

# **Committee on Environment and Public Works U.S. Senate**

## **Written Testimony "The Big Oil Bailout Prevention Liability Act of 2010" Wednesday, June 9, 2010**

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Thank you for the invitation to testify at today's hearing. I have been asked to address three pertinent issues in my remarks this morning – first, the economic value of tourism in Florida; second, the potential impacts of the Deepwater Horizon oil spill on tourism-related businesses; and third, the need for raising the caps to ensure any damages associated with this or future spills are compensated.

Let's start with the economic value of tourism to Florida. There's no doubt that tourism is big business in our state. One look at numbers from VISIT FLORIDA, the state's official tourism marketing corporation, validates the enormous contributions that tourism makes to the Sunshine State.

In 2009, Florida hosted 80.9 million visitors. That's almost the combined populations of New York, California and Texas. These visitors generated nearly \$61 billion in travel spending and \$3.65 billion in sales tax collections. They account for 21 percent of the state's total taxable sales. Moreover, tourism industry employment represents 968,400 Florida jobs, so every 85 visitors support one Florida job.

Last year's figures are indicative of the economic impact of tourism on the state in recent years. For 2008, VISIT FLORIDA reported that tourism generated 84.2 million visitors, \$65.2 billion in travel spending, \$3.9 billion in sales tax collections, and just over 1 million Florida jobs. In 2007, tourism accounted for 84.5 million visitors, \$65.5 billion in travel spending, \$3.9 billion in sales tax collections, and 991,300 Florida jobs. Without a doubt, tourism consistently is vitally important to the state's economy.

But what about the specific economic contributions of Florida's beaches? For more than a century, the state's 825 miles of beaches have been an important engine for economic development. Florida's economy is strongly tied to its waters through tourism and recreation, and there are many facets of the state's economy that are dependent on its coastline.

According to the Florida Oceans and Coastal Council, Florida's coastal shoreline counties contributed almost \$562 billion in direct revenue to the state in 2006, the most recent year for which statistics are available. That represents a whopping 79 percent of Florida's economy! In addition, shoreline counties contributed more than 75 percent of Florida's GDP, wages, employment and establishments on only 56 percent of Florida's total land area. This takes into account tourism and recreation, the fishing industry, marine transportation, coastal construction, marine research and education, and real estate.

### **Tourism Expenditures at Florida's Beaches**

Another measure of the beaches' importance to the state can be found in a report prepared by the Catanese Center at Florida Atlantic University in July 2005 that chronicles tourism spending. While the report's statistics are dated, they give us another quantifiable picture of just how valuable the beaches are to Florida's economy.

The Florida Atlantic University report revealed that out-of-state beach visitors spent \$19.1 billion in 2003, an amount that was equal to 3.8 percent of the gross state product. These beach visitors paid about \$600 million in state sales taxes and created more than 500,000 jobs. At that time, 77 percent of Florida's population lived in coastal areas, and 80 percent of the personal income received by the state's residents came from coastal areas. Plus, 79 percent of the state's payrolls were earned in Florida's coastal areas.

Even more relevant is that the report broke down the economic impact of Florida's beaches by region, including the northwest region. That area encompasses the beaches in the state's Panhandle that began witnessing tar balls from the Deepwater Horizon spill wash ashore on their coastline late last week. The report indicates that the northwest beach region accounts for \$5.7 billion in contributions to Florida's economy and \$2.8 billion in tourist spending; and 85 percent of tourists to the area visited its beaches. One can just imagine what those numbers would look like today, given the overall growth in Florida tourism over the last seven years and the opening last month of the \$318 million Northwest Florida Beaches International Airport. It's the first commercial-service international airport to be built from the ground up in the past 15 years.

My area -- St. Petersburg/Clearwater on the Gulf Coast of Florida -- is a prime example of how tourism drives the local economy of a beach destination. From 2002 to 2009, visitors to the area contributed more than \$42 billion to our local economy. Each year, we host more than 13 million visitors, making us the most popular vacation destination on Florida's West Coast. These visitors generate more than \$6.1 billion in total revenues, which means tourism is the number one industry and number one employer

in our area. And consumer research shows that our beaches are one of the most influential factors for those who chose our area for their vacation. In 2009, 93.5 percent of our visitors said the beaches influenced their trip decision-making.

But tourism revenues are only part of the story. Not only do people benefit from the economic impact of the travel industry in dollars and cents, but they also benefit from the quality of life to which it contributes. So, the industry's impact is actually measured in two ways.

The "value in exchange" measurement considers expenditures, jobs, taxes and the like; AND the industry's "value in use" takes into account the quality of life that tourism gives not only to visitors but also to residents who reap the rewards of tourism expenditures on local infrastructure. This latter measurement of tourism's impact reframes the industry's purpose from an ends – meaning the dollars spent – to a means – meaning what is done with those dollars locally. In essence, tourism is a tool for enhancing what residents love about their region.

From performing arts to low cost travel, tourism affords a better quality of life. It also impacts parts of the community that are far beyond the obvious. The Penny for Pinellas program in Pinellas County, for example, would suffer without tourism. Visitors contribute approximately 35 percent of Penny for Pinellas revenues, which equals roughly \$40 million annually. This program adds value to the county by funding roads, bridges, parks, drainage and other capital improvement projects.

All of this paints a clear picture of the contributions that tourism makes to every community in Florida that it impacts and the trickle down benefits of visitor expenditures.

### **First-Hand Experience**

Given the staggering economic impact figures I've just shared, it doesn't take much to surmise the potential impact of the Deepwater Horizon oil spill. While no one can say with certainty exactly how this slow-motion calamity will affect us in the future, I can share with you some relevant experiences.

Pinellas County, Florida – with 345 miles of shoreline, 35 miles of white sandy beaches, and 11 barrier islands -- has first-hand experience with an oil spill. In 1992, our local convention and visitors bureau hired a Tampa firm, Research Data Services, to study how a major oil spill would affect Pinellas County. At that time the company's founder, economist Dr. Walter Klages, estimated a major spill could cause a 45 percent decrease in visitors over two years. He also projected that it also could result in the loss of 7,392 tourism-related jobs in the county.

His predictions rang true one year later, when in August 1993, the beaches of southern Pinellas County suffered a minor oil spill that nonetheless caused major headaches for beach hoteliers. The spill occurred after two barges and a freighter collided in the shipping channel west of the Sunshine Skyway Bridge south of Mullet Key in Tampa Bay, Florida. After the accident, as tar balls littered the shore, a few of our area's large resorts reported that their occupancy rates fell by double digits when compared with the previous year.

Furthermore, the environmental impact not to mention the clean-up efforts for what would be considered a "minor spill" were significant. Systematic shoreline surveys were conducted and oil was found buried by two to eight inches of clean sand deposited during high tide. Cleanup crews focused on manually removing the band of surface oil high on the beach. A plan was developed to remove the subsurface oil without generating large volumes of sediment for handling, disposal, and replacement. The plan called for mechanical removal of the heavy buried layers, manual removal of moderately oiled sediments, and mechanically pushing stained sand onto the lower part of the beach for surf washing.

Meanwhile, cleanup crews were contending with very thick oil that had been deposited around some mangrove islands. Tarmats formed when sediment was mixed with oil along the shallow flats surrounding the islands. Large thick mats coated mangrove roots, oyster and seagrass beds, and tidal mud flats, which are favored breeding and feeding grounds for a vast array of wildlife.

Roughly 14.5 miles of fine-grained sand beach from St. Petersburg Beach north to Redington Shores Beach were affected by this spill. Sand beaches on Egmont Key at the entrance to Tampa Bay were also oiled. Additionally, four mangrove islands inside the entrance to Boca Ciega Bay at Johns Pass and two small areas of Spartina Marsh were oiled. Jetties, seawalls, and riprap within the bay and at Johns Pass and Blind Pass were also oiled to varying degrees. It is estimated that more than 30 miles of residential seawalls were oiled within Boca Ciega Bay. Some impact also occurred on the northern side of Mullet Key at Bonne Fortune Key in fringing mangroves.

Our research in the aftermath of the incident showed its long-term effects on our area. In addition to the cost of extensive clean-up efforts, it took our hotels two years from the time of the spill to return to the level of business they had enjoyed prior to the accident.

### **Lessons from Exxon Valdez**

All of this resulted from just a minor spill that is absolutely dwarfed by what we are facing in the Gulf today. The current-day spill is closer in nature to that of the Exxon Valdez when it struck a reef in March 1989. The tanker subsequently lost almost 11

million gallons of crude oil that eventually covered 1,300 miles of coastline and 11,000 square miles of ocean in Prince William Sound, Alaska. While the Exxon Valdez spill was smaller and more geographically confined than the Deepwater Horizon spill, it gives us clues as to what we might expect from today's much larger disaster.

In 1990, a study examining the impacts of the Exxon Valdez oil spill on Alaska's tourism industry found that 43 percent of businesses in the spill-affected areas felt that their business had been significantly or completely affected by the oil spill; and 59 percent reported spill-related cancellations. The same study found that visitor spending in the summer following the oil spill dropped by 35 percent in the most spill-affected regions and lost \$19 million in direct visitor spending statewide.

Despite the extensive cleanup attempts in Prince William Sound, less than 10 percent of the oil was recovered; and a study conducted by NOAA determined that, as of early 2007, more than 26,000 gallons of oil remained in the sandy soil of the contaminated shoreline, declining at a rate of less than 4 percent each year.

Both the long- and short-term effects of the oil spill have been studied extensively. Thousands of animals died immediately; the best estimates include 100,000 to as many as 250,000 seabirds, at least 2,800 sea otters, approximately 12 river otters, 300 harbor seals, 247 bald eagles, and 22 orcas, as well as the destruction of billions of salmon and herring eggs. The effects of the spill continued to be felt for many years afterwards. Overall reductions in population have been seen in various ocean animals, including stunted growth in pink salmon populations. Sea otters and ducks also showed higher death rates in following years, partially because they ingested prey from contaminated soil and from ingestion of oil residues on hair due to grooming.

Almost 20 years after the spill, a team of scientists at the University of North Carolina found that the effects are lasting far longer than expected. The team estimates some shoreline Arctic habitats may take up to 30 years to recover. While Exxon Mobil cites studies that conclude the spill will not cause any long-term ecological impacts, a study from NOAA scientists concluded that the contamination can produce chronic low-level exposure, discourage subsistence where the contamination is heavy, and decrease the wilderness character of the Prince William Sound area.

I recently spoke with Ron Peck, President and CEO of Alaska Travel Industry Association. He told me that, even though the Exxon Valdez spill impacted a relatively small part of the state, public perception was that the spill had affected the entire state. Moreover, the state had to run advertising for the next five years to combat negative public perceptions regarding the viability of an Alaska vacation, long after the spill clean-up had ended. Plus, he lamented that it took 17 years for resulting lawsuits to be settled through the courts. And, while fishing and other industries affected by the spill eventually received some compensation, tourism businesses ultimately received no

compensation whatsoever for their losses. Let me repeat that: tourism businesses received not one dime of compensation from Exxon for the Valdez disaster, which simply boggles the mind.

### **Environmental Disaster**

The Deepwater Horizon oil spill is quickly becoming one of the biggest environmental disasters our country has ever faced. As I said before, its full impacts are still unclear and will likely remain so for decades to come. But it remains certain that the travel industry in Florida will suffer sharp declines if adequate steps are not taken immediately to stop the spread of oil to the coastline and mitigate the environmental damage already caused by the spill. Any decline – no matter how small – in travel to the Gulf Coast region of Florida will have significant economic impacts.

Early signs already indicate this very fact. The Florida Restaurant and Lodging Association estimates that occupancy rates along the Florida Panhandle beaches, between Pensacola and Panama City, already are down by 30 percent from 2009. In my area, a study we conducted last month indicated that 18 percent of potential visitors to Pinellas County said the Deepwater Horizon oil spill has impacted their vacation choices away from beach destinations that could be impacted by the spill.

And other Florida beach destinations are predicting similar impacts. Nicki Grossman, President of the Greater Fort Lauderdale Convention & Visitors Bureau, was recently quoted as saying that oil on area beaches could cost Broward County businesses up to \$15 million a day.

In the bigger picture, Nathaniel Karp, chief U.S. economist for the Birmingham-based BBVA Compass Bank, released a study in early May estimating the total economic impact of the Deepwater Horizon oil spill to be \$4.3 billion. He is working on new numbers and said the estimate will surely rise. He further explained that the impact will be huge on the Florida Panhandle, if the situation worsens because of its dependence on tourism. He said the region will suffer, and he was particularly concerned about long-term perception issues the area will face moving forward. And I quote: "Even if you manage to clean what your eyes can see in front of you, if people don't feel safe, it's going to be very difficult to bring them back."

Karp's estimates are mirrored by the Harte Research Institute for Gulf of Mexico Studies, which conducted an early analysis of the impact last month that put the annual damage at \$1.8 billion. The center is working on a new estimate now.

## Compensation Funds

Clearly, compensation funds are needed to fight the spill and its long-term impacts. But, funds also are badly needed to mount marketing efforts now to mitigate potential business losses and in the future to attract travelers back to a region after a spill-affected property or natural resource has been restored.

Although the Oil Pollution Act of 1990 holds responsible parties liable for the loss of profits or earning potential, I've shared today that there are often intangible impacts of an oil spill that can be hard to measure or document. As in the case of the Exxon Valdez spill in Alaska, overly negative or inaccurate media coverage can lead to public misperceptions about the actual impacts of an oil spill. As a result, people may choose not to book travel to a destination they wrongly perceive to be threatened or impacted by an oil spill. Such losses of travelers and business are hard to accurately assess and document. Additional challenges to claiming economic damages under the Oil Pollution Act include lengthy processing times for claims and the per incident caps on economic damages.

It makes no sense, given the facts I have presented today, to place any cap on claim damages resulting from this or any other major oil spill. When we face such an uncertain yet undoubtedly staggering economic and environmental impact, why place a specific cap on damages? Who will cover these costs once that cap is reached for the responsible party? And what do we tell those who have suffered irreparable losses when claims reach that cap?

Put very simply, it's about fairness: if BP is unable to cap their well, then why should we be forced to put a cap on the damages they are responsible for paying? This is not a rhetorical question---it's a very serious, real world question whose answer will have far reaching consequences for years to come.

To wrap up my remarks this morning, I want to hit one last important point. Florida is home to some of our most unique and iconic environmental treasures. To place any cap on damages to protect and/or restore those national treasures is a travesty that we really don't want to write into the history that our grandchildren will one day read. I certainly do not want that on my shoulders, and I hope that none of you here today want to leave *that* as our legacy.