University (FIU).

### ***Robert David Cruz, Ph.D.***, Chief Economist

Bob Cruz serves as Chief Economist at The Washington Economics Group, Inc. and is a specialist in quantitative economics, modeling and simulation analysis. Dr. Cruz also holds the position of Associate Professor of Economics and International Business in the Andreas School of Business of Barry University in Miami Shores. Dr. Cruz has extensive public sector and business consulting experience, having advised local governments and numerous domestic and transnational corporations over the past two decades. His academic career spans over 20 years as teacher and researcher and he has published numerous articles in professional journals and scholarly books. Dr. Cruz received his Ph.D. in economics from the University of Pennsylvania in 1985 and his Bachelor of Arts degree from Georgetown University in 1978.

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