



ECONOMIC IMPACT OF PROPOSED BAN ON SALES OF ALCOHOLIC BEVERAGES FROM 2:00 AM Until 5:00 AM ON OCEAN DRIVE

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Executive Summary

- On November 7, 2017 the City of Miami Beach has scheduled a referendum on the following question.

“WHETHER THE CITY COMMISSION SHALL ADOPT AN ORDINANCE TERMINATING AT 2:00 A.M. (INSTEAD OF 5:00 A.M.) THE SALE AND CONSUMPTION OF ALCOHOLIC BEVERAGES AT ALCOHOLIC BEVERAGE ESTABLISHMENTS LOCATED ON OCEAN DRIVE BETWEEN 5TH AND 15TH STREETS, EXEMPTING INDOOR PORTIONS OF ALCOHOLIC BEVERAGE ESTABLISHMENTS THAT ARE COMPLETELY ENCLOSED AND LOCATED ENTIRELY WITHIN HOTELS, AND REQUIRING A 5/7TH VOTE OF THE CITY COMMISSION TO AMEND OR REPEAL THE ORDINANCE”.

- If the referendum is approved and the City Commission bans the sale of alcoholic beverages on Ocean Drive between 2:00 AM and 5:00 AM (the ‘BAN’), it will have a dramatic negative impact on the economy of Miami Beach and significant consequences for the City’s budget.
- Ocean Drive has a global reputation as a unique, exciting, fun place to visit and to party late into the night. Its clubs, that would be directly impacted by the BAN, are vital to the area’s reputation and to its economic functioning. Essentially, the clubs act as the area’s main attractions and they are the key element that differentiates the area from other beach-oriented communities.
- Based on a survey of the clubs, Fishkind & Associates (“FA”) estimates that the BAN would result in a loss of 25% of their total sales of alcoholic beverages for a total annual loss of nearly \$16,000,000. As Table S1 demonstrates, this is considerably more than the City’s estimate, which seems to be based only on the ratio of hours closed under the BAN wrongly presuming that sales of alcoholic beverages are equal during every hour of operation.

**Table S1. Estimated Loss of Sales of Alcoholic Beverage
From the BAN**

Estimates for Lost Alcohol Sales from Ban	City	FA
Lost Sales from Ban	\$9,895,411	\$15,906,332
Total Sales FY2015-16	\$63,888,508	\$63,888,508
Percent of Total on Ocean Dr. Lost to Ban	15%	25%

- These losses will have cascading and expanding effects, particularly on nearby hotels and on the restaurants on Ocean Drive. FA surveyed hotels in Miami Beach and in Miami Dade County. The results were telling concerning the negative impact of the proposed BAN.
 - a) 61% state that Ocean Drive, is important or extremely important to their guests' decisions to stay at their hotel.
 - b) 48% indicated that the current hours of operation, lasting until 5:00 AM, is important or extremely important to their guests.
 - c) 43% report that the BAN would have significant or severe impacts on their occupancy and average daily rate.
- FA also surveyed hotel concierges. They confirmed these strongly negative impacts of the BAN.
 - a) 82% recommend visiting South Beach frequently or very frequently to their guests.
 - b) 61% report that the current late-night operating hours until 5:00 AM are important or very important to their guests.
 - c) 51% state that the BAN would have a significant or severe impact.
- There are 94 small hotels with a total of 4,867 hotel rooms located on or near Ocean Drive. These hotels would be particularly hard hit by the BAN. Proprietors told us that the late-night entertainment was a critical factor for their guests and is their main guest amenity.
- In addition, according to survey data from the clubs, many of their patrons come from the larger hotels north of 15th Street including the Loews, Ritz Carlton, Marriott, and Fontainebleau.
- Based on these data, FA has estimated the loss in hotel sales from the BAN in Table S2. Nearby hotels will lose an estimated 20% of their sales while those farther away will sustain an estimated 10% loss. Total lost sales will exceed \$225,000,000 per year.

Table S2. Hotel Losses from the BAN

Lost Hotel Sales from BAN	Nearby	Other	Total
Number of Rooms	4,867	19,994	24,861
Revenue Per Occupied Room 2016	\$207	\$207	\$207
Estimated Impact from Ban	20%	10%	12%
	=====	=====	=====
Loss of Revenue from Ban	\$73,691,013	\$151,364,096	\$225,055,109

- There will also be impacts on restaurants, especially those located along Ocean Drive. The loss of customers at the clubs and hotels will diminish restaurant sales as estimated in Table S3. The losses will be particularly high for restaurants on Ocean Drive, but there are likely to be significant losses in all of Miami Beach, given the central functioning of the clubs in attracting visitors to the area.

Table S3. Lost Restaurant Sales from the BAN

Lost Restaurant/Bar Sales from Ban	Ocean Drive	Other	Total
Total Sales FY2015-16	\$71,674,766	\$864,048,440	\$935,723,206
Estimated Impact from Ban	15%	10%	10%
	=====	=====	=====
Loss of Revenue from Ban	\$10,751,215	\$86,404,844	\$97,156,059

- The loss of sales will translate into substantial declines in the profits of the affected businesses. As a result, these businesses will not be able to afford the same levels of rents. With lower profits resulting in lower rental payments over time, there will be consequences for property values as Table S4 demonstrates.
- As calculated in Tables S1-S3, the BAN will reduce sales by over \$341,000,000 per year. Lost sales translate into lost profits after the deduction for the cost of goods sold. All other costs are fixed, so these lost marginal sales have an enhanced impact on lost profits. Each of the three types of businesses included in Table S4 has its own unique capitalization rate determined by the real estate marketplace.
- In general, commercial properties are valued based on their ability to generate lease revenues. Lower profits limit the ability of lessors to pay rent, and thereby reducing property values as shown in Table S4. The impact of a loss of over \$341,000,000 in sales reduces property values by over \$1.6 billion.
- As a result, City property taxes will drop by about \$8,600,000 per year. This represents a loss of about 6% from the current budget projection of about \$160,000,000 for property tax collections for the City's general fund, based on the current millage rate of 5.71.

Table S4. Reduced Property Values and Lower City Property Taxes From the BAN

Impact on Property Values	Clubs	Hotels	Restaurants	Total
Loss of Sales	\$15,906,332	\$228,023,825	\$97,156,059	\$341,086,217
Percent Cost of Goods Sold	35%	45%	40%	43%
Lost Profit	\$10,339,116	\$125,413,104	\$58,293,635	\$194,045,855
Capitalization Rate	11.50%	7.00%	11.50%	11.50%
	=====	=====	=====	=====
Lost Property Value	\$89,905,356	\$1,791,615,772	\$506,901,177	\$1,687,355,263
Loss of Property Tax Revenue @ 5.71 Mills	\$461,959	\$9,205,823	\$2,604,600	\$8,670,104

- The BAN will also have a substantial impact on the City's resort taxes. Table S5 calculates the losses in resort taxes for the City if the BAN is approved. Based on the loss of \$341,000,000 in sales, the City stands to lose almost \$11,300,000 in resort taxes annually from the BAN.

Table S5. Impact of the BAN on City Resort Tax Collections

Loss of Resort Tax Revenue	Clubs	Hotels	Restaurants	Total
Lost Sales	\$15,906,332	\$228,023,825	\$97,156,059	\$341,086,217
City Resort Tax Rate	2%	4%	2%	3%
	=====	=====	=====	=====
Lost Resort Tax Revenue	\$318,127	\$9,120,953	\$1,943,121	\$11,382,201

- Not only will the City lose revenue from the BAN, but the City's economy will also contract. Lower sales and reduced profits will cause businesses to shed employees as Table S6 shows. Using the IMPLAN input-out model calibrated for Miami-Dade County, Table S6 estimates that the BAN would result in a drop of nearly 5,500 employees with most of these in the City. Annual employee earnings would decline by almost \$200,000,000 and economic output is over \$360,000,000 lower.

Table S6. Impact of the BAN on the City and County Economy

Impact Summary	Employment	Earnings	Output
Direct Effect	4,617	\$154,757,939	\$236,682,254
Indirect Effect	223	\$11,292,184	\$35,837,608
Induced Effect	653	\$29,388,878	\$88,752,740
	=====	=====	=====
Total Effect	5,493	\$195,439,001	\$361,272,603

- The negative economic impacts of the BAN are significant at the State level as well. The estimated loss of more than \$341,000,000 in gross sales per year will cost the State more than \$20,000,000 in forgone sales tax revenue. In addition, the State requires local governments to impose property taxes to support school funding in order to qualify for State revenue for education. This is called the required local effort (“RLE”). On a statewide basis, the RLE is 4.638 mills for FY2016-17 (4.638 dollars per thousand dollars worth of property value). The loss of nearly \$1.7 billion in property value because of the BAN will result in a loss of almost \$8,000,000 in RLE.

Table S7. Impact of the BAN on State Revenues

Category	Tax Base Impact	State Loss
Sales Tax	\$341,086,217	\$20,465,173
Property Tax (RLE)	\$1,687,355,263	\$7,825,954

- Proponents claim that the BAN would reduce crime, make Ocean Drive more attractive, and save the City money. Table S8 reproduces the City’s summary analysis in support of the BAN. The City calculates that the BAN would reduce alcoholic beverage sales by about \$9,800,000 resulting in a loss of \$197,000 in resort taxes. However, the City claims that police service costs would drop by more than \$800,000 producing an annual savings of over \$616,000.

Table S8. City’s Analysis of the BAN

Category of Impact 2-5 AM Alcohol Sales	Amounts
Alcohol Sales	\$9,895,411
Miami Beach Resort Tax Collections	\$197,892
Police Services 2-5 AM	\$814,812
	=====
Net Impact	-\$616,920

- However, this analysis is fatally flawed and incomplete. As demonstrated above, the City’s estimate for loss of alcohol sales appears to be based on a simplistic calculation of dividing 20 hours of potential operations (from 9:00 AM until 5:00 AM the next day) into the 3 hours of the BAN (2:00 AM until 5:00 AM). However, as our survey determined, sales of alcoholic beverages are not evenly divided among all hours of operations. Instead, the sales are concentrated in the later hours. So, the sales loss is almost \$16,000,000 per year resulting in a loss of over \$318,000 in resort taxes per year for just this category.

- The City's analysis is very incomplete, failing to account for the consequential impacts of the BAN on hotels and restaurants. Nor did the City analysis estimate impacts on property values, property taxes, or the area's economy.
- Furthermore, the City offers no reliable evidence that the BAN will reduce crime. Research by noted crime expert Ronal Serpas concludes that the City's crime problems are unrelated to the club operations from 2:00 AM through 5:00 AM. Mr. Serpas determined that the BAN is unlikely to reduce crime in any meaningful fashion.
- FA concludes that the BAN is unlikely to provide lower crime, savings for the City, or other substantial benefits. Instead, the BAN will definitely reduce the sales of alcoholic beverages at the affected clubs, cause sales at restaurants and hotels to drop, resulting in substantial revenue losses to the City and the loss of almost 5,500 jobs.

1.0 Introduction

1.1 Assignment

The Florida Restaurant and Lodging Association retained Fishkind & Associates, Inc. (“FA”) to conduct an economic impact analysis of a referendum scheduled for November 7, 2017 that would ban the sale of alcoholic beverages between 2:00 AM and 5:00 AM on Ocean Drive as described in more detail below (the “BAN”). The analysis includes quantifying the impacts on: (a) sales of alcoholic beverages; (b) restaurant sales; (c) hotels sales; (d) jobs, incomes, and economic output; (e) property values; (f) tax revenues; and (g) crime. FA will also evaluate impacts on the Ocean Drive and Miami Beach brands and the likely net economic effects of the proposed ban.

1.2 Background

At its July 7, 2017 meeting, the Miami Beach City Commission passed a resolution calling for a special election to be held on November 7, 2017 to consider the following proposition.

“WHETHER THE CITY COMMISSION SHALL ADOPT AN ORDINANCE TERMINATING AT 2:00 A.M. (INSTEAD OF 5:00 A.M.) THE SALE AND CONSUMPTION OF ALCOHOLIC BEVERAGES AT ALCOHOLIC BEVERAGE ESTABLISHMENTS LOCATED ON OCEAN DRIVE BETWEEN 5TH AND 15TH STREETS, EXEMPTING INDOOR PORTIONS OF ALCOHOLIC BEVERAGE ESTABLISHMENTS THAT ARE COMPLETELY ENCLOSED AND LOCATED ENTIRELY WITHIN HOTELS, AND REQUIRING A 5/7TH VOTE OF THE CITY COMMISSION TO AMEND OR REPEAL THE ORDINANCE”.

In support of the BAN, the City published its summary analysis as shown in Figure 1 and summarized in Table 1. The City concluded that the BAN would benefit the City, because savings on police services outweigh its loss in resort tax collections by \$616,920. In addition, the City claims the BAN would reduce crime and burnish the reputation Miami Beach’s tourism industry.

Table 1. City’s Analysis of the BAN

Category of Impact 2-5 AM Alcohol Sales	Amounts
Alcohol Sales	\$9,895,411
Miami Beach Resort Tax Collections	\$197,892
Police Services 2-5 AM	\$814,812
	=====
Net Impact	-\$616,920

Figure 1. Summary Analysis of the BAN Published by the City of Miami Beach



2.0 Overview of the Miami Beach Economy and the Role of the Clubs Directly Affected by the BAN

2.1 Overview of the Miami Beach Economy

Miami Beach is one of America's pre-eminent resorts and has been for almost a century. The city has a rich history as a trend-setting center for nightlife, arts, and culture, from the world-famous nightclubs of the 1950s to the sparkling entertainment and food scene of today's South Beach. Miami Beach has a global reputation as an exciting, upscale fun place to visit and to party late into the night for those so inclined. The area is highly regarded as a tourist destination and for its nightlife.¹

The South Beach renaissance began in the mid-1970s with efforts to retain its art deco, historical, structures that culminated in the formation of the Miami Beach Architectural District. It is bounded by the Atlantic Ocean to the east, Sixth Street to the south, Alton Road to the west, the Collins Canal and Dade Boulevard to the north. It contains 960 historic buildings. Today, South Beach is globally recognized as one of the most exciting and attractive destinations for nightlife.

The vast majority of visitors to Miami-Dade County and Miami Beach, over 85%, travelled for leisure and vacation purposes.² Most of these visitors, 56% of the total, stay in Miami Beach.³ Visitors identified the following things that they liked most about the greater Miami area (Table 2).

Table 2. Most Liked Features of Greater Miami Area

Category	% Citing
Beaches	63%
Weather	58%
South Beach/Ocean Drive	36%
Shopping	29%
Restaurants	27%
Attractions	26%
Night Life	22%
Art Deco Area	19%
International Ambiance	18%
Friendly People	18%

Source: Greater Miami Convention and Visitors Bureau, Greater Miami and the Beaches, 2016 Visitor Overview, page 27

¹ See for example, U.S. News Travel Rankings https://travel.usnews.com/Miami_Beach_FL/ or

² Greater Miami Convention and Visitors Bureau, Greater Miami and the Beaches, 2016 Visitor Overview, page 6

³ Ibid

The prominence of factors related to Miami Beach is striking. Four of the top ten features visitors cited that they like about the area are specific to Miami Beach. Furthermore, 74% of visitors to the area visited the beaches; 72% visited South Beach; and 16% visited the nightclubs.⁴

Tourism is the dominant economic sector of Miami Beach's economy. The City hosts over ten-million visitors annually.⁵ It has almost 25,000 hotel rooms.⁶ The City has embarked upon a \$652 million renovation and expansion of its convention center to a 1.4 million square foot, state-of-the-art meeting space.⁷ Almost 40% of Miami Beach's total workforce is engaged in the tourism related sectors of accommodations and food service.⁸

2.2 Economic Role of the Clubs and South Beach

Ocean Drive has a global reputation as a unique, exciting, fun place to visit and to party late into the night. Its clubs, that would be directly impacted by the BAN, are vital to the area's reputation and to its economic functioning. Essentially, the clubs act as the area's main attractions and they are the key element that differentiates the area from other beach-oriented communities. In its current financial plan, the City itself recognized the importance of clubs. "Today Miami Beach provides a variety of experiences for both residents and visitors, from dazzling nightclubs to unique family experiences"⁹

To further understand the economic function of Ocean drive and its clubs, FA surveyed hotels in Miami Beach and in Miami Dade County. Hurricane Irma limited the responses. However, 23 hotels responded to the survey. While the response rate was low, the responses were very consistent. The results are summarized below.

- (a) 61% state that Ocean Drive, is important or extremely important to their guests' decisions to stay at their hotel.
- (b) 48% indicated that the current hours of operation, lasting until 5:00 AM, is important or extremely important to their guests.
- (c) 43% report that the BAN would have significant or severe impacts on their occupancy and average daily rate.

⁴ Greater Miami Convention and Visitors Bureau, Op. Cit., page 30.

⁵ City of Miami Beach (October 1, 2017), Adopted FY 2016/17 Workplan and Operating Budget, page

⁶ STR (September 12, 2017), Trend Report.

⁷ Offering Statement \$194,920,000 City of Miami Beach, Series 2015 Resort Tax Revenue Bonds, page 5.

⁸ City Op. Cit., page 10.

⁹ City Op. Cit., page 6.

FA also surveyed hotel concierges. They confirmed these findings from the hoteliers. Once again Hurricane Irma limited the response to the survey. However, 78 concierges completed the survey. The consistency of their responses confirms the reliability of the results summarized below.

- (a) 82% recommend visiting South Beach frequently or very frequently to their guests.
- (b) 61% report that the current late-night operating hours until 5:00 AM are important or very important to their guests.
- (c) 51% state that the BAN would have a significant or severe impact

There are 94 small hotels with a total of 4,867 hotel rooms located on or near Ocean Drive south of 15th Street. Proprietors of some of these hotels told us that the late-night entertainment is a critical factor for their guests deciding to stay at their hotels. The beach, clubs and restaurants are the amenities for their guests.

The importance of the clubs is not limited to the smaller hotels located on or near Ocean Drive south of 15th Street. Based on survey data from the clubs, many of their patrons come from the larger hotels north of 15th Street including the Loews, Ritz Carlton, Marriott, and Fontainebleau.

3.0 Direct Impact – BAN on Sales of Alcoholic Beverages

3.1 The BAN and How it would Work

The BAN would end the sale and consumption of alcoholic beverages at 2:00 AM instead of the current 5:00 AM at the bars and clubs located on Ocean Drive between 5th and 15th Streets. The indoor portions of establishments selling alcoholic beverages that are completely enclosed and located entirely within hotels are exempted. The BAN would have direct impacts on at least eight establishments with outdoor areas including marquee bars like Mango's, Ocean's 10, Voodoo, and the Clevelander.

The BAN not only terminates the sale of alcoholic beverages at 2:00 AM, it also stops the consumption of alcoholic beverages at 2:00 AM. The effect would be to compromise the sale of alcoholic beverages starting at 1:00 AM in order to allow patrons to finish their drinks. Bottle sales would be particularly affected perhaps as early as midnight.

3.2 City's Estimated Impact on Sales of Alcoholic Beverages

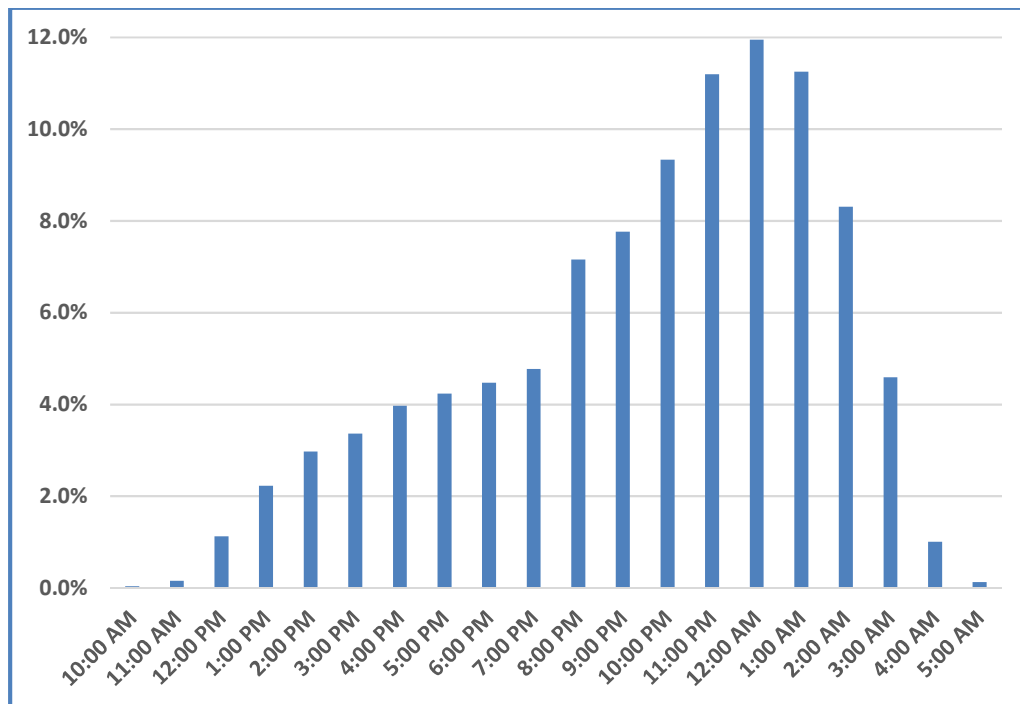
The City has estimated that the BAN would cause the sale of alcoholic beverages to decline by \$9,895,411 as shown in Figure 1 above. The sales of alcoholic beverages totaled \$63,888,508 in FY 2015-16 according to data from the City. Therefore, the City estimates that the BAN would reduce sales by 15% ($\$9,895,411 / \$63,888,508$). It appears that this estimate was based on the following calculus: (a) 20 hours a day of total operations from 10:00 AM through 5:00 AM the next morning; (b) 3 hours of the BAN; results in (c) a 15% reduction ($3 / 20 = 15\%$).

This estimate presumes that the sales of alcoholic beverages are evenly distributed during the hours of operation. As discussed below, this is not the case.

3.3 FA's Estimate for Impact on Sales of Alcoholic Beverages

FA conducted a survey of the clubs that would be directly affected by the BAN to quantify the sale of alcoholic beverages by hour of operation. Figure 2 displays the results. Unsurprisingly, sales are concentrated from 10:00 PM through 2:00 AM. This means that the consumption of alcoholic beverages are concentrated from 10:00 PM through 3:00 AM.

Figure 2. Distribution of Alcohol Sales by Hour



Source: Fishkind & Associates, Inc.

As noted above, the BAN applies not only to the sale of alcoholic beverages, but also to the consumption of alcoholic beverages beginning at 2:00 AM. The result will be to reduce the sale of alcoholic beverages beginning as early as midnight for bottle sales. That said, based on the survey data and interviews with the proprietors of the clubs, the BAN would effectively cutoff the sales of alcoholic beverages from 1:00 AM through 5:00 AM. The cumulative loss totals 25% of total sales producing a loss of nearly \$16 million per year.

Table 3. Estimated Loss of Sales from the BAN

Estimates for Lost Alcohol Sales from Ban	City	FA
Lost Sales from Ban	\$9,895,411	\$15,906,332
Total Sales FY2015-16	\$63,888,508	\$63,888,508
Percent of Total on Ocean Dr. Lost to Ban	15%	25%

Sources: City of Miami and Fishkind & Associates, Inc.

3.0 Indirect Impacts of the BAN

3.1 Overview

The BAN will not only impact the clubs, but will also have significant impacts on hotels and restaurants. As noted above, the clubs are a critical component of Ocean Drive and its attractiveness to visitors coming to Miami Beach.

3.2 Impact on Hotels

There are 94 small hotels south of 15th Street, each with fewer than 100 rooms. These small hotels collectively have over 4,800 hotel rooms. Proprietors of these hotels reported that the nightlife, clubs, and late hours of operation are very important to their clientele. Hotels of this size and scale cannot support substantial, on-site, amenities. Instead, their proximity to the beach and particularly to the clubs, nightlife, and restaurants on Ocean Drive provide the amenities that their guests desire.

The BAN will have a substantial impact on these smaller hotels located south of 15th Street. The proprietors' observations are consistent with the surveys of hotels and concierges. On this basis, FA estimates that the BAN will result in a 20% loss of sales for these small hotels located near the clubs.

In addition, other hotels located north of 15th Street will also be impacted. As noted above, guests from these hotels also go to the clubs that will be impacted by the BAN. Furthermore, the visitor survey data highlight the importance of Ocean Drive and its nightlife. In light of these facts, FA estimates the BAN would result in a 10% loss of sales for these hotels.

Table 4 provides the estimated loss of hotel sales caused by the BAN. The data for revenue per occupied room ("RevPar") comes from STR, the industry standard source. RevPar averaged \$216 per night for the smaller hotels located south of 15th Street and \$207 for all other hotels in Miami Beach. As a result, losses range from over \$76,000,000 per year for the smaller hotels located south of 15th Street to more than \$151,000,000 per year for other hotels in Miami Beach. This brings total annual lost sales to more than \$228,000,000 if the BAN is imposed.

Table 4. Sales Losses at Hotels from the BAN

Lost Hotel Sales from Ban	Nearby	Other	Total
Number of Rooms	4,867	19,994	24,861
Revenue Per Occupied Room 2016	\$216	\$207	\$207
Estimated Impact from Ban	20%	10%	12%
	=====	=====	=====
Loss of Revenue from Ban	\$76,659,730	\$151,364,096	\$228,023,825

Sources: Fishkind & Associates, Inc. and STR

3.3 Impact on Restaurants

The BAN would also result in substantial annual lost sales for the many restaurants located on Ocean Drive and for other restaurants in Miami Beach. The BAN would compromise the attractiveness of Ocean Drive and South Beach to visitors based on the survey data of visitor preferences and behavior. FA estimates a reduction in restaurant and café sales of 15% for establishments located on Ocean Drive. As shown in Table 5, based on sales data from the City's resort tax collections, a 15% loss translates into nearly \$11,000,000 per year in lost sales for restaurants and cafes located on Ocean Drive. In addition, other restaurants in Miami Beach would likely lose 10% of their sales if the BAN is imposed. This would mean a loss of more than \$88,000,000 in annual sales. The combined losses to restaurant sales total nearly \$100,000,000 per year.

Table 5. Sales Losses at Restaurants from the BAN

Lost Restaurant/Bar Sales from Ban	Ocean Drive	Other	Total
Total Sales FY2015-16	\$71,674,766	\$864,048,440	\$935,723,206
Estimated Impact from Ban	15%	10%	10%
	=====	=====	=====
Loss of Revenue from Ban	\$10,751,215	\$86,404,844	\$97,156,059

Source: Fishkind & Associates, Inc. and City of Miami Beach

3.4 Impact on Property Values

The value of commercial properties depends in large part upon the net operating income (“NOI”) that the properties generate and the capitalization rate at the time of valuation. The formula for the income capitalization approach to value is:

$$\text{NOI/Cap Rate} = \text{Value}$$

The BAN will have a significant negative impact on property values in Miami Beach. As shown above in Tables 3-5, the BAN will reduce sales by more than \$340,000,000 per year (see Table 6). Loss in gross sales will result in a loss of operating profits depending upon the cost of goods sold. For example, the clubs are projected to lose nearly \$16,000,000 per year in gross sales. According to standard industry norms for bars and drinking establishments, the average cost of goods sold is 35%.¹⁰ Therefore, a loss of \$16,000,000 in annual sales translates into a loss of over \$10,000,000 per year in profits. Since all other costs for the clubs are fixed, the loss of gross sales has a magnified impact on profits. This is termed the contribution margin, which is 65% for clubs (or 1.00 - .35). Based on data from STR, the contribution margin for hotels is 55%. For restaurants, the contribution margin is 60%.¹¹

The BAN is estimated to reduce gross sales by over \$340,000,000 resulting in a loss of nearly \$195,000,000 in annual profits. Lower profits will compromise the ability of the affected businesses to pay rent. The affected businesses will strive to reduce their rents, and some may be unable to survive the significant drop in sales and profits caused by the BAN. In any case, rents will eventually adjust to the levels supportable by ongoing business operations. Lower rents will translate into reduced NOI. Capitalization rates vary by type of building and type of lessee.

¹⁰ <http://www.nightclub.com/operations/managing-big-three>

¹¹ Baker Tilly (2017), “Restaurant Benchmarks”, page 2.

Table 6 summarizes the impact of the BAN on property values. The BAN causes profits to drop by almost \$200,000,000 per year. The loss of profits will compromise lessees' ability to pay rent. Over a relatively short period of time, lessees will either renegotiate their rents or in some cases cease doing business. In any event, rents will decline in direct proportion to the ability of lessees to pay. This will have a one-for-one impact on NOI. The effect on property values will vary depending upon the capitalization rate for various property types. The Cap rates shown in Table 6 were taken from the survey of Cap rates for 2017Q3 by Realtyrates.com. The impact on property values is nearly \$1.7 billion. Obviously, this represents a very significant destruction of private wealth.

Table 6. Impact of the BAN on Property Values

Impact on Property Values	Clubs	Hotels	Restaurants	Total
Loss of Sales	\$15,906,332	\$228,023,825	\$97,156,059	\$341,086,217
Percent Cost of Goods Sold	35%	45%	40%	43%
Lost Profit	\$10,339,116	\$125,413,104	\$58,293,635	\$194,045,855
Capitalization Rate	11.50%	7.00%	11.50%	11.50%
	=====	=====	=====	=====
Lost Property Value	\$89,905,356	\$1,791,615,772	\$506,901,177	\$1,687,355,263

4.0 Impact of the BAN on City Revenues

4.1 Overview

As discussed above, the BAN will cause a \$1.7 billion loss of property values, and it will result in a loss of over \$341 million in sales annually. These losses will have substantial impacts on the City's budget and on City taxpayers as described below.

4.2 Property Taxes

The estimated loss of \$1.7 billion in property value is 5% of the total value of property in the City of Miami Beach as of 2017.¹² So, lost property value will translate into lost property tax revenue for the City as shown in Table 7. At the City's current millage rate, the BAN will result in an annual loss of nearly \$8,700,000. The City will have to cut expenses for its services by \$8,700,000 or increase tax rates for all properties in the City by 5% to replace the lost revenue. Since the average single-family home sold in 2017 had a price of \$2,500,000, the tax increase would be \$715. For the average condominium sold in 2017 at a price of \$656,000, the property tax increase is \$185.¹³

¹² The City Budget, Op. Cit. shows total property value of \$34.7 billion.

¹³ Florida Association of Realtors.

**Table 7. Impact of the BAN on Property Tax Revenue
For the City of Miami Beach**

Impact on Property Values	Clubs	Hotels	Restaurants	Total
Loss of Sales	\$15,906,332	\$228,023,825	\$97,156,059	\$341,086,217
Percent Cost of Goods Sold	35%	45%	40%	43%
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Capitalization Rate	11.50%	7.00%	11.50%	11.50%
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Lost Property Value	\$89,905,356	\$1,791,615,772	\$506,901,177	\$1,687,355,263
Loss of Property Tax Revenue @ 5.71 Mills	\$461,959	\$9,205,823	\$2,604,600	\$8,670,104

Sources: Fishkind & Associates, Inc. and the City of Miami Beach

4.3 Resort Taxes

The BAN will cause sales that are subject to the City's resort tax to drop by more than \$341,000,000 annually. The city imposes a resort tax of 2% on all sales of beverages and food sold at nightclubs, drinking establishments, and restaurants in the City. In addition, the City taxes the gross rent at hotels, motels, rooming houses and apartments at a combined rate of 4% (a 3% resort tax plus a 1% additional tax).¹⁴ The fall in sales will result in a loss of over \$11,000,000 per year in resort tax collections. The loss is about 13% of total resort tax collections. To put this loss into perspective, it is almost equal to the annual debt service obligations on the City's \$194,920,000 of Series 2015 Resort Tax Revenue Bonds that were sold to finance a portion of the \$615,000,000 convention center renovation and expansion.

Table 8. Resort Tax Losses from the BAN

Loss of Resort Tax Revenue	Clubs	Hotels	Restaurants	Total
Lost Sales	\$15,906,332	\$228,023,825	\$97,156,059	\$341,086,217
City Resort Tax Rate	2%	4%	2%	3%
	=====	=====	=====	=====
Lost Resort Tax Revenue	\$318,127	\$9,120,953	\$1,943,121	\$11,382,201

¹⁴ Offering Statement "City of Miami Beach, Florida Resort Tax Revenue Bonds Series 2015", page 29.

5.0 Loss of State Revenue

The State of Florida will also lose revenue if the BAN is imposed. First, the State will lose sales tax revenue. The sales of alcoholic beverages, restaurant meals, and the rental of hotel rooms are all subject to the State's 6% sales tax. The estimated loss of more than \$341,000,000 in gross sales per year will cost the State more than \$20,000,000 in forgone sales tax revenue. In addition, the State requires local governments to impose property taxes to support school funding in order to qualify for State revenue for education under Florida's education funding program. This is called the required local effort ("RLE"). On a statewide basis, the RLE is 4.638 mills for FY2016-17 (4.638 dollars per thousand dollars' worth of property value).¹⁵ The loss of nearly \$1.7 billion in property value because of the BAN will result in a loss of almost \$8,000,000 in RLE.

Table 9. Impact of the BAN on State Revenues

Category	Tax Base Impact	State Loss
Sales Tax	\$341,086,217	\$20,465,173
Property Tax (RLE)	\$1,687,355,263	\$7,825,954

6.0 Economic Impacts

6.1 Methodology

The BAN will also have serious negative economic effects on the economy of Miami beach. The BAN will result in significant declines in sales and profits for the directly affected businesses. As a result, they will reduce their purchases, cut working hours for some of their staff, and layoff some of their workers. These direct impacts will have additional negative effects on their suppliers and cascade through their supply chains impacting a variety of businesses not subject to the BAN. In addition, workers with less money will reduce their expenditures resulting in further downstream contraction.

To measure these economic impacts, FA used the IMPLAN input-output modeling system.¹⁶ IMPLAN is widely used by economists to calculate the economic impacts of projects similar to the BAN. IMPLAN is routinely used by the State of Florida's Department of Economic Opportunity.¹⁷

¹⁵ Florida Department of Education (2016), "2016-17 Funding for Florida School Districts", page 3.

¹⁶ See Mulkey IFAS Publication FE168 at <http://edis.ifas.ufl.edu/fe168> for an excellent overview of IMPLAN

¹⁷ <http://www.floridajobs.org/labor-market-information/products-and-services/economic-impact-analysis>

IMPLAN is a computer software package comprising procedures for estimating local input-output models using locally-specific databases. IMPLAN was originally developed by the U.S. Forest Service in cooperation with the Federal Emergency Management Agency and the U.S. Department of the Interior's Bureau of Land Management to assist in land and resource management planning. Since 1993, the IMPLAN system has been developed under exclusive rights by the Minnesota Implan Group, Inc. which licenses and distributes the software to users. Currently, there are hundreds of licensed users in the United States including universities, government agencies, and private companies. The Department of Food and Resource Economics at the University of Florida is a licensed user of IMPLAN along with the State of Florida and many other governments and private companies. We have used IMPLAN widely in our work.

Input-output modeling was developed in the 1930s by Nobel Prize winning economist Leontief.¹⁸ The methodology has been refined and used continuously since then.¹⁹ An input-output model is built around quantifying the interactions between industries (or sectors) within an economy. Each industrial or service activity within the economy (agriculture, mining, manufacturing, trade, services, etc.) is assigned to an economic sector with the number of sectors determined by the level of detail desired. Then, for a one-year production period, a transactions table reflects the value of goods and services exchanged between sectors of the economy. The transactions table contains three components of the local economy: producing industries, final demand, and value added, which capture all transactions within the economy.

The transactions table shows how much each local industry purchased and/or sold to every other industry within the local economy. Values are expressed in dollars and track the movement of goods and services between industry sectors and between producing industries and final demand and value-added components of the economy.

Impact analysis using an input-output model is conducted by estimating the changes in final demand. Producing industries then respond directly by selling to final consumers or indirectly by selling goods and services (intermediate inputs) to other industries. The IMPLAN software and database quantify both the estimation of the transactions table for specific local areas and the resulting tables to estimate multipliers that capture the direct and indirect effects of changes in final demand.

¹⁸ Leontief, Wassily (1936), "Quantitative Input-Output Relations in the Economic System of the United States", Review of Economics and Statistics, Volume 18, pages 105-125.

¹⁹ See Miller, Ronald E. and Peter D. Blair (2009), Input-Output Analysis, Cambridge University Press: NY, NY.

In this application, the change to final demand is the reduction sales caused by the BAN. FA calibrated IMPLAN with IMPLAN data for Miami-Dade County, because this is the smallest geographic area under IMPLAN. While the specific structure of the County's economy is somewhat different from Miami Beach's, the economic linkages in the tourism, accommodation, and eating and drinking sectors will be very similar. In this case, it is these linkages that are the focus of the analysis.

6.2 Economic Impacts

Using IMPLAN FA determined that the BAN will result in the loss of over 4,600 jobs in the directly affected businesses including the clubs, hotels and restaurants. As shown above in Tables 3-5, the directly impacted businesses stand to lose over \$341,000,000 in sales and nearly \$195,000,000 in profits (see Table 7). Some businesses will close and others will reduce staff hours and headcount. The directly affected businesses will cut their purchasing causing additional contractions in their supply chains. The earnings of directly affected workers will contract by more than \$156,000,000 which will result in reduced purchases causing additional losses in sales and employment.

Table 10. Economic Impacts of the BAN

Impact Summary	Employment	Earnings	Output
Direct Effect	4,658	\$156,116,735	\$238,760,356
Indirect Effect	225	\$11,391,331	\$36,152,267
Induced Effect	659	\$29,646,916	\$89,532,001
	=====	=====	=====
Total Effect	5,542	\$197,154,982	\$364,444,625

Source: Fishkind & Associates, Inc.

The BAN will result in the loss of over 5,500 jobs. Most of these will be in Miami Beach. These workers will lose nearly \$200,000,000 per year in earnings. Overall economic output will fall by nearly \$365,000,000 because of the BAN.

7.0 Effects on Crime from the BAN

8.1 Overview

A pair of fatal shootings during Memorial Day weekend this year ultimately led to a unanimous vote by Miami Beach commissioners to schedule a referendum on the BAN. In support of the BAN, Mayor Levine told commissioners the problem of violence on Ocean Drive is not limited to holidays like Memorial Day, but is now a problem “52 weeks a year.” The Mayor said statistics show that crime is actually down overall in the area due to increased police patrols, but that five out of 10 officers assigned to Ocean Drive over the past six weeks have been injured on the job.

8.2 City Position on Crime and Costs

As Figure 1 shows, the City takes the position that the BAN will save the City \$619,920 per year as shown in Table 1 above. The City estimates that the BAN will cause a reduction in resort tax collections that is more than offset by savings for reduced police costs. Furthermore, the City’s analysis as shown in Figure 1 highlights crime headlines, and it concludes that crime is damaging the City’s brand image.

However, the City has not published any analysis demonstrating how the BAN would affect crime. Thus, it is unclear at best how the BAN would reduce crime on Ocean Drive.

Finally, it is equally unclear how much the issue of crime has negatively impacted visitors. In the latest visitor survey (2016) by the Convention and Visitors Bureau, when asked what visitors least liked about the area only 1.9% cited safety concerns far below traffic (22%), prices (5%), weather (3%), or negative media (3%).²⁰

8.3 Ronal Serpas Analysis

FA has no expertise in public safety or crime prevention. At FA’s request, a noted crime expert, Dr. Ronal Serpas was retained to analyze the effect of the BAN on crime on Ocean Drive and in the City of Miami Beach. Dr. Serpas is a Professor of Practice, Criminology, and Justice, Loyola University New Orleans. He recently retired from a 34-year career in law enforcement. The last 13 years of his law enforcement career he served as the police superintendent in New Orleans, police chief in Nashville and chief of the Washington State Patrol.

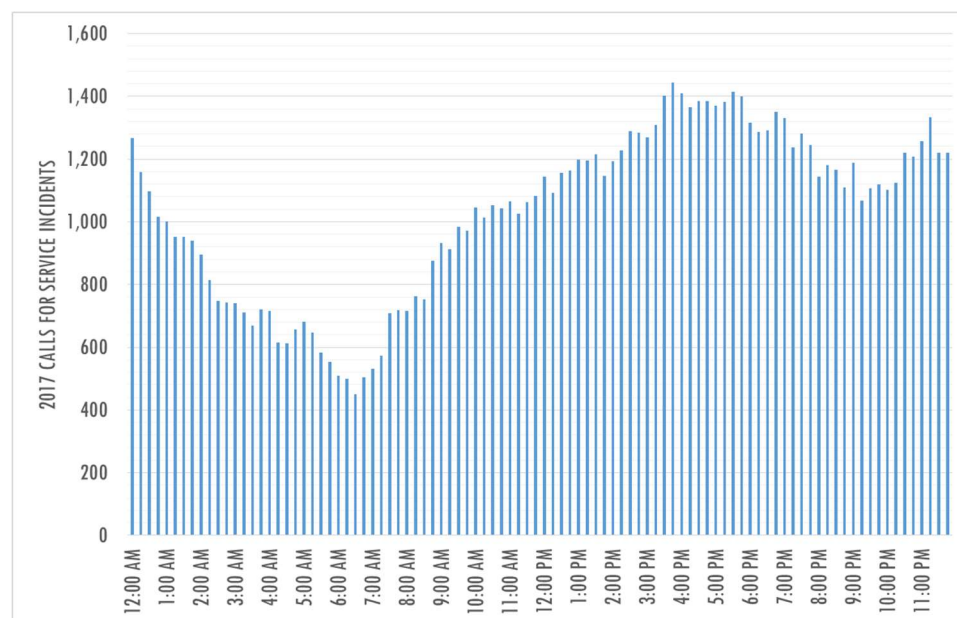
²⁰ Greater Miami Visitors and Convention Bureau, Op. Cit., page 23.

Dr. Serpas is a Past Vice President of the International Association of Chiefs of Police (IACP), the current Chair of the IACP Community Policing Committee and a founding Co-Chair of the IACP Research Advisory Committee. Dr. Serpas serves as an Executive Fellow to the Police Foundation, a National Advisory Board Member to Cure Violence and a National Advisory Board Member to the National Police Research Platform.²¹

Dr. Serpas conducted an evaluation of Calls for Service in the Ocean Drive area of Miami Beach. He found that the volume of Calls for Service has been highest between 11 PM and 2 AM in 2017. The Miami Beach Police Department reported that UCR Part I assault and robbery offenses occurred with greater frequency between 2 AM and 5 AM in Miami Beach's Entertainment District from June 2015 to June 2016, but the available evidence suggests this is not the case so far along Ocean Drive in 2017. Overall, violent crime in that area from 2 AM to 5 AM accounts for roughly 3.2% of overall violent crime in Miami Beach through the first eight months of 2017.

Dr. Serpas found that calls for service incidents in Miami Beach are highest in the late afternoon and early evening and decline steadily from around midnight through 7 AM. Figure 3 shows the number of incidents from the 61 police signal codes identified by MBPD in 15-minute increments.

Figure 3. Calls for Service in Miami Beach by Hour

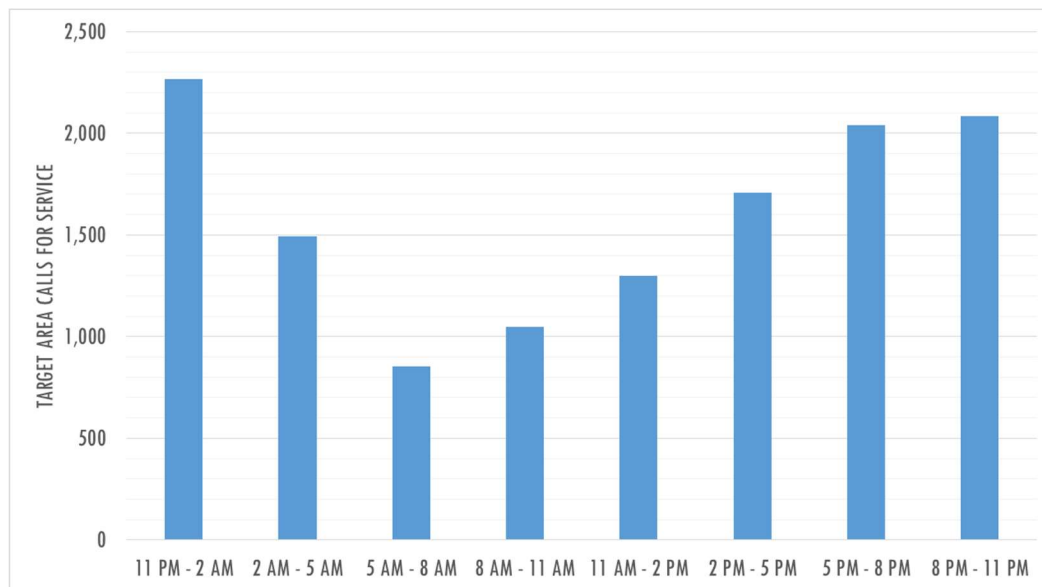


Source: Dr. Serpas

²¹ <http://cas.loyno.edu/criminologyjustice/bios/ronal-serpas>

Dr. Serpas then found that by applying the same methodology to calls for service within the Ocean Drive area, activity peaks in the late night/early morning hours before falling throughout the morning. There was a 34% reduction in calls for service activity in the three hour stretch from 2 AM to 5 AM relative to the three preceding hours in the Ocean Drive area as shown in Figure 4.

Figure 4. Calls for Service in the Ocean Drive Area by Hour



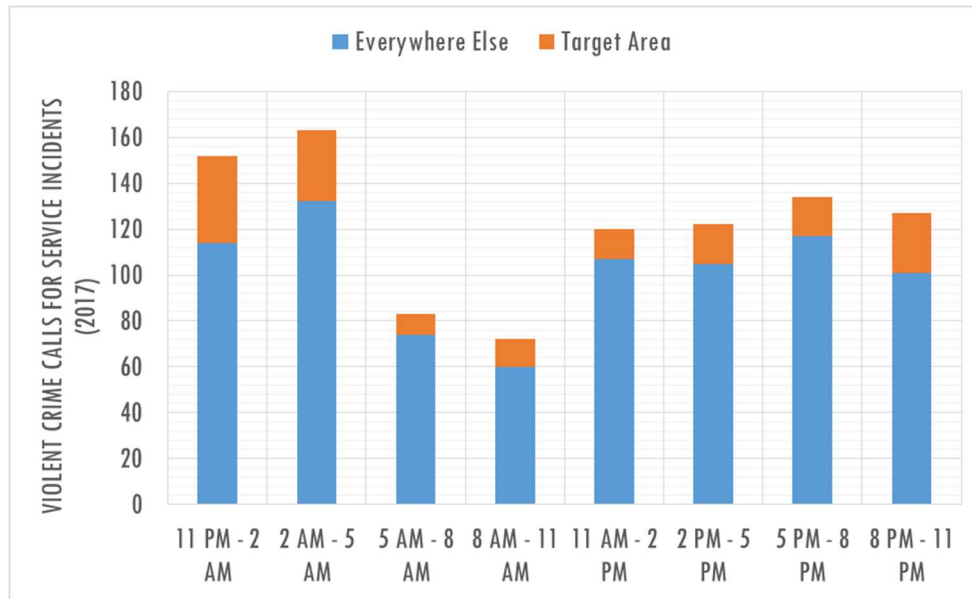
Source: Dr. Serpas

These data do not support the view that the BAN is likely to reduce crime on Ocean Drive or in Miami Beach. Calls for service are actually lower between 2:00 and 5:00 AM than at other times.

Dr. Serpas also analyzed violent crimes. He found that roughly 90% of all UCR Part I crime in Miami Beach in 2016 was property crime (theft, auto theft, and burglary) with the remaining 10% being violent crime (homicide, robbery, rape, and assault). His analysis of calls for service found that roughly 17% of all violent crimes in Miami Beach occur in the Ocean Drive target area. This is largely in line with MBPD's UCR figures for 2014 through 2016 showing between 20% and 25% of citywide violent crime occurring in the Ocean Drive area.

However, Dr. Serpas found that violent crimes have spiked citywide so far in 2017 during the 2:00 AM to 5:00 AM timeframe. That said, this is not the case in the Ocean Drive area as shown in Figure 5.

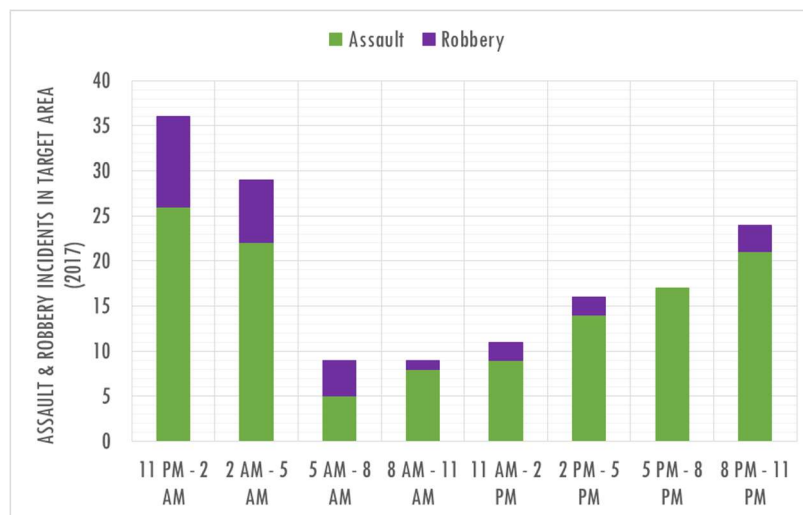
Figure 5. Calls for Service for Violent Crime in Miami Beach and in Ocean Drive



Source: Dr. Serpas

When Dr. Serpas drilled down on assaults and robberies in just the Ocean Drive area, he found that both crimes have occurred more frequently from 11 PM to 2 AM than from 2 AM to 5 AM as Figure 6 shows.

Figure 6. Assault and Robbery Incidents in the Ocean Drive Area



Source: Dr. Serpas

Dr. Serpas concluded that assaults that occurred in the Ocean Drive area between 2 AM and 5 AM made up 2.3% of overall violent crime incidents citywide and 3.1% of assaults citywide. Robberies in the Ocean Drive area between 2 AM and 5 AM made up 0.7% of violent crimes incidents citywide and 4% of robberies citywide. Therefore, Dr. Serpas noted that even if a reduction in violent crime in the Ocean Drive area between 2 AM and 5 AM is achieved by the BAN, the overall result on citywide crime is likely to be negligible due to the low initial base rate of violent crime on Ocean Drive. Finally, Dr. Serpas does not believe that the BAN would in fact have any material impact on crime on Ocean Drive or in the City.

9.0 Conclusions

The Ocean Drive entertainment area has a global reputation as an exciting, upscale venue with a sparkling nightlife that goes on late into the night. The ability to enjoy a drink and socialize late into the night outside in a tropical environment next to the ocean distinguishes Ocean Drive as a global destination. Visitors, hoteliers, and concierges all agree that these features are vital to the economics of the location.

If the proposed BAN is imposed, it will have significant negative economic impacts on the directly affected businesses. The nightclubs on Ocean Drive will lose nearly \$16,000,000 in annual sales. The volume of visitors to Ocean Drive and to Miami Beach will shrink causing a loss of over \$228,000,000 in annual sales and restaurant sales will decline by over \$97,000,000. The combined loss of sales totals over \$340,000,000 per year.

With lower sales and reduced profits, the affected businesses will not be able to continue paying rents at their current levels. This will cause property values to drop by \$1.7 billion or by 5% in the City. The BAN would cause a loss of 5,500 jobs, most of which will be in Miami Beach.

The BAN would cost the City \$11,000,000 per year in lower resort taxes because of the drop in taxable sales. The City would also suffer a loss of over \$8,700,000 in annual property taxes. As a result, either City services would have to be curtailed to make up the difference, or property taxes would have to increase by 5%.

The impact will also negatively affect State revenues. The loss of \$341,000,000 in taxable sales results in a loss of over \$20,000,000 per year in sales tax revenues. The drop in property values would push up the required local effort for school funding by nearly \$8,000,000 per year.

These substantial economic costs overwhelm any conceivable economic benefit that the BAN could provide. Proponents claim the BAN would reduce crime on Ocean Drive and in the City. But no analysis was provided. The research by Dr. Serpas contradicts these notions. Dr. Serpas concluded that the BAN would not have any material impact on crime on Ocean Drive on in the City.

Since the BAN is not going to reduce crime on Ocean Drive or in the City of Miami Beach, the BAN cannot contribute to the brand value of the venue. Instead, the BAN puts the brand and the economies of Miami Beach and Ocean Drive at risk to serious economic harm.