City and County of San Francisco

Office of the Controller – Office of Economic Analysis

America's Cup Host City Agreement: Economic Impact Report

Item #101259

Office of Economic Analysis

December 8, 2010

Summary of Impacts

- Holding the America's Cup in San Francisco will generate a positive impact on spending and employment, as detailed by the Beacon Economics report, and confirmed by other City departments. The event will also generate hotel, sales, and other tax revenue for the City.
- The City would incur costs preparing for, and providing service during, the event that exceed the tax revenues generated by the event.
- However, both the Original Host City Agreement and the Northern Waterfront alternative will enable the redevelopment of Port property which would otherwise not occur. This redevelopment will generate possessory interest, payroll, and sales tax for the City.
- Under specific development scenarios, the Northern Waterfront alternative generates a positive fiscal impact on the City, when long-term tax revenues, foregone port income, and post-lease asset value to the Port are considered together. The Original HCA would generate a negative return under these development scenarios.

America's Cup – Recent History

- In early 2010, the Golden Gate Yacht Club of San Francisco won the 33rd America's Cup yacht race held in Valencia, Spain.
- By winning, the Club is entrusted with organizing the 34th America's Cup (AC34), and selecting the venue. The America's Cup Event Authority was appointed by the Club to facilitate the organization of the America's Cup.
- A decision on the location of is anticipated by year-end, with the event scheduled to start in 2013.
- To host AC34, the City has proposed two options for consideration, outlined in the Host City and Venue Agreements, discussed on the following pages.

America's Cup Host City and Venue Agreements

- The binding Host City and Venue Agreement sets out the parameters under which the City will host AC34, including the venues to be used, the financial responsibility of the parties, among other issues.
- The City has developed two Host City and Venue Agreements:
  - The original Host City and Venue Agreement (HCA), dated 11/9/2010, with events and facilities concentrated on the central waterfront, and
  - an amended Host City and Venue Agreement, dated 11/23/2010, was developed which moves some of the events and facilities to the northern waterfront (Northern Waterfront Alternative).
- Both the HCA and Northern Waterfront Alternatives were approved by the San Francisco Port Commission on 11/30/2010.

America's Cup Original Host City Agreement

- The original HCA obligates the Event Authority to invest up to $150 million in infrastructure improvements.
- In consideration of this investment, the City would offer Piers 30-32, Pier 50, and Seawall Lot 330 (SWL330) to the Event Authority at no cost for a period of 66 to 75 years, with possible fee-title of SWL330.
- The City would be responsible for:
  - Demolition and removal of Pier 36,
  - Dredging to a depth of 5 meters the water area between Piers 30 and 38.
  - Relocating tenants from Pier 50, including Port maintenance facilities, and demolishing existing shed structures.
- The Authority would be responsible for:
  - Pile replacement, substructure strengthening and deck repairs on Piers 30-32 and 50,
  - Construction of breakwaters, and
  - Repairs and improvements to other event facilities as necessary.
- An Infrastructure Finance District will defray the Authority's infrastructure costs.

Northern Waterfront Alternative HCA

- The Northern Waterfront Alternative obligates the Event Authority to invest up to $55 million in infrastructure improvements.
- In consideration of this investment, the City would offer Piers 30-32 and SWL330 to the Event Authority *at market rates* for a period of 66 to 75 years, with possible fee-title of SWL330. The Authority would receive rent credits commensurate with it infrastructure improvements.
- Rent credits, and not the IFD, will be the primary means for recouping the Authority's infrastructure investment.
- The City would be responsible for:
  - Demolition and removal of Pier 36,
- The Authority would be responsible for:
  - Pile replacement, substructure strengthening and deck repairs on Piers 30-32,
  - Demolition of portions of Piers 29 and 27 required for event use,
  - If required for Event purposes, dredging and pile removal between Pier 14-22½, or alternate location
  - Repairs and improvements to other event facilities as necessary.

Studies and Reports Used for This Analysis

- Numerous studies and reports have been issued recently by various City departments and independent consultants in connection with AC34, including:
  - "The America's Cup: Economic Impacts of a Match on San Francisco Bay," by Beacon Economics and Bay Area Council.
  - "Estimated Value of AC34 Legacy Leases," by Bay Area Economics (BAE), consultant to the Port of San Francisco, 11/12/2010.
  - "Costs and Benefits of Hosting AC34," by the Board of Supervisors Budget and Legislative Analyst (BLA), 11/9/2010 and updated 12/1/2010.
  - "Fiscal Responsibility and Feasibility Study – AC34," by Office of Economic and Workforce Development (OEWD), 12/1/2010.
  - Port Commission staff report on hosting AC34, 11/23/2010.
- The OEA has reviewed and considered these analyses in deriving the conclusions presented in this report.

Economic and Fiscal Impacts of the HCA Fall into Four Categories

1. Changes in local economic activity, and tax revenue caused by America's Cup (AC34) activities.
2. Changes in City costs caused by AC34 activities.
3. City and Port costs associated with preparing sites for AC34 activities.
4. Changes in economic activity and tax revenue associated with conveying development rights for Port properties to the Authority.

Tax Revenues Associated with America's Cup Activities

- Based on the Beacon Economics economic impact projection, OEWD and the BLA offer similar estimates of the tax revenues the City will receive from the America's Cup.
- The OEA broadly concurs with these estimates, which are sensitive to highly uncertain estimates of attendance.
- These revenues estimates should not change under either the original HCA or the Northern Waterfront alternative.

Tax Revenue Estimates

1. Event-Generated Tax Revenue	OEWD	BLA	OEA
General Fund Allocation			
Hotel Tax	$12.4	$10.9	$11.9 [1]
Payroll Tax	$8.3	$4.3	$4.9
Sales Tax	$2.5	$2.2	$2.6 [2]
Parking Tax	$0.3	$0.3	$0.3
Total General Fund Revenue	$23.6	$17.7	$19.7
+ *MTA Allocation*			
Sales and Parking Tax	$2.0	$1.7	$2.0 [3]
Total General Fund and MTA	$25.6	$19.5	$21.8

End Notes on second-to-final slide.

Changes in City Costs Associated with the America's Cup Activities

- City Departments have provided estimates of the higher costs associated with planning and servicing the America's Cup.
- Reports by OEWD and the BLA differ slightly on their estimates of City costs.
- The OEA has not conducted independent research on these issues and uses an average of the BLA and OEWD costs in this report.

Event-Generated City Costs Estimates

2. Event-Generated City Costs	OEWD	BLA
Police	$8.9	$4.0
Planning	$2.2	$3.1
DBI	$1.7	$1.7
DPW	$0.7	$0.0
MTA	$6.4	$6.4
Total Event-Generated City Costs	$19.9	$15.2

City Costs Associated with Preparing Sites for the America's Cup

- The City will incur additional costs because Port property will be needed to stage AC34.
- These costs are significantly different under the original HCA and the Northern Waterfront Alternative.
- In the original HCA, these costs include demolition, relocation of maintenance facilities and tenants, staff and consulting costs, and foregone rent from sites used for the America's Cup.
- Under the Northern Waterfront Alternative, dredging is not a City responsibility, the Port's maintenance facilities do not require relocation, structures do not need to be demolished, and foregone rent is less.

Site Preparation Cost Estimates: Original HCA

3. Site Preparation Costs	OEWD	BLA	OEA
Demolition	$8.6	$12.4	$12.4 [7]
Moving Pier 50 facilities	$16.0	$16.0	$16.0
Dredging	$0.0	$16.0	$16.0 [8]
Tenant Relocation, Litigation & Unamortized TI	$2.3	$2.3	$2.3
Port Staff and Consultants	$0.7	$0.7	$0.7
COP financing	$0.8	$0.8	$0.8
Foregone rent during event	$14.0	$14.6	$14.0
Total	$42.4	$62.8	$62.2

Site Preparation Cost: Northern Waterfront Alternative

3. Site Preparation Costs	OEWD	Port	OEA
Demolition (Pier 36)	$0.0	$0.0	$0.0
Pier 27 investment	$6.5	$6.5	$6.5
Moving Pier 50 facilities	$0.0	$0.0	$0.0
Dredging	$0.0	$0.0	$0.0
Tenant Relocation, Litigation & Unamortized TI	$1.5	$1.5	$1.5
Port Staff and Consultants	$0.3	$0.3	$0.3
Foregone rent during event	$6.7	$6.7	$6.7
COP financing	$0.8	$0.8	$0.8
Total	$15.8	$15.8	$15.8

Impact of Legacy Leases: Seawall Lot 330

- The OEWD and BLA reports both rely on an analysis from a Port consultant that attempted to determine the value of different development options on the Port properties in question.
- In the case of Seawall Lot 330, the consultant found the highest and best use would be a 250-unit condominium development, at a sales price of $750 per square feet.
- Property tax calculations by OEWD and the BLA assume zero escalation in property value over the 66 year term of the lease.
- The zoning at SWL 330 allows for a 295 unit development, including parking, and housing in San Francisco has increased in value at a rate of 4.5% per year in the past. These facts suggest a somewhat higher property tax increment.
- Under the Original HCA, the City would receive approximately 25% of the incremental property tax, with the remainder going to the Authority to offset its infrastructure investment. This is shown in our analysis.
- In the Northern Waterfront Alternative, rent credits are the primary means to offset the Authority's investment, and the IFD value is not specified. Our analysis does not include any deduction for an IFD in this alternative, although some IFD, to be determined, is called for in the alternative HCA.

Impact of Legacy Leases: Piers 30/32

- Both the Original HCA and the Northern Waterfront Alternative require the improvement of Piers 30/32 for the event.
- According to the Port's consultant, the highest and best use of the improved Piers 30/32 is re-use of the America's Cup facilities. The OEA projects such re-use would be optimal until 2025, when a mixed-use cruise terminal development would be profitable.
- Again, an IFD would reduce some of the City's property tax increment under the Original HCA. Our analysis does not include any reduction for the unspecified IFD in the Northern Waterfront alternative.
- If there is no event, Pier 30/32 has a useful life of ten years starting in 2014, generating approximately $0.7 million per year.

Impact of Legacy Leases: Pier 50

- Under the Original HCA, development rights to Pier 50 are conveyed to the Event Authority.
- Under the Northern Waterfront Alternative, no rights to Pier 50 are granted.
- The BLA report and the OEWD fiscal feasibility both anticipate a 250-room hotel being developed on Pier 50 ten years after the event, based on the analysis from the Port's consultant.
- Although the size of the property would accommodate a larger hotel development, our analysis uses the same 250 room example.
- Any hotel development would require voter approval to reverse Proposition H, passed in 1990, which prohibited hotel uses on the waterfront.

Summary of Legacy Lease Values

4. Legacy Lease Value	Original HCA	No Event	Northern Waterfront
SWL 330, condo development in 2014, both scenarios, 2% appreciation			
City Property Tax NPV net of IFD	$10,805,314	$43,221,257	$43,221,257 *
General Fund Share @ 57%	$6,159,029	$24,636,117	$24,636,117
Post-Lease value to the Port	$7,704,185	$7,704,185	$7,704,185
Total	$24,668,529	$75,561,559	$75,561,559
Pier 50, hotel development in 2014, Original HCA only			
Possessory Internet Tax NPV net of IFD	$6,494,196	$830,825	$830,825
Hotel Tax	$51,755,122	$0	$0
Sales Tax General Fund NPV	$1,848,397	$0	$0
Port Income from Current Use	$0	$24,279,755	$24,279,755
Post-Lease value to the Port	$6,245,985	$0	$0
Total	$66,343,701	$25,110,580	$25,110,580
Piers 30/32, developed in 2025 as mixed-use, both scenarios			
Possessory Internet Tax NPV net of IFD	$5,925,441	$244,716	$23,701,764 *
Sales Tax General Fund NPV	$7,299,023	$0	$7,299,023
Payroll Tax NPV	$36,830,822	$0	$36,830,822
Parking Tax General Fund NPV	$886,022	$385,335	$886,022
Post-Lease value to the Port	$1,733,344	$0	$1,733,344
Port Income from Current Use	$0	$7,706,693	$0
Total	$52,674,651	$8,336,743	$70,450,974

* Not including future IFD deduction

Summary of Fiscal Impacts

5. Summary of Costs and Benefits	Original HCA	Northern Waterfront
1. Event Tax Revenue	$21.8	$21.8
2. Event-Generated City Costs	-$17.5	-$17.5
3. Port Site Preparation Costs & Foregone Rent	-$62.2	-$15.8
4. Change NPV of Tax Revenues, Port Income, and Post-Lease Asset Value vs. No Event	$34.7	$62.1
Total Fiscal Impact	-$23.3	$50.5

End Notes

1. BLA analysis included range of estimates to GF ($14M-$24.3M)
2. OEWD payroll tax appears overstated, relying on figure in Beacon (Table 7, pg 26). OEA payroll based on Beacon Appendix A, pg. 38: labor income by agent, adjusted for exempt payroll and benefits.
3. OEWD incorrectly states that all revenue accrues to General Fund (pg 11); OEA adjusted OEWD figures to reflect proper allocation.
4. Assuming SFPD costs are four times the World Series, because projected total attendance if roughly four times the attendance at the World Series Parade.
5. Mid-range of Planning costs reported to OEWD and BLA.
6. Low-end estimate assuming MTA can absorb an estimate 5% increase in average weekday demand from America's Cup visitors. The Host City Agreement does not require specific transit expenditures or level of service. In general, Parking Control Officers generate revenues in excess of costs, and it may be unwarranted to presume they will create a net cost in this instance.
7. BLA and OEA include demolition of Pier 36, which is required by the HCA.
8. Dredging is required in the original HCA.

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