

BUSINESS

TODAY'S FOCUS **MADE IN O.C.**

INCENTIVES: California commission OKs \$44.8 million to put more vehicles powered by alternative fuels on the road. **Page 2**

Laguna Beach boarding scholar uses 'surfonomics' to save surf breaks.



CINDY YAMANAKA, ORANGE COUNTY REGISTER

Chad Nelsen, a lifelong surfer and the Surfrider Foundation's environmental director, surveyed 5,000 surfers for a report on how much money they spend to ride the waves.

By MARNI USHEROFF
ORANGE COUNTY REGISTER

When lifelong surfer Chad Nelsen heads to Trestles, he sees more than the famed surf break at San Onofre State Beach and dozens of wave-riding enthusiasts. He's thinking about how far these people traveled, how much it cost them to be there and how often they visit. Nelsen's feet may be in the sand, but his head is in economics – "surfonomics," to be exact.

As the environmental director of the San Clemente-based Surfrider Foundation, Nelsen has been one of several environmentalists who pioneered the use of economics to determine the value of surf spots to their coastal economies. The idea is to capture the amount of money surfers infuse into a community when they eat, shop and fuel up – and to gauge the value of that surf spot, since nobody's charged an entrance fee for riding the waves.

A growing number of surfing and environmental advocates have been using surfonomics to challenge development projects that threaten to harm or destroy a surf break. They want to prove that conservation is not a barrier to economic growth, but a source of revenue and value in and of itself.

If the notion of a bunch of sun-kissed surf riders crunching numbers seems a little strange, then Chad Nelsen will be downright baffling.

Nelsen, 43, looks like your typical surfer while sipping a cup of coffee in a Laguna Beach café, wearing sandals on his feet and a pair of sunglasses tucked into his mop of curly sandy brown hair.

But when he talks about getting his doctorate in environmental science and engineering, he shatters the slacker stereotype. Especially when you realize his Ph.D. from UCLA followed a bachelor's degree from Brown and a master's from Duke.

"I was definitely the California kid," the Laguna Beach native recalls of his undergrad days. "I wore flip flops to class, and the kids didn't understand why I was wearing my shower shoes out in public."

Several years after receiving his master's in en-

CATCHING THE VALUE OF A WAVE

SEE WAVE • PAGE 3

The \$26 million wave

Environmental advocates are increasingly using surfing economics or "surfonomics" to calculate the value of a surf break. An Orange County surfer with a doctorate in environmental science and engineering has helped pioneer the field.

ECONOMIC IMPACT
Based on average \$25 to \$40 per visit with an estimate of 330,000 trips.

\$8 to \$13 million

Average amount surfers generated on restaurants, shops and gas in 2006.

ANNUAL ECONOMIC VALUE

\$26 million

Consumer surplus of \$80 per surfer (determined by how far and often they travel). Multiplied by 330,000 visits.

Source: A socioeconomic study of surfers at Trestles Beach (Nelsen, Pendleton and Vaughn); Collecting and Using Economic Information to Guide the Management of Coastal Recreational Resources in California (Nelsen)

Fred Matamoros / The Register

Fannie Mae worker faces trial

Armando Granillo has been charged with seeking illegal kickbacks.

By JEFF COLLINS and MARILYN KALFUS
ORANGE COUNTY REGISTER

An employee with mortgage giant Fannie Mae's foreclosure sales office in Irvine faces a federal trial in August on charges that he sought illegal kickbacks for steering repossessed home listings to an Arizona real estate broker.

Federal agents arrested foreclosure sales representative Armando Granillo during a March sting after the Arizona broker was suspected of recording about 10 phone conversations in which Granillo demanded 20 percent of the broker's commissions, court documents show.

During one conversation Granillo told the broker that he was one of several Fannie Mae workers involved in the practice and that 20 percent is a "natural part of business," according to a federal investigator.

The indictment is one of two recent legal cases asserting that employees at Fannie Mae's office near the Irvine Business Complex were involved in kickback schemes.

In May, a Fannie Mae worker filed a wrongful termination lawsuit, saying the agency fired her for complaining that her Irvine co-workers demanded kickbacks from real estate agents.

A Fannie Mae spokesman declined this week to respond to the allegations, saying that the agency does not comment on legal proceedings. Nor would he con-

SEE TRIAL • PAGE 3

MORE INSIDE

PROTEIN MENU AT TACO BELL

Taco Bell announced plans to test its Power Protein Menu featuring burritos and bowls with double meat portions. Testing starts next month at 40 restaurants in Ohio. The menu could roll out as early as 2014. **Page 3**



HEALTH CARE COSTS

America's slowdown in medical costs may be turning into a trend, rather than a pause. A report from accounting and consulting giant PwC projects lower overall growth in medical costs for next year, even as the economy gains strength and millions of uninsured people receive coverage under the new health care law. Meanwhile, Aetna has notified state regulators that it will stop selling individual health insurance policies in California. **Page 4**

STOCKS: AWAITING THE FED

Markets gained, but investors are trying to guess what the Federal Reserve will say today about how long it plans to keep stimulus programs in place. **Page 5**

CHRYSLER RECALL REVERSAL

Chrysler agreed to recall 2.7 million older-model Jeeps, reversing a defiant posture. **Page 10**

AMA takes stand on energy drinks

Physicians group doesn't want marketing aimed at consumers under 18.

By DAVID FERRELL
ORANGE COUNTY REGISTER

Responding to reports of illness and death linked to the use of highly caffeinated energy drinks, the American Medical Association voted on Tuesday to support a ban on marketing the popular beverages to people under 18.

The recommendation, though only advisory, puts additional pressure on makers of Monster Energy, Red Bull, 5-hour Energy and others in the rapidly growing energy drink market. The federal Food and Drug Administration already is conducting an investigation of energy drinks following reports of at least 16 deaths associated with their consumption in the past five years.

The AMA, which makes recommendations to Congress on behalf of about 225,000 physicians, addressed the escalating controversy at its annual meeting in Chicago. Its statement said stimulant drinks "have surged in popularity in recent years, especially among high school and college students, and health advocates are concerned about the use of these drinks among adolescents due to excessive amounts of caffeine."

Energy drinks typically contain levels of caffeine comparable to coffee drinks – and in some cases less. But health experts suggest young people consume less of the stimulant drug than adults. Some companies, including Corona-based Monster Beverage Corp., employ marketing that features extreme sports, rock music and other activities that appeal to youth.

The excessive use of such drinks "may lead to a host of health problems in young people, including heart problems," Dr. Alexander Ding, a member of the AMA board, said. "Banning companies from marketing these products to adolescents is a common sense action that we can take to protect the health of American kids."

The AMA also recognized health risks in "prolonged sitting" in workplaces, and encouraged using standing workstations and isometric balls.



MARKET RECAP



Dow Industrials
Close: 15,318.23
Change: +138.38



Nasdaq Index
Close: 3,482.18
Change: +30.05



S&P 500 Index
Close: 1,651.81
Change: +12.77



10-year Treasury
Close: 2.18%
Change: 0



Oil per barrel
Close: \$98.44
Change: +\$0.67



O.C. gas prices
Gallon: \$4.002
Change: +0.006

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Taco Bell beefs up choices of protein

New items may be available as soon as 2014.

As protein-packed foods flood the marketplace, Taco Bell announced plans Tuesday to test a new menu featuring burritos and bowls with double meat portions.



NANCY LUNA
REGISTER WRITER

The Power Protein menu, testing next month at 40 restaurants in Ohio, may roll out as early as 2014, Taco Bell chief executive Greg Creed said during a Tuesday conference call. The menu is part of the Irvine-based chain's goal to offer more balanced food choices as it strives to widen its audience.

"This is going to appeal to a lot of men, who want to eat a lot of meat," Creed said.

Borrowing a few ingredients from the chain's year-old Cantina Bell menu, the Power Protein burrito contains a double portion of chicken or steak, romaine lettuce, roasted corn and pepper salsa, pico de gallo, guacamole and reduced fat sour cream. The bowl contains a bed of romaine lettuce topped with the same

ingredients plus slow-cooked black beans. The menu items have 23 or 24 grams of protein and less than 450 calories.

Prices range from \$3.59 to \$5.19.

The chain also is testing zero-calorie non-carbonated beverages in Ohio, including SoBe Lifewater Yumberry Pomegranate and a diet iced green tea with a hint of peach flavor.

The move comes as Taco Bell attempts to redefine its image.

In the past 18 months, the nation's largest Mexican fast-food chain has introduced Doritos Locos Tacos, a Chipotle-style fresh-Mex menu and a handful of value foods.

Since rolling out Doritos Locos Tacos early last year, Taco Bell has reported five consecutive quarters of positive same-store sales.

The Power Protein menu is not expected to be a major sales driver. Instead, the menu is part of the chain's commitment to add more options for the 36 million customers it serves each week, the company said. Taco Bell also offers a low-fat Fresco menu, which accounts for about 2 percent of sales.

"What we're trying to do with Fresco and the Power Protein menu is to offer more choices than before," Creed said.

TRIAL: To be Aug. 6

FROM PAGE 1

firm reports that an ongoing investigation into the Irvine operation is underway.

"We have controls and procedures in place in order to combat fraud and other wrongdoing," spokesman Andrew Wilson said. Fannie Mae has changed its procedures so that sales representatives no longer make listing assignments to brokers, Wilson said.

Fannie Mae opened the Irvine office during the height of the foreclosure crisis to help the government-sponsored housing finance agency resell homes repossessed from delinquent owners in California, Arizona and other Western states.

Fannie Mae is the nation's leading home loan provider. Since 2009, the quasi-public, federally controlled agency has provided \$3.5 trillion in mortgage credit in the United States, helping people buy 2.9 million homes and refinance 10.6 million loans, Wilson said.

In 2012, Fannie Mae sold more than 187,000 foreclosed properties nationwide. The Irvine office is one of several regional offices.

Granillo and other foreclosure sales representatives were responsible for assigning foreclosed Fannie Mae properties to brokers.

Granillo, 44, of Huntington Beach, faces three counts of wire fraud. He has pleaded not guilty and currently is free on a \$5,000 bail. His trial has been set for Aug. 6 in Santa Ana. His attorney, David Wasserman of the Federal Public Defender's office, declined to comment Tuesday.

A federal investigator reported that Granillo clutched a Manila envelope containing \$11,200 in cash when he was taken into custody March 5 in the parking lot of a downtown Los Angeles Starbucks.

The case surfaced in January after a Tucson broker identified in court papers only as "A.M." complained to the FBI that Granillo sought payment in exchange for about 100 foreclosure listings Granillo

had steered to the broker, according to a sworn statement by a federal agent.

The FBI referred the matter to the Inspector General's office of the Federal Housing Finance Agency, which oversees Fannie Mae and Freddie Mac.

According to a federal court affidavit, the broker told investigators he had recorded about 10 phone calls with Granillo and was willing to wear a wire.

In late January, Granillo said in one of the recorded calls that "we need to figure out if you are in or out." Granillo said that with his help, the broker could put other realtors in Tucson out of business, the affidavit said. On Feb. 2, Granillo said he wanted \$11,200 in cash and later arranged the Starbucks meeting a few weeks later.

As the broker wore a video recording device, the two men exchanged a Manila envelope containing the cash at 5:50 a.m. in the Starbucks parking lot, the affidavit said. Investigators then arrested Granillo.

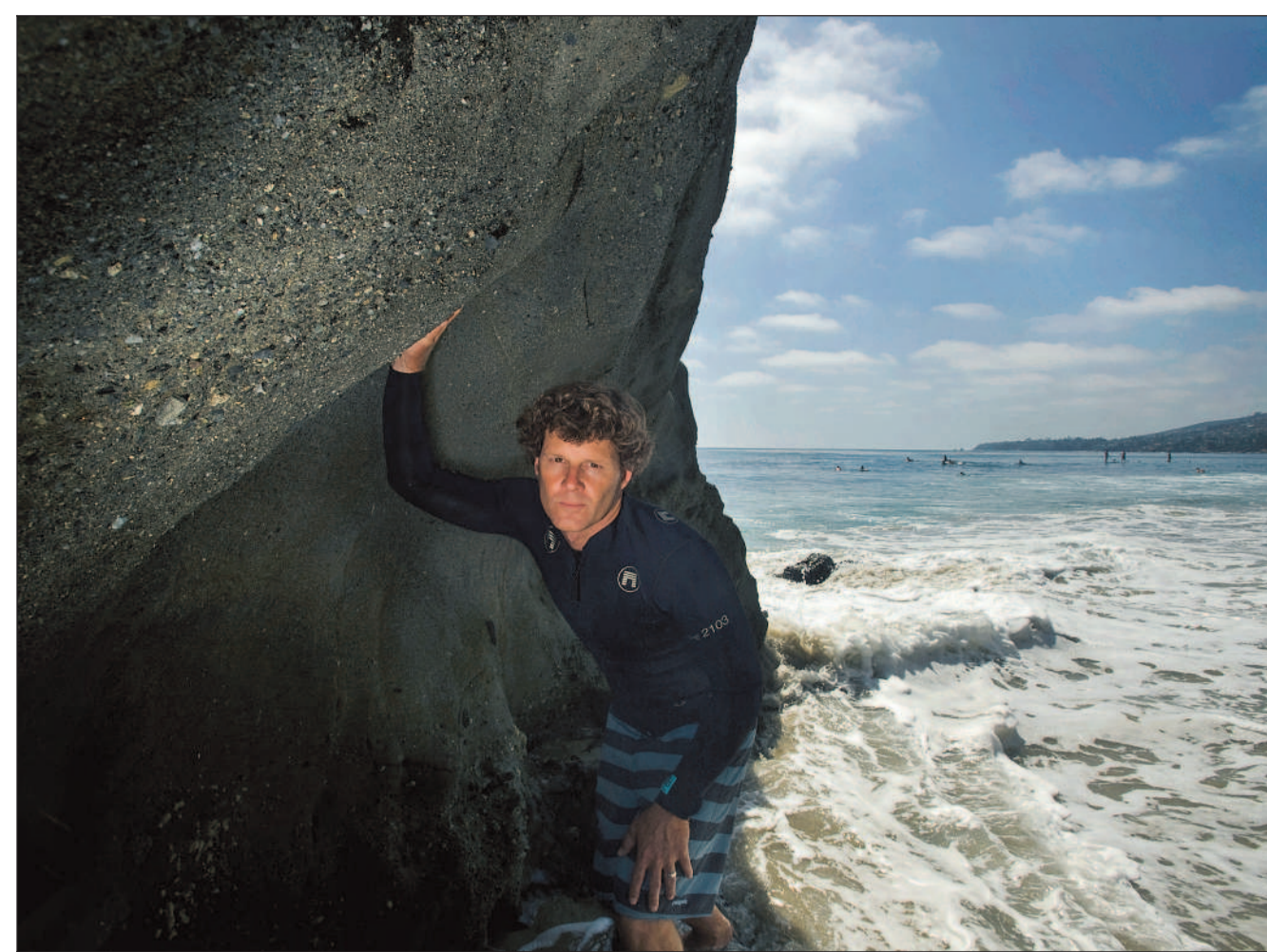
In the civil case, foreclosure sales representative Cecelia Carter said she first complained in May 2009 that a supervisor received illegal kickbacks from two real estate brokers.

A year later, Carter told a Fannie Mae investigator that she suspected other supervisors and co-workers, including Granillo, of getting illegal kickbacks as well. In other complaints, Carter alleged she also was the victim of racial and age discrimination by agency supervisors.

Carter's lawsuit contends her May 2011 dismissal was in retaliation for accusing co-workers of seeking kickbacks. Carter is seeking unspecified damages in her claim.

Wilson said wrongdoing by Fannie Mae employees is rare. "The bottom line is that fraud will not be tolerated by Fannie Mae and we actively work to prevent it," he said.

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PHOTOS: CINDY YAMANAKA, ORANGE COUNTY REGISTER

Chad Nelsen, who has a doctorate in environmental sciences and engineering, has pioneered the field of surfonomics, which calculates the value of a surf break. The Laguna Beach waves were small on this late Monday afternoon.

WAVE: Measuring overlooked revenue

FROM PAGE 1

environmental management, Nelsen was working on Surfrider's 2001 effort to stop a condominium development from destroying the waves in Rincon, Puerto Rico. He says his colleague Ken Lindeman suggested they make an economic argument. Nelsen brought on Duke economist Linwood Pendleton to do a rapid economic assessment for the project and was amazed at the results.

"We were able to show how much revenue was coming into this little town from all these surfers from all over the place," Nelsen says. "It was a game changer in our campaign."

Due in part to the work Pendleton did in assessing the economic impact of surfing in Rincon, the condo project was blocked and a marine reserve established.

Nelsen again used this practice in 2006 as part of his thesis by determining surfers' economic impact on San Clemente when visiting Trestles. He later submitted his work to the California Coastal Commission in 2007 when Surfrider was trying to block a proposed extension of the 241 toll road, which was supposed to cut through San Onofre State Park and connect to I-5.

Opponents argued that it would interfere with rock and sand flow runoff through the watershed, and that both are important for the waves.

The survey found that on average surfers spent between \$25 and \$40 per visit to Trestles with a total of about 330,000 trips in 2006, generating \$8 million to \$13 million of revenue per year.

Nelsen also discovered that 42 percent of surfer respondents had a minimum of a college degree, 76 percent worked full time and 41 percent earned \$80,000 or more in individual income. The average age of surfers included in the survey was 35.6, which may have been nudged higher because the report excluded anyone under 18 due to University of California requirements.

The work ended up being included in the Coastal Commission's staff reports during their assessment of the toll-road extension, and he felt it played a small role in their ultimate decision to



Among Chad Nelsen's findings: 42 percent of surveyed surfers had at least a college degree, 76 percent worked full time and 41 percent earned at least \$80,000 a year.

reject the proposed project in 2008.

The conflict has recently been renewed as the Transportation Corridor Agencies, which runs Orange County's toll roads, now wants to do a shorter extension of the 241 toll road. Surfrider and other environmental advocates have reopened a lawsuit to block this newest iteration. A San Diego Regional Water Quality Board permitting vote is scheduled for today.

Christopher Thornberg, founding partner of Beacon Economics, worked on an impact study on the 241 extension for the Transportation Corridor Agencies in

“We were able to show how much revenue was coming in ... from all these surfers. ... It was a game changer.”

CHAD NELSEN

2011. Although he thinks that Nelsen's argument is clever and that he's probably come up with fairly realistic numbers, Thornberg says "the value to the people on the road is by far and away greater than the value to the people in the water." His group calculated the annual value of the 241 toll road extension to be about \$100 million to drivers.

Thornberg was also taking into account the additional work Nelsen did when he completed his thesis last year by calculating the "non-market value" of Trestles, or how much it's worth to surfers since it can't already be captured using an entrance fee.

In this case, Nelsen used an economic model called the travel cost method. The

premise is that people reveal their willingness to pay to visit an attraction through travel time and costs. For example, surfers who visit Trestles from Riverside would incur higher time and gas costs and therefore visit the spot less often. Conversely, San Clemente residents would pay far less in gas and take no time to travel, making them more frequent visitors.

All those values are compared in calculating the consumer surplus - in other words, the difference between what somebody would be willing to pay for something and what they actually end up paying. Nelsen found a consumer surplus of \$80. When multiplied by 330,000 total annual visits, he settled on an annual economic value of \$26 million per year. He calls that a conservative estimate since it only represents part of the "total economic value," or the value the public places on surfing at Trestles.

Economist and fellow surfer Jason Scorse appreciates this work, but thinks it leaves out one key component - the value of real estate near surf spots.

"The people who live closest who spend all the money on that expensive home don't get counted in travel cost," says Scorse, director of the Monterey Institute's Center for the Blue Economy.

"You ask them, how long did it take you to go to the beach, and they say, 'Five minutes 'cause I walked from my house,' and they get counted at zero. ... I think most of the value of surfing, or at least a huge amount of it, ends up in real estate."



Another part of the surfonomics discussion, according to a fellow surfer economist, is that people who live close to the waves will be lesser represented, though they spent more to live there.

In a paper that's been submitted to the Journal of Park and Recreation Administration, Scorse studies the impact of surf breaks on home prices in Santa Cruz. He used a model that estimates the value of real estate based on its individual attributes rather than the sum of its parts. After controlling for proximity to the beach, ocean views, specific characteristics of the homes and neighborhood effects, Scorse found that a home near a surf break in the area he surveyed in Santa Cruz is worth approximately \$106,000 more than a comparable one a mile away.

Scorse notes that he didn't submit his work to a mainstream economics journal because it's still kind of a fringe topic. He acknowledges that this is preliminary research, but he thinks the results are compelling and looks forward to seeing others replicate the study.

Scorse and Nelsen both know that not everyone is a fan of assigning monetary value to waves, not the least of whom are some surfers.

United Kingdom-based nonprofit Surfers Against Sewage put out a 2010 report emphasizing the value of waves, but stopped short of assigning a dollar amount due to a concern that "some people will start to imply that it is potentially for sale." For example, if a surf break was valued at \$15 million and a proposed resort development was worth \$250 million, could the developers end the dispute by simply "buying" the wave?

Thornberg of Beacon Economics wonders the same thing. "Maybe somehow we need to compensate the surfers for the loss of their beach. But then again, they don't own the beach. We all do. In fact, you could make the argument ... if they value surfing at this beach so much, why don't we make them pay to surf there?"

Nelsen says he isn't arguing the world should be one giant cost-benefit analysis. In the meantime, he's invigorated by new studies being done in Peru and Bali, as well as Scorse's real estate work and that of Jess Ponting, a sustainable-tourism professor at San Diego State University and director of its 2-year-old Center for Surf Research. Ponting's "surf credits" initiative uses consumer surplus and asks visiting surfers to make a donation to a local pre-vetted nonprofit that will directly benefit the community they visited.

Ponting says surfonomics is "really at the tip of the iceberg. I think it's an incredibly powerful way to go and that we'll see a lot of coastal and marine environment protected as a result of this work."

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