

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

November 18, 2010

Honorable Chris Daly
and Members of the Board of Supervisors
City and County of San Francisco
Room 244, City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

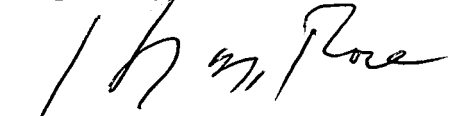
Dear Supervisor Daly and Members of the Board of Supervisors:

Pursuant to your request, transmitted is our report on the City and County of San Francisco hosting the 34th America's Cup.

This report focuses on the estimated costs and benefits to the City and County of San Francisco, under the conditions set forth in the non-binding Term Sheet previously approved by the Board of Supervisors on October 5, 2010 (File 10-1254).

We will be issuing a separate fiscal feasibility analysis shortly. Such a fiscal feasibility analysis will be based on the costs and benefits of hosting the America's Cup under the conditions set forth in the proposed Host City and Venue Agreement which is currently pending before the Board of Supervisors (File 10-1259).

Respectfully submitted,



Harvey M. Rose
Budget and Legislative Analyst

cc: President Chiu	Clerk of the Board
Supervisor Alioto-Pier	Cheryl Adams
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LEGISLATIVE ANALYST REPORT: COSTS AND BENEFITS OF HOSTING THE 34TH AMERICA'S CUP IN SAN FRANCISCO

EXECUTIVE SUMMARY

The America's Cup is the premier sailing event in the world. Hosting the 34th America's Cup in San Francisco, an event reported to be the third largest in all of sports behind the Olympics and the World Cup, would make San Francisco one of only seven cities in the world to have hosted an America's Cup. In addition to the prestige of such an event, hosting the America's Cup would also bring significant economic benefits to the region.

The Budget and Legislative Analyst wants to make it very clear that the disclosures made in this report, pertaining to the estimated costs and benefits to the City and County of San Francisco, are not for the purpose of determining whether the America's Cup should be held in San Francisco. We clearly recognize the importance and prestige of hosting such an event in San Francisco. However, it is the responsibility of the Budget and Legislative Analyst to report the facts to the Board of Supervisors.

On February 14, 2010, at the 33rd America's Cup in Valencia, Spain, BMW Oracle, a sailing syndicate (or team) based out of the Golden Gate Yacht Club in San Francisco, defeated the defending syndicate to become the winner of the 33rd America's Cup. Under the rules governing the America's Cup, the winner of the America's Cup is entitled to select the race format, date, and location of the next race. BMW Oracle and the Golden Gate Yacht Club have formed an Event Authority, a private entity which will organize the America's Cup events, and announced the general parameters for the format and date of the next race (those parameters are specified in a document referred to as the Protocol). However, as of the writing of this report, a location has not yet been selected.

In efforts to bring the 34th America's Cup to San Francisco, the Office of Economic and Workforce Development and Golden Gate Yacht Club negotiated a Term Sheet which described the general terms under which San Francisco would host the 34th America's Cup. The non-binding Term Sheet was approved by the Board of Supervisors on October 5, 2010.

In exchange for choosing San Francisco as the venue for the next America's Cup, the Term Sheet generally requires the City and County of San Francisco to:

- Make various improvements and alterations to selected Port properties and deliver such properties to the Event Authority, free of tenants, to be used for the America's Cup events over a 2.5 year window, with the final match (races) occurring in the summer of 2013.
- Provide environmental review services for Event-related development activities on Port properties, at no cost to the Event Authority.

- Lease various Port properties, free of charge, to the Event Authority for 66 to 75 years, and allow the Event Authority to develop such property with the City and County of San Francisco charging no rent to the Event Authority for the term of the leases.
- Provide security and transit capacity for the anticipated America's Cup spectators.

Although hosting the event under the provisions of the Term Sheet as described above would provide significant economic benefits to private businesses and the general economy in San Francisco, the scope of this analysis also focuses on the estimated costs and benefits that would result directly to the City and County of San Francisco, if the 34th America's Cup is held in San Francisco, based on the provisions of the non-binding Term Sheet¹.

In order to determine the estimated costs and benefits to the City and County of San Francisco, the Budget and Legislative Analyst considered the following sources of information, in addition to the Term Sheet and the Protocol document.

- A report prepared by the Bay Area Council Economic Institute and Beacon Economics (the "Beacon Report") estimating the economic impact of hosting the America's Cup in San Francisco.
- A report from the Instituto Valenciano de Investigaciones Economicas (IVIE), a private research institute based in Valencia, Spain, calculating the economic impact of hosting the 32nd America's Cup in Valencia in 2007.
- A report from Bay Area Economics, prepared for the Port of San Francisco, estimating the value of the long-term leases to be provided to the Event Authority (the private entity, controlled by the BMW Oracle Team and the Golden Gate Yacht Club, charged with organizing the 34th America's Cup).
- Data from various City departments including, the Port, the Police Department, the Municipal Transportation Agency, and the Office of Economic and Workforce Development.

In summary, the estimated costs and benefits of hosting the 34th America's Cup can be divided into those costs and benefits for the event, and the estimated costs and benefits of the long term development opportunity provided to the Event Authority.

As shown in Table A below, the Budget and Legislative Analyst estimates that by hosting the America's Cup in San Francisco, the City and County of San Francisco (a) would receive estimated revenue benefits of \$22.0 million, (b) would incur estimated new costs of \$64.1 million, thereby resulting in an estimated net loss to the City and County of San Francisco of \$42.1 million.

¹ This report does not address the estimated costs and benefits which would result from the 34th America's Cup Host City and Venue Agreement currently pending before the Board of Supervisors (File 10-1259), which will be the subject of a separate forthcoming report from the Budget and Legislative Analyst.

Table A: Estimated Net Benefits to Be Incurred Directly By the City and County of San Francisco Associated with Hosting the 34th America's Cup			
	Benefits	Costs	Net Costs to the City and County of San Francisco (Costs Less Benefits)
The America's Cup Events	\$22.0 million	\$64.1 million	\$42.1 million

Source: Budget and Legislative Analyst's calculations.

Aside from the estimated net costs of \$42.1 million to the City and County of San Francisco as shown in Table A above, the City and County of San Francisco would also be impacted by (a) leasing various Port properties to the Authority, (b) granting development rights to the Event Authority for 66 to 75 years, and (c) allowing the Event Authority to develop such properties, with the City and County of San Francisco charging no rent to the Event Authority for the term of the leases.

As shown in Table B below, by leasing the Port Property to the Event Authority, the City and County of San Francisco would receive estimated increased property tax revenues of \$3.6 million resulting from new development constructed by the Event Authority. However, as also shown in Table B below, if the Event Authority were not provided with the 66 to 75 years of development rights, and instead, if the City and County obtained a private developer through a competitive process, then the City and County could receive estimated increased property tax and lease revenues of \$89.8 million. Therefore, while the City and County will receive estimated increased property taxes of \$3.6 million, it is foregoing \$89.8 million of revenues, thereby resulting in an estimated net loss of \$86.2 million of revenues being forgone by the City and County of San Francisco. This estimated net loss to the City and County of San Francisco of \$86.2 million related to the granting of long-term development rights to the Event Authority is in addition to the estimated net loss to the City and County of San Francisco of \$42.1 million as shown in Table A above.

Table B: Estimated Net Costs to the City and County of San Francisco By Granting Development Rights for 66 to 75 Years to the Event Authority Without Charging Any Rent to the Event Authority			
	Increased Tax Revenues to the City and County	Foregone Increased Taxes and Lease Revenue Which the City and County Would Forego to Host the America's Cup	Net Cost (Costs Less Benefits)
Subsequent Long Term Development	\$3.6 million	\$89.8 million	\$86.2 million

Source: Budget and Legislative Analyst's calculations.

The following section discusses (a) the benefits, resulting from hosting the 34th America's Cup, for private businesses located in San Francisco, and for the City and County of San Francisco, (b) the costs, resulting from hosting the 34th America's Cup, (c) the increased estimated taxes to be received by the City and County as a result of leasing Port property to the Event Authority

and allowing the Event Authority to develop such Port property, and (d) the increased estimated taxes which could have been received by the Port if the City and County did not lease such Port property to the Event Authority.

America's Cup Estimated Event Benefits, As A Result of Hosting the 34th America's Cup, For Private Businesses Located in San Francisco and for the City and County of San Francisco

- The Budget and Legislative Analyst estimates that the America's Cup would generate an estimated \$1.2 billion in new spending in the San Francisco economy. However, because a number of key assumptions used in this calculation are subject to significant variability, including the number of race days, visitors, and sailing teams, or syndicates, the Budget and Legislative Analyst also estimated that the lowest and highest probable economic impact is between \$928 million to \$1.6 billion. The Beacon Report estimated the economic impact at \$1.4 billion in expenditures which falls within the Budget and Legislative Analyst's predicted range.
- The Beacon Report estimates that hosting the America's Cup would generate 8,840 "jobs". It is important to note that all "jobs" predicted in the Beacon Report are not permanent full time jobs, and therefore would not result in the hiring of 8,840 employees. Rather, one "job" under the Beacon Report is equal to one year's worth of work. Rather than new jobs, the years of work estimated in the Beacon Report to be created by hosting the America's Cup in San Francisco would be either: (a) absorbed by the existing workforce through increased productivity (e.g., a restaurant server serves more customers per hour); (b) increased overtime for the existing workforce; or (c) temporary new jobs. Such additional work-years would likely be required in the period immediately preceding and during the America's Cup. It is unlikely that any labor benefits would remain in the years after the America's Cup event is completed.
- The Budget and Legislative Analyst estimates that the estimated \$1.2 billion in new spending in San Francisco would generate \$22.0 million in additional tax revenues to the City and County of San Francisco, comprised of: (a) \$10.7 million in Hotel Taxes; (b) \$7.1 million in Payroll Taxes; (c) \$2.7 million in Sales Taxes; and (d) \$1.5 million in Parking Taxes.

America's Cup Estimated Event Costs to Be Incurred By The City and County of San Francisco

- Under the requirements in the Term Sheet, the Budget and Legislative Analyst estimates that hosting the America's Cup would cost the City and County \$64.1 million in new costs, including:
 - (a) \$35.8 million in construction, demolition, and tenant relocation costs to the Port of San Francisco
 - (b) \$17.7 million in lost lease revenues to the Port
 - (c) \$1.0 million in Police Department Costs
 - (d) \$3.0 million in Municipal Transportation Agency (MTA) costs, and
 - (e) \$6.6 million in various other City Department costs (for environmental review, building inspection, and other City and County services).

As noted in Table A above, the Budget and Legislative Analyst estimates that by hosting the America's Cup in San Francisco, the City and County of San Francisco (a) would receive estimated revenue benefits of \$22.0 million (b) would incur estimated costs of \$64.1 million, thereby resulting in an estimated net loss of \$42.1 incurred by the City and County of San Francisco.

- In addition to the estimated costs to be incurred by the City and County of \$64.1 million shown in Table A above, if the City and County elects to issue Certificates of Participation (COPs) to finance the Port's construction required under the Term Sheet, additional estimated costs for the COPs issuance of \$14.5 million would be incurred, thereby resulting in total net estimated costs to the City and County of \$78.6 million, instead of \$64.1 million.
- These net cost estimates do not include (a) unknown Port staff costs for construction management and planning, and (b) the Port's lost bonding capacity of an estimated \$40.0 million, caused by foregone rental revenues to the Port.
- The estimated costs to be incurred by the City and County do not include unknown staff costs to be incurred for coordinating the America's Cup activities with State and Federal agencies, preparing security plans, and numerous other activities required by City and County staff, as specified in the Term Sheet.
- As noted above, the estimated lost lease revenues to the Port would be \$17.7 million. The City and County may elect to reimburse the Port from the City and County's General Fund for its lost lease revenues under Charter Section B7.320, subject to Board of Supervisors approval.

Long Term Development Opportunities With the America's Cup

The Budget and Legislative Analyst analyzed the impact to the City and County if the Port retained the right to market and/or develop the Port properties, instead of granting 66 to 75 years of development rights to the Event Authority. According to a study prepared for the Port by Bay Area Economics, after the America's Cup events are completed, the Event Authority would most likely develop the following on Port properties that the Event Authority will be leasing, without paying any rent to the Port, for 66-75 years.:

- Seawall Lot 330: A 250 unit condominium building.
- Pier 30/32 and Pier 50: Instead of new development, it is more profitable for the Event Authority to lease out the America's Cup event facilities that will be constructed on Piers 30/32 and 50 (including retail, food and beverage, exhibit, and industrial space) after the event is completed. Therefore, it is probable that no new development would be undertaken after the America's Cup event is completed.

Benefits to the City and County from these uses:

- Because these Port properties would be leased to the Event Authority, without charging any rent to the Event Authority, there would be no lease revenues payable either to the Port or the City and County from such leases.
- A condominium development on Seawall Lot 330 would generate estimated increased property taxes of \$17.9 million, but only an estimated \$3.6 million of such property tax revenue would be realized by the City and County. The remaining estimated \$14.3 of such property taxes would be used to service a Tax Increment Bond, with the proceeds of such bonds being allocated to the Event Authority as required under the Term Sheet.
- Although not a direct revenue, or fiscal, benefit to the City and County, any development on Port property which improves the current uses of such property (parking and industrial space) would provide a public benefit.

The Event Authority would be required by the Term Sheet to pay for some of the Port improvements on Piers 30/32 and 50 in order to host the event and develop the properties. The Port estimates the cost of such improvements (excluding the Event Authority's cost to construct breakwaters, which are related to hosting the race, not developing the property) at \$105.5 million. This benefit of such infrastructure improvements is significant, since the value of Port assets would be improved. However, such improvements would not result in any fiscal benefit to the Port or the City and County because no rental revenues would be realized by the Port or the City and County.

Long Term Development Opportunities Without The America's Cup

If the Port were not required to enter into the no-charge leases with the Event Authority, and if the America's Cup did not occur, the Port could (a) develop on Seawall Lot 330 the 250 unit condominium development by selling or leasing the land to a private developer, and (b) continue the current uses (parking and industrial space) for Piers 30/32 and 50. The value to the Port of such land sale and leases, as estimated by Bay Area Economics, is \$71.9 million. Such foregone lease and land sale revenue is a cost to the City and County associated with transferring 66 to 75 years of long-term development rights to the Event Authority.

If the Port did not enter into the leases with the Event Authority, and identified a different developer to construct a 250 unit condominium building on Seawall Lot 330, such a project would generate additional property taxes to the City and County estimated at \$17.9 million. Piers 30/32 and Pier 50 would not generate additional Property or Possessory Interest Taxes to the City and County because, as discussed above, such Piers are predicted to continue in their current uses as parking and industrial space due to the major infrastructure improvements required on those Piers. Any substantial development requires investments beyond the Port's current financial resources.

- Therefore, the estimated fiscal benefits that would accrue to the City and County if the 66 to 75 year long-term development rights for the Port properties were not transferred to the Event Authority is \$89.8 million, comprised of: (a) \$71.9 million in foregone land sales and lease revenues; and (b) \$17.9 million in foregone increased property taxes.

Comments

- The most significant variable in this analysis depends on the specific development that will actually occur on the long term development sites. As discussed above, based on the data contained in the Bay Area Economic report, it is probable that no improvements would be constructed on Piers 30/32 and 50 beyond the facilities used for hosting the America's Cup. If such an assumption is incorrect, and, for example, the Event Authority decides to construct a hotel on Pier 50 and a mixed use office building on Pier 30/32, the increased economic impact (construction spending) and fiscal impacts (additional tax revenues from such a project including Hotel, Sales, Parking, and Payroll Taxes), would be an additional net benefit to the City and County. Notably tax increment financing typically only captures Property and Possessory Interest Taxes. Therefore all other taxes created by such development would be a benefit to the City and County. However, as noted above, based on the data contained in the Bay Area Economics study, it would be more profitable for the Event Authority to not construct such a hotel or mixed use office building. The Controller's Office of Economic Analysis anticipates issuing a report which will evaluate potential development scenarios and estimate the tax benefit of such potential developments.
- If the City and County does not meet specific performance benchmarks required by the City and County under the Term Sheet, the Event Authority can elect to either reduce the scope of the America's Cup in San Francisco or elect to hold the event elsewhere. If the Event Authority elects either of these options, there is potential for the City and County to incur costs without receiving the full benefits described above. Such benchmarks include completion of environmental review by October 31, 2011, and the completion of all City and County required construction by December 31, 2012.
- Finally, although not specified in, or required under the Term Sheet, the Office of Economic and Workforce Development anticipates raising \$32.0 million in private contributions to help offset the City and County's costs. To the extent such funds become available, the estimated net cost to the City and County of \$42.1 million would be reduced. However, there is no guarantee that any of the anticipated \$32.0 million in private contributions will be raised.

1. SUMMARY OF REQUESTED ACTION

The following is the Budget and Legislative Analyst's analysis of the estimated costs and benefits of hosting the 34th America's Cup in San Francisco under the terms included in the non-binding "Term Sheet for Hosting the 34th America's Cup in San Francisco," as previously approved by the Board of Supervisors on October 5, 2010².

The scope of this analysis included a review and evaluation of three core documents pertaining to hosting the America's Cup:

- "The America's Cup: Economic Impacts of a Match on San Francisco Bay", Bay Area Council Economic Institute and Beacon Economics, July, 2010
- Term Sheet for Hosting the 34th America's Cup in San Francisco", approved by the Board of Supervisors on October 5, 2010
- "Protocol Governing the 34th America's Cup", Golden Gate Yacht Club and Club Nautico di Roma, September 9, 2010

We analyzed the reasonableness of the assumptions and conclusions of the Bay Area Council Economic Institute's and Beacon Economics economic impact assessment report, identified the estimated costs and revenues associated with each element of the Term Sheet, where possible, and evaluated the consistency between the Protocol, economic impact and Term Sheet documents.

Attempts were made to obtain and compare official terms and conditions offered by the two other locations reportedly competing to host the 34th America's Cup³ but no information was available from any City and County agencies, though media reports have been published indicating that Valencia, Spain and an undisclosed location in Italy were under consideration.

The Budget and Legislative Analyst also attempted to evaluate the impact of hosting the 34th America's Cup on small businesses located in San Francisco. While no data was available to quantify such impacts on small businesses, a description of the likely effects is included in this report.

² File 10-1254

³ Valencia, Spain and an undisclosed city in Italy are vying to host the event according to the Mayor's Office of Economic and Workforce Development.

2. BACKGROUND

In 1851, a six person syndicate⁴ from the New York Yacht Club brought the yacht “America” to the Isle of Wight in the United Kingdom to race in the Royal Yacht Squadron’s annual regatta. “America” won the race, bringing home to New York the trophy which would later become known as the America’s Cup. In 1857, the surviving members of that six-person syndicate donated the trophy to the New York Yacht Club under a Deed of Gift, a document which required that the trophy be held in trust as the prize for a perpetual competition between nations.

For more than a century and over 25 separate challenges, the New York Yacht Club successfully defended the America’s Cup until an Australian syndicate won the America’s Cup in 1983. The America’s Cup match was most recently held in 2010 in Valencia, Spain, where the defender Alinghi (a Swiss syndicate) was defeated by BMW Oracle (a syndicate based in San Francisco at the Golden Gate Yacht Club).

Racing Format

As opposed to other major sporting events such as the Olympics or the World Cup, the America’s Cup has no ongoing oversight body. As such, the terms for the America’s Cup match (such as type of yacht or the date and location of the race) are generally defined by the defending syndicate, and have evolved significantly since 1851.

For the majority of the America’s Cup history, matches were held between a single challenging yacht and a single defending yacht. However, since 1970, it has become common to have a series of races to determine the challenger (referred to as the Challenger Series), and, in rarer cases, a series of races to determine the defender (the Defender Series). With the final America’s Cup match being between the winner of the Challenger Series and the Defender Series. For the purposes of this report the term “America’s Cup Regattas” refers to all races including (a) any Challenger Series races, (b) any Defender Series races, and (c) the final America’s Cup match.

Table 1 below shows that out of the eight most recent America’s Cup Regattas, only three included a Defender Series and six included a Challenger Series.

⁴ Syndicate is the term used for a racing team for America’s Cup.

Table 1: Recent Format of America's Cup Regattas						
Year	Location	Defenders		Challenger Series		Total Syndicates
		Number of Syndicates	Defender Series Held?	Number of Syndicates	Challenger Series Held?	
1987	Fremantle, Australia	8	Yes	13	Yes	21
1988	San Diego, USA	1	No	1	No	2
1992	San Diego, USA	5	Yes	7	Yes	12
1995	San Diego, USA	3	Yes	7	Yes	10
2000	Auckland, New Zealand	1	No	11	Yes	12
2003	Auckland, New Zealand	1	No	9	Yes	10
2007	Valencia, Spain	1	No	11	Yes	12
2010	Valencia, Spain	1	No	1	No	2

Source: "The America's Cup: Economic Impacts of a Match on San Francisco Bay", Bay Area Council Economic Institute and Beacon Economics, July 2010.

As shown in Table 1 above, in 1988 and 2010, the America's Cup Regattas did not feature a Defender Series or a Challenger Series, such that only two syndicates participated in the final match under a best of three races format. These particular America's Cup Regattas were ordered by a judge as the result of legal battles between the Defender and a Challenger caused by the two entities being unable to agree upon racing terms, and are not indicative of typical America's Cup Regattas. For the purposes of this report, the 1988 and 2010 America's Cup Regattas are disregarded as anomalous events.

Format For The Proposed 34th America's Cup

On February 14, 2010, in the 33rd America's Cup, the BMW Oracle syndicate from the Golden Gate Yacht Club defeated defending syndicate Alinghi off the coast of Valencia, Spain. Shortly thereafter, Club Nautico Di Roma, a yacht club based in Italy, submitted the first qualified challenge to the Golden Gate Yacht Club, becoming the challenger of record⁵. Subsequently, the Golden Gate Yacht Club and Club Nautico Di Roma began negotiating the terms of the 34th America's Cup.

On September 9, 2010, the Golden Gate Yacht Club and Club Nautico Di Roma jointly issued the "Protocol Governing the 34th America's Cup." The Protocol provides for the following:

1. A series of an estimated 13 exhibition races (referred to as AC World Cup Regattas) to be held in 2011-2013 between competing syndicates prior to a Challenger or Defender series.
2. A Challenger Series to determine the final challenger syndicate to race in the America's Cup final match.
3. The possibility of a Defender Series to determine the final defending syndicate to race against the winner of the Challenger Series.
4. A final America's Cup match.

⁵ The challenger of record is not necessarily a yacht club which will actually form a syndicate and submit a yacht to challenge the America's Cup defender, rather, the role of the challenger of record is to negotiate with the current Defender to determine the terms of the America's Cup events.

5. A new type of catamaran yacht (with two hulls connected by cross beams) to be raced in the America's Cup regattas which features a rigid sail⁶ (as opposed to the traditional single-hulled yacht with a cloth sail).

The Protocol does not specify a venue for the America's Cup Regattas which could be held in any combination of venues under the terms of the Protocol. Specifically, the Protocol allows (a) for each regatta to take place in a different venue, and (b) for each individual race in the America's Cup final match to be held in a different venue. The Protocol requires the final day of the Challenger Series to be between 5 and 10 days prior to the first day of the America's Cup final match.

Hosting the 34th America's Cup in San Francisco

The Golden Gate Yacht Club and the Mayor's Office of Economic and Workforce Development prepared a non-binding Term Sheet outlining respective roles and responsibilities for the 34th America's Cup if it were to be located in San Francisco. The Term Sheet was approved by the Board of Supervisors on October 5, 2010, (File 10-1254). The Term Sheet was intended to be the basis of a binding Host City Agreement, which would include all terms and conditions of the City hosting the 34th America's Cup Regattas. Future Board of Supervisors approval would be required for (a) a resolution authorizing the execution of the Host City Agreement, (b) a resolution finding that hosting the 34th America's Cup is fiscally feasible under Chapter 29 of the Administrative Code⁷, and (c) any leases of a ten year term or greater.

According to a number of press reports⁸, there are two other cities competing to host the 34th America's Cup, (1) Valencia, Spain (the host of the 32nd and 33rd America's Cup Regattas), and (2) an undisclosed location in Italy. The Budget and Legislative Analyst was unable to obtain any documentation describing the terms under which either competing location might host the event from any City agencies.. Therefore, the Budget and Legislative Analyst was unable to compare the terms of such proposals to those included in the approved Term Sheet. According to *Las Provincias*⁹, a Spanish newspaper, Valencia has been rejected by the Event Authority as a possible site.

⁶ The rigid sail can be functionally thought of as a vertical airplane wing complete with flaps and other movable panels.

⁷ Chapter 29 of the Administrative Code states that prior to beginning the environmental review process required by the California Environmental Quality Act (CEQA), the Board of Supervisors must determine that the project is fiscally feasible, considering the following five criteria: "(1) direct and indirect financial benefits of the project to the City, including to the extent applicable costs savings or new revenues, including tax revenues, generated by the proposed project; (2) the cost of construction; (3) available funding for the project; (4) the long term operating and maintenance costs of the project; and (5) debt load to be carried by the City department or agency."

⁸ "Bid for America's Cup Hits Rough Waters" Worth, Katie: San Francisco Examiner, September 24, 2010. Article retrieved online at www.sfexaminer.com.

⁹ "Rita Regrets That Oracle Has Missed The Commitment For 34 in Valencia America's Cup", *Las Provincias*, November 12, 2010. Article retrieved online at www.lasprovincias.es. Contents translated by Google translation.

3 DETAILS OF THE “TERM SHEET TO HOST THE 34TH AMERICA’S CUP IN SAN FRANCISCO”

As discussed above, on October 5, 2010, the Board of Supervisors approved a non-binding Term Sheet, which was intended to form the basis for the terms and conditions of the City hosting the 34th America's Cup (File 10-1254). The Term Sheet references (a) the entities which are involved in hosting the 34th America's Cup, (b) the requirements of the Event Authority (the entity which manages the event), and (c) the requirements of the City.

Overview of Entities

If hosted in San Francisco, the America's Cup will be produced through collaboration involving the City, the Golden Gate Yacht Club, an Event Authority, and an Organizing Committee. A description of each entity is provided below.

The Golden Gate Yacht Club (GGYC) is a boating club located in the San Francisco Marina's West Yacht Basin. It is the home of BMW Oracle Racing, the winner of the 33rd America's Cup, which was held in Valencia, Spain in 2007. As discussed above, the GGYC has accepted a challenge from Club Nautico di Roma (CNR). The two clubs have established a protocol that sets forth the rules governing the 34th America's Cup. The GGYC is acting on behalf of the Event Authority in the current negotiations with the City and County of San Francisco to host the 34th America's Cup.

America's Cup Event Authority (Event Authority): The GGYC and CNR have appointed an Event Authority to organize and manage the America's Cup. The Event Authority is responsible for the professional organization, management and financing of the America's Cup including any exhibition matches, the challenger series, a defender series if required, and the final America's Cup match.

The America's Cup Organizing Committee (ACOC): The ACOC will facilitate holding the America's Cup in San Francisco and the securing of financial support. An Honorary America's Cup Organizing Committee consists of 35 members including members of California's Congressional delegation, the current Governor and others. A working committee has been established. As host, the City will form an Intergovernmental Task Force to address a range of organizational and financing requirements described below.

Event Venue Overview

Table 2 presents an overview of how Port facilities would be used for the Event, as described in the Term Sheet.

Pier/Facility	Purpose
Pier 28, 48	Base Venue
Pier 30-32 and or Pier 50	Base Venues and Super-yacht berthage
Pier 80	Display of USA 17, (winning yacht from the 33 rd America's Cup) Operation of temporary heliport; race operations, storage, staging
Piers 38, 40 and 54	Unspecified
Brannan Street Wharf and Seawall Lot 337	Temporary broadcast facility (potential)
Seawall Lot 330	Long Term Team Base

Source: Term Sheet

See the attached map for an overview of the uses of the Port facilities described in Table 2 above.

Event Timing and Days

Unlike other major sporting events, predicting and planning the exact number of event days for the America's Cup is not possible this far in advance. As the Term Sheet indicates, in addition to the final competition, or match, to be held in 2013, the America's Cup is anticipated to also include a number of pre-match racing events, though some of them could be held in other cities and some may not be held at all. However, if the City of San Francisco is selected to host the 34th America's Cup, the Term Sheet and recent America's Cup history indicate that the Event Authority will likely be responsible for the management and production of the following events in San Francisco, estimated by the Budget and Legislative Analyst based on past America's Cup races to cover a minimum of 45 days of racing, as follows:

- At least two pre-regatta exhibition matches, one each in 2011 and 2012, each with approximately five racing days (or, if there is no exhibition match in 2011, the 2012 exhibition match in 2012 shall have approximately eighteen racing days);
- Challenger Series races (known as the America's Cup Challenger Series) in which potential challengers race to determine who will compete in the final match, over an estimated minimum of 28 race days prior to the final match; and
- The final match, over an estimated minimum of 7 race days.

The Term Sheet also allows for an optional Defender Series in which additional races are held prior to the final match to determine who will compete against the selected challenger in the final match.

The total number of race days in San Francisco could be higher or lower than the 45 days enumerated above as the Term Sheet allows for flexibility in the number of events based on factors such as economic conditions, sponsorships, California Environmental Quality Act

(CEQA) review results, the number of syndicates, or teams, that participate in the Challenger and Defender Series (assuming both occur), and the possibility of a different number of pre-regattas, or exhibition matches, than the two enumerated in the Term Sheet. The Budget and Legislative Analyst concludes that a Challenger Series is likely to occur in San Francisco but a Defender Series is less likely. As presented in Table 1 above, only three of the eight most recent America's Cup Regattas included a Defender Series though six of the eight included a Challenger Series. Details on the economic impacts of possible differences in the number of race days are presented below in this report's Methodology section. The Budget and Legislative Analyst estimates that the highest number of raced days which would be included in the America's Cup at 86 days.

The approximate timing of the 34th America's Cup events would be as follows:

- Pre-regattas: one in 2011, one in 2012 (or two in 2012 if the 2011 does not occur)
- Challenger Series: Summer 2013
- Optional Defender Series: Summer 2013
- Final Match: Summer 2013
- Possible post-Match events: within six months of completion of final match

Event Authority Requirements and Obligations

In preparation for the America's Cup events, the Term Sheet obligates the Event Authority to pay for infrastructure repairs and improvements, as follows:

1. Pile replacements and strengthening on Piers 30/32 and Pier 50, including bringing them into compliance with seismic requirements.
2. Repairs and replacements of other Event facilities that the Event Authority deems necessary.
3. The construction of breakwaters.

The Term Sheet calls for tax increment and like debt instruments to be issued by the City to provide funding to pay back the Event Authority for some or all of their costs incurred in making these repairs. The debt instruments would be applied to incremental property tax revenues generated from the Port properties for which long-term development rights would be transferred to the Event Authority under a separate provision of the Term Sheet known as "Legacy Leases", described further below.

For the actual America's Cup events, the Event Authority would be responsible for security (other than emergency and rescue services) within areas requiring special authorization, ticketing or other non-public access.

The Term Sheet states that the Organizing Committee will attempt to raise \$270 million in sponsorships on behalf of the Event Authority to cover Event costs, though it does not specify if some of those funds would be available for the required infrastructure improvements or would be used entirely for other purposes.

After the America's Cup final match and any optional post-Match races, the City will grant the Event Authority a number of "Legacy Leases" for long term development rights on three Port properties that will be used for the America's Cup events: Piers 30/32, Pier 50 and Seawall Lot

330. The Event Authority will be responsible for all costs related to development of these properties, including the costs of building inspections and related permits, development review any zoning permits, and environmental review. The Event Authority would not be obligated to pay any base rent or option considerations for the facilities.

City Requirements and Obligations

The City's obligations outlined in the Term Sheet include staff time and costs related to venue preparation and security and movement of participants and spectators during the various event races. Specifically, the following City requirements are identified in the Term Sheet.

Port Facilities and preparation:

- By December 31, 2012, delivery of Piers 28, 30-32, 48, 50, and Seawall Lot 330, free of tenants, to the Event Authority for use as bases for the Event
- Removal of Pier 36 to accommodate dredging and construction of the Brannan Street Wharf, to be used for Event purposes
- Delivery of a venue suitable for super-yacht berthage in the vicinity of Piers 30-32 or Pier 50, to be used at the discretion of the Event Authority
- Delivery of the Brannan Street Wharf and a portion of Seawall Lot 337 to serve as a temporary broadcast facility, the use of which will be at the discretion of the Event Authority
- Timely delivery of Piers 40 and 54, to be used at the discretion of the Event Authority
- Delivery of Pier 80 to be used to display the yacht that won the America's Cup
- Dredging as necessary to accommodate Event venues
- Removal of existing Port tenants as necessary to prepare Event venues
- Removal of Sheds A, B, C and D from Pier 50 to prepare the pier for use as a base Event facility

Other City Department Services:

- Review and approval of development projects related to the repair and construction of event venues are at no cost to the Event Authority including the costs of all project review, inspections and permit issuances for Event Venue construction by the Department of Building Inspection and Department of City Planning. The costs of environmental review (the CEQA process) would be borne by the City. Preparation and implementation of a "People Plan" in coordination with other regional transportation authorities, the Event Authority and the Intergovernmental Committee to facilitate movement of up to 200,000 people on any one day to and from the Event
- Police and related services to ensure security and safety of persons and property in areas not under the Event Authority's control
- Closures and control of streets and access points to Event venues
- Removal of the common law public trust from Seawall Lot 330 either through an exchange with another City owned property or by agreement with the State Lands Commission or State legislative action
- Collaboration with the Event Authority to develop a security plan to address safety and security for competitors, officials, sponsors, property, media, and the public

Best Efforts Requirements:

The Term Sheet obligates the City to use its best efforts in collaboration with the ACOC to obtain approvals for or implement the following:

- Coordinate with federal and State agencies to secure exclusive water and air space within course areas on race days and for training
- Use of certain radio frequencies
- An international high definition broadcast of events
- Advertising space at SFO and in the City
- Meteorological support
- Berthage on the City's waterfront for special purpose America's Cup ships
- Facilitation of customs and immigration procedures for competitors officials, media etc.
- Tax treatments no less favorable than that created for the 32nd America's Cup in Spain
- Protection from ambush marketing
- Protection from noise and debris generating activities near event venues
- Access to outdoor advertising sites for use by the Event Authority
- Coordination of relocation services for syndicate and Event personnel relocating to San Francisco
- Coordination of registration and licensing for event vessels with the Coast Guard
- Development of a Bay Area volunteer program to help the Event
- Coordination with the Convention Bureau to secure hotel rooms at convention discounted rates
- Secure adequate facilities for Pre Regattas including Pier 80

Advertising:

The Term Sheet requires the Event Authority to promote the Event using advertising space in San Francisco and at San Francisco International Airport to be made available by the City. The Term Sheet does not clearly specify whether the Event Authority will pay for use of this advertising space, whether it is to be made available free of charge, or how much space is to be made available.

4. ECONOMIC AND TAX BENEFITS

Hosting the 34th America's Cup in San Francisco would provide an economic benefit for the City and region, as well as additional tax revenues for the City and other jurisdictions in the Bay Area. This part of our analysis is based on our review of the "The America's Cup: Economic Impacts of a Match on San Francisco Bay", produced by Beacon Economics for the Bay Area Council Economic Institute in 2010 (hereinafter referred to as the Beacon Report). This publication is, to our knowledge, the only comprehensive analysis of the economic impact of the event published and publically available at this time.

The Beacon Report's analysis uses the 2007 32nd America's Cup Regatta in Valencia, Spain as the foundation for its assumptions for the event being hosted in San Francisco considering the Valencia experience the best point of comparison because: (a) it is the most recent typical¹⁰ America's Cup Regatta; and, (b) a study was conducted after the 2007 event which quantified the economic benefits to the region.

The 2007 32nd America's Cup in Valencia, Spain

In December of 2007, the Instituto Valenciano de Investigaciones Economicas (IVIE), a private research institute based in Valencia, Spain, issued a report entitled "Economic Impact of the 32nd America's Cup Valencia 2007" (the IVIE Report) which quantified the economic impact of hosting the America's Cup in the Region of Valencia. The Region of Valencia (which contains both (a) the Province of Valencia, and (b) the City of Valencia) has roughly the same area and population as the nine counties which comprise the San Francisco Bay Area. The Beacon Report relies on the actual experience in Valencia in 2007, as reported in the IVIE Report, as a foundation for many of its projections and assumptions.

According to the IVIE Report, and as shown in Table 3 below, hosting the 2007 32nd America's Cup in Valencia brought \$4.3 billion in direct spending to the region, though \$3.2 billion of this amount, or approximately 74 percent of the total, was government spending for a number of infrastructure improvements, leaving approximately \$1.1 billion in expenditures by the syndicates, Event Authority, spectators and other non-governmental expenditures. Direct spending includes the purchases made by the entities listed below (e.g., visitor spending on food); it does not include indirect spending which is created as a result of direct spending (e.g., the restaurant selling food to the visitor must purchase additional supplies to meet the increased demand).

¹⁰ As discussed above, the 2010 33rd America's Cup Regatta is considered anomalous because disagreement between the challenger and defender caused court action to dictate the regatta format.

**Table 3: Estimated Actual Spending in Valencia, Spain
Resulting from Hosting 32nd America's Cup, 2007**

Spending Category	Valencia in 2007 ¹¹
Syndicates (Teams)	\$557,400,000
Event Management	149,200,000
Visitors	194,200,000
Government Funded Infrastructure	3,237,800,000
Media	25,700,000
Super-Yachts	39,400,000
Other	140,200,000
Total Direct Spending	\$4,343,900,000

Source: Bay Area Council Economic Institute and Beacon Economics "The America's Cup: Economic Impacts of a Match on San Francisco Bay"¹², July 2010, Table 14.

The IVIE report relies heavily on surveys of visitors and syndicates regarding spending. The Budget and Legislative Analyst notes that such survey data, which is based on a person's recollection, is likely to be less accurate than data based on actual sales tax receipts. Despite the source of the data, the Budget and Legislative Analyst considers the IVIE Report to be the best available basis from which to predict the impact of the 34th America's Cup.

Analysis of Beacon Report's Projected Expenditures Resulting from Hosting the 34th America's Cup in San Francisco

The Beacon Report estimates that hosting the 34th America's Cup in San Francisco would result in \$791,082,850 in total direct spending, plus \$581,331,785 in indirect spending, for a total economic impact of \$1,372,414,635. Table 4 presents these results, by spending category.

¹¹ In order to provide comparable figures, all spending figures from Valencia were converted from Euros to U.S. Dollars, then inflated from 2007 to 2010 to reflect a current dollar value.

¹² There are a number of discrepancies in the Beacon Report between the data presented in summary Table 14 of the Beacon Report and the narrative sections which precede that table (specifically the spending for syndicates, super-yachts, cup management, and media). According to Mr. John Haveman at Beacon Economics, the values in Table 14 are the correct values, and are therefore used in this report.

Table 4: Beacon Report Estimated Spending in San Francisco Resulting from Hosting the 34th America's Cup	
Spending Category	San Francisco
Syndicates (Teams)	\$215,750,002
Event Management	195,209,743
Non-Local Visitors	86,144,734
Local Visitors	150,385,104
Government Funded Infrastructure	100,000,000
Media	25,664,760
Super-Yachts	11,280,566
Other	6,647,941
Total Direct Spending	\$791,082,850
Additional Indirect Spending	581,331,785
Total Direct and Indirect Spending	\$1,372,414,635

Source: Bay Area Council Economic Institute and Beacon Economics "The America's Cup: Economic Impacts of a Match on San Francisco Bay", July 2010

Assumptions for Analysis

The Beacon Report assumes a baseline of estimated expenditures based on direct spending at the 2007 32nd America's Cup in Valencia reported in the IVIE Report. The Beacon Report then makes the following four assumptions which are critical to their analysis:

1. No exhibition matches (known as America's Cup World Cup matches) would occur in San Francisco prior to a Defender or Challenger Series (as opposed to eight exhibition races held in Valencia).
2. 15 syndicates would participate in San Francisco, consisting of: (a) 12 Challenger Syndicates (as compared to 11 in Valencia); and, (b) three Defender Syndicates in a Defender Series (as opposed to there being only one Defender in Valencia, selected without a Defender Series).
3. There would be 450,000 non-local visitor days (defined as one day of a visit by a person that does not live within driving distance of San Francisco).
4. There would be 2.3 million local visitor days (defined as one day of a visit by a person that lives within driving distance of San Francisco).

The Budget and Legislative Analyst finds these assumptions to be within a range of reasonable scenarios. However, because these key assumptions that drive spending resulting from hosting the America's Cup cannot be precisely predicted in advance, we have analyzed and estimated spending under three scenarios which are intended to represent the reasonable ranges of the four assumptions discussed above:

1. Low Scenario: considered to reasonably represent the minimum amount of economic impact resulting from hosting the 34th America's Cup;

2. Base Scenario: considered to reasonably represent the most probable scenario resulting from hosting the 34th America's Cup; and
3. High Scenario: considered to reasonably represent the maximum amount of economic impact resulting from hosting the 34th America's Cup.

A discussion of each of the four key assumptions included in the Beacon Report, and the Budget and Legislative Analyst's predicted range of outcomes, is provided below.

Number of Exhibition Matches

The Protocol for the 34th America's Cup issued by the Golden Gate Yacht Club and the Club Nautico di Roma states that approximately 13 regattas will be held prior to the Challenger Series and Defender Series, including (a) 3 in 2011, (b) 7 in 2012, and (c) 3 in 2013. Such regattas are intended to give all syndicates an opportunity to sail against one another in the new type of catamaran yachts to be used in the 34th America's Cup and generate interest in the America's Cup by hosting such events around the world.

For the 2007 32nd America's Cup in Valencia, such exhibition matches were referred to as America's Cup Acts. There were 13 such acts in the years preceding the final America's Cup match, including eight in Valencia. Overall, there were approximately 95 event days in Valencia, including (a) 50 for the exhibition matches (or Acts), (b) 37 for the Challenger Series, and (c) eight for the final America's Cup Match. A Defender Series did not take place in 2007.

As discussed above, the Beacon Report excludes the impact of any America's Cup World Cup exhibition matches. Under the Term Sheet (which was issued after the Beacon Report), at least two such exhibition regattas would be held in San Francisco, and we have assigned the following values for each of the three scenarios described above:

1. Low Scenario: The minimum of two exhibition regattas will be held in San Francisco, consistent with the provisions of the Term Sheet.
2. Base Scenario: Four exhibition regattas will be held in San Francisco (half the amount held in Valencia in 2007).
3. High Scenario: Eight exhibition regattas will be held in San Francisco (equal to the amount held in Valencia).

The Challenger Series

The Budget and Legislative Analyst assumes that a Challenger Series would be held in San Francisco under all three scenarios. This assumption remains unchanged under the three scenarios because, as shown in Table 1 above, a Challenger Series has consistently been included in America's Cup events.

The Defender Series

The Budget and Legislative Analyst notes that a Defender Series is a less frequent America's Cup event than a Challenger Series. Therefore, only our high scenario assumes a Defender Series

will be held. This assumption is consistent with recent America's Cup history, as shown in Table 1 of this report; Defender Series matches have only taken place in three of the eight most recent America's Cups.

Number of Syndicates

As discussed above, the Beacon Report assumes 15 syndicates, or teams, would participate, comprised of: (a) 12 Challenger Syndicates (instead of 11 in Valencia) and (b) three Defender Syndicates in a Defender Series (as opposed to one Defender in Valencia which was selected without a Defender Series).

As shown in Table 1 above, syndicate participation has varied widely in past America's Cup regattas for defenders (between 1 and 8) and challengers (between 7 and 13). The Beacon Report's assumption that 15 syndicates would participate, including three defender syndicates (thus requiring a Defender Series) is possible given the historical range of syndicate participation. However, as discussed above and shown in Table 1, Defender Series are fairly rare.

Therefore, the Budget and Legislative Analysts assigns the following values for each of the three scenarios described above:

1. Low Scenario: 8 Syndicates participate, with no Defender Series.
2. Base Scenario: 12 Syndicates participate, with no Defender Series.
3. High Scenario: 15 Syndicates participate, with three Defender Syndicates in a Defender Series.

In regard to the new catamaran yacht type to be raced in the 34th America's Cup Regattas, as opposed to the traditional single-hull yachts which have been the standard¹³ in prior races. It is possible that such a new design may discourage potential syndicates to participate due to inexperience in constructing or racing this new yacht design. However, any impact the new yacht design has on participation is assumed not to impact the historically wide range of syndicate participation. Furthermore, to the extent that syndicates which had anticipated participating in the 2010 33rd America's Cup regattas, but could not, due to the legal issues surrounding the race, might increase future syndicate participation is considered to be negligible and not included in this analysis.

Non-Local Visitors

As discussed above, the Beacon Report assumes there would be a total of 450,000 non-local visitor days for a Challenger Series, Defender Series, and final America's Cup match in San Francisco, which is equal to the number of non-local visitor days in Valencia for the same events. The Beacon Report also discusses the potential increases to non-local visitor attendance

¹³ The 1988 America's Cup featured a catamaran defender and a single-hull challenger. The 2010 America's Cup featured trimarans (yachts with three hulls). However, as discussed above the 1988 and 2010 America's Cup Regattas were anomalies caused by legal disagreements between the defender and challenger, such that typical America's Cup regattas have featured single-hulled yachts.

which may be caused due to the larger population and higher income levels within reasonable proximity to San Francisco as compared to Valencia.

The Budget and Legislative Analyst agrees that such demographic features are a factor, particularly for attendees who live within reasonably close proximity to the Bay Area. However, the Budget and Legislative Analyst considers what the Beacon Report described as “a stronger European sailing culture” to also have the potential to offset the demographic advantages provided by San Francisco.

Therefore, the Budget and Legislative Analysts assigns the following values for each of the three scenarios described above:

1. Low Scenario: A total of 397,544 non-local visitor days for two exhibition matches, a Challenger Series, and the final America's Cup match.
2. Base Scenario: A total of 610,118 non-local visitor days for four exhibition matches, a Challenger Series, and the final America's Cup match.
3. High Scenario: A total of 1,031,486 non-local visitor days for eight exhibition matches, a Challenger Series, a Defender Series, and the final America's Cup match.

See the Methodology Section below for a discussion of how visitor days for each scenario were calculated.

Local Visitors

As discussed above, the Beacon Report assumes that there would be a total of 2,300,000 local visitor days for a Challenger Series, Defender Series, and final America's Cup match in San Francisco, which is 115 percent greater than the local visitor days in Valencia. The Beacon Report justifies this assumed increase by (a) citing the seven day attendance at Fleet Week of approximately 1,150,000, and (b) concluding that attendance at America's Cup Regattas (which, excluding any exhibition matches are likely to occur over a 45 day period) would likely be equal to two Fleet Weeks. The San Francisco Fleet Week Association (the non-profit organizing group for Fleet Week) estimates Fleet Week attendance in 2009 at 1,500,000.

The Budget and Legislative Analyst notes that Fleet Week attendance data likely includes San Francisco residents whose spending, if not at Fleet Week, would have otherwise occurred in the City and thus cannot be considered to be net new spending. However, in light of the 14 day duration of two Fleet Weeks as compared to the 45 day duration of the America's Cup regattas (excluding exhibition races), the Beacon Report's assumption of 1,150,000 attendees is reasonable. The income and demographic characteristics of the local Bay Area population would be likely to result in a higher number of attendees than the number of local attendees in Valencia in 2007.

The Budget and Legislative Analyst further notes that Fleet Week is a well known Bay Area attraction while local interest in the America's Cup is not known. Therefore, the Budget and Legislative Analyst assigns the following values for each of the three scenarios described above. All estimates of local visitor days are greater than in Valencia because Fleet Week attendance is

likely to be a better predictor of local interest in the America's Cup in San Francisco than the level of local interest in the America's Cup held in Valencia.

1. Low Scenario: A total of 1,846,782 local visitor days for two exhibition matches, a Challenger Series, and the final America's Cup match.
2. Base Scenario: A total of 2,994,108 local visitor days for four exhibition matches, a Challenger Series, and the final America's Cup match.
3. High Scenario: A total of 6,148,522 local visitor days for eight exhibition matches, a Challenger Series, a Defender Series, and the final America's Cup match.

See the Methodology Section below for a discussion of how visitor days for each scenario were calculated.

Summary of Scenario Assumptions

Table 5 below summarizes the ranges of assumptions used by the Budget and Legislative Analyst to estimate spending generated by hosting the 34th America's Cup in San Francisco under the three scenarios discussed above. As a point of comparison, the assumptions used in the Beacon Report are also provided in Table 5 below.

Table 5: Summary of Beacon Report Assumptions and Budget & Legislative Analyst's Alternative Economic Impact Scenarios				
Category	Low	Base	High	Beacon Report
Number of Syndicates	8	12	15	15
Number of Exhibition Matches	2	4	8	-
Number of Challenger Series Matches	1	1	1	1
Number of Defender Series Matches	-	-	1	1
Total Days of Racing	45	55	86	35
Non-Local Visitor Days	397,544	610,118	1,031,486	450,000
Local Visitor Days	1,846,782	2,994,108	6,148,522	2,300,000
Total Visitor Days	2,244,326	3,604,226	7,180,008	2,750,000

Source: Beacon Report and Budget and Legislative Analyst assumptions.

Using the varying assumptions for each of the three Budget and Legislative Analyst scenarios as shown in Table 5 above, the Budget and Legislative Analyst recalculated the estimated expenditures for each spending category.

Results

The Budget and Legislative Analyst estimates that the total economic impact of hosting the 34th America's Cup in San Francisco under the base scenario would be \$1.2 billion. However, given the uncertainty around the four key assumptions discussed above, the Budget and Legislative Analyst considers the reasonable range to be from \$928 million to \$1.6 billion, as shown in Table 6 below.

Table 6: Budget and Legislative Analyst's Estimated Range of Expenditures by Visitors to 34th America's Cup in San Francisco

Category	Beacon Report	Budget and Legislative Analyst Scenarios		
		Low Scenario	Base Scenario	High Scenario
Syndicates	\$215,750,002	\$115,066,668	\$172,600,002	\$215,750,002
Event Management	195,209,743	191,289,746	191,289,746	191,289,746
Non-Local Visitors	86,144,734	67,040,966	102,888,898	173,947,502
Local Visitors	150,385,104	83,623,431	135,575,069	278,408,914
Government Funded Infrastructure	100,000,000	35,820,555	35,820,555	35,820,555
Media	25,664,760	25,664,760	25,664,760	25,664,760
Super Yachts	11,280,566	11,280,566	11,280,566	11,280,566
Other	6,647,941	5,000,000	5,000,000	5,000,000
Total Direct Spending	\$791,082,850	\$534,786,691	\$680,119,595	\$937,162,044
Additional Indirect Spending	581,331,785	392,991,078	499,789,799	688,678,922
Total Direct and Indirect Spending	\$1,372,414,635	\$927,777,769	\$1,179,909,394	\$1,625,840,966

Source: Beacon Report and Budget and Legislative Analyst calculations.

As discussed above, direct spending includes the purchases made by the entities listed above (for example on visitor spending on food), it does not include indirect spending which is created as a result of direct spending (for example the restaurant selling food to the visitor must purchase additional supplies to meet the increased demand). The Budget and Legislative Analyst did not independently attempt to calculate indirect spending. The Beacon Report uses the IMPLAN model, a widely accepted economic forecasting tool used to estimate indirect expenditures generated as a result of new direct spending caused by economic events such as the America's Cup. The indirect spending figures included in Table 6 were reduced proportionally by the reduction in direct spending.¹⁴

Methodology to Determine Spending and Tax Revenues Resulting from Hosting 34th America's Cup

A description of how each category of spending (those categories shown in Table 6 above) was calculated is provided below.

Syndicate Spending

The Beacon Report estimates that direct spending by the assumed 15 syndicates (12 Challenging Syndicates plus 3 Defending Syndicates) would total \$215,750,002, or \$14,383,333 per syndicate. Based on the experience at previous America's Cup sites, syndicates are expected to come to San Francisco or the Bay Area well in advance of the final match, take up temporary residence here, and construct sailing facilities to house and maintain their yachts (the yachts themselves are built in the country of the syndicate's origin). Their expenditures are expected to include housing and accommodation costs, construction, and marine sector services (design, repair, spare parts, etc.). Beacon used the per syndicate spending in Valencia of \$44,375,000

¹⁴For example, the indirect spending in the Beacon Report was 73.5 percent of direct spending, such that the indirect spending for the Budget and Legislative Analyst scenarios above is calculated as 73.5 percent of the direct spending for that scenario. Errors are due to rounding.

(\$532,500,000 in total syndicate spending across all 12 syndicates that participated in Valencia), and then significantly adjusted the spending downward to account for (a) the lack of space on San Francisco piers to construct individual large hospitality venues for each syndicate as were constructed in Valencia, and (b) the lack of marine related businesses in San Francisco, needed for material and supplies for their yachts, as compared to those in the Region of Valencia.

The Budget and Legislative Analyst finds these adjustments to be reasonable, and therefore agrees with the estimated spending of \$14,383,333 per syndicate. As such, estimated syndicate spending for each scenario is simply the assumed number of syndicates times \$14,383,333.

Event Management

Event management expenditures include infrastructure improvements and construction of facilities needed for the America's Cup events that are paid for by the Event Authority. The Term Sheet includes a number of items to be paid for by the Event Authority including substructure improvements to Piers 30/32 and Pier 50, and construction of breakwaters. The Beacon Report estimates that direct spending for event management, or the expenditures of the Event Authority discussed in the Term Sheet, at \$195,209,743, or \$46,009,743 more than event management expenditures in Valencia of \$149,200,000. The Beacon Report states that such an increase over comparable expenditures in Valencia is attributable to infrastructure construction costs to be borne by the Event Authority under the Term Sheet. In Valencia, much of the comparable construction was paid for by various Spanish governmental entities in Valencia, resulting in lower expenditures classified under Event Management. The Event Management spending of \$195,209,743 estimated for San Francisco in the Beacon Report includes (a) \$106,097,561 in construction costs, and (b) \$89,112,182 in non-construction costs.

The Budget and Legislative Analyst finds that the estimated construction costs of \$106,097,561 does not sufficiently reflect the infrastructure investments required by the Event Authority under the Term Sheet. The Port of San Francisco estimates that the cost of those improvements will be \$150 million. Therefore, the total direct spending for event management should be increased to \$239,112,182 (\$150,000,000 in construction costs plus \$89,112,182 in non-construction costs).

However, the Budget and Legislative Analyst notes that, as discussed above, the direct spending in Valencia of \$149,200,000 reflected spending in the entire Region of Valencia, which by population and area is more comparable to the nine county San Francisco Bay Area, and therefore provides a larger catchment area for spending. The Budget and Legislative Analyst notes that such an adjustment was made in the Beacon Report for syndicate spending due to the lack of marine businesses in San Francisco as described above.

Therefore, the Budget and Legislative Analyst recommends reducing the total adjusted direct spending of \$239,122,182 by 20 percent to reflect our estimate of the portion of spending that would occur in the San Francisco Bay Area but outside the City of San Francisco, such that the resulting estimated direct spending would be reduced by \$47,822,436 ($\$239,122,182 \times 20\%$) to \$191,289,746 ($\$239,122,182$ less $\$47,822,436$). Variances in the assumptions for each scenario shown in Table 4 above are considered to not have a significant impact in event management costs, such that each scenario is assumed to require event management expenditures of \$191,289,746.

Non-Local Visitors

The Beacon Report estimates that direct spending for non-local visitors, defined as those visitors who are not within driving distance and would require overnight accommodations, at \$86,144,734. According to the Beacon Report, the assumed number of non-local visitor days¹⁵ would be 450,000 which is equal to the number of foreign visitor days in Valencia in 2007.

However, the Beacon Report goes on to state that the 450,000 estimated “assumes that the number of spectators will be 20% greater than was the case in Valencia,”¹⁶ but, contradictorily, later in the report states¹⁷, that “ we have assumed... that non-local spectators would be the same as was experienced in 2007 (in Valencia)”. The Beacon Report also assumes that non-local visitors would spend \$201.55 per day, the same amount per visitor day as foreign visitors spent in Valencia in 2007 according to the IVIE Report. There appears an additional adjustment which the Beacon Report does not explain because 450,000 visitor days times \$201.55 in daily expenditures equals \$90,697,500, more than the \$86,144,734 estimated for non-local visitors to San Francisco by the Beacon Report.

Without access to all work papers and assumptions embodied in the Beacon Report, the Budget and Legislative Analyst is unable to fully evaluate all results in the report. In an attempt to provide some insight on the spending from this category, the Budget and Legislative Analyst attempted to independently determine the non-local visitor spending results of the Beacon Report, using its own methodology. The Budget and Legislative Analyst’s methodology is provided in Table 7 below.

¹⁵ A visitor day is the base unit used to calculate visitor spending in the Beacon Report, and is defined as a single day spent in San Francisco by a visitor, such that one visitor staying one week generates seven visitor days.

¹⁶ Bay Area Council Economic Institute and Beacon Economics "The America's Cup: Economic Impacts of a Match on San Francisco Bay", July 2010, Page 20

¹⁷ Ibid., Page 34

Table 7: Budget and Legislative Analyst's Calculation of Non-Local Visitor Spending				
Row	Description	Low Scenario	Base Scenario	High Scenario
A	Foreign ¹⁸ Visitor Days to the Challenger Series and Final Match in Valencia	450,000	450,000	450,000
B	Extra Foreign Visitor Days For Exhibition Matches ¹⁹	80,059	160,118	320,235
C	Extra Foreign Visitor Days for the Defender Series ²⁰	-	-	89,336
D = A + B + C	Subtotal of Visitor Days	530,059	610,118	859,572
E	Adjustment for San Francisco Attendance	-25%	0%	+20%
F = D x (1+E)	Total Non-Local Visitor Days	397,544	610,118	1,031,486
G	Average Daily Spending Per Non-Local Visitor	\$258.90	\$258.90	\$258.90
H = F x G	Total Non-Local Spending	\$102,924,172	\$157,959,459	\$267,051,681
I	Percent of Spending Due Solely to the America's Cup	65.1%	65.1%	65.1%
J = H x I	Total Non-Local Spending Due to America's Cup	\$67,040,966	\$102,888,898	\$173,947,502

Sources: Rows A-C and I from IVIE Report, Row G from 2009 data from the San Francisco Convention and Visitors Bureau

Rows A through C above represent the number of visitor days experienced in Valencia for the number and type of matches which are assumed in each of the three scenarios. The “Attendance Adjustment” shown in Row E above can be considered the assumed relative interest of non-local visitors in attending an America’s Cup in San Francisco compared to the interest of non-local visitors in attending the America’s Cup in Valencia. In order to present a range of possible outcomes, the Budget and Legislative Analyst assumed that the Attendance Adjustment could range from 25 percent fewer visitor days to 20 percent more.

In addition, the Budget and Legislative Analyst’s calculations include two additional adjustments which differ from the Beacon Report: (1) we assume \$258.90 per non-local visitor day spending, based on 2009 data on San Francisco visitor spending provided by the San Francisco Convention and Visitors Bureau and shown in Row G above, instead of the \$201.55 actual amount reported for Valencia in 2007 and used in the Beacon Report, and (2) additional

¹⁸ Local visitors were defined in the Beacon Report as those visitors who were within driving distance of the event. Therefore, (a) the number of Spanish visitors to Valencia were assumed to be the best proxy for local visitors to San Francisco because Spain is relatively smaller geographically than the US, such that the majority of Spanish visitors could drive to Valencia, and (b) the number of foreign visitors was assumed to be the best proxy for non-local visitors.

¹⁹ In Valencia, exhibition matches attracted an average of 120,740 visitors, including (a) 40,029 foreign visitors and (b) 80,710 Spanish visitors. Therefore, figures in Row B above represent the assumed number of exhibition matches x 40,029 foreign visitors per match. Errors are due to rounding.

²⁰ It is assumed that a Defender Series of 3 syndicates would require 15 days to complete (the Challenger Series in Valencia with 12 syndicates took place over 37 days). It is also assumed that daily attendance at a Defender Series would be similar to the 28,266 visitors per day in Valencia, including (a) 5,956 Non-Local visitors, and (b) 22,270 Local Visitors. Therefore, the figure shown in Row C above is equal to 15 x 5,956. Error due to rounding.

downward adjustments in expenditures based on the assumption that many visitors to the America's Cup would have come to San Francisco primarily for other reasons, and only attended the event because they were already in town (shown in Row I above).

As stated above, the Budget and Legislative Analyst's methodology adjusts for the fact that many visitors to the America's Cup would have come to San Francisco primarily for other reasons. The IVIE Report adjusted for this factor in their survey of visitors by asking each respondent if they were in Valencia (a) exclusively for the America's Cup, (b) mostly for the America's Cup, (c) partly for the America's Cup, or (d) for other reasons. The IVIE Report then attributed 100%, 75%, 25%, and 0% of the spending from each respective category of visitor to the America's Cup. Overall, out of the total foreign spending included in the IVIE Report, only 65.1% was attributed to the America's Cup. The Budget and Legislative Analyst methodology assumes the same proportion of spending in San Francisco would be attributable to the America's Cup.

Local Visitors

The Beacon Report estimates that direct spending by local visitors, defined as those visitors who are generally within driving distance and do not require overnight accommodations in a hotel, at \$150,385,104. The Beacon Report assumed that there would be a total of approximately 2,300,000 local visitor days, which assumes that 2.15 times more local visitors would attend the America's Cup in San Francisco as attended the America's Cup in Valencia. This implies that the Beacon Report assumed 1,069,767 local visitor days in Valencia (according to the IVIE Report, Spanish visitors totaled 1,060,883). The Beacon Report justified this assumption by stating that (a) income and population density within driving distance is much greater in the San Francisco Bay Area as compared to Valencia, and (b) 2,300,000 local visitor days is equivalent to the attendance of approximately two Fleet Weeks (as noted the period of racing assumed in the Beacon Report is approximately 45 days). The Beacon Report also assumed that local visitors would expend \$84.65 per day, or 42% of the \$201.55 spent by non-local visitors in Valencia (page 21). There would seem to be some additional adjustment to Local Visitor spending which is not explained because 2,300,000 times \$84.65 equals \$194,695,000, not the \$150,385,104 estimated by the Beacon Report.

Without access to all work papers and assumptions used for the Beacon Report, the Budget and Legislative Analyst is unable to fully evaluate the results. In an attempt to provide some insight on the spending from this category, the Budget and Legislative Analyst attempted to recreate the results of the Beacon Report using its own methodology. The Budget and Legislative Analyst's methodology, which is conceptually identical to the methodology for non-local visitors, is shown in Table 8 below.

Table 8: Budget and Legislative Analyst's Calculation of Local Visitor Spending

Row	Description	Low Scenario	Base Scenario	High Scenario
A	Spanish ²¹ Visitor Days to the Challenger Series and Final Match in Valencia	1,069,767	1,069,767	1,069,767
B	Extra Spanish Visitor Days For Exhibition Matches ²²	161,420	322,841	645,682
C	Extra Spanish Visitor Days for the Defender Series ²³	-	-	334,058
D = A + B + C	Total Visitor Days	1,231,188	1,392,608	2,049,507
E	Adjustment for San Francisco Attendance	+50%	+115%	+200%
F = D x (1+E)	Total Local Visitor Days	1,846,782	2,994,108	6,148,522
G	Average Daily Spending Per Local Visitor	\$110.30	\$110.30	\$110.30
H = F x G	Total Local Spending	\$203,700,033	\$330,250,094	\$678,181,991
I	Percent of Spending Due Solely to the America's Cup	41%	41%	41%
J = H x I	Total Local Spending Due to America's Cup	\$83,623,431	\$135,575,069	\$278,408,914

Sources: Rows A-C and I from IVIE Report, Rows G from San Francisco Convention and Visitors Bureau.

The “Attendance Adjustment” shown in Row E above can be considered the relative interest of local visitors in attending an America’s Cup in San Francisco compared to the interest of local visitors in attending the America’s Cup in Valencia. As discussed above, the Beacon Report assumed that 115 percent more local visitors would attend a San Francisco America’s Cup compared to the number that attended the Valencia America’s Cup, and cited attendance at Fleet Week as justification for such an assumption. The Budget and Legislative Analyst agrees that such an assumption is reasonable, but in order to provide for a range of possible outcomes, the Budget and Legislative Analyst assumed an Attendance Adjustment ranging from 50 to 200 percent more visitor days.

²¹ As discussed above, Local Visitors were defined in the Beacon Report as those visitors who were within driving distance of the event. Therefore, the number of Spanish visitors to Valencia were assumed to be the best proxy for local visitors to San Francisco because Spain is relatively smaller geographically than the US, such that the majority of Spanish visitors could drive to Valencia.

²² As discussed above, in Valencia, exhibition matches attracted an average of 120,740 visitors, including (a) 40,029 foreign visitors and (b) 80,710 Spanish visitors. Therefore, figures in Row B above represent the assumed number of exhibition matches x 80,710 foreign visitors per match. Errors are due to rounding.

²³ As discussed above, it is assumed that a Defender Series of 3 syndicates would require 15 days to complete (the Challenger Series in Valencia with 12 syndicates took place over 37 days). It is also assumed that daily attendance at a Defender Series would be similar to the 28,266 visitors per day in Valencia, including (a) 5,956 Non-Local visitors, and (b) 22,270 Local Visitors. Therefore, the figure shown in Row C above is equal to 15 x 22,270. Error due to rounding.

Government Funded Infrastructure

The Beacon Report estimates that direct spending for government funded infrastructure to be \$100,000,000. The Budget and Legislative Analyst recommends adjusting this figure to the total net direct costs to the City of San Francisco discussed above of \$35,820,555 million (shown in Table 10 below as the subtotal of direct costs) . The Budget and Legislative Analyst finds this to be a reasonable assumption because the estimated cost includes all new spending by the City for infrastructure as well as additional consultant costs.

The estimated expenditure of \$35,820,555 million is significantly less than the expenditures in Valencia of \$3,237,800,000. This is primarily due to various governmental agencies in Spain using the 32nd America's Cup to provide massive improvements to and development around the Port in Valencia City. Contributions to such costs were provided by a combination of government agencies which entered into intra-governmental agreements to create the "Valencia Consortium" which was the primary entity charged with executing the intended public works projects. In addition to contributions from the Valencia Consortium, many governmental entities contributed individually including (a) the government of the Region of Valencia, (b) the Central Government of Spain, (c) the City of Valencia, and (d) the City of Gandia (a city within the Region of Valencia).

Although there would be regional, state, and national benefits to bringing the 34th America's Cup to San Francisco, none of the costs to be incurred by the City of San Francisco are currently anticipated to be shared with neighboring or overlapping governmental entities.

Media

The Beacon Report estimates \$25,644,760 for expenditures by the media, or approximately the same as the \$25,700,000 expended in Valencia. The Budget and Legislative Analyst notes that media presence is likely to be driven by audience interest in sailing, which would unlikely to be unchanged due to the venue. Therefore, the Budget and Legislative Analyst considers estimated media expenditures of \$25,644,760 to be reasonable.

Super-Yachts

Typically a number of super-yachts, defined as those yachts in excess of 150 feet in length, arrive to attend the America's Cup regattas. The Beacon Report estimates \$11,280,566 in spending from super-yachts, which is \$28,119,434 less than the \$39,400,000 super-yacht expenditure in Valencia. The Beacon Report adjusted the Valencia super-yacht spending downward to account for the fact that Valencia is on the Mediterranean Sea, and therefore much closer to home port of many super-yachts. The Budget and Legislative Analyst finds this adjustment to be reasonable, and therefore agrees with the estimated spending of \$11,280,566.

Other

The Beacon Report estimates \$6,647,941 in other spending, including (a) \$5,000,000 in spending from local boat owners and ferry companies, (b) \$997,871 in side trips to San Francisco for visitors to nearby attractions such as Napa County, and (c) \$650,070 in extended visits for visitors to San Francisco for reasons other than the America's Cup, but choose to extend their visit to attend the event. Due to the relatively small impact of such other spending, an analysis of the assumptions and methodology was not provided. The Budget and Legislative Analyst disagrees with the inclusion of side trips and extended visits because the spending of such visitors is already accounted for in the Local and Non-Local Visitors methodology above, which is based on the raw attendance data in Valencia which included any side or extended trip visitors. Therefore, the Budget and Legislative Analyst uses an adjusted figure of \$5,000,000 for all scenarios.

Tax Impacts Resulting From Projected Spending

The Beacon Report estimated that hosting the 34th America's Cup in San Francisco would generate \$23,926,984 in taxes to the City including (a) \$12,414,895 in Hotel Tax, (b) \$8,328,286 in Payroll Taxes, and (c) \$2,304,167 in Retail Sales Tax. The Controller's Office of Economic Analysis (OEA) noted three issues with the estimates above:

1. Parking Tax is omitted, and can be estimated at \$1,703,000
2. Payroll Tax should be adjusted (a) downwards by 30%, to account for expenditures on benefits which are not taxable, and (b) further downwards by 15% to account for the Payroll Tax exemption for small businesses.
3. The General Fund receives 80% of sales tax, and 20% of parking tax (with the MTA receiving the remainder).

Table 9 below presents the estimated taxes, including adjustments in accordance with OEA's comments above, which would be generated under the same scenarios presented in Table 6 above.

Table 9: Estimated City General Fund Tax Revenue Resulting from Hosting 34th America's Cup				
Category	Beacon Report	Low Scenario	Base Scenario	High Scenario
Hotel Tax	\$12,414,895	\$8,392,699	\$10,673,488	\$14,707,396
Payroll Tax	8,328,286	5,630,076	7,160,098	9,866,165
Sales Tax	3,183,803	2,152,310	2,737,219	3,771,715
Parking Tax	1,703,000	1,151,260	1,464,124	2,017,471
Total	\$25,629,984	\$17,326,345	\$22,034,929	\$30,362,747
Less MTA Proportion	1,999,161	1,351,470	1,718,743	2,368,320
General Fund Tax Benefit	\$23,630,823	\$15,974,875	\$20,316,186	\$27,994,427
Source: Beacon Report, Parking Tax estimated by the Controller's Office, scenarios are based on Budget and Legislative Analyst calculations.				

The first column presents the Beacon Report results (plus OEA's recommended addition of Parking Tax), with the remaining columns determined by calculating the proportion of each tax as a percent of total spending in the Beacon Report, then multiplying that percent by the adjusted total spending figure.

Therefore the resulting probable range of taxes to the City is estimated to be between \$17.3 and \$30.4 million, and the amount allocable to the General Fund is estimated to be between \$16.0 and \$28.0 million.

Job Creation

The Beacon Report estimated that, based on their estimated economic impact of \$1,372,414,635 as shown in Table 4 above, 8,840 jobs would be created as the result of hosting the 34th America's Cup in San Francisco.

It is important to note that the 8,840 "jobs" as calculated in the Beacon Report are not permanent full time jobs. Rather, one job under the Beacon Report is equal to 2,080 hours of work (one year of full time work), and therefore, this report refers to "jobs" as calculated by the Beacon Report as work-years. Therefore, 8,840 work-years created by hosting the America's Cup in San Francisco could be either (a) absorbed by the existing workforce through increased productivity, (b) through overtime, or (c) result in temporary jobs. Additionally, such additional work-years would likely be required in the period immediately preceding and during the event. It is unlikely that any labor benefits would remain in the years after the America's Cup event is completed.

Proportionally adjusting the work-years created under the three scenarios presented by the Budget and Legislative Analyst according to the economic impact per work-years created at 155,250 per work-year (using the Beacon Report's estimated impact of \$1,372,414,635 divided by 8,840 work-years), hosting the America's Cup in San Francisco would create (a) 5,976 work-years under the Low Scenario, (b) 7,600 in the Base Scenario, and (c) 10,472 in the High Scenario.

When considered simply as a mechanism for economic stimulus, the America's Cup would create (using the Budget and Legislative Analyst's base scenario) 7,600 work-years at a net cost to the City of \$64.1 million, for an average cost to the City of \$8,434 per work-year created. As a point of comparison, on February 24, 2010, the Budget and Finance Committee rejected an economic stimulus proposal to reduce the payroll tax, which was estimated by the Controller's Office to create 4,330 work-years at a cost of \$72,000,000, or \$16,628 per work-year.

Note the cost per work-year created figures provided above do not include (a) the cost of the long term development rights provided by the Port to the Event Authority, or (b) the number of jobs which might be created as a result of such long term development rights. These numbers were excluded because no estimates for the jobs which might be created were available at the time of the writing of this report.

5. EVENT COSTS

New costs that the City will incur related to preparation for and hosting the America's Cup are itemized in Table 10 below.

Table 10: Estimated new City Costs Associated with Hosting the 34th America's Cup	
Item	Cost
Port:	
Relocation of Pier 50 Maintenance Facility	\$14,503,550
Demolition of Pier 50 Sheds A-D	8,645,650
Pier 36 Pile Removal	3,821,000
Dredging ¹	5,000,000
Architectural & Engineering Services	1,450,355
Space Planning Consultant	125,000
Relocation Costs	500,000
Unamortized Tenant Improvements	275,000
Litigation and Settlement, Tenant Evictions	1,500,000
Subtotal: Direct Costs	\$35,820,555
Short Term Rent Reduction (2.5 years)	14,036,207 ²⁴
Lost Revenue Generating Activities at Piers 50 & 80	3,643,137
Subtotal: All Port Costs	\$53,499,899
Other City Departments:	
SFMTA	3,000,000
Environmental Review	3,115,000
Department of Building Inspection	1,723,984
Police	1,000,000
Performance Bond	1,800,000
Subtotal: Other City Costs	\$10,638,984
Grand Total	\$64,138,883
<i>Optional Additional Costs: Financing Costs For COPs to Finance Port Direct Costs of \$35,820,555²⁵</i>	<i>\$14,485,832</i>
<i>Total Costs including COPS Financing Costs</i>	<i>\$78,624,715</i>

Source: Subject departments.

¹ The Port provided estimates for dredging ranging from \$2 – \$8 million, depending on the actual properties selected by the Event Authority for use and the depth of dredging required. We selected the midpoint of this range, or \$5 million, for this cost analysis.

²⁴ Includes rent from Pier 38 and Pier 50 Administration Building that the Mayor's Office has advised the Port will not be used. These costs are included here to illustrate the full costs of all lost rent from facilities to be made available to the Event Authority mentioned in the Term Sheet

²⁵ Financing costs are estimated to be proportionally equal to the issuance of \$42,000,000 in Certificates of Participation approved by the Board of Supervisors for the HOPE SF project on October 26, 2010. This issuance was assumed to include a taxable portion of COPs because some of the improvements had private, rather than public uses. The Budget and Legislative Analysts considers the financing costs for such a taxable COP to be a reasonable predictor of financing costs for COPs issued for the America's Cup because some of the improvements would be necessary for private (syndicate or Event Authority) use. Financing costs for the HOPE SF issuance also included a debt service reserve fund and capitalized interest.

Port Costs

The Term Sheet commits the Port to (a) the preparation of Pier 50 which will require the demolition of four sheds and relocation of the Port's maintenance facility at an estimated cost of approximately \$23,149,200 (\$14,503,550 for the relocation of the maintenance facility and \$8,645,650 in shed removal), (b) Pile removal at Pier 36 at an estimated cost of \$3,821,000 (c) the removal of Pier 36 at an estimated cost of \$5,000,000, (c) dredging as necessary to accommodate the Event at an estimated cost of \$5,000,000, and (d) completion of construction of the Brannan Street Wharf at \$22 million. The costs for removal of Pier 36 and the Brannan Street Wharf are not included in our cost estimates as both projects were planned and funded before and independent of development of the Term Sheet..

If Pier 80 is used as contemplated in the Term Sheet as a location for a heliport, race operations, staging and storage, the Port estimates it will have to pay relocation costs of approximately \$500,000 to a stevedore terminal operator at Pier 50.

The Term Sheet calls for the construction of a pedestrian bridge over the Embarcadero in the vicinity of Piers 30-32 but cost estimates for this project were not available from City departments due to expected changes in the Host City Agreement that may not require a pedestrian bridge.

Although the terms of only one current Port lease entitle the tenant to relocation costs, the Port anticipates litigation and settlement costs for tenant evictions of between \$1 million and \$1.5 million. Relocation costs are estimated to be \$500,000.

Finally, the Port is required to provide free berthage on the City's waterfront for up to two special purpose America's Cup ships and for up to two special purpose ships. The Budget and Legislative Analyst assumes that these ships will displace other ships which would have otherwise paid berthage fees, and are therefore included as a cost in Table 7 above. However, the Port has informed the Budget and Legislative Analyst that it is unable to estimate the value of this berthage without knowing the size of the ships and where they will be berthed. The Term sheet states only that the berthage for super yachts must be in the vicinity of Pier 30-32 or 50. For the special purpose ships, the Term Sheet states only that free berthage is to be provided on the City's waterfront.

The Port will need funds for the improvements required in the Term Sheet. One method of covering these costs that has been suggested by the Port is issuing debt through Certificates of Participation. We estimate that a total issuance of \$50.3 million in COPs would be necessary, including (a) \$35.8 million for direct Port costs (as shown in Table 10 above), and \$14.5 million in costs of issuance. This financing costs is shown in Table 10 above as a potential optional cost in addition to the Grand Total amount shown above. The City could choose other funding mechanisms such as providing cash to the Port from the General Fund to cover these costs.

The Port estimates it will forgo a reported \$14,036,207 in rent over the 30-month period beginning January 2011 and ending six months after the final Event as required in the Term Sheet. This amount is net of an offset of \$850,000 that represents the Port's estimate of increased revenue from retail and parking activity the Port expects the America's Cup will

generate. The Port will also forgo revenue of \$1,457,255 annually from lost revenue generating activities at Piers 50 and 80, or a total of \$3,643,137 over the 30-month period required by the Term Sheet.

Other City Department Costs

SF Municipal Transportation Agency Costs

The America's Cup Term Sheet calls for the City to coordinate with regional transportation authorities to prepare a "People Plan" to facilitate the movement of up to 200,000 visitors on any one day to and from event sites. The San Francisco Municipal Transportation Agency (SFMTA) has estimated such costs at \$53.5 million, as shown in Table 11 below. However, this estimate assumes (a) there would be 82 days of racing, and (b) each race day would result in 200,000 new riders in addition to MUNI's daily ridership.

Table 11: MTA's Estimated Costs Related to Hosting 34th America's Cup	
Item	Cost
Operators and Staff	\$9,700,000
Fleet	3,800,000
Maintenance & Support Staff	29,000,000
Facilities Costs	\$3,000,000
Other	8,000,000
Total	\$53,500,000

Source: SFMTA

Fleet costs in the estimate include the cost of leasing, borrowing, or purchasing vehicles from other Bay Area transportation agencies. Facilities costs include storage and maintenance. Other costs include parts, fuel and equipment. Staff costs include bus drivers, vehicle mechanics, parking control officers, street operations, Transit Fare Inspectors, and security.

The Budget and Legislative Analyst used SFMTA's estimate of \$53,500,000 to recalculate the cost of transporting spectators using the attendance assumptions described in the base scenario above. This calculation assumes MUNI use by 50% of Non-Local visitors and 25% of Local visitors. Based on SFMTA's estimate of \$53,500,000 in costs to transport an additional daily ridership of 200,000 people and using the base scenario described above, the Budget and Legislative Analyst estimates total SFMTA costs at approximately \$3 million, as shown in Table 7, above. If the low scenario is used, SFMTA costs would be approximately \$2 million. If the high scenario is used, SFMTA costs rise to \$6.6 million.

Planning Department: Environmental Review (CEQA)

The Term Sheet requires that the City assume responsibility for the costs of all environmental review for development of the proposed Event venues, as required under the California Environmental Quality Act (CEQA). The Planning Department has estimated these costs at \$3,115,000 as presented in Table 12, assuming the production of an Environmental Impact

Report for work on Piers 30-32 and Pier 50. The environmental review process is part of the Department of City Planning's development review process. Use of the proposed venues may require discretionary permits such as variances or conditional use permits which, according to the Term Sheet, will be processed by Department of City Planning staff with all normal Department fees waived and at no cost to the Event Authority, the project applicant. However, Planning Department staff report that such permits are not likely for these properties and, if required, the costs for processing them would be no more than \$50,000. These potential costs are not included in our cost estimates due to their low probability of being incurred.

**Table 12: Planning Department's Estimated Costs
Related to Hosting 34th America's Cup**

Task	MEA Staff*	Environmental Consultant**	Environmental Sub-Consultant***	TOTAL
Draft EIR	\$165,000	\$400,000		\$565,000
Pier 50 Background Studies			\$1,150,000	1,150,000
Pier 30/32 Background Studies			1,075,000	1,075,000
Comments and Responses (Final EIR)	125,000	200,000		325,000
TOTAL	\$290,000	\$600,000	\$2,225,000	\$3,115,000

Source: Planning Department

*Based on high estimates for 4 recent EIRs completed in the last year. \$290,000 is equivalent to 1.9 FTEs of a Planner IV salary with fringe benefits.

**Based on estimated costs for similar project EIRs by consultant.

***Based on "high" estimates for similar studies conducted by the Port.

Department of Building Inspection (DBI)

According to the Term Sheet, the City is required to fund the costs of fees, including plan checks, permits, variances and inspections. The Department of Building Inspection has estimated the cost of inspection and plan review at approximately \$1.7 million. These costs are itemized in Table 13 below.

Table 13: Department of Building Inspection's Estimated Costs Related to Hosting 34th America's Cup			
	Tenant Improvements	New Construction	Total
Technology Surcharges	\$16,007	\$16,007	\$32,014
Records Retention	320	320	640
Plan Review	552,763	493,194	1,045,957
Fire Plan Check Fee	58,472	58,472	116,944
Planning Dept. Plan Check	30,283	33,490	63,773
Building Standards Administration Special Revolving Fund	4,000	4,000	8,000
Planning Dept. Board of Appeals Surcharge	25	25	50
DBI Board of Appeals Surcharge	25	25	50
Fire Inspection	3,300	3,300	6,600
House Number		210	210
Building Permit Inspection Fee	237,040	211,376	448,416
Total	\$903,550	\$820,434	\$1,723,984

Source: Department of Building Inspection

Police Department (SFPD)

The Budget and Legislative Analyst reviewed police overtime costs for various large sporting events in San Francisco and determined that the recent World Series and parade most closely resembled the America's Cup in daily attendance and location of spectators. SFPD overtime costs for the event was reportedly \$300,000 for two home games and Police Department services at the parade. The Budget Analyst has derived a unit cost for SFPD services for the World Series by dividing total police overtime costs for both games played in San Francisco and the parade by the combined estimated number of parade attendees (1,000,000) and full capacity attendance at AT&T Park attendance of approximately 86,000 for a combined attendance of 1,086,000 spectators. This resulted in a \$.28 per attendee unit cost.

To estimate the cost to SFPD of providing security services for the America's Cup, the Budget and Legislative Analyst multiplied this unit cost by the total number of spectators for each America's Cup event within each of the three scenarios (Base, Low, High) discussed above.). For the purpose of this analysis, we used the Base scenario in determining police costs for America's Cup of approximately \$1,000,000. This estimate rises to slightly over \$2 million if the high scenario is used and drops to \$628,411 in the low scenario.

Performance Bond

The Term Sheet requires the City to provide a performance bond guaranteeing completion of the infrastructural improvements noted above. The General Services Agency Risk Management Program staff estimated this cost as \$1.8 million but caution that this is an estimate and has not been confirmed by an underwriter.

Staff Liaison to Regulatory Agencies and Third Parties

The City will be required to coordinate with the Committee to obtain numerous approvals from State and federal agencies and to acquire or develop services outlined in Section 4 needed for the Event. The Mayor's Office has indicated that this work will require one FTE. The Budget and Legislative Analyst assumes that the scope and duties of this position will require a senior manager with a base salary of approximately \$100,000 and an additional \$30,000 in benefits for a total cost of \$130,000. Though this would be a cost to the City, it is not included in our cost estimates as it does not represent a new cost to the City since the work required could be performed by existing staff.

Other Excluded Staff Time Costs

Besides the costs of staff needed to coordination with regulatory and other agencies, the City would incur costs for staff time that cannot be determined at this time to cover tasks such as construction project management at the Port and possibly the Department of Public Works, transportation and security planning by multiple agencies, and other Event planning activities.

6. LONG TERM DEVELOPMENT RIGHTS

In exchange for the Event Authority hosting the 34th America's Cup in San Francisco and providing repairs to Piers 30/32 and 50, the Term Sheet imposes a number of requirements on the City. These requirements are listed below:

1. The City must lease Piers 30/32 and 50 (the same piers to which the Event Authority would provide repairs), and Seawall Lot 330 to the Event Authority for terms of 66 years (for Piers 30/32 and 50) and 75 years (for Seawall Lot 330).
2. The City must provide such leases to the Event Authority at no cost to the Event Authority, and without any profit distributions from any future development to the Port.
3. The City must subsequently and permanently remove all the Tidelands Trust restrictions on Seawall Lot 330. Currently, the Tideland Trust restrictions, which require any development on Port property to either increase visitors to the property or provide a maritime function, have been temporarily removed through 2094 (through California Senate Bill 815).
4. The City must pledge any incremental Property or Possessory Interest Tax generated by the future development on Seawall Lot 330 and Piers 30/32 and 50 to service a bond issuance, whose proceeds would be provided to the Event Authority to offset their costs for the infrastructure improvements required in the Term Sheet.

In order to evaluate the long term development rights agreement proposed to be provided to the Event Authority in the Term Sheet, an understanding of prior Port development projects is required.

The Typical Port Development Process

The Port of San Francisco typically undergoes a competitive Request for Proposal process to award development rights of Port property to a developer. Such development rights transactions typically result in the Port leasing the underlying Port property to the developer in exchange for: (a) a minimum annual rent amount; plus (b) a percentage rent based on revenues on the property (i.e. percentage of office rent for office buildings or percentage of sales for retail operations). The Term Sheet calls for awarding long-term development rights of Seawall Lot 330, Pier 30/32, and Pier 50, on a sole-source basis to the Event Authority, without providing any minimum or percentage rent to the Port.

City Benefits Assuming Event Authority Develops Port Property

According to a study produced for the Port by the consulting firm Bay Area Economics (the BAE Report), the most profitable developments to the Event Authority, and therefore the most likely developments, are: (a) a 250 unit condominium project on Seawall Lot 330; and (b) no further development beyond the America's Cup Event facilities the Event Authority would construct for the race on Piers 30/32 and 50.

Seawall Lot 330

Seawall Lot 330 is a 2.8 acre lot across the Embarcadero from Piers 30/32, of which 0.5 acres were previously sold as part of the Watermark condominium project (which resulted in the construction of 137 condominiums, for a density of 274 units per acre) such that 2.3 acres remain. Unlike Piers 30/32 or 50 which require some Pier infrastructure improvements prior to development, Seawall Lot 330 is on land and is ready for development without any significant investment.

The BAE Report estimates that a second condominium project constructed over the remaining 2.3 acres consisting of 250 units (109 units per acre) would be most economically beneficial to the Event Authority, with the benefit value estimated at \$33,050,413²⁶. Such a development would require permanent removal of the Tidelands Trust restrictions on Seawall Lot 330,²⁷ as required by the Term Sheet. According to the BAE Report, removing the Tidelands Trust restriction from Port property requires replacing such property with property of equal value under the Tidelands Trust restrictions, such that any increased value to Seawall Lot 330 due to removing the restrictions which are included in BAE's estimated value of \$33,050,413 would be offset by imposing the same restrictions on another Port property of equal value.

Assuming the Event Authority causes development of a 250 unit condominium building on Seawall Lot 330, additional property tax revenue would be generated for the City. However, under the Term Sheet, the majority of such increased property tax revenue would be used to support a Tax Increment Bond issuance, with the proceeds of that bond issuance provided to the Event Authority to offset their costs incurred for infrastructure improvements at the Port. The portion of the increased property tax revenues was not required to support the Tax Increment Bond issuance would accrue to the City. The Port estimates such property taxes accruing to the City would be \$3,578,361²⁸.

Piers 30/32

Piers 30/32 are 900 feet long and measure approximately 12.5 acres. They are currently used for surface parking. According to the Port, Piers 30/32 require approximately \$47 million in structural repairs in order to accommodate construction.

BAE estimates that the highest and best use of Piers 30/32, once they have been improved by the Event Authority under their Term Sheet obligation to provide such improvements, would be to lease the facilities the Event Authority intends to build on the piers for the America's Cup once

²⁶ The \$33,050,413 in estimated value is a net present value calculation as provided by BAE. All references to value in this section are net present value figures.

²⁷ The Tideland Trust restrictions require all Port property developments to be of maritime use or bring increase visitors to Port property, therefore office or residential use are not allowed. California Senate Bill 815 temporarily removed the Tidelands Trust restrictions on Seawall Lot 330 through 2094, however in order to build and sell condominiums, the Tidelands Trust restriction would have to be fully and permanently removed because condominiums cannot be sold on leased land.

²⁸ Seawall Lot 330 is anticipated to generate \$1,260,309 in annual increased property tax. 80% of such taxes would be necessary to support the tax increment bond, while 20%, or \$252,062 would accrue to the City. The \$3,578,361 in total value of such taxes is the net present value of \$252,062 in annual property taxes over 75 years at a 7% discount rate.

the event is over. BAE estimates that such facilities would include 160,000 square feet of retail, food and beverage, and exhibit space. Such a scenario would not result in any new construction after the event. The BAE Report estimates the value of lease payments, or benefits, to the Event Authority to occupy the America's Cup event facilities on Piers 30/32 after the event is over at \$44,715,817.

The economic benefits of constructing such facilities are included in BAE's estimated economic impact of the America's Cup events. No data was available to estimate what taxes, would be generated by the tenants of the retail, food and beverage, and exhibit space to be constructed on Pier 50. Such taxes would increase the benefit to the City.

The Port does not anticipate that any incremental property or Possessory Interest Taxes would be generated by leasing out the America's Cup event facilities to tenants because such leases would likely be short term leases, which generate negligible amounts of Possessory Interest Tax, according to Port representatives.

City Benefits Assuming No Event Authority Control Over Port Property

If the Port was not required to enter into long term development leases with the Event Authority and the America's Cup did not occur, the Port could (a) cause the development of the 250 unit condo development by selling the land to a developer, and (b) continue leasing Piers 30/32 and 50 for their current uses. Such foregone land sale and lease revenue is a cost to the City.

Seawall Lot 330

Because Seawall Lot 330 does not require any infrastructure investment for development, the Port, in the absence of the America's Cup, could identify a different developer to construct the same 250 unit condominium building the Event Authority could develop. In such a scenario, the economic benefit of \$33,050,413 would accrue to the Port.

Additionally, in the absence of the America's Cup and long-term development rights called for in the Term Sheet, all of the increased property taxes would be paid to the City (rather than used to support a Tax Increment Bond), thereby increasing the benefit to the City by \$17,891,805 in property taxes. Therefore the total benefit to the City of developing Seawall Lot 330 in the absence of the America's Cup is \$50,942,218 (\$33,050,413 plus \$17,891,805).

Piers 30/32

BAE estimates that the value of continued lease payments under the current uses of Piers 30/32 is \$5,662,387. The continued use of such facilities under their current uses is not anticipated to create any increase in taxes payable to the City.

Pier 50

BAE estimates that the value of continued lease payments under the current use of Pier 50 is \$53,140,823. However, BAE noted that a \$20,000,000 investment in maintenance would be required in order to continue such uses. Therefore a value of \$33,140,823 is implied

(\$53,140,823 less \$20,000,000). The continued use of such facilities under their current uses is not anticipated to create any increase in taxes payable to the City.

The economic benefits of constructing such facilities are included in BAE's estimated economic impact of the America's Cup events. No data was available to estimate what taxes, if any, would be generated by the tenants of the industrial space to be constructed on Pier 50. Such taxes would increase the benefit to the City.

Summary: Long-term Development Rights

As shown in Table 14 below, the net cost to the City of providing long term development rights to the Event Authority is estimated at \$86,145,422.

Table 14: Estimated Cost of Development Rights			
Property	Benefits if Developed by the Event Authority	Benefits if Property Continues to be Held by the Port	Net City Benefits (Loss)
	A	B	A-C
Seawall Lot 330	\$3,600,000	\$50,942,218	(\$47,342,218)
Pier 30/32	0	5,662,381	(5,662,381)
Pier 50	0	33,140,823	(33,140,823)
Total	\$3,600,000	\$89,745,422	(\$86,145,422)

Source: BAE Report and Budget and Legislative Analyst calculations.

The benefits above do not include the investment in Port property to be made by the Event Authority. Such investments are estimated to be valued at \$105 million²⁹ in infrastructure investment. This is not counted as a benefit because, while increasing the value of Port assets, the increased value does not result in any changes in the cash flows to or from the City.

Additionally, the most significant variable in this fiscal impact analysis is what development actually occurs on the long term development sites. As discussed above, the Bay Area Economic report suggests that the Event Authority would construct no improvements on Piers 30/32 and 50 beyond the event facilities developed for hosting the America's Cup. If such an assumption is incorrect, and the Event Authority decides to construct a hotel on Pier 50 and a mixed use office building on Pier 30/32, the increased economic impact (construction spending) and fiscal impacts (tax revenues from such a project including hotel, sales, parking, and payroll taxes), would be a net benefit to the City. Tax increment financing typically only captures property and Possessory Interest Tax, therefore all other taxes created by such development would be a

²⁹ The Term Sheet estimates the total value of improvements to be provided by the Event Authority at \$150 million. However, some of those improvements are strictly related to the race (specifically the breakwaters), such that only the improvements to Piers 30/32 at \$47 million and Pier 50 at \$58 million are considered to be related to the long term development rights.

benefit to the City. The Port estimates that if such a hotel and mixed-use development were constructed instead of simply leasing the America's Cup event facilities, additional hotel, sales, parking, and payroll taxes would be valued at approximately \$64,744,716³⁰.

The Controller's Office of Economic Analysis anticipates issuing a report on such potential development scenarios.

³⁰ \$64,744,716 is the net present value of the anticipated taxes over a 66 year period.

7. IMPACTS ON SMALL BUSINESSES

The Budget and Legislative Analyst was asked to investigate the impact of hosting the 34th America's Cup in San Francisco on small businesses. The Budget and Legislative Analyst was unable to identify any data which would allow for a quantitative analysis of the impact as a subset of the overall economic impact discussed above.

However, the projected impact can be described in three general categories, as provided below:

1. Businesses located in space to be used by the Event Authority. As discussed above, the Port is required to deliver vacant piers to the Event Authority, such that the Port will have to evict 87 tenants. It is not known how many of these tenants are small businesses, however it is reasonable to assume that these businesses will uniformly suffer from increased costs, business disruption, or reduced revenues due to the eviction of their business.
2. Businesses directly benefitting from the expenditures of syndicates, the Event Authority, and visitors (construction contractors, marine services, restaurants, and hotels). These businesses are likely to be the largest beneficiary of hosting the 34th America's Cup. To the extent what portion of these types of San Francisco businesses are small businesses is unknown. However it is reasonable to assume that small businesses will benefit relatively proportionally to their presence in such business sectors.
3. Retail businesses in the immediate vicinity of the event, but not-related to the expenditures of syndicates (furniture stores or hair dressers, for example). These businesses are likely to suffer from reduced access to their businesses due to the crowding out of their customers by street closures and America's Cup visitors.

While each of these categories is likely to either benefit or suffer from hosting the 34th America's Cup in San Francisco, the Budget and Legislative Analyst considers the probable overall impact to small businesses to be neutral or significantly positive, with only a minority of businesses suffering from increased costs or revenue losses.

