


**CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST**

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Policy Analysis Report

To: Supervisor Avalos
From: Budget and Legislative Analyst's Office 
Re: Analysis of the Impact of the 34th America's Cup to the City
Date: February 10, 2014

Summary of Requested Action

Your office requested that the Budget and Legislative Analyst review the impact of the 34th America's Cup to the City. We reviewed the economic impact, the City's revenues and expenditures, the America's Cup Organizing Committee's performance in reaching its contractual goal to raise \$32 million to offset City costs, a summary of investments made to Port property, and the Event Authority's vacation of the Port venues. We also reviewed the Event Authority's compliance with the *Workforce Development and Local Small Business Inclusion Plan*.

For further information about this report, contact: Severin Campbell at the Budget and Legislative Analyst's Office.

EXECUTIVE SUMMARY

The 34th America's Cup was a series of international sailing races, consisting of the two America's Cup World Series events in 2012, and the Louis Vuitton Cup Challenger Series and America's Cup Finals in 2013. The City, the America's Cup Organizing Committee, and the America's Cup Event Authority (Event Authority) entered into a Host and Venue Agreement, which set the terms for the City's hosting of the America's Cup events, and the Lease Disposition Agreement, which set the specific terms for the Event Authority's use of City property. The Lease Disposition Agreement incorporated the *Workforce Development and Local Small Business Inclusion Plan*, which set local hiring and local small business participation goals for Event Authority contracts.

The economic impact to the City from hosting the America's Cup was 27 percent of the original projections by the Office of Economic and Workforce Development's (OEWD) economic consultant, as shown in the table below. The original projections were prepared in 2010 prior to selection of San Francisco as the host city and were based on 15 racing syndicates participating in the America's Cup sailing races. The 34th America's Cup included only four rather than 15 racing syndicates and attracted fewer spectators than estimated.

Table I: Summary of the Initial, Revised and Final Estimates of the Economic Impact of the America's Cup Events in 2012 and 2013

	2010 Report	March 13, 2013 Presentation to Budget and Finance Committee	December 2013 Report	December 2013 Economic Benefit as a Percent of Original Projection in 2010
Total Economic Impact to City Businesses and Residents	\$1.372 billion	\$901.8 million	\$364.4 million	27%
Tax Revenues to the City	\$23.9 million	\$13.0 million	\$5.8 million	24%
Number of New Jobs	8,840	6,481	2,863	44%

Source: Bay Area Council Economic Institute Reports

The City incurred \$11.5 million in net costs to host the 34th America's Cup, including \$6.0 in net General Fund costs and \$5.5 million in net Port costs

Under the Host and Venue Agreement between the City and the Event Authority, the City provided City services and exclusive and non-exclusive use of Port property to serve as America's Cup venues at no cost to the Event Authority. In exchange, the America's Cup Organizing Committee was to "endeavor" to raise up to \$32 million to reimburse the City for a portion of the City's costs. The Host and Venue Agreement did not require the Event Authority or the America's Cup Organizing Committee to fully reimburse the City's costs for the America's Cup.

The America's Cup Organizing Committee has only raised funds sufficient to reimburse the City for \$8.7 million of the City's General Fund expenditures to host the America's Cup of \$20.5 million. The America's Cup events generated an additional \$5.8 million in tax revenues, but the combined reimbursements from the America's Cup Organizing Committee and tax revenues generated by America's Cup events were insufficient to cover the City's General Fund costs to host the America's Cup events in 2012 and 2013, as shown in the table below.

Table II: The City's General Fund Costs and Revenues to Host the America's Cup

<u>General Fund Expenditures</u>	
Planning, Permitting, and Environmental Review	\$9,265,036
City Department Operating Expenditures	6,147,391
Port Expenditures Reimbursed by General Fund	4,038,662
Portable restrooms and servicing	1,015,300
Total City General Fund Expenditures	\$20,466,389
Total Tax Revenues	5,793,484
America's Cup Organizing Committee Reimbursements	8,674,387
Total Revenues	\$14,467,871
Net General Fund Costs	\$5,998,518
Port Costs	5,461,386
Total City Costs	\$11,459,904

Source: OEWD, Bay Area Council Economic Institute, City Departments

The Event Authority did not notify or work with OEWD to recruit San Francisco residents for Event Authority contracts in 2012

The City’s Administrative Code provisions for hiring San Francisco residents on City contracts did not apply to Event Authority contracts because these contracts were between private entities. To meet the City’s objective that San Francisco residents would be hired for America’s Cup events in 2012 and 2013, the *Workforce Development and Local Small Business Inclusion Plan (Plan)* provided for the Event Authority to work closely with OEWD to identify jobs with Event Authority contractors and refer San Francisco residents for these jobs. The *Plan* provided for OEWD to monitor and enforce the local resident hiring provisions of the Event Authority contracts for event management and installation work, and assess penalties of \$5,000 per contract for failure to complete the steps to achieve the hiring goals.

According to OEWD’s presentation to the March 13, 2013 Budget and Finance Committee, the Event Authority did not notify OEWD prior to the America’s Cup events in 2012 nor report hiring goals for San Francisco residents in 2012. Although the OEWD presentation attributed the lack of notification to the short amount of time between the finalizing of the Lease Disposition Agreement in August 2012 and the America’s Cup World Series events held in August and October 2012, the original Host and Venue Agreement between the City, the America’s Cup Organizing Committee and the Event Authority and draft versions of the *Workforce Development and Local Small Business Inclusion Plan* provided for the Event Authority to “participate in the San Francisco Workforce Development System and comply with mandatory local hiring program regulations”.

According to OEWD staff, they monitored Event Authority contractors in 2013 to ensure compliance with the *Plan’s* goals for local hiring. In 2013, 517 San Francisco residents worked on Event Authority contracts, for an average of 127 hours or more than three weeks of full time work, as shown in the table below.

Table III: San Francisco Residents’ Work Hours for 2013 Event Authority Contracts

Contract	Work Hours	Number of San Francisco Residents	Average Number of Hours per Resident
Events Management	58,654	419	140
Temporary Installation	6,854	98	70
Total	65,508	517	127

Source: OEWD

The *Plan* set a goal for 50 percent of new hires on the Event Authority’s contracts to be San Francisco residents. Events management contracts met this local hire goal, but temporary installation contracts did not, as shown in the table below. According to the CityBuild Director, Event Authority installation contractors did not meet the *Plan* goals for new hires because of union hiring rules and because many of the Event Authority contractors were from outside of the Bay Area. Overall, 53 percent of new hires on Event Authority contracts in 2013 were San Francisco residents.¹

Table IV: New Hires on 2013 Event Authority contracts

Contract	New Hires	San Francisco Residents	Percent San Francisco Residents
Events Management	701	419	60%
Temporary Installation	252	87	35%
Total	953	506	53%

Source: OEWD

Payment of Prevailing Wage by Event Authority Contractors

According to the *Plan*, the Event Authority agreed to comply with the City’s prevailing wage provisions for temporary event-related installation work. The Office of Labor Standards Enforcement (OLSE) conducted audits of several Event Authority contractors, based on complaints from the Carpenters Local Union No. 22 and Pile Drivers Local No. 34, and assessed nine contractors and subcontractors \$406,566 in back wages for not complying with the City’s prevailing wage requirements.

The Workforce Development and Local Small Business Inclusion Plan did not create a mechanism to track small business participation

The *Workforce Development and Local Small Business Inclusion Plan* set local small business participation goals of 30 percent for Event Authority contracts of \$150,000 or more for event management activities. The Office of Contract Administration’s Contract Monitoring Division did not set up a mechanism to track small businesses’ inclusion in Event Authority contracts, nor did the *Plan* create a mechanism to track small business participation. After the conclusion of the America’s Cup events in the fall of 2013, the Contract Monitoring Division and the Office of Small Business began to identify small business inclusion in the Event Authority contracts. According to the Contract Monitoring Division, of the 328 Event Authority contracts, six contractors were certified Local Business Enterprises

¹ 506 of the 517 San Francisco residents working on Event Authority contracts were new hires.

by the City. The Office of Small Business is currently verifying the number of local small San Francisco businesses that contracted with the Event Authority.

Conclusion

Under the Host and Venue Agreement, the Event Authority had exclusive and non-exclusive use of City property for the 2012 and 2013 America's Cup events at no cost to the Event Authority with the expectation that fundraising by the America's Cup Organizing Committee would reimburse the City for a portion of the City's costs to host the America's Cup. Because both the America's Cup Organizing Committee's fundraising and tax revenues generated by the America's Cup events fell short of the original projections, the City's General Fund incurred net costs of \$6.0 million and the Port incurred net costs of \$5.5 million, totaling \$11.5 million.

As a result of these net costs to the City of \$11.5 million, any agreement between the City and the Event Authority to host a future America's Cup should require payment to the City for use of City property and for City services, other than services routinely provided by the City.

The City considered that the hiring of local residents and contracts with local small businesses were benefits of the 34th America's Cup. However, while the Event Authority worked with OEWD to recruit San Francisco residents for Event Authority contracts in 2013, the Event Authority did not notify or work with OEWD to recruit San Francisco residents for Event Authority contracts in 2012, as provided by the *Workforce Development and Small Business Inclusion Plan*. Neither the Event Authority nor OEWD sufficiently tracked small business participation in Event Authority contracts.

Any agreement between the City and the Event Authority to host a future America's Cup should ensure that the Event Authority and its contractors understand and comply with local hire and prevailing wage requirements for all events covered by the agreement. The City needs to better monitor local hire requirements, and to track inclusion of local small businesses in event contracts.

The 34th America's Cup

The Host and Venue Agreement

The 34th America's Cup was a series of international sailing races between the Golden Gate Yacht Club, the defender of the America's Cup, and three challengers from New Zealand, Italy and Sweden. San Francisco was selected as the host city for the 34th America's Cup by the America's Cup Event Authority (Event Authority) on December 31, 2010, and the Mayor, the Event Authority, and the America's Cup Organizing Committee executed the Host and Venue Agreement on January 4, 2011. The Host and Venue Agreement obligated the City, as the host city for the America's Cup, to conduct an environmental review, provide waterfront venues at no cost to the Event Authority, and provide or facilitate the provision of certain services required to host a successful event.

The Lease Disposition Agreement

While the City and Event Authority tentatively agreed to a draft Development and Disposition Agreement in 2012, in which the Event Authority would enter into long-term leases for Port property in exchange for developing the property, the Event Authority withdrew its proposal for long-term development of Port property, and instead, entered into a Lease Disposition Agreement, approved by the Board of Supervisors on March 22, 2012. The Lease Disposition Agreement modified the terms of the Host and Venue Agreement, including defining the terms and conditions for which the Port (1) provided venues to the Event Authority for the America's Cup, including the respective licenses or leases for these venues, at no cost to the Event Authority; and (2) made improvements to these venues at the Port's expense in preparation for the America's Cup.

The Sailing Races

The 34th America's Cup races consisted of two America's Cup World Series, the Louis Vuitton Cup Challenger Series, and the America's Cup Finals. The World Series races, which raced 45-foot catamarans, were held in several locations², including San Francisco in August and October 2012. The Louis Vuitton Cup Challenger Series and the America's Cup Finals, which raced 72-foot catamarans, were held in San Francisco in July through September 2013.

² The 2011-2012 World Series races were held in Cascais, Portugal; Plymouth, England; Naples, Italy; Venice, Italy; San Diego, California; and Newport, Rhode Island. The 2012-2013 World Series were held in Naples, Italy and San Francisco.

Economic Benefits of the America's Cup

The Office of Economic and Workforce Development (OEWD) commissioned a report from the Bay Area Council Economic Institute and Beacon Economics on the potential economic impact of hosting the America's Cup in San Francisco, which was released in 2010 and titled *The America's Cup: Economic Impacts of a Match on San Francisco Bay* ("2010 Report"). According to the 2010 Report, economic benefits to San Francisco from hosting the America's Cup would come from expenditures by the racing teams and by spending on hotels, restaurants and retail services.

The 2010 Report estimated that benefits to the City from hosting the America's Cup would include:

- Total economic benefit to City businesses and residents of \$1.372 billion;
- Tax revenues to the City of \$23.9 million; and
- 8,840 new jobs due to America's Cup activities.

Racing Syndicates

The 2010 Report was prepared prior to the selection of San Francisco as the host city and determination of the race format, and based their estimates of the economic impact to San Francisco on 15 racing syndicates participating in the racing matches, or three more than in the prior America's Cup hosted in Valencia, Spain. However, only four racing syndicates, rather than 15, participated in the 2013 America's Cup racing matches, including the Louis Vuitton Cup Challenger and Final Series. Eight racing syndicates consisting of 11 catamarans participated in the 2012 America's Cup World Series.

March 2013 Revised Estimates of Economic Impact

The Bay Area Council Economic Institute presented revised estimates of the economic impact of the America's Cup to San Francisco to the March 13, 2013 Budget and Finance Committee that reflected the reduced number of racing syndicates and impact of the America's Cup. The 2013 presentation estimated that benefits to the City from hosting the America's Cup would include:

- Total economic benefit to City businesses and residents of \$901.8 million;
- Tax revenues to the City of \$13.0 million; and
- 6,481 new jobs due to America's Cup activities.

December 2013 Final Analysis of Economic Impact

The America’s Cup events in 2012 and 2013 had a much smaller economic impact that the original and revised estimates had projected. According to the Bay Area Council Economic Institute’s December 2013 summary analysis, the benefits to the City from hosting the America’s Cup included:

- Total economic benefit to City businesses and residents of \$364.4 million;
- Tax revenues of \$5.8 million; and
- 3,858 new jobs due to America’s Cup activities.

The following table summarizes the initial, revised and final estimates of the economic impact of the America’s Cup events in 2012 and 2013.

Table 1: Summary of the Initial, Revised and Final Estimates of the Economic Impact of the America’s Cup Events in 2012 and 2013

	2010 Report	March 13, 2013 Presentation to Budget and Finance Committee	December 2013 Report ¹	December 2013 Economic Benefit as a Percent of Original Projection in 2010
Total Economic Impact to City Businesses and Residents	\$1.372 billion	\$901.8 million	\$364.4 million	27%
Tax Revenues to the City	\$23.9 million	\$13.0 million	\$5.8 million	24%
Number of New Jobs	8,840	6,481	2,863	44%

Source: Bay Area Council Economic Institute Reports

¹ The 2013 report analyzed the economic impact of the construction of phase one of the Pier 27 Cruise Terminal project, which was accelerated to serve as a venue for the America’s Cup. Because the Pier 27 Cruise Terminal project would have been constructed event if the City had not hosted the America’s Cup, although at a later date, the Budget and Legislative Analyst did not include the economic impact of the accelerated construction in the above estimates.

The City's Net General Fund Expenditures

While the City's General Fund expenditures to host the America's Cup were less than originally estimated because there were fewer spectators, the City incurred General Fund expenditures of approximately \$20.5 million. These expenditures were partially offset by revenues of \$14.5 million, resulting in net General Fund expenditures of \$6.0 million, as shown in Table 2 below.

Table 2: The City's General Fund Expenditures and Revenues to Host the America's Cup

General Fund Expenditures	
Planning, Permitting, and Environmental Review	\$9,265,036
City Department Operating Expenditures	6,147,391
Port Expenditures Reimbursed by General Fund	4,038,662
Portable restrooms and servicing	1,015,300
Total City General Fund Expenditures	\$20,466,389
Tax Revenues	5,793,484
America's Cup Organizing Committee Reimbursements	8,674,387
Total Revenues	\$14,467,871
Expenditures Less Revenues	\$5,998,518

Source: OEWD, Bay Area Council Economic Institute, City Departments

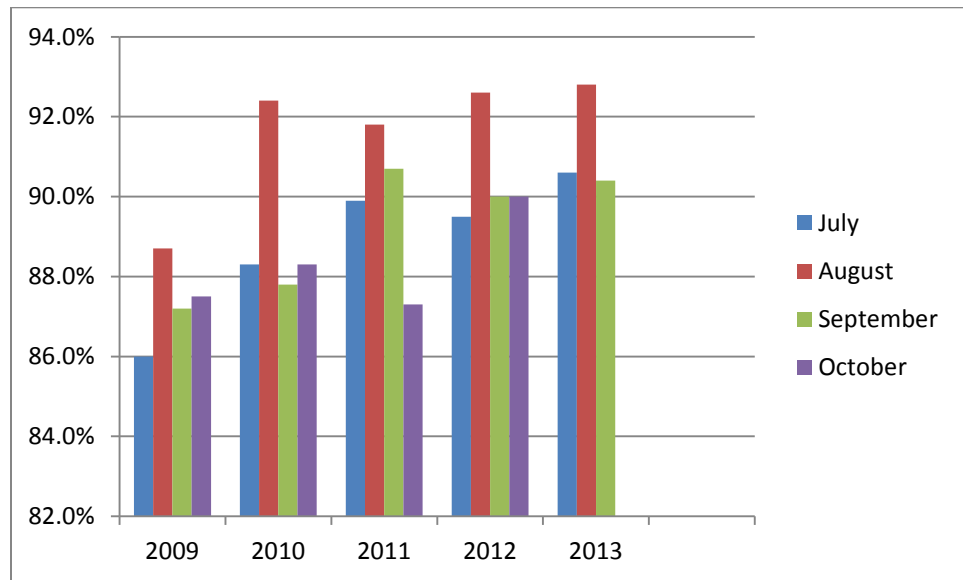
Details of the City's revenues and expenditures are shown in the attachment to this report.

Hotel Occupancy and Hotel Tax Revenues

The impact of America's Cup tourism on hotel occupancy was minimal. The City's hotel occupancy rate increased overall between 2009 and 2011 as the economy improved. Increases in hotel occupancy rates for the 2012 and 2013 America's Cup events compared to prior years were generally less than 1.0 percentage point, with a range from 0.2 percentage points to 1.1 percentage points, as shown in the chart below.³

³ Year-to-year increases in hotel occupancy rates were highest in October 2012, when the America's Cup held its second World Series (catamaran racing matches) event in San Francisco; the October 2012 hotel occupancy rate of 90.0% was 2.7 percentage points higher than the October 2011 hotel occupancy rate of 87.3%. During that same month, the San Francisco Giants played several post season games in San Francisco, including two World Series (baseball) games

Chart 1: Hotel Occupancy Rates in 2009 through 2011 Before the America’s Cup Event and During the America’s Cup Events in 2012 and 2013



Source: Controller’s Office Economic Barometer

Because San Francisco hotels generally exceeded 90 percent occupancy in 2012 and 2013, the Bay Area Council Economic Institute estimated that America’s Cup visitors displaced other visitors to San Francisco, reducing the total increased hotel tax revenues from \$3.8 million to \$2.35 million, as shown in Table 2 above.

America’s Cup Organizing Committee Reimbursements

Section 9.4 of the Host and Venue Agreement between the City and the America’s Cup Organizing Committee stated that the “Committee will endeavor to raise up to \$32 million over a three-year period from private sources” to reimburse the City for its costs to host the America’s Cup. The Host and Venue Agreement did not require the Event Authority or the America’s Cup Organizing Committee to fully reimburse the City’s costs for hosting the 34th America’s Cup.

Because America’s Cup Organizing Committee fundraising was less than the amount anticipated in the Host and Venue Agreement, the America’s Cup Organizing Committee has only reimbursed the City \$8,674,387 to date, or 42 percent of the City’s General Fund expenditures of \$20,466,389.

The Port's Expenditures for America's Cup Events

Port property served as America's Cup venues for the 2012 and 2013 event. Under the Lease Disposition Agreement between the Port and the America's Cup Event Authority, Piers 19, 23, 27, 29 and 29 ½, 30-32, and 80 served as short term America's Cup venues. The Port entered into license agreements with the Event Authority for their use of the piers at no cost to the Event Authority during America's Cup events in 2012 and 2013 with the requirement that the venues be returned to the Port no later than six months after the completion of the America's Cup events.

Port Expenditures Reimbursable by the City's General Fund

The Board of Supervisors approved a Memorandum of Understanding (MOU) between the City and the Port to reimburse the Port for lost rent from the Event Authority's free use of Port property. Under the MOU, the City's General Fund was to reimburse the Port for rent it would have earned from the previous tenants, with offsets for tenants relocated to other Port property and for increases in percentage rent paid by tenants to the Port.

Other race related Port costs, such as the costs of relocating tenants and capital improvements, would be reimbursed based on America's Cup Organizing Committee fundraising. The Port's costs that were reimbursed by the General Fund were \$4,038,662, as shown in the attachment to this report.

Unreimbursed Port Capital and Operating Expenditures

Capital Expenditures

The Port incurred an additional \$23.3 million in expenses for America's Cup improvements to Port property that were not reimbursed by the General Fund under the MOU. Of the \$23.3 million, the Port estimates that \$20.3 million has long-term benefit to the Port and \$3.0 million was for dredging, temporarily relocating shore side power, and other activities that have no long term benefit to the Port, as shown in Table 3 below.

Table 3: Port Expenditures for America’s Cup Improvements to Port Property

	No Long Term Benefit to Port	Port Fund Long Term Benefit to Port	Total
Pier 27 Cruise Terminal Projects	\$1,424,006	\$2,070,195	\$3,494,201
Piers 30-32 Study and Design	0	1,000,000	1,000,000
America's Cup Team Bases and Other Capital Improvements	1,578,320	6,642,051	8,220,371
Bay Conservation and Development Commission Requirements	0	10,574,832	10,574,832
Total	\$3,002,326	\$20,287,078	\$23,289,404

Source: Port

Operating Expenditures

The Port incurred \$2.5 million in operating costs that were not reimbursed by the General Fund, as shown in Table 4 below.

Table 4: Port Unreimbursed Operating Expenditures

	Port Expenditures for the America's Cup Events
Legal costs	1,172,651
Tenant relocation	32,378
Travel	14,516
Permits and engineering	260,720
Temporary parklets	239,199
Marketing	15,000
Economic impact study	25,000
Pier 27 maintenance and repairs	699,596
Port Expenditures	\$2,459,060

Source: Port

The Port also incurred \$2,036,043 in existing staff costs for Port activities related to the America’s Cup events, for total Port costs not reimbursed by the General Fund of \$4,495,103.

Therefore, unreimbursed Port capital and operating expenditures to host the America’s Cup, not including Port staff costs, were \$5.5 million, as shown in Table 5 below.

Table 5: Port Capital and Operating Unreimbursed Capital and Operating Expenditures Specific to America's Cup Events

Capital Expenditures (Table 3)	\$3,002,326
Operating Expenditures (Table 4)	2,459,060
Total	\$5,461,386

Source: Port

Return of America's Cup Venues to the Port

The Event Authority returned all of the venues to the Port prior to or as of the required return date in the Lease Disposition Agreement. The two Port properties still occupied by the Event Authority are:

- Pier 23 offices, which the Event Authority must vacate by March 31, 2014 under the terms of the Lease Disposition Agreement;
- Pier 80 shed, apron, and water space, which the Event Authority must vacate by March 1, 2014 under the terms of the Lease Disposition Agreement.

The Port will retain tenant improvements made by the Event Authority to the following Port properties when the Event Authority vacates the space:

- Pier 23 office space improvements;
- Pier 80 office space, restroom and plumbing improvements, and new hangar door;
- Pier 27 public access benches, for which the Port will pay one-half of the costs;
- Piers 23 and 29 storefront inserts; and
- Pier 27 temporary piles that will be used during phase two construction of the cruise terminal.

According to Port staff, the Port was entitled to retain these tenant improvements under the terms of the Lease Disposition Agreement.

Hiring of San Francisco Residents

According to the Host and Venue Agreement between the City and the Event Authority, the America's Cup Organizing Committee and the Event Authority were to participate in the City's First local hiring programs. The City and Event Authority agreed to the *Workforce Development and Local Small Business Inclusion Plan (Plan)* that defined the local hiring goals for the 34th America's Cup events. While the *Plan* acknowledged that the private contracts between the Event Authority and its contractors were not covered by the City's Administrative Code's local hiring provisions, the *Plan* incorporated provisions similar to the City's First Source Hiring and Local Hiring Policy for Construction.

Activities covered by the *Plan* included:

- Event management activities, consisting of (1) administrative and organizational work required to host the events, and (2) vendor, concession, janitorial and security, and other services;
- Permanent infrastructure improvements to Piers 30-32 to be used as team bases; and
- Event-related temporary installation work, such as setting up tents and installing bleachers.

The *Plan* was developed in December 2011 and finalized in August 2012, when the City and the Event Authority executed the final Lease Disposition Agreement for the Event Authority's use of Port property for America's Cup venues, and covered the America's Cup events in 2012 (America's Cup World Series) and 2013 (Louis Vuitton Cup Challenger Series and the America's Cup Finals).

The prevailing wage provisions of the *Plan* did not apply to America's Cup team and sponsor locations.

Goals for Local Resident Hiring

The *Plan* set local resident hiring goals for 34th America's Cup event management activities, permanent infrastructure improvements to Piers 30-32, and event-related temporary, installation work. Event Authority contractors were to make good faith efforts to hire San Francisco residents for the following event-related work:

- Event management contracts of \$150,000 or more:
50 percent of all entry-level hires for event management activities, including catering, food and beverage concessions, transportation, janitorial and security services, portable restrooms, and other events management activities.

- Event-related temporary installation contracts of \$350,000 or more:
 - (a) 20 percent of all permanent, non-managerial or non-supervisory jobs would be San Francisco residents, of which one-half (10 percent of these jobs) would be filled by economically disadvantaged residents; and
 - (b) 50 percent of all new hires would be San Francisco residents.

The *Plan* also required that Event Authority contracts of \$400,000 or more for permanent infrastructure improvements to Piers 30-32 for use as team bases were to conform to the public works contracting provisions of Administrative Code Section 6.22. However, because the Port, rather than the Event Authority, performed necessary repairs to Piers 30-32, the Event Authority did not have permanent infrastructure improvement contracts.⁴

Monitoring Event Authority Contractors' Compliance with the *Plan*

The *Plan* required the Event Authority to include language describing outreach requirements and local hiring goals in its bid documents and contracts for events management and installation work; and required Event Authority contractors to enter into resident hiring agreements, which set the expectation that these contractors would extend as many hiring opportunities as possible to San Francisco residents.

The *Plan* provided for OEWD to monitor and enforce the local resident hiring provisions of the America's Cup event management and installation work contracts. OEWD was authorized to assess a penalty of \$5,000 per contract for failure to complete the steps to achieve the hiring goals.

According to OEWD's presentation to the March 13, 2013 Budget and Finance Committee, the Event Authority did not notify OEWD prior to the America's Cup events in 2012 nor report hiring goals for San Francisco residents in 2012. Although the OEWD presentation attributed the lack of notification to the short amount of time between the finalizing of the Lease Disposition Agreement in August 2012 and the America's Cup World Series events held in August and October 2012, the original Host and Venue Agreement between the City, the America's Cup Organizing Committee and the Event Authority and draft versions of the *Workforce Development and Local Small Business Inclusion Plan* provided for the Event Authority to "participate in the San Francisco Workforce Development System and comply with mandatory local hiring program regulations".

According to the CityBuild Director, OEWD staff increased their oversight and tracking of Event Authority contractors' local hiring efforts in anticipation of the

⁴ Work performed by the Port and its contractors were subject to the provisions of the Administrative Code.

2013 American’s Cup events. OEWD followed up with Event Authority contractors to obtain payroll records and other documents to identify the number of local hires and work hours. While OEWD was able to obtain local hire information for 2013, OEWD does not have this information for 2012.

Recruitment for America’s Cup Jobs

The *Plan* provided for the Event Authority to work closely with OEWD to identify jobs with Event Authority contractors and refer San Francisco residents for these jobs. According to OEWD staff, OEWD conducted job fairs for America’s Cup event management activities. Community based organizations recruited San Francisco residents for these job fairs and conducted additional outreach to San Francisco residents when necessary. Workers for event-related temporary installation work were recruited through the City’s Workforce Development Access Points and City Build programs⁵.

New Hires for Events Management Activities

The *Plan* set a goal that 50 percent of new entry-level positions of Event Authority contracts of \$150,000 or more for events management would be San Francisco residents. According to OEWD, San Francisco residents made up 60 percent of new entry-level positions hired by events management contractors, which exceeded the *Plan* goal, as shown in Table 6 below.

Table 6: San Francisco Residents’ Share of New Hires’ Work Hours for 2013 America’s Cup Event Management Contracts

Event Management and Staging	Number of New Hires			New Hire Work Hours		
	Total	San Francisco Residents	Percent	Total	San Francisco Residents	Percent
Food and Beverage	401	210	52%	53,245	28,319	53%
Retail	176	126	72%	28,739	19,203	67%
Security	60	26	43%	12,619	5,115	41%
Janitorial	42	38	90%	2,757	2,549	92%
Entertainment	22	19	86%	3,963	3,468	88%
Total	701	419	60%	101,323	58,654	58%

Source: OEWD

In 2013, 43 percent of total work hours for America’s Cup event management activities were filled by San Francisco residents, as shown in the table below.

⁵ Access Points are training and referral centers, funded by federal Workforce Investment Act and other funds; and CityBuild is a City-funded program that provides pre-apprenticeship training in building trades.

Table 7: San Francisco Residents' Share of All Work Hours for 2013 America's Cup Event Management Activities⁶

Event Management and Staging	2013 Work Hours		
	Total	San Francisco Residents	Percent
Food and Beverage	86,578	28,319	33%
Retail	28,739	19,203	67%
Security	15,623	5,115	33%
Janitorial	3,963	3,468	88%
Entertainment	2,776	2,549	92%
Total	137,679	58,654	43%

Source: OEWD

According to OEWD, employees of America's Cup events management contractors earned an average hourly wage of \$12.21. Average hourly wage rates by type of vendor are shown below.

Table 8: Average Hourly Wage Rates of 2013 America's Cup Event Management and Staging Vendors

Event Management and Staging	Average Hourly Wage	San Francisco 2013 Minimum Wage	Over Minimum Wage
Food and Beverage	\$14.37	\$10.55	\$3.82
Retail	\$11.18	\$10.55	\$0.63
Security	\$11.90	\$10.55	\$1.35
Janitorial	\$13.00	\$10.55	\$2.45
Entertainment	\$10.62	\$10.55	\$0.07
Average	\$12.21	\$10.55	\$1.66

Source: OEWD

New Hires for Event Related Temporary Installation Work

The Event Authority hired contractors to assemble tents, install event seating and graphics, construct temporary walls and structures, and assemble event stages and bleachers. These contractors hired carpenters, laborers, and stagehands to perform this work. Data on hiring was reported to OEWD by the contractors from payroll records.

The *Plan* set a goal that for installation contracts of \$350,000 or more 20 percent of permanent, non-managerial or non-supervisory jobs would be filled by San

⁶ The *Plan* set a local hire goal that 50 percent of new hires for event management contracts, but did not set a goal for work hours.

Francisco residents, of which one-half (10 percent of these jobs) would be filled by economically disadvantaged San Francisco residents; and 50 percent of all new hires would be San Francisco residents.

Table 9: San Francisco Residents' Share of 2013 Installation Jobs Hours

Trade	Number of Workers			Number of New Hires		
	Total	San Francisco Residents	Percent	Total	San Francisco Residents	Percent
Carpenter	53	16	30%	28	9	32%
Laborer	40	4	10%	0	0	n/a
Stagehand	237	78	33%	224	78	35%
Total	330	98	30%	252	87	35%

Source: OEWD

35 percent of the new hires by Event Authority installation contractors were San Francisco residents, which was less than the goal of 50 percent.⁷ According to the CityBuild Director, Event Authority installation contractors did not meet the *Plan* goals for new hires because of union hiring rules and because many of the Event Authority contractors were not local.⁸ For example, the contractors that employed laborers were generally not Bay Area contractors, and therefore, only 10 percent of laborers were San Francisco residents, as shown in the table above.

According to OEWD data, 28 percent of all installation contract hours were San Francisco residents, as shown in Table 10 below.

Table 10: San Francisco Residents' Share of 2013 Installation Hours

Trade	Total Work Hours		
	Total	San Francisco Residents	Percent
Carpenter	7,556	1,436	19%
Laborer ⁹	1,544	45	3%
Stagehand	15,193	5,373	35%
Total	24,293	6,854	28%

Source: OEWD

⁷ While 30 percent of the total installation workers were San Francisco residents, these workers were not all permanent employees of the contractors, and therefore, the *Plan* goal that 20 percent of permanent non-management, non-supervisor installation workers would be San Francisco residents did not apply.

⁸ As noted below, the *Plan* did not set local small business participation goals for event-related temporary installation work.

⁹ According to OEWD, only 3 percent of laborer hours were San Francisco residents because the contractors hiring the laborers were not local businesses.

Economically Disadvantaged San Francisco Residents

The *Plan* set a goal that 10 percent of installation contract jobs go to economically disadvantaged San Francisco residents. “Economically disadvantaged” was defined as (1) homeless or formerly homeless; (2) annual income that is not greater than 50 percent of the area median income; (3) meet the definition in Administrative Code Chapter 83¹⁰; or (4) have been unable to secure employment in his or her trade for more than 20 working days during the preceding six months.

OEWD helped to recruit workers for America’s Cup projects through outreach to unions and through the City Build, Neighborhood Access Points, and the One Stop Career Link databases. These outreach efforts did not specifically target economically disadvantaged San Franciscans, although OEWD recruits for City Build in low-income neighborhoods.

While participants referred through OEWD are generally economically disadvantaged, employers who hire San Francisco residents through OEWD referrals or other sources do not track economic status by individual worker. OEWD collects data on local hires by residential zip code and therefore does not have data that conforms to the definition of “economically disadvantaged” in the *Plan*.

OEWD obtained zip code data for Event Authority installation contracts from the CityBuild data base. Of 432 San Franciscans who worked on America’s Cup projects in 2013 and for whom zip code data was available, 217 or approximately 50 percent lived in zip codes in which the median household income was less than the citywide median income, as shown in Table 11 below.

¹⁰ According to Administrative Code Chapter 83, "economically disadvantaged individual" shall mean an individual who is either: (1) eligible for services under the Workforce Investment Act of 1988 (WIA) (29 U.S.C.A. 2801 et seq.), as determined by the San Francisco Private Industry Council, or any successor agency; or (2) designated "economically disadvantaged" by the First Source Hiring Administration, as an individual who is at risk of relying upon, or returning to, public assistance, including unemployment benefits.

Table 11: Percent of San Francisco Residents in Zip Codes with Household Income below the Citywide Median Household Income

Zip Code	Number of Workers Hired for America's Cup Projects ¹¹	Median Income	Percent
94102	28	22,252	6%
94108	10	33,979	2%
94130	7	36,553	2%
94103	33	44,145	8%
94124	57	46,692	13%
94133	19	46,841	4%
94109	46	58,915	11%
94134	17	59,690	4%
Subtotal	217		50%
Citywide		61,400	
94158	1	64,594	0%
94132	23	67,493	5%
94121	13	72,371	3%
94112	21	72,396	5%
94115	17	73,797	4%
94122	18	77,889	4%
94110	24	79,516	6%
94118	17	81,545	4%
94116	12	82,648	3%
94117	14	91,303	3%
94111	3	93,393	1%
94131	7	94,770	2%
94123	5	107,226	1%
94114	14	115,734	3%
94107	20	117,556	5%
94127	6	128,079	1%
Subtotal	215		50%
Total	432		100%

Source: U.S. Census Bureau American Community Survey, 2008-2012; OEWD

Prevailing Wage Requirements

Because the Event Authority's contracts for events management and installation work were private contracts, the Administrative Code's prevailing wage provisions did not apply.¹² According to the *Plan*, the Event Authority agreed to comply with

¹¹ OEWD reported 517 San Francisco residents who worked on America's Cup projects, for whom 85 either did not have zip code data or the U.S. Census Bureau did not track median income.

¹² Administrative Code Section 6.22 (E) requires City construction contractors and subcontractors to pay prevailing wage; and Administrative Code Chapter 21 requires City contractors for janitorial, security, moving services, theatrical workers, and certain other services to pay prevailing wage.

the City's prevailing wage provisions for permanent infrastructure improvements to Piers 30-32 and temporary event-related installation work.

According to the Office of Labor Standards Enforcement (OLSE) Manager's presentation to the March 13, 2013 Budget and Finance Committee meeting, eight Event Authority contractors had failed to pay prevailing wages for event-related work in 2012. In response, the Event Authority's Chief Executive Officer (CEO) stated that the Event Authority agreed voluntarily to include prevailing wage requirements in the *Plan* because they were being reimbursed by the City for permanent infrastructure improvements to Piers 30-32; although the Event Authority did not perform reimbursable permanent infrastructure improvements to piers 30-32, the CEO stated that the Event Authority would maintain the "spirit" of the agreement voluntarily.

However, while the *Plan* specifically stated that the Event Authority's agreement to comply with prevailing wage requirements for permanent infrastructure improvements to Piers 30-32 was based on reimbursements by the City, the *Plan* also required compliance with the City's prevailing wage requirements for temporary event-related installation work as part of the leases for America's Cup venues.

The Office of Labor Standards Enforcement (OLSE) conducted audits of several Event Authority contractors, based on complaints from the Carpenters Local Union No. 22 and Pile Drivers Local No. 34. As shown in the table below, OLSE assessed nine contractors and subcontractors \$406,566 in back wages for not complying with the City's prevailing wage requirements.

Table 12: OLSE Assessments for Prevailing Wage Violations

Name of Contractor	Wages and Apprenticeship Training
T&B Equipment	\$98,299
Elchik Builders	8,160
Labor Ready	32,874
Shaffer Sports	134,037
Aggreko	68,969
Kleege Industries	20,969
Made in the Shade	13,796
Michael Hensley Party Rentals	27,040
Buestad Construction	2,420
Total	\$406,566

Source: OLSE

According to the OLSE Manager, the City has received \$406,566 from the Event Authority. The Controller's Office has disbursed back wages to 74 of the 120 employees owed back wages, and OLSE is attempting to locate and pay the remaining employees.

Event Authority Contracts with Local Small Businesses

The *Workforce Development and Local Small Business Inclusion Plan* set local small business participation goals of 30 percent for Event Authority contracts of \$150,000 or more for event management activities.¹³ The *Plan* provided for the Event Authority to work with the City's Human Rights Commission and Office of Small Business to conduct outreach to meet the small business inclusion goals.

The Event Authority set up a website in 2011 through the San Francisco Chamber of Commerce, called Business Connect, to recruit local businesses to provide services to the America's Cup events. Requests for proposals for America's Cup services were posted on the website in the fall of 2012 through the spring of 2013. According to OEWD, 2,883 businesses registered on Business Connect prior to the 2013 America's Cup events.

OEWD, the Office of Small Business, and the Event Authority jointly conducted community meetings to City businesses and residents in 2011 and 2012 on ways to participate in America's Cup events. According to OEWD staff, OEWD worked with the City's Office of Contract Administration to ensure local business participation in Event Authority contracts, especially local disadvantaged business participation (Local Business Enterprise or LBE).

According to the Office of Contract Administration's Contract Monitoring Division's presentation to the March 13, 2013 Budget and Finance Committee meeting, the Contract Monitoring Division did not set up a mechanism to track small businesses' inclusion in Event Authority contracts. Although the *Plan* required the Event Authority contracts to incorporate the proposed utilization of small businesses into the contracts, the *Plan* did not create a mechanism to track small business participation. While City contractors must regularly report local disadvantaged business participation (Local Business Enterprise or LBE) to the Contract Monitoring Division, no similar requirement existed for the private Event Authority contracts.

After the conclusion of the America's Cup events in the fall of 2013, the Contract Monitoring Division and the Office of Small Business began to identify small business inclusion in the Event Authority contracts. According to the Contract Monitoring Division, of the 328 Event Authority contracts, six contractors were certified Local Business Enterprises by the City. The Office of Small Business is currently verifying the number of local small San Francisco businesses that contracted with the Event Authority. Because these were private contracts, the Contract Monitoring Division was not able to identify the amount of these contracts.

¹³ The *Plan* set local small business participation goals for permanent infrastructure improvement contracts, but as noted above, the Event Authority did not conduct infrastructure improvement work or have contracts for this work. The *Plan* did not set local small business participation goals for event-related temporary installation work contracts.

Conclusion

Under the Host and Venue Agreement, the Event Authority had exclusive and non-exclusive use of City property for the 2012 and 2013 America's Cup events at no cost to the Event Authority with the expectation that fundraising by the America's Cup Organizing Committee would reimburse the City for a portion of the City's costs to host the America's Cup. Because both the America's Cup Organizing Committee's fundraising and tax revenues generated by the America's Cup events fell short of the original projections, the City's General Fund incurred net costs of \$6.0 million and the Port incurred net costs of \$5.5 million, totaling \$11.5 million.

As a result of these net costs to the City of \$11.5 million, any agreement between the City and the Event Authority to host a future America's Cup should require payment to the City for use of City property and for City services, other than services routinely provided by the City.

The City considered that the hiring of local residents and contracts with local small businesses were benefits of the 34th America's Cup. However, while the Event Authority worked with OEWD to recruit San Francisco residents for Event Authority contracts in 2013, the Event Authority did not notify or work with OEWD to recruit San Francisco residents for Event Authority contracts in 2012, as provided by the *Workforce Development and Small Business Inclusion Plan*. Neither the Event Authority nor OEWD sufficiently tracked small business participation in Event Authority contracts.

Any agreement between the City and the Event Authority to host a future America's Cup should ensure that the Event Authority and its contractors understand and comply with local hire and prevailing wage requirements for all events covered by the agreement. The City needs to better monitor local hire requirements, and to track inclusion of local small businesses in event contracts.

Table: The City's General Fund Expenditures and Revenues to Host the America's Cup

General Fund Expenditures	
<i>Planning, Permitting and Environmental Review</i>	
Environmental Impact Report	\$4,473,470
America's Cup Event Authority	482,296
U.S. Geologic Survey	150,000
Planning Department staff	184,599
Memorandum of Understanding with Association of Bay Area Governments	183,875
Presidio Trust	36,427
Bay Conservation and Development Commission	447,650
U.S. Army Corps of Engineers	131,419
National Park Service permit	3,175,300
Planning, Permitting, and Environmental Review Subtotal	9,265,036
<i>City Department's Operating Expenditures</i>	
Office of Economic and Workforce Development	845,822
Municipal Transportation Agency	1,639,587
Fire	403,383
Police	484,975
Emergency Management	16,805
Public Works	16,109
Recreation and Park	162,000
City Attorney	662,909
Event Insurance	842,386
Owner's Delay Insurance	1,047,988
Travel, supplies, other	25,427
City Department Operating Expenditures Subtotal	6,147,391
<i>Port Expenditures Reimbursed by General Fund</i>	
Lost rent MOU payments	1,992,162
Tenant relocation costs	95,092
Real estate analysis	273,960
Parking removal	77,448
Pier 29 substructure and end wall	1,600,000
Port Expenditures Reimbursed by General Fund Subtotal	4,038,662
Portable restrooms and servicing	1,015,300
City General Fund Expenditures Total	\$20,466,389
General Fund Revenues	
<i>Tax Revenues</i>	
Hotel Tax	\$2,352,366
Payroll Tax	1,273,760
Retail	1,163,864
Parking	1,003,494
Tax Revenues Subtotal	5,793,484
<i>America's Cup Organizing Committee</i>	
Reimbursements to City	8,622,432
Payment to Bicycle Coalition for Bicycle Parking	51,955
America's Cup Organizing Committee Reimbursements Subtotal	8,674,387
City General Fund Revenues Total	\$14,467,871
Expenditures Less Revenues	\$5,998,518

Source: Office of Economic and Workforce Development, Bay Area Council Economic Institute, City Departments