

File No. 101259

Committee Item No. 14
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: December 8, 2010

Board of Supervisors Meeting

Date _____

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget Analyst Report |
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OTHER

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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | SF Port - Nov 9, 2010, America's Cup Host City and Venue Agreement * |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | SF Port - Nov 23, 2010, America's Cup Host City and Venue Agreement as amended for Northern Waterfront Alternative * |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | OEWD - Dec 1, 2010, Fiscal Responsibility and Feasibility Study * |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | OEWD - The America's Cup: Economic Impacts of a Match on San Francisco Bay * |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Bay Area Economics Report - Estimated Value of Proposed America's Cup #34 * |

Completed by: Victor Young

Date: December 3, 2010

Completed by: Victor Young

Date: _____

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.



1 [34th America's Cup Host City Agreement and Finding of Fiscal Feasibility]

2
3 **Resolution approving a Host City and Venue Agreement among the City, the America's**
4 **Cup Event Authority and the San Francisco America's Cup Organizing Committee;**
5 **authorizing the Mayor or his designee and the Port to execute the Host City and Venue**
6 **Agreement; authorizing and urging the Mayor, Office of Economic and Workforce**
7 **Development, Port and such other City Officials as appropriate to take such steps and**
8 **execute such additional agreements as are consistent with the Host City and Venue**
9 **Agreement and this Resolution to bring the 34th America's Cup to the San Francisco**
10 **Bay; and finding that the proposed Event is fiscally feasible as set forth in**
11 **Administrative Code Chapter 29.**

12
13 WHEREAS, The Board of Supervisors finds as follows:

14 (a) In February 2010, BMW Oracle Racing, sailing for the Golden Gate Yacht Club
15 (together, the "Team"), won the 33rd America's Cup in Valencia, Spain; and,

16 (b) The Team, as Defenders of the America's Cup, has the right and duty to organize
17 the 34th America's Cup (the "Event"), and has created an Event Authority for purposes of
18 organizing the Event; and,

19 (c) The Team had selected three potential venues for hosting the Event, including
20 San Francisco, the only United States city under consideration, and two European venues,
21 and the Team will make the final selection by December 31, 2010; and,

22 (d) Hosting the 34th America's Cup in San Francisco would generate significant public
23 benefits for the City including: (i) the repair, improvement and productive reuse of certain City
24 piers along the City's central and southern waterfront that are currently in a state of disrepair;
25 (ii) the generation of significant new jobs and economic development in a very short period of

1 time, including over 9,000 jobs and more than \$1.4 billion of new economic activity, as
2 projected in an economic impact analysis completed by the Bay Area Council Economic
3 Institute and Beacon Economics; and (iii) substantially increased public access to the
4 waterfront, new opportunities for people to view and enjoy the San Francisco Bay and an
5 extraordinary showcase for the Bay to the world; and,

6 (e) An America's Cup Organizing Committee (the "ACOC"), an independent not-for-
7 profit corporation, has been established and includes civic and corporate leaders from
8 throughout the Bay Area, California and the nation, as well as a bipartisan honorary
9 committee including elected and appointed representatives from our local, state and federal
10 governments; and,

11 (f) On October 5, 2010, by Resolution 465-10 (File No. 101254) the Board of
12 Supervisors approved a Term Sheet that outlined the basis for the City, the ACOC and the
13 Event Authority to negotiate a Host City and Venue Agreement for the 34th America's Cup;
14 and,

15 (g) Consistent with the Term Sheet, City staff has negotiated a Host City and Venue
16 Agreement with the ACOC and the Event Authority and has presented the agreement to the
17 Board for approval; and a copy of the agreement is on file with the Clerk of the Board in
18 File No. 101259 which is hereby declared to be a part of this Resolution as if set
19 forth fully herein (the "Host Agreement"); and,

20 (h) On November 30, 2010, the Port Commission, by Resolution
21 No. 10-73 forwarded the Host Agreement and a Northern Waterfront Alternative
22 to the Host Agreement (Northern Waterfront Host Agreement) under which the potential fiscal
23 impacts to the City are reduced recommended that this Board approve either the Host
24 Agreement or the Northern Waterfront Host Agreement; and,
25

1 (i) The Host Agreement contemplates sole source negotiations with the Event Authority
2 for venue leases and other agreements for environmental review and to use City property
3 needed for the Event. Also, the Host Agreement requires the Event Authority to make an
4 estimated \$150 million in substructure and infrastructure improvements to Port facilities for the
5 Event, subject to City verification; and in exchange, the City agrees, subject to the terms and
6 conditions of the Host Agreement, including environmental review under CEQA and future
7 approvals by the Port and Board of Supervisors, to grant the long-term development rights to
8 Piers 30-32 and 50 and Seawall Lot 330 on a sole source basis to the Event Authority,
9 together with proceeds of property tax increment financing from the future development of
10 such sites, to help reimburse the Event Authority for the cost of the infrastructure repairs and
11 improvements. The sole source negotiations contemplated by the Host Agreement are
12 required for the City to host the Event, make competitive bidding impractical and infeasible
13 and are in the City's best interests; and,

14 (j) The Northern Waterfront Host Agreement contemplates sole source negotiations
15 with the Event Authority for venue leases and other agreements for environmental review and
16 to use City property needed for the Event. Also, the Northern Waterfront Host Agreement
17 requires the Event Authority to make an estimated \$55 million in substructure and
18 infrastructure improvements to Port facilities for the Event, subject to City verification; and in
19 exchange, the City agrees, subject to the terms and conditions of the Host Agreement,
20 including environmental review under CEQA and future approvals by the Port and Board of
21 Supervisors, to grant the long-term development rights to Piers 30-32 and Seawall Lot 330 on
22 a sole source basis to the Event Authority, together with proceeds of property tax increment
23 financing from the future development of such sites, to help reimburse the Event Authority for
24 the cost of the infrastructure repairs and improvements. The sole source negotiations
25 contemplated by the Northern Waterfront Host Agreement are required for the City to host the

1 Event, make competitive bidding impractical and infeasible and are in the City's best interests;
2 and,

3 (k) The Host Agreement and the Northern Waterfront Host Agreement requires the City
4 to provide certain indemnity obligations in favor of the Event Authority and the ACOC, permits
5 specific performance as a remedy, and provides for certain waivers of remedies and
6 limitations on liability, all on the terms and conditions more particularly set forth in the Host
7 Agreement and the Northern Waterfront Host Agreement; and,

8 (l) The City has identified potential financial impacts to the Port of hosting the
9 34th America's Cup and a range of potential solutions, including using Charter Section B7.320
10 to offset race-related, net short-term rent reductions to the Port, financing certain City costs to
11 prepare venues for the Event with City certificates of participation, and City financing for
12 waterfront improvements to offset reductions in the Port's revenue bond capacity, subject to
13 the review and approval of the Capital Planning Committee, the Mayor and the San Francisco
14 Board of Supervisors, as applicable; and,

15 (m) Under the Host Agreement and the Northern Waterfront Host Agreement, the
16 Team and Event Authority will continue to assess and analyze information to determine the
17 final type and placement of facilities and infrastructure necessary to host the 34th America's
18 Cup, and will work collaboratively with the City to further refine the plans for the 34th America's
19 Cup that do not materially increase the obligations or liabilities of the City and are necessary
20 to accomplish the Event contemplated by the Host Agreement and the Northern Waterfront
21 Host Agreement; and,

22 (n) The Team and Event Authority currently are evaluating Piers 19-29 in combination
23 with Piers 30-32 as an alternative Event location that may be preferred by the City, as further
24 described in a letter dated November 8, 2010 from Stephen Barclay on behalf of the
25 America's Cup Committee, Golden Gate Yacht Club, a copy of which is on file with the Clerk

1 of the Board in File No. 101259 and which is hereby declared to be a part of this
2 Resolution as if set forth fully herein and in the Northern Waterfront Host Agreement; and,

3 (o) The City will undertake environmental review under CEQA of the 34th America's
4 Cup event and facilities and will work with the Team as well as experts and the public to
5 develop a thorough environmental analysis that will inform both the design and placement of
6 the 34th America's Cup events and facilities, and the City and the Team intend the
7 34th America's Cup event and facilities to be models of green, sustainable technology and
8 event planning; and,

9 (p) Chapter 29 of the Administrative Code requires the Board of Supervisors to
10 determine whether certain projects proposed by a City department or other entity are fiscally
11 feasible and responsible prior to initiating environmental review under the California
12 Environmental Quality Act ("CEQA"); and,

13 (q) The Office of Economic and Workforce Development has submitted to the Board of
14 Supervisors a report on the proposed Project ("the "Fiscal Feasibility Report") containing the
15 information required by Administrative Code Section 29.3, which Report is on file with the
16 Clerk of the Board of Supervisors in File No. 101259, and is hereby incorporated
17 by this reference as part of the Resolution as if fully set forth herein; and,

18 (r) The Board of Supervisors has reviewed and considered the general description of
19 the Event, the general purpose of the Event, the fiscal plan and other information submitted to
20 it and has considered the direct and indirect financial benefits of the Event to the City, as set
21 forth in the Fiscal Feasibility Report; and,

22 (s) The Venue Leases (and licenses) and Disposition and Development Agreements
23 ("DDAs"), Legacy Leases and Transfer Agreement contemplated in the Host Agreement and
24 the Northern Waterfront Host Agreement will be subject to later discretionary approvals by the
25 Board of Supervisors and Port, following completion of environmental review of the Event

1 under CEQA. A proposed schedule of major approvals is on file with the Clerk of the Board in
2 File No. 101259 which is hereby declared to be a part of this Resolution as if set
3 forth fully herein; and,

4 (t) Under Section 1 of the Host Agreement and the Northern Waterfront Host
5 Agreement, the agreement will terminate if the City is not selected as host city for the 34th
6 America's Cup; and under Section 2 of the Host Agreement and the Northern Waterfront Host
7 Agreement, the agreement will terminate without liability to any Party if the Parties otherwise
8 are unable to reach agreement on a variety of contingencies, including but not limited to if
9 environmental review under CEQA would require unacceptable modifications to the Event or
10 other terms of the Host Agreement or the Northern Waterfront Host Agreement; and,

11 (u) The obligations of the City and the ACOC owed to the Event Authority under the
12 Host Agreement or the Northern Waterfront Host Agreement shall be secured by a surety
13 bond in the amount of \$32 million provided by the ACOC.

14 Now, therefore, be it

15 RESOLVED, That the Board of Supervisors finds that the plan to undertake and
16 implement the Event is fiscally feasible and responsible under San Francisco Administrative
17 Code Chapter 29; and, be it

18 FURTHER RESOLVED, That under San Francisco Administrative Code Chapter 29,
19 the environmental application may now be filed with the Planning Department and the
20 Planning Department may now undertake environmental review of the Event as required by
21 Administrative Code Chapter 31 and CEQA; and, be it

22 FURTHER RESOLVED, That the City will conduct environmental review of the
23 34th America's Cup under the California Environmental Quality Act ("CEQA") and nothing in
24 this Resolution implements any approvals or facilities for the Event, or grants any entitlements
25 to the Event Authority, nor does adoption of this Resolution foreclose the possibility of

1 considering alternatives to the proposal, mitigation measures or deciding not to grant
2 entitlement or approve or implement any actions to construct necessary amenities for the
3 Event after conducting appropriate environmental review under CEQA, and while the Host
4 Agreement and the Northern Waterfront Host Agreement identify many of the essential terms
5 of a proposed transaction between the Event Authority and the City, it does not approve or
6 finalize all of the material terms and conditions of the project, including the Venue Leases and
7 DDAs, Legacy Leases and Transfer Agreement; and, be it

8 FURTHER RESOLVED, That the Board of Supervisors hereby approves the Host
9 Agreement and authorizes the Mayor and City Officials with jurisdiction of over the specific
10 contractual and leasing agreement subject matter, including the Executive Director of the Port
11 over Port matters, to enter into and perform the City's obligations under the Host Agreement;
12 and, be it

13 FURTHER RESOLVED, That the Board of Supervisors hereby approves the Northern
14 Waterfront Host Agreement and authorizes the Mayor and City Officials with jurisdiction of
15 over the specific contractual and leasing agreement subject matter, including the Executive
16 Director of the Port over Port matters, to enter into and perform the City's obligations under
17 the Northern Waterfront Host Agreement; and, be it

18 FURTHER RESOLVED, That the Board of Supervisors hereby authorizes and urges
19 the Mayor, Director of the Office of Economic and Workforce Development, and other City
20 Officials with jurisdiction over the specific contractual and leasing subject matter, including the
21 Executive Director of the Port over Port matters, to take such steps and enter into any
22 additions, amendments or other modifications to the Host Agreement and/or the Northern
23 Waterfront Host Agreement, as applicable, as they, in consultation with the City Attorney,
24 determine are in the best interests of the City, do not materially increase the obligations or
25 liabilities of the City and are necessary or advisable to bring the 34th America's Cup to San

1 Francisco Bay and effectuate the purpose and intent of this Resolution, and further ratifies
2 such actions that the Mayor, Director of the Office of Economic and Workforce Development,
3 Port Director or other City Official may undertake within the scope of this authority before final
4 adoption of this Resolution, except for the Venue Leases and the DDAs, Legacy Leases and
5 Transfer Agreement contemplated in the Host Agreement and/or the Northern Waterfront Host
6 Agreement, as applicable, which all will be subject to later discretionary approvals by the
7 Board of Supervisors and Port, as applicable, following CEQA review of the Event.

Item 14 File 10-1259	Department: Port of San Francisco
<p>Note: This report is based on the proposed subject Host City and Venue Agreement. The Budget and Legislative Analyst previously reported on a non-binding Term Sheet which was the general foundation for the Host City and Venue Agreement. The differences between the estimates included in these two reports are due to: (a) refinement of some prior calculations; (b) new information provided by various City departments; and/or, (c) differences in the specific provisions of the non-binding Term Sheet compared to the proposed binding Host City and Venue Agreement.</p> <p>The Port Commission adopted a resolution on November 30, 2010 proposing use of alternative Port piers and properties for the 34th America's Cup, generally centered around Piers 27-29 rather than the central waterfront plan around Pier 30-32 and Pier 50 as contained in the Host City and Venue Agreement. The Port Commission has forwarded a new Northern Waterfront Host Agreement and a related resolution for consideration by the Board of Supervisors. This new agreement could potentially be used in lieu of the Host City and Venue Agreement, which will be considered by the Budget and Finance Committee at the Committee meeting of December 8, 2010.</p> <p>The following report prepared by the Budget and Legislative Analyst focuses on the Host City and Venue Agreement, as previously submitted to the Board of Supervisors. However, a discussion of the alternative venue proposal is also presented below.</p>	
EXECUTIVE SUMMARY	
Legislative Objective	
<ul style="list-style-type: none"> • Resolution (a) approving the execution of the 34th America's Cup Host City and Venue Agreement between the City, the Event Authority, and the America's Cup Organizing Committee, and (b) finding that hosting the 34th America's Cup in San Francisco is fiscally feasible under Chapter 29 of the City's Administrative Code. 	
Key Points	
<ul style="list-style-type: none"> • On February 14, 2010, at the 33rd America's Cup held 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 that will organize the America's Cup events, and announced the general parameters for the format and date of the next race. However, as of the writing of this report, a location has not yet been selected by the Event Authority. • In efforts to bring the 34th America's Cup to San Francisco, the Office of Economic and Workforce Development and the Golden Gate Yacht Club negotiated a non-binding Term Sheet which described the general terms under which San Francisco would host the 34th America's Cup. The non-binding Term Sheet was previously approved by the Board of Supervisors on October 5, 2010 (File 10-1254). Using the general provisions included in the non-binding Term Sheet, the City, the America's Cup Organizing Committee and the Event 	

Authority have negotiated the proposed binding Host City and Venue Agreement.

- The proposed resolution (File 10-1259) would: (a) authorize approval of a binding Host City and Venue Agreement, which sets forth the requirements for the City if San Francisco is selected as the venue for the 34th America’s Cup; and, (b) would make a finding that the Board of Supervisors has determined that hosting the 34th America’s Cup in San Francisco is fiscally feasible.
- Hosting the 34th America’s Cup is estimated by the Budget and Legislative Analyst to (a) create economic benefits, for businesses located in San Francisco, totaling \$1.2 billion, and (b) support approximately 8,840 “jobs” or labor years (the amount of work produced by one person over one year). The 8,840 labor years would be provided through a combination of (a) already employed workers performing their regular jobs; (b) increased productivity of already employed workers; (c) extra hours and overtime by already employed workers; and, (d) workers for temporary and permanent new jobs. Therefore, most of those jobs would not be permanent full-time jobs and would not result in the hiring of 8,840 employees. It is unlikely that any labor benefits would remain in the years after the America’s Cup is completed.
- Hosting the 34th America’s Cup under the terms and conditions in the Host City and Venue Agreement is estimated by the Budget and Legislative Analyst to have a direct fiscal benefit to the City and County of San Francisco of \$19.5 million in additional tax revenues, including Hotel, Sales and Parking Taxes. However, the City would have to incur estimated costs of \$77.3 million, thereby resulting in an estimated net loss directly to the City’s treasury of \$57.8 million, as shown in Table A below.

Table A: Estimated Net Loss to Be Incurred Directly By the City and County of San Francisco Associated with Hosting the 34th America’s Cup

	Benefits	Costs	Estimated Net Loss to the City (Costs Less Benefits)
The America’s Cup Events	\$19.5 million	\$77.3 million	(\$57.8 million)

- In addition to the estimated net loss of \$57.8 million to be incurred directly by the City’s treasury, the proposed Host City and Venue Agreement would grant the Event Authority with long term development rights of 66 to 75 years to certain Port properties, without the Port charging any rent to the Event Authority. While the Host City and Venue Agreement does not spell out a specific development plan for such Port properties, the Port has prepared an analysis of likely development by the Event Authority on the properties consisting of: (a) a 250 unit condominium building on Seawall Lot 330; (b) a mixed use project including office space and a cruise ship terminal at Pier 30-32; and, (c) a 200 room hotel on Pier 50. The Port estimates that such projects will increase Property, Sales, Hotel, and Payroll taxes payable to the City by \$66.1 million.
- However, by providing such long term development rights to the Event Authority at no charge, the Port is foregoing the opportunity to lease or sell Seawall Lot 330 to other developers,

through a competitive process, for fair market value. Further, the Port is foregoing continued lease revenues for needed expenditures related to Pier 30-32 and Pier 50 until such piers reach the end of their useful life (10 years for Pier 30-32 and 45 years for Pier 50). Such foregone lease revenues to the Port and related forgone increased taxes, also referred to as opportunity cost, is estimated at \$109.7 million.

- Therefore, in addition to the estimated net loss of \$57.8 million to be incurred directly by the City's treasury, as shown in Table A above, the long term development rights of 66 to 75 years being granted by the Port to the Event Authority, without charging any rent to the Event Authority, as included in the Host City and Venue Agreement, would result in an additional estimated net loss to the City of \$43.6 million, as shown in Table B below (\$109.7 million less \$66.1 million, assuming development by the Event Authority as described 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 with Event Authority Control	Foregone Increased Taxes and Lease Revenue that the City Would Forego to Host the America's Cup	Estimated Net Loss to the City (Foregone revenues less Increased Taxes)
Subsequent Long Term Development	\$66.1 million	\$109.7 million	(\$43.6 million)

- Although not specified in or required under the Host City and Venue Agreement, the Office of Economic and Workforce Development anticipates raising \$32.0 million in private contributions to help offset the City's costs. To the extent that such funds become available, the estimated net loss to the City of \$57.8 million (see Table A above) would be reduced. However, there is no guarantee, whatsoever, that any of the anticipated \$32 million in private contributions will be realized by the City.
- As noted in Table B above, the Budget and Legislative Analyst estimated that the proposed long term development rights would result in a net opportunity cost to the City of \$43.6 million. This estimated loss to the City does not include the value of infrastructure improvements to Port property to be constructed by the Event Authority which are estimated to cost \$150,000,000. The Budget and Legislative Analyst did not include such improvements to Port property as a fiscal benefit to the City because such improvements to the Port's assets would not provide any financial benefit to the Port. Rather, the benefits of such improvements to the Port property would accrue exclusively to the Event Authority through the long term development rights that would be transferred by the Port at no cost to the Event Authority.
- The Budget and Legislative Analyst notes that if another developer were selected, through a competitive process, for the same development as assumed for the Event Authority for the

subject properties, that developer would only need to invest \$105.5 million in infrastructure improvements for development of the subject properties, not the \$150 million to be invested by the Event Authority. The remaining costs of \$44.5 million would be expended by the Event Authority exclusively for America's Cup purposes and is not related to long term development of the Port. The Budget and Legislative Analyst further notes that the subject Port properties do not have to be improved and developed as a package, meaning that alternative uses and alternative financial scenarios would be possible if long-term development rights for the properties were not granted to the Event Authority at no charge by the Port.

- Approval of the proposed resolution would find that the Board of Supervisors has determined that hosting the America's Cup in San Francisco is fiscally feasible in accordance with the five fiscal feasibility criteria established in Chapter 29 of the City's Administrative Code. Hosting the 34th America's Cup would produce the following fiscal impacts: (1) an estimated \$19.5 million (see Table A above) in additional tax revenues to the City and an estimated \$77.3 million (see Table A above) in additional costs, resulting in an estimated net loss of \$57.8 million to be directly incurred by the City's treasury; (2) estimated construction costs at the Port of \$47.2 million out of the estimated \$77.3 million (see Table A above) in additional costs; (3) funding available to support the Port's costs has not been specifically identified other than a possible new Certificate of Participation debt issuance of \$31.2 million and possible transfers from the City's General Fund to cover Port costs; (4) no new ongoing maintenance costs for the Port or other departments have been identified; and, (5) a possible increase of \$31.2 million in new debt through the issuance of Certificates of Participation to cover a portion of the Port's costs, although a final decision has not been made about whether such a financing mechanism will be used or not.

Alternatives

- A resolution adopted by the Port Commission on November 30, 2010 proposes alternate sites for the 34th America's Cup including other piers and Port properties primarily on the northern waterfront along with some of the same piers proposed in the Host City and Venue Agreement, as submitted to the Board of Supervisors. The Host City and Venue Agreement, as previously submitted to the Board of Supervisors, includes a clause that allows for, with mutual agreement between the City and the Event Authority, amendments to the agreement, such as changing some Event locations. According to Port staff, the Port's Northern Waterfront alternative would reduce overall costs to the City by an estimated \$46.2 million primarily by using piers and related Port facilities that would require fewer improvements, and by requiring the Event Authority to cover all dredging costs, which is a City obligation under the Host City and Venue Agreement.
- The Northern Waterfront Alternative reduces the Event Authority's required contributions by an estimated \$95 million from \$150 million in the Host City and Venue Agreement to \$55 million. The Event Authority would pay for all dredging costs under the Northern Waterfront Alternative. Long term development rights would still be transferred to the Event Authority under the alternative plan, but only for two of the three properties included in the Host City and Venue Agreement: Seawall Lot 330 and Pier 30-32. Further, unlike the Host City and Venue Agreement, the Event Authority would be required to make lease payments to the Port for the properties, but this requirement would be offset by rent credits to cover the costs of

improvements paid for by the Event Authority.

- While the Northern Waterfront Alternative represents an improvement by reducing the fiscal impact of hosting the 34th America's Cup in San Francisco, the Northern Waterfront Alternative would still result in a net loss to the City in both direct costs to be incurred by the City's treasury and opportunity costs related to the Port's transfer of 66 to 75 year long term development rights to the Event Authority.
- While all of the City's costs under the Northern Waterfront Alternative plan are not available at this time, the Budget and Legislative Analyst estimates that the net loss to be directly incurred by the City's treasury would range from \$11.6 million if the Event Authority agrees to pay for the dredging costs, to \$47.6 million if the Event Authority does not agree to pay for the dredging costs. Additionally, the net loss related to the transfer of the 66 to 75 year long term development rights cannot be determined without additional details on the lease payments to be made by the Event Authority to the Port. However, in any event, the granting by the Port of such long-term development rights to the Event Authority would still represent a net loss to the City because the incremental Property Taxes on the subject properties would accrue to the Event Authority rather than to the City. If the properties were developed by another developer, selected through a competitive process, independent of the Host City and Venue Agreement, then the City would realize the incremental Property Taxes.
- Although the Budget and Legislative Analyst has been provided by the Port with a report on the Northern Waterfront Alternative, that report does not contain all of the City's finalized costs. Therefore, as of the writing of this report, a detailed independent review of the Northern Waterfront Alternative has not been made by the Budget and Legislative Analyst.
- The Budget and Legislative Analyst suggests the following options for consideration by the Board of Supervisors in order to reduce the City's costs for hosting the 34th America's Cup:
 1. Amend the proposed agreement to require that the Golden Gate Yacht Club, if successful in the 34th America's Cup and thereby empowered to select the venue for the 35th America's Cup, host the 35th America's Cup in San Francisco. This requirement could be tied to long-term development rights of Port properties. The Host City and Venue Agreement currently gives the Event Authority the option of using San Francisco again for the 35th America's Cup if it is successful in the 34th America's Cup. Implementation of this option would make returning the America's Cup to San Francisco a requirement.
 2. Amend the proposed agreement to require that the Event Authority pay the Port a fair market rent for the Port properties subject to being granted 66 to 75 year long term development rights, with possible consideration of granting a rent credit to the Event Authority for some or all of the infrastructure costs paid for by the Event Authority
 3. Consider creating a temporary assessment district in the immediate vicinity of the America's Cup venues in order to receive additional revenues from those businesses that will directly benefit from San Francisco hosting the America's Cup.

4. Structure a joint powers agreement or similar mechanism to enable joint funding from surrounding jurisdictions, such as Oakland, Berkeley and Sausalito, which would receive significant economic benefits from having the 34th America's Cup held in the Bay Area. Such jurisdictions would not incur any costs. Similar regional financing was used in hosting the 32nd America's Cup in Valencia, Spain.

Recommendations

- Because hosting the 34th America's Cup would result in a net loss directly to the City's treasury of an estimated \$57.8 million (see Table A above) and would also result in an additional loss to the City of an estimated \$43.6 million (see Table B above), resulting from granting 66 to 75 year long term development rights to the Event Authority, without charging any rent to the Event Authority, approval of the proposed resolution is a policy matter for the Board of Supervisors.
- Based on the review of the Host City and Venue Agreement, the Budget and Legislative Analyst believes that hosting the America's Cup in San Francisco is fiscally feasible. However, the Budget and Legislative Analyst emphasizes that such fiscal feasibility is predicated on the City having to use General Fund and other City monies to pay for the costs to be incurred directly by the City's treasury in hosting the 34th America's Cup.

MANDATE STATEMENT

Chapter 29 of the City's Administrative Code requires that certain projects be submitted to the Board of Supervisors for approval of the project's fiscal feasibility¹ prior to submitting the project to the Planning Department for environmental review if (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA), (b) total project costs are estimated to exceed \$25,000,000, and (c) construction costs are estimated to exceed \$1,000,000.

Chapter 29 specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including the (1) direct and indirect financial benefits to the City, (2) construction cost, (3) available funding, (4) long term operating and maintenance costs, and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review:

"A determination by the Board that the plan for implementing and undertaking the project is fiscally feasible and responsible shall not include a determination as to whether the Project Sponsor or other unit of the government of the City and County should approve the project and it is the intent of the Board of Supervisors in requiring the determination to decide only whether the proposed project merits further evaluation and environmental review."

Section 9.118 of the San Francisco Charter requires Board of Supervisors approval for entering into any agreement which exceeds an estimated cost of \$10,000,000 or a term of ten years.

BACKGROUND

In 1851, a six person syndicate² 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 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).

¹ Chapter 29 excludes various types of projects from the fiscal feasibility requirement, including (a) any utilities improvement project by the Public Utilities Commission, (b) projects with more than 75 percent of funding from the San Francisco Transportation Authority, and (c) projects approved by the voters of San Francisco.

² Syndicate is the term used for a racing team for America's Cup.

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.

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 San Francisco-based 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 record³. 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 between 2011 and 2013 between competing syndicates prior to a Challenger or Defender series.
2. A Challenger Series to determine the challenger syndicate to race against the defender in the America's Cup final match.
3. The possibility of a Defender Series to determine the defending syndicate to race against the winner of the Challenger Series in the final match.
4. A final America's Cup match.
5. A new type of catamaran yacht featuring a rigid sail⁴, with two hulls connected by cross beams, 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 Office of Economic and Workforce Development negotiated 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) and served largely as the basis for the now proposed binding Host City and Venue Agreement.

³ 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.

⁴ The rigid sail can be functionally thought of as a vertical airplane wing complete with flaps and other movable panels.

According to a number of press reports⁵ and representations by City staff and America's Cup Organizing Committee representatives, 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 official documentation specifying 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 Provincias⁶, a Spanish newspaper, Valencia has been rejected by the Event Authority⁷ as a possible site.

The Mayor and the Port are now requesting the Board of Supervisors (a) approve a binding Host City and Venue Agreement between the City, the America's Cup Event Authority and the San Francisco America's Cup Organizing Committee⁸, which sets forth the requirements for the City if it is selected as the venue for the 34th America's Cup, and (b) find that hosting the 34th America's Cup is fiscally feasible.

HOST CITY AND VENUE AGREEMENT

The proposed Host City and Venue Agreement provides the terms and requirements for the City to host the 34th America's Cup in San Francisco.

Event Description

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. However, the Host City and Venue Agreement does specify a minimum of 43 racing days to be held in San Francisco, obligates the Event Authority to give the City advance notice of any material changes to the Event Plan; subjects these changes to the City's ability to meet its obligations under the Agreement and disallows elimination of any stage of the Event held in San Francisco or reduction of the minimum number of days for each stage of the Event in San Francisco without the City's written consent.

As the Host City and Venue Agreement 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

⁵ "Bid for America's Cup Hits Rough Waters" Worth, Katie: San Francisco Examiner, September 24, 2010. Article retrieved online at www.sfexaminer.com.

⁶ "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.

⁷ The Golden Gate Yacht Club and Club Nautico di Roma 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.

⁸ This committee consists of 35 members including members of California's Congressional delegation, the current Governor and others. A working committee has been established.

racing events, though some of them could be held in other cities and some could not be held at all. However, if the City of San Francisco is selected to host the 34th America's Cup, the Host City and Venue Agreement and recent America's Cup history indicate that the Event Authority will be responsible for the management and production of a minimum of 43 event days in San Francisco comprised of pre regattas, a challenger series and the final match, as follows:

- A minimum of approximately 9 days each for pre-regattas consisting of either (a) one America's Cup World Series Pre-regatta in 2011 and one in 2012, or (b) two America's Cup World Series pre-regattas in 2012. Dates for pre-regattas are not specified in the Host City and Venue Agreement.
- A minimum of 20 days racing in an America's Cup Challenger Series to determine which syndicate will race against the current holder of the America's Cup in the final match, starting July 13, 2013 and concluding September 1, 2013.
- An optional America's Cup Defender Series in which races are held prior to the final match to determine who will compete against the selected challenger in the final match. The Golden Gate Yacht Club has not yet indicated whether it intends to hold this optional event and dates are not specified for a Defender Series in the Host City and Venue Agreement.
- A minimum of five racing days for the final match, starting September 7, 2013 and concluding September 22, 2013. (The Host City and Venue Agreement includes an Event Plan which indicates nine race days).
- Possible post-match events, occurring within six months of completion of the final match.

Event Authority Requirements and Obligations

In preparation for the America's Cup events, the Host City and Venue Agreement obligates the Event Authority to expend \$150 million for infrastructure repairs and improvements, as follows:

1. Pile replacements and strengthening on Pier 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. Construction of breakwaters.

Under the terms of the Host City and Venue Agreement, if the actual costs of these improvements turn out to be less than \$150 million, the Event Authority would be obligated to still spend that amount on other related improvements.

The Host City and Venue Agreement calls for tax increment or like debt instruments to be issued by the City to provide funding to pay the Event Authority for their costs incurred in making these repairs, to the extent incremental property tax revenues generated by the Port properties are sufficient for this purpose.

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 Host City and Venue Agreement states that the America's Cup Organizing Committee, with the assistance of the City and Event Authority, will raise not less than \$270 million in sponsorship revenues on behalf of the Event Authority to cover Event costs. The Event Authority will have the right to enter into sponsorship agreements with Event Sponsors. The agreement does not specify whether or not such funds would be available for the required infrastructure improvements if it is to be used entirely for other purposes. To the extent the Committee fails to raise the full \$270 million, the Event Authority is allowed to scale back the Event and/or call upon a \$32 million bond that the Committee is required to obtain to cover costs incurred by the Event Authority if the Committee or City fails to meet all of its obligations.

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: Pier 30-32 and Pier 50 for 66 years each and Seawall Lot 330 for 75 years. 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 for any zoning permits, and environmental review. The Event Authority would not be obligated to pay any base rent, option considerations or percentage rent to the Port for use of these facilities.

City Requirements and Obligations

The City's obligations outlined in the Agreement include staff time and costs related to venue preparation and security and movement of participants and spectators during the various Event races. The City would be obligated to deliver a number of Port properties to the Event Authority free of tenants for rent-free use.

The City will provide the Authority with exclusive possession and control of Piers 28, 30-32, 48, 50 and Seawall Lot 330 as "long term" venues for the duration of the Event. Additionally the City is obligated to make available as short term venues for intermittent periods of exclusive use or non exclusive use other facilities including: the Brannan Street Wharf, Seawall Lot 337 (or a portion of Terry A Francois Boulevard or other Mission Bay space near Seawall Lot 337), Pier 38 or the water area between Pier 14 and Pier 221/2, Pier 40 and/or Pier 54, Pier 80.

The City's obligations regarding venue preparation and improvements are as follows.

Port Facilities delivery and/or preparation:

- By January 1, 2013: demolition of Pier 36 (by the Army Corps of Engineers); removal of Pier 36 substructure, pilings and footings; and, dredging between Pier 30-32 and 38 (or between Piers 14 and 22 and one-half).
- Removal of Sheds A, B, C and D on Pier 50 no later than six months following CEQA certification.
- Completion of the Brannan Street Wharf by no later than June 30, 2013.
- Delivery of Pier 28, Pier 38 and Seawall Lots 330 and 337 by December 31, 2012.
- Delivery of Pier 30-32, 48 and 50 by December 31, 2011.
- Delivery of Pier 80 by September 30, 2011.
- Temporary or permanent pedestrian crossing improvements across the Embarcadero roadway near Pier 30-32 including the possibility of a bridge over the Embarcadero.

Other City department services:

- City review and approval of development projects related to the repair and construction of Event venues are to be provided at no cost to the Event Authority, including the costs of all project reviews, inspections and permit issuances for Event Venue construction by the Department of Building Inspection and the Planning Department, which includes the costs of environmental review (the CEQA process) would be borne by the City.
- Preparation and implementation of a "People Plan" 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.
- Berthage on the City's waterfront for special purpose America's Cup ships.

Best Efforts Requirements:

The Host City and Venue Agreement obligates the City to make best efforts in collaboration with the America's Cup Organizing Committee to obtain approvals for or to implement the following:

- Exclusive water and air space within the course areas on race days and for training
- Use of certain radio frequencies
- Coordination with the Convention & Visitor's Bureau to secure and enter into option agreements for between 800 to 5,000 rooms at convention discounted rates in 4 or 5 star hotels for specified periods before and after all races. The rooms would be allocated among competitors, Event sponsors, and others by the Event Authority
- Authorization for international high definition broadcast of events
- Preparation of a waste management plan for the venues

- Meteorological support
- 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
- Secure adequate facilities for Pre regattas including Pier 80
- Approval for use of onshore spectator areas

Advertising:

The Agreement requires the City to develop an Advertising Plan in consultation with the Authority to promote the Event using advertising space in San Francisco. The Agreement 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. Office of Economic and Workforce Development representatives report that only advertising space reserved for unpaid public service announcements would be used for this purpose so there would be no effect on City revenues from this provision.

Costs to the City

New costs that the City will incur related to preparing for and hosting the America's Cup are itemized in Table 2 below.

Port	
Relocation of Pier 50 Maintenance Facility	\$14,503,550
Demolition of Pier 50 Sheds A-D	8,645,650
Architectural & Engineering Services	1,450,355
Space Planning Consultant	125,000
Pier 36 Pile Removal	3,821,000
Dredging to 5 meters between Piers 30-32 & 38 or 14 and 22 1/2	16,000,000
Tenant Relocation Costs	275,000
Unamortized Tenant Improvements	500,000
Litigation and Settlement, Tenant Evictions	1,500,000
Staffing	606,372
Subtotal Direct Costs	\$47,426,927
Short Term Rent Reduction (2.5 years)	13,909,710
Lost Revenue Generating Activities at Pier 80	699,329
Lost Berthage fees for two special purpose America's Cup ships	Unknown
Subtotal Lost Rent and Revenue	\$14,609,039
Subtotal All Port Costs	\$62,035,966
Other City Departments	
SFMTA	6,430,228
Environmental Review (Planning)	3,115,000
Department of Building Inspection	1,723,984
Police	4,000,000
Subtotal: Other City Costs	\$15,269,212
Grand Total	\$77,305,178
<i>Optional: Cost of Issuance and Underwriter if \$31.2 million in Certificates of Participation (COPS) are issued to cover \$25 million in Port costs</i>	<i>\$813,175</i>
<i>Grand Total with optional costs if COPS are issued</i>	<i>\$78,118,353</i>

Port Costs

The Agreement 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 \$24,599,555 (\$14,503,550 for the relocation of the maintenance facility, plus \$8,645,650 in shed removal cost, and \$1,450,355 for architectural and engineering services); (b) removal of Pier 36 piles at an estimated cost of \$3,821,000; (c) dredging as necessary to accommodate the Event at an estimated cost of \$16 million; and, (d) construction of the Brannan Street Wharf at an estimated cost of \$22 million. The costs for the Brannan Street Wharf are not included in our cost estimates because the project is currently funded. The Port reports it would need four new positions to manage the process of preparing the long and short term venues, at a cost of \$606,372 for a Property Manager, Regulatory Permitting Expert, Building Inspector, and

Structural Engineer. The Port also anticipates using the services of a space planning consultant for these improvements, at an estimated cost of \$125,000.

The Port would be required to relocate a number of its tenants under the terms of the proposed Agreement. The Port's estimated costs related to this include: (a) \$275,000 in tenant relocation costs for a tenant on Pier 50; (b) a \$500,000 reimbursement to a tenant for improvements constructed by the tenant which have not been fully amortized; and, (c) \$1,500,000 to cover potential litigation costs due to tenant evictions.

The Host City and Venue Agreement calls for improved pedestrian crossing(s) over the Embarcadero at Pier 30-32 including the possible construction of a pedestrian bridge. Cost estimates for this project have not been prepared by the Port or other City departments because the Agreement does not include specific obligations for the City but, rather, only requires unspecified improvements to current pedestrian crossings.

The Port is required to provide free berthage on the City's waterfront for up to two special purpose America's Cup ships. The Budget and Legislative Analyst assumes that these ships will displace other ships which would have otherwise paid berthage fees to the Port, and therefore attempted to include this as a cost in Table 2, above. The Port 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 Port estimates it will forgo \$13,909,710 in rent over the 30-month period beginning in January 2011 and ending six months after the final Event since the venue properties will have to be cleared of tenants for the required improvements in advance of the Events and must be delivered to the Event Authority free of tenants. This lost rent 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 is also estimated to forgo \$699,329 from lost revenue generating activities at Pier 80.

The Port reports that it does not have the needed funds for the improvements required in the Host City and Venue Agreement. One method of covering these costs that the Port has suggested is to issue debt through Certificates of Participation (COPs). To obtain \$25 million in COPs proceeds, the maximum amount the Port estimates it would qualify for using this debt instrument, the Port reports that a total COPs issuance of \$31.2 million would be required to cover all financing costs and reserve requirements. The \$813,175 cost of issuance and underwriter's discount is shown in Table 2 above as a potential optional cost in addition to the Grand Total amount since it represents a new one-time cost that would be incurred as a result of hosting the 34th America's Cup in San Francisco. The City would have to choose other funding mechanisms to cover the balance of the Port's and other City department costs, such as using the General Fund for this purpose.

The Port's foregone lease revenues are estimated to reduce the bonding capacity of the Port by \$43.0 million in future revenue bonds.

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 gross costs at \$8,292,891 and net costs of \$6,430,228, after accounting for estimated fare revenue of \$1,862,663, as shown in Table 3 below. This estimate assumes 58 days of America's Cup activities.

Item	Cost	Justification
Personnel		
Operators and Staff	\$1,262,409	23 Transit Operators per day
Vehicle Maintenance	1,895,314	8 person maintenance crew
Transit Service (MRO/Inspectors)	2,463,872	
Parking Control Officers	1,394,140	
Fuel and Lubricants	115,156	38,385 gallons @ \$3.00 a gallon
Vehicle Parts	1,112,000	Pre-maintenance and mechanical system of all vehicles
Other Materials and Supplies	50,000	Signage and Brochures
Total	\$8,292,891	
Less Fare Revenues Paid By Visitors	1,862,663	Assumes 27% ⁹ of non-Parking Control Officer cost is recovered in fares
Total Costs	\$6,430,228	

Source: SFMTA

Planning Department: Environmental Review (CEQA Process)

The Agreement 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 4 below, assuming the production of an Environmental Impact Report for work on Piers 30-32 and 50. The costs of existing Planning Department staff that would work on this assignment are included in the cost estimate because their costs would normally be recovered through fees paid by the project applicant. In this case, all project applicant fees would be waived pursuant to the Host City and Venue Agreement.

The environmental review process is part of the Planning Department's development review process. Development for use of the proposed venues may require discretionary permits such as

⁹ Fehr and Peers, a San Francisco-based transportation consulting firm, reports that Muni's average fare box recovery is 27%.⁹ For the purposes of this report, the Budget and Legislative Analyst has assumed that the cost for Parking Control Officers is not related to Muni revenue generation (or transportation) and has therefore deducted this cost from the total before estimating 27% in fare revenues.

variances or conditional use permits which, according to the Host City and Venue Agreement, will be processed by Planning Department staff with all normal Department fees waived and at no cost to the Event Authority. 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 reportedly low probability of being incurred.

Task	Environmenta l Review 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 Agreement, 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 \$1,723,984. These costs are itemized in Table 5 below.

	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. Individual columns total to \$1,330 less than total shown

Police Department (SFPD)

The City would be required to provide police services outside of the Event Authority-controlled venues under the Host City and Venue Agreement. The Budget and Legislative Analyst reviewed police overtime costs for various large sporting events in San Francisco. SFPD overtime costs for the World Series were reportedly \$300,000 for the two home games and Police Department services at the parade. SFPD has provided the Office of Economic and Workforce Development with an estimated cost for SFPD services for the America's Cup of \$4,000,000. While the Budget and Legislative Analyst was not provided with a basis for this estimate, it appears reasonable given the additional security costs for the 2010 World Series, detailed above.

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 a number of specific services needed for the Event (detailed in the "Best Efforts" requirements section, above). The Mayor's Office has indicated that this work will require one full-time equivalent position (FTE). The Budget and Legislative Analyst assumes that the scope and duties of this position will require a senior manager, or equivalent, 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 coordinate 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 Department of Public Works, transportation and security planning by multiple agencies, and other Event planning activities. These and other tasks, to the extent they are performed by existing staff, would not create net new costs to the City but represent the use of staff time that could otherwise be used for other purposes.

Long Term Development

In exchange for the Event Authority providing for the infrastructure improvements described above, estimated by the Port to cost \$150,000,000 and reported as necessary to host the 34th America's Cup at the venues identified in the Host City and Venue Agreement, the following requirements are proposed for the City:

1. The City must lease Piers 30-32 and 50 (the same piers for which the Event Authority would provide repairs), and Seawall Lot 330 to the Event Authority for terms of 66 years (Piers 30-32 and 50) and 75 years (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 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 requires 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). In exchange for permanently removing the restrictions on Seawall Lot 330, State law requires that the City place another property of equal or greater value under Tidelands Trust restrictions.
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 provide debt service for a required Tax Increment Bond issuance, the proceeds of which would be provided to the Event Authority to offset their costs for the infrastructure improvements required in the Host City and Venue Agreement. To the extent that the Event Authority's actual infrastructure improvement costs are less than the estimated cost of \$150,000,000, the Event Authority will either (a) provide additional infrastructure improvements for the Port such that the total investment is \$150,000,000, or (b) agree to reduce the amount of the Tax Increment Bond by the amount actual infrastructure costs are below \$150,000,000.

The obligations described above do not impose any direct costs on the City and County of San Francisco. However, 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: (a) the Port leasing the underlying Port property to the developer in exchange for a minimum annual rent amount plus a percentage rent based on revenues from the property (e.g., percentage of retail sales); and, (b) the City receiving increased payroll, property, sales, and/or hotel tax revenue as the result of such development.

Although the obligations described above do not impose any direct costs on the City and County of San Francisco, such obligations do result in lost tax and lease revenue opportunities for the City which would have otherwise been received if the Event Authority was not provided with long term development rights, or if the Host City and Venue Agreement were structured differently. Such opportunity costs can be calculated as: (a) the increased estimated tax and lease revenue 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; less, (b) the increased estimated tax and lease revenue which could have been received by the Port and the City if such Port property was not leased to the Event Authority.

Increased Tax and Lease Revenue Resulting From Development by the Event Authority

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 on the Port properties for which long-term development rights would be transferred are: (a) a 250 unit condominium project on Sewall Lot 330; and (b) leasing out Piers 30 - 32 and 50 as developed and used for the America's Cup Events to other businesses such as restaurants and retail operations.

Seawall Lot 330

Seawall Lot 330 is a 2.8 acre lot across the Embarcadero from Pier 30-32, of which 0.5 acres were previously sold for the Watermark condominium project, which resulted in the construction of a 137 unit condominium development, for a density of 274 units per acre, such that 2.3 acres remain. Unlike Piers 30-32 or 50 which require some 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 \$33,050,413¹⁰. However, the Budget and Legislative Analyst notes that the actual economic benefit would likely be significantly higher because the density of condominiums which the BAE report¹¹ assumed for Seawall Lot 330 (at 109 units per acre) is significantly less than what could potentially be developed on the parcel. The BAE reports that the condominium development would be half the density of the

¹⁰ 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.

¹¹ Appendix B of the BAE report states that density for Seawall Lot 330 is currently not limited, and the assumed density was provided by the Office of Economic and Workforce Development.

Watermark building even though the parcel to be transferred to the Event Authority is approximately 4.5 times larger than that of the Watermark condominium development. Further, the City's Zoning Code Downtown Residential (DTR) zoning designation for the property sets no limit on residential density.

Such a development would require permanent removal of the Tidelands Trust restrictions on Seawall Lot 330,¹² as required by the Host City and Venue Agreement. According to the BAE Report, removing Tidelands Trust restrictions¹³ from any Port property requires placing another property of at least equal value under the restrictions.

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 Host City and Venue Agreement, the City is obligated to pledge the majority of such increased property tax revenue for 30 years to support a Tax Increment Bond issuance, the majority of which would be provided to the Event Authority. The portion of the increased property tax revenues that would not be used to pay debt service on the Tax Increment Bonds issued to provide funds to reimburse the Event Authority for their infrastructure improvement costs would accrue to the City. The Port estimates such property taxes accruing to the City would be \$5,285,997.¹⁴

Pier 30-32

Pier 30-32 is 900 feet long and measures approximately 12.5 acres. The pier is currently used for surface parking. According to the Port, Pier 30-32 requires approximately \$47 million in structural repairs in order to accommodate construction.

BAE estimates that the highest and best use of Pier 30-32, once it has been improved by the Event Authority as required in the Host City and Venue Agreement would be to re-lease the facilities the Event Authority intends to build on the piers for the America's Cup after the event is over. BAE estimates that such facilities would include 160,000 square feet of retail, food and

¹² The Tidelands Trust restrictions require all Port property developments to be of maritime use or bring increase visitors to Port property, therefore office or residential uses 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.

¹³ According to Port staff, another property on which Tidelands Trust restrictions would be imposed has not yet been identified. Placing such new restrictions may reduce the value of such other property, depending on the existing restrictions on such property. Therefore, any such potential reduction in value is not known. However, such a value is not necessary to calculate the opportunity cost to the City. As discussed below, for the development which is anticipated to occur without the Event Authority, the Budget and Legislative Analyst assumes that the Port could develop the same 250 unit condominium building as the Event Authority would develop, requiring the same removal of Tidelands Trust restrictions, such that any value reduction would occur on both sides of the equation used to calculate opportunity costs, and, therefore, would not impact our analysis.

¹⁴ 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 over the estimated 25 year term of the bond, while 20%, or \$252,062 per year would accrue to the City. After the 25 year term of the bond expired, the entire increment would accrue to the City. The \$5,285,997 in total value of such taxes is the net present value of annual property taxes which would accrue to the City.

beverage, and exhibit space. The value to the Event Authority of renting out such Event facilities over the 66 year lease is estimated by BAE at \$44,715,817. As stated above, the Event Authority would not be required to pay any base or percentage rent to the Port, therefore the leasing out of such event facilities would generate no additional lease revenue to the Port. Furthermore, 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.

The Host City and Venue Agreement requires that the Event Authority construct development within 10 years after the completion of the America's Cup. The BAE Report estimates the most profitable development (other than simply re-leasing America's Cup event facilities) to be the construction of a mixed use project, including (a) 375,000 square feet of office space, (b) 195,000 square feet of retail/entertainment space, and (c) a 100,000 square foot cruise ship terminal. According to the BAE report, although office space does not conform to Tidelands Trust restrictions, such a use is currently permitted if the cruise ship terminal is included in the mixed use project.

The Port estimates that (a) leasing out the America's Cup event facilities for 10 years, then (b) developing the mixed use project described above, would generate new retail and payroll taxes (from the jobs occupying the office building) over the life of the 66 year lease valued at \$30,245,694. Such tax revenues would not be used to pay off the Tax Increment Bond issuance because only Property and Possessory Interest Taxes can be used for that purpose.

Pier 50

Pier 50 is a 20.3 acre pier of which approximately 350,000 square feet is industrial shed space, including 100,000 square feet used as the Port's maintenance facility.

BAE estimates that the highest and best use of Pier 50, once it has been improved by the Event Authority under their Host City and Venue Agreement obligation to provide such improvements, would be to re-lease the facilities the Event Authority intends to build on Pier 50 for the America's Cup, once the event is over. BAE estimates that such facilities would include 243,000 square feet of industrial space, plus additional yard space (fenced paved lots). The value to the Event Authority of renting out such Event facilities over the 66 year lease is estimated by BAE at \$67,443,371. As stated above, the Event Authority would not be required to pay any base or percentage rent to the Port, therefore the leasing out of such Event facilities would generate no additional lease revenue to the Port. Furthermore, 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.

However, the Host City and Venue Agreement requires that the Event Authority construct development within 10 years after the completion of the America's Cup. The BAE Report estimates the most profitable development (other than simply re-leasing America's Cup Event facilities) to be the construction of a 250 room hotel. According to the BAE report, the voters of

San Francisco, in Proposition H of 1990, determined that hotels were not acceptable uses for Port property, therefore the anticipated hotel project would require voter approval.

The Port estimates that: (a) leasing out the America's Cup event facilities for 10 years; then, (b) developing the hotel project described above, would generate new retail and hotel taxes over the life of the 66 year lease estimated to be \$30,527,807. Such taxes would not be used to support the Tax Increment Bond because only property and Possessory Interest Taxes can be used to support Tax Increment Bonds.

Tax and Lease Revenue Without The Event Authority

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 using the properties as planned, the Port could pursue the most financially beneficial development options on the subject properties, as identified in the BAE report: (a) cause the development of a 250 unit condominium development by selling the land to a developer for that purpose, and (b) continue leasing Piers 30-32 and 50 for their current uses through the current estimated life of those piers. Any foregone land sale and/or lease revenue resulting from this scenario represents an opportunity 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. The Budget and Legislative Analyst notes that such a foregone value would likely be significantly higher because, as discussed above, the density of condominiums which the BAE report assumed for Seawall Lot 330 (at 109 units per acre) is less than half of the density of the Watermark condominium project (at 274 units per acre) and the property's zoning designation does not place a density limit on residential development.

In the absence of the America's Cup and long-term development rights called for in the Host City and Venue Agreement, all of the increased property taxes would accrue to the City (rather than being used primarily to service the required 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).

Pier 30-32

BAE estimates that the value of continued lease payments under the current uses of Pier 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. Notably, the BAE estimates only anticipate that, due to significant infrastructure improvements needed for Pier 30-32, continued use of Pier 30-32 could only continue for 10 years before the useful life of the pier is exhausted. After the 10 year life is expired, according to Port staff, the Port would have to either (a) include removal of the piers in a development project at a separate pier which would require increasing the size of such other pier;¹⁵ (b) identify a developer to renovate the pier; or, (c) remove the pier (with the costs of such removal possibly eligible for State or federal grants)¹⁶.

Pier 50

BAE estimates that the net present value of continued lease payments under the current use of Pier 50 is \$53,140,823¹⁷ (including infrastructure improvements of \$20,000,000 which is currently included, according to Port staff, in the Port's capital plan). The continued use of Pier 50 facilities is not anticipated to create any increase in taxes payable to the City. Notably, the BAE Report estimates that, after \$20,000,000 in the improvements noted above, the pier would have a useful life of 45 years, such that lease revenues under the pier's current uses are assumed to continue for 45 years. According to Port staff, after the 45 year life of Pier 50 expires, the Port would have to either (a) include removal of the piers in a development project at a separate pier which required increasing the size of such other pier, (b) identify a developer to renovate the pier, or (c) remove the piers (the costs of such removal would possibly be eligible for State or federal grants)¹⁸.

¹⁵ According to Port staff, development which requires increasing the number of pilings (pier supports) in the San Francisco Bay often require an offsetting decrease of the same number of pilings (as is the case in the Exploratorium Project). Therefore, removal of Pier 30-32 at the end of its useful life can add expansion value to developments on other Piers.

¹⁶ Should such Federal or State Grant monies not be available, the Pier 30-32 removal costs are estimated to reduce the value of the lease revenues to the Pier by approximately \$700,000 (calculated as the present value of demolishing Pier 30-32 in 20 years, or 10 years after the useful life expires). Future demolition costs are not included in this analysis as they would not necessarily be a Port cost (they could be covered as part of a separate development deal, by grants, etc.).

¹⁷ This figure also includes the value of the shed space used by the Port to house their maintenance facility. This value is considered a fiscal benefit because it allows the Port to avoid paying rent at some other location.

¹⁸ Should such Federal or State Grant monies not be available, the Pier 50 removal costs are estimated to reduce the value of the lease revenues to the Pier by approximately \$100,000 (calculated as the present value of demolishing the Pier in 55 years, or 10 years after the useful life expires, at a cost of \$5 per square foot). Future demolition costs are not included in this analysis as they would not necessarily be a Port cost (they could be covered as part of a separate development deal, by grants, etc.).

Summary: Long-term Development Rights

As shown in Table 6 below, the net cost to the City of providing long term development rights to the Event Authority is estimated at \$43,585,930.

Table 6: Opportunity Cost of Development

If Developed By The Event Authority	
Seawall Lot 330: Condominium Building Immediately After Event	
Increased Property Taxes (net of tax increment directed to Event Authority)	\$5,285,997
Pier 30-32: Lease Event Facilities for 10 years, then Construct Mixed Use Project	
Payroll and Retail Taxes	30,245,694
Pier 50: Lease Event Facilities for 10 years, then Construct Hotel Project	
Hotel and Retail Taxes to City	30,527,807
Total Benefits to City	\$66,059,498
If Developed Without the Event Authority	
Seawall Lot 330: Condominium Building Immediately After Event	
Land Sale Revenue to Port	\$33,050,413
Increased Property Taxes to City	17,891,805
<u>Subtotal</u>	<u>\$50,942,218</u>
Pier 30-32: Continued Use as Parking Lot until End of Pier's Useful Life (10 Years)	
Lease Payments to Port	5,662,387
Pier 50: Continued Use as Industrial Space until End of Pier's Useful Life (45 Years)	
Lease Payments to Port	53,140,823
Total Benefits to City	\$109,745,428
Net Benefit (Net Opportunity Cost)	(\$43,685,930)

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 million¹⁹ in infrastructure investment. This is not counted as a fiscal 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 Port or City.

The most significant variable in this long term development impact analysis is what development actually occurs on the sites. As discussed above, the Bay Area Economic report suggests that the Event Authority would construct no improvements on Piers 30-32 and 50 for 10 years, then construct a mixed use project and a hotel. To the extent such assumptions are incorrect and other potential development scenarios result, the actual benefits to the City could vary significantly. The Controller's Office of Economic Analysis anticipates issuing a report on such potential development scenarios.

¹⁹ The Host City and Venue Agreement 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 Pier 30-32 at \$47 million and Pier 50 at \$58 million are considered to be related to the long term development rights.

FISCAL FEASIBILITY ANALYSIS

As discussed in the Mandate Statement Section above, Chapter 29 of the City's Administrative Code requires that certain projects be submitted to the Board of Supervisors for approval of the project's fiscal feasibility prior to submitting the project to the Planning Department for environmental review if: (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA); (b) total project costs are estimated to exceed \$25,000,000; and, (c) construction costs are estimated to exceed \$1,000,000.

Chapter 29 specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including: (1) direct and indirect financial benefits to the City; (2) construction costs; (3) available funding; (4) long term operating and maintenance costs; and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review.

1) Direct and Indirect Benefits to the City

Hosting the 34th America's Cup in San Francisco would provide: (a) direct benefits to the City through increased tax revenues; and, (b) indirect benefits including economic stimulus for the businesses of San Francisco.

The Budget and Legislative Analyst reviewed and analyzed the economic impact study produced by Beacon Economics for the Bay Area Council Economic Institute in 2010, entitled, "The America's Cup: Economic Impacts of a Match on San Francisco Bay" (the Beacon Report). This report is, to our knowledge, the only comprehensive analysis of the economic impact of the Event published and publically available at this time.

The Budget and Legislative Analyst performed an independent analysis of the Beacon Report analysis, using the methodology described in Attachment I, and applied the results to the terms of the Host City and Venue Agreement (which was not available at the time the Beacon Report was published). Our analysis found the Beacon Report to present reasonable estimates for the direct and indirect benefits of hosting the 34th America's Cup based on a set of assumptions regarding the number of race-days, number of spectators and visitors per day, number of participating syndicates and other factors. Significant changes in any of these variables, such as a major reduction in the number of syndicates participating, would affect the estimated benefits of hosting the Event.

Direct Benefits

The Beacon Report estimated that hosting the Event 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) \$3,183,803 in retail sales tax.

The three issues identified by the Controller's Office of Economic Analysis (OEA) pertaining to the Beacon Report estimates were as follows. The Budget and Legislative Analyst revenue estimates incorporate each of the Controller's issues, as follows:

1. Parking tax is omitted, and can be estimated at \$1,703,000 under the assumptions of the Beacon Report.
2. Payroll tax should be adjusted (a) downwards by 30%, to account for expenditures on employee benefits such as health insurance, 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).

Adjusting the Beacon Report results, the Budget and Legislative Analyst concludes that estimated tax revenues to the City resulting from hosting the 34th America's Cup in San Francisco, after incorporating some adjustments recommended by the Controller's Office of Economic Analysis (OEA), would be \$19,461,633, including (a) \$10,855,633 in hotel tax, (b) \$4,332,960 in payroll tax, (c) \$2,783,930 in sales tax, and (d) \$1,489,110 in parking tax, adjusting the \$1,703,000 imputed from the Beacon Report for the Budget and Legislative Analyst's assumed level of Event-generated economic impact.

Indirect Benefits

The Budget and Legislative Analyst's independent analysis of the Beacon Report estimates that the America's Cup would generate between an estimated \$950 million and \$1.6 billion in economic impact to businesses located in San Francisco. For the purposes of this report, the most probable economic impact estimated by the Budget and Legislative Analyst is \$1,200,044,775. The Beacon Report estimated total economic impact to the businesses located in San Francisco at \$1.3 billion.

Based on the estimated economic impact of \$1.3 billion, the Beacon Report also estimates that hosting the America's Cup would generate 8,840 "jobs" or labor-years. Adjusting such an estimate proportionally to adjust for the lower economic impact of \$1.2 billion estimated by the Budget and Legislative Analyst, the America's Cup would generate 8,160 labor years ($8,840 \div \$1.3 \text{ billion} \times \1.2 billion).

It is important to note that all labor-years, or "jobs" predicted in the Beacon Report would not be new permanent full time jobs, and therefore would not result in the hiring of 8,160 workers. Rather, one labor-year, or "job", under the Beacon Report is equal to one year's worth of work which would be performed by: (a) already employed workers in the normal course of performing their jobs; (b) already employed workers performing their jobs more productively (e.g., a

restaurant server serving more customers per hour); (c) already employed workers working extra hours for overtime pay; and, (d) workers hired in full- or part-time temporary and permanent new jobs to meet the increase in demand. Such additional work-years would likely be mostly required in the period immediately preceding and during the America's Cup. It is unlikely that any significant labor benefits would remain after the America's Cup event is completed.

When considered simply as a mechanism for economic stimulus, the America's Cup would create 8,160 labor years or "jobs" at a net cost to the City of \$57.8 million, for an average cost to the City of \$7,083 per "job", or year of work, 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 \$67,000,000, or \$15,473 per work-year (File 09-0228).

2) Construction Costs to the City

As discussed in the Host City and Venue Agreement Section above, the total cost of hosting the 34th America's Cup in San Francisco is \$77,305,178, including (a) \$47,426,927 in Port construction costs. The remaining \$29,878,251 in estimated costs is comprised of lost revenues, staff costs, and other non-construction costs.

3) Available Funding

As discussed above, the total cost of hosting the 34th America's Cup is estimated at \$77.3 million including (a) \$62 million in Port costs and (b) \$15.3 million in other City department costs. Funding sources have not been identified to cover all of these costs but the Port has suggested that \$25 million of their \$62 million in costs could be covered through issuance of Certificates of Participation²⁰, with the remaining \$37 million in Port costs covered by other sources. A possible source for the \$37 million would be General Fund revenue transfers to the Port, as allowed under Charter Section B7.320, subject to Board of Supervisors approval.

Other City department costs of \$15.3 million would assumedly be funded from the General Fund or other available sources for each department that estimated to incur costs, as identified above in Table 2.

Without a plan to issue COPs to cover part of the Port's costs and/or transfer General Fund monies to the Port, the projects in the Host City and Venue Agreement would not be fiscally feasible for the Port.

²⁰ In order to generate \$25 million in proceeds, the City would have to issue a total of \$31.2 million in Certificates of Participation to cover the debt service reserve fund, capitalized interest, cost of issuance and underwriter's discount, assuming an issuance with capitalized interest. The costs of issuance and underwriter's discount are included as an optional cost in Table 2 above as they represent one-time new costs attributable to hosting the 34th America's Cup.

4) Ongoing Maintenance and Operating Costs

Hosting the 34th America's Cup would not result in the construction of any City facilities which require maintenance or operating costs. The Budget and Legislative Analyst notes that the cruise ship terminal, which is anticipated by the Port to be developed on Pier 30-32 as part of the development rights to be granted to the Event Authority, would require maintenance costs. However, according to the Port, such costs are anticipated to be incurred by an independent cruise ship terminal operating firm rather than the Port or any other City agency.

5) Debt Load

Hosting the 34th America's Cup could result in issuance of an estimated \$31.2 million in Certificates of Participation to cover \$25 million of the Port's \$62 million in estimated costs under the terms of the Host City and Venue Agreement. This debt may not be incurred as a specific financing plan for covering the Port's costs if other sources are identified and used instead, such as General Fund transfers.

Conclusion

Hosting the 34th America's Cup would produce the following fiscal impacts: (1) \$19.5 million in increased tax revenues to the City and \$77.3 million in new costs, resulting in a net loss for the City of \$57.8 million; (2) estimated construction costs at the Port of \$47.2 million out of the estimated \$77.3 million in new costs; (3) funding available to support the Ports' costs has not been identified other than \$25 million in possible new debt through issuance of Certificates of Participation and possible transfers from the General Fund; (4) no new ongoing maintenance costs for the Port or other departments have been identified; and, (5) an increase of \$31.2 million in new debt through the possible issuance of Certificates of Participation to cover a portion of the Port's costs.

Without a plan to cover most of the Port's costs through debt issuance and/or transfer General Fund monies to the Port, the projects in the Host City and Venue Agreement would not be fiscally feasible for the Port.

POLICY CONSIDERATIONS AND ALTERNATIVES

Alternative agreement

The proposed Host City and Venue Agreement includes a clause which, if mutually agreed upon by the City and the Event Authority, allows for the America's Cup event venues to be relocated. The proposed agreement does not specify any such alternate location. However, the Port has developed an alternative Event scenario that would: a) relocate the majority of event venues to the northern waterfront, centered around Piers 27-29; and, (b) exclude Pier 50 from the long term development rights transfer.

According to the Staff Report to the Port Commission dated November 23, 2010 and submitted to the Commission for its November 30, 2010 meeting, this alternate scenario (referred to as the Northern Waterfront Alternative) is estimated to reduce Port costs by \$46.2 million, from the estimated \$62 million for the scenario outlined in the Host City and Venue Agreement, to \$15.8 million. This would reduce the City's estimated net cost from \$57.8 million to \$11.6 million (\$57.8 million less \$46.2 million). This alternate venue cost estimate assumes that all dredging required for use of the area between Piers 14 and 22½, estimated by the Port to cost between \$28-\$36 million, would be paid for by the Event Authority. The Host City and Venue Agreement, as submitted to the Board of Supervisors, requires that the City pay for dredging, for the work required on and around Piers 30-32 and 50. If the Event Authority does not agree to this provision and dredging costs remains a Port obligation, Port costs would increase to approximately \$51.8 million (\$15.8 million in new Port costs plus \$36 million in dredging costs, the high end of the Port's range of estimated total dredging costs). Other departmental costs amounting to an estimated \$15.3 million are not anticipated to significantly change due to the change in location.

The Event Authority is required to expend \$150 million on infrastructure improvements under the Host City and Venue Agreement as submitted which would cover infrastructure improvements on and around Pier 30-32, Pier 50 and construction of breakwaters. Under the proposed Northern Waterfront Alternative, improvements to Pier 50 would no longer be required since the property would no longer be an Event venue. However, under the Northern Waterfront Alternative, the Event Authority would be responsible for demolition of portions of Piers 29 and 27, infrastructure improvements on Pier 30-32, dredging and pile removal in the area between Piers 14 and 22½, or other improvements in Event areas, as agreed to by the City. The Event Authority would be required to expend \$55 million or more for these improvements, as compared to the \$150 million Event Authority expenditure requirement in the Host City and Venue Agreement for infrastructure improvements.

In consideration of the Event Authority's paying for certain infrastructure improvements, the Host City and Venue Agreement provides for the transfer to the Event Authority of 66 to 75 year long term development rights for Piers 30-32 and 50 and Seawall Lot 330 at no cost to the Event Authority. The Port's proposed Northern Waterfront Alternative provides for transfer of long term development rights to the Event Authority for Pier 30-32 and Seawall Lot 330 only; Pier 50 rights would not be transferred since that property would not be an Event venue under this alternate plan. Unlike the Host City and Venue Agreement provision that releases the Event Authority from any rental payments for the three properties whose long term development rights would be transferred, the Northern Waterfront Alternative includes a provision for the payment of rent under long-term leases for the properties. However, rent credits would be provided relieving the Event of at least some, if not all, of those payments to reflect the Event Authority's investments.

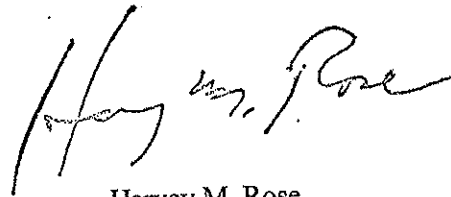
The Northern Waterfront Alternative would result in lower costs for the City and the Event Authority but still represents an estimated net cost to the City of at least approximately \$11.6 million. This is based on assumed City costs of \$15.8 million for the Port, \$15.3 million for other City departments, resulting in total estimated costs of \$31.1 million, less \$19.5 million in

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estimated new City revenues. Estimated City revenues generated by the Event in the new location are not anticipated to change from the \$19.5 million estimated for the original plan.

If the Event Authority does not agree to pay the \$36 million in dredging costs as proposed in the Northern Waterfront Alternative and it remains a Port cost, the City's net costs would be approximately \$47.6 million (\$11.6 million + \$36 million in dredging costs). Transfer of long term development rights would still result in a net loss for the City, though the loss amount would be reduced since a lower amount of incremental property tax revenue would be needed to repay the Event Authority for their infrastructure improvement costs.

Other options to reduce the fiscal impact of the proposed Host City and Venue Agreement and report recommendations are presented in the Executive Summary.



Harvey M. Rose

cc: Supervisor Avalos
Supervisor Mirkarimi
Supervisor Elsbernd
President Chiu
Supervisor Alioto-Pier
Supervisor Campos
Supervisor Chu
Supervisor Daly
Supervisor Dufty
Supervisor Mar
Supervisor Maxwell
Clerk of the Board
Cheryl Adams
Controller
Greg Wagner

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 typical¹ 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 A 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).

¹ 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.

Spending Category	Valencia in 2007²
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"³, 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 B presents these results, by spending category.

² 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.

³ 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.

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.

For the purposes of the report, the estimated impact and tax benefits under the Base Scenario are used.

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 Host City and Venue Agreement (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 Host City and Venue Agreement.
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 in the Background Section of the report, 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 in the Background Section of the 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 in the Background Section of the report, 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 standard⁴ 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

⁴ 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.

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 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 C 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 C below.

Table C: 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 C 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 \$948 million to \$1.6 billion, as shown in Table D below.

Table D: 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	47,426,927	47,426,927	47,426,927
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	\$546,393,063	\$691,725,967	\$948,768,416
Additional Indirect Spending	581,331,785	401,520,087	508,318,808	697,207,931
Total Direct and Indirect Spending	\$1,372,414,635	\$947,913,150	\$1,200,044,775	\$1,645,976,347

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 D were reduced proportionally by the reduction in direct spending.⁵

For the purposes of the report, the estimated impact and tax benefits under the Base Scenario are used.

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

⁵For 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.

A description of how each category of spending (those categories shown in Table D 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 (\$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 Host City and Venue Agreement 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 Host City and Venue Agreement, 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 Host City and Venue Agreement. 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 Host City and Venue Agreement. 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 days⁶ 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,"⁷ but, contradictorily, later in the report states⁸, 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 E below.

⁶ 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.

⁷ 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

⁸ Ibid., Page 34

Table E: Budget and Legislative Analyst's Calculation of Non-Local Visitor Spending				
Row	Description	Low Scenario	Base Scenario	High Scenario
A	Foreign ⁹ 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 ¹⁰	80,059	160,118	320,235
C	Extra Foreign Visitor Days for the Defender Series ¹¹	-	-	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

⁹ 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.

¹⁰ 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.

¹¹ 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 F below.

Row	Description	Low Scenario	Base Scenario	High Scenario
A	Spanish ¹² 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 ¹³	161,420	322,841	645,682
C	Extra Spanish Visitor Days for the Defender Series ¹⁴	-	-	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.

¹² 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.

¹³ 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.

¹⁴ 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 \$47,426,927 million (shown in Table 2 in the Host City and Venue Agreement Section of the report 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 \$47,426,927 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:

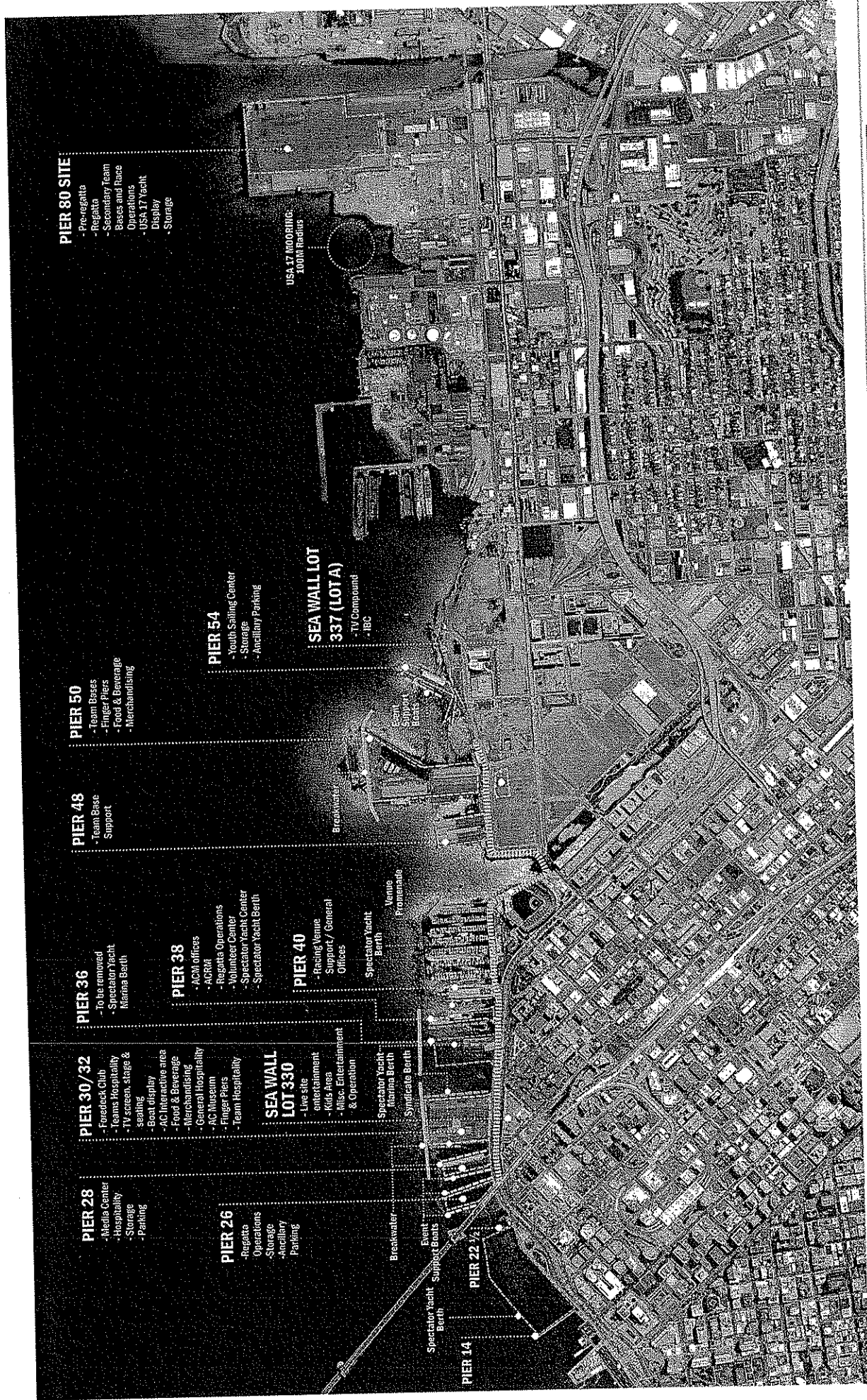
1. Parking Tax is omitted, and can be estimated at \$1,703,000
2. Payroll Tax should be adjusted (a) downwards by 30%, to account for expenditures on benefits which are not taxable, and (b) further downwards by 15% to account for the Payroll Tax exemption for small businesses.
3. The General Fund receives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

Table G 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 D above.

Table G: 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	\$8,574,845	\$10,855,633	\$14,889,541
Payroll Tax	8,328,286	3,422,597	4,332,960	5,943,070
Sales Tax	3,183,803	2,199,021	2,783,930	3,818,427
Parking Tax	1,703,000	1,176,245	1,489,110	2,042,457
Total	\$25,629,984	\$15,372,708	\$19,461,633	\$26,693,494
Less MTA Proportion	1,999,161	1,380,800	1,748,074	2,397,651
General Fund Tax Benefit	\$23,630,823	\$13,991,908	\$17,713,559	\$24,295,843
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 \$15.4 and \$26.7 million.



PIER 80 SITE

- Pre-regatta
- Regatta
- Secondary Team Bases and Race Operations
- USA 17 Yacht Display
- Storage

USA 17 MOORING
100ft Radius

PIER 50

- Team Bases
- Finger Piers
- Food & Beverage
- Merchandising

PIER 54

- Youth Sailing Center
- Storage
- Ancillary Parking

SEA WALL LOT 337 (LOTA)

- TV Compound
- IBC

PIER 48

- Team Base Support

PIER 36

- To be removed
- Spectator Yacht Marina Berth

PIER 38

- AOM offices
- AGRM
- Regatta Operations
- Volunteer Center
- Spectator Yacht Center
- Spectator Yacht Berth

PIER 40

- Racing Venue Support / General Offices

PIER 30/32

- Foredeck Club
- Teams Hospitality
- TV screen, stage & seating
- Boat display
- AC Interactive area
- Food & Beverage
- Merchandising
- General Hospitality
- AC Museum
- Finger Piers
- Team Hospitality

SEA WALL LOT 330

- Live site entertainment
- Kids Area
- Misc Entertainment & Operation

PIER 28

- Media Center
- Hospitality
- Storage
- Parking

PIER 26

- Regatta Operations
- Storage
- Ancillary Parking

PIER 22 1/2

- Event Support Boats

PIER 14

- Spectator Yacht Berth



From file
101254

MEMORANDUM

TO: President David Chiu, Board of Supervisors
Members, Board of Supervisors

FROM: Mayor Gavin Newsom

DATE: September 28, 2010

RE: Term Sheet for Hosting the 34th America's Cup in San Francisco

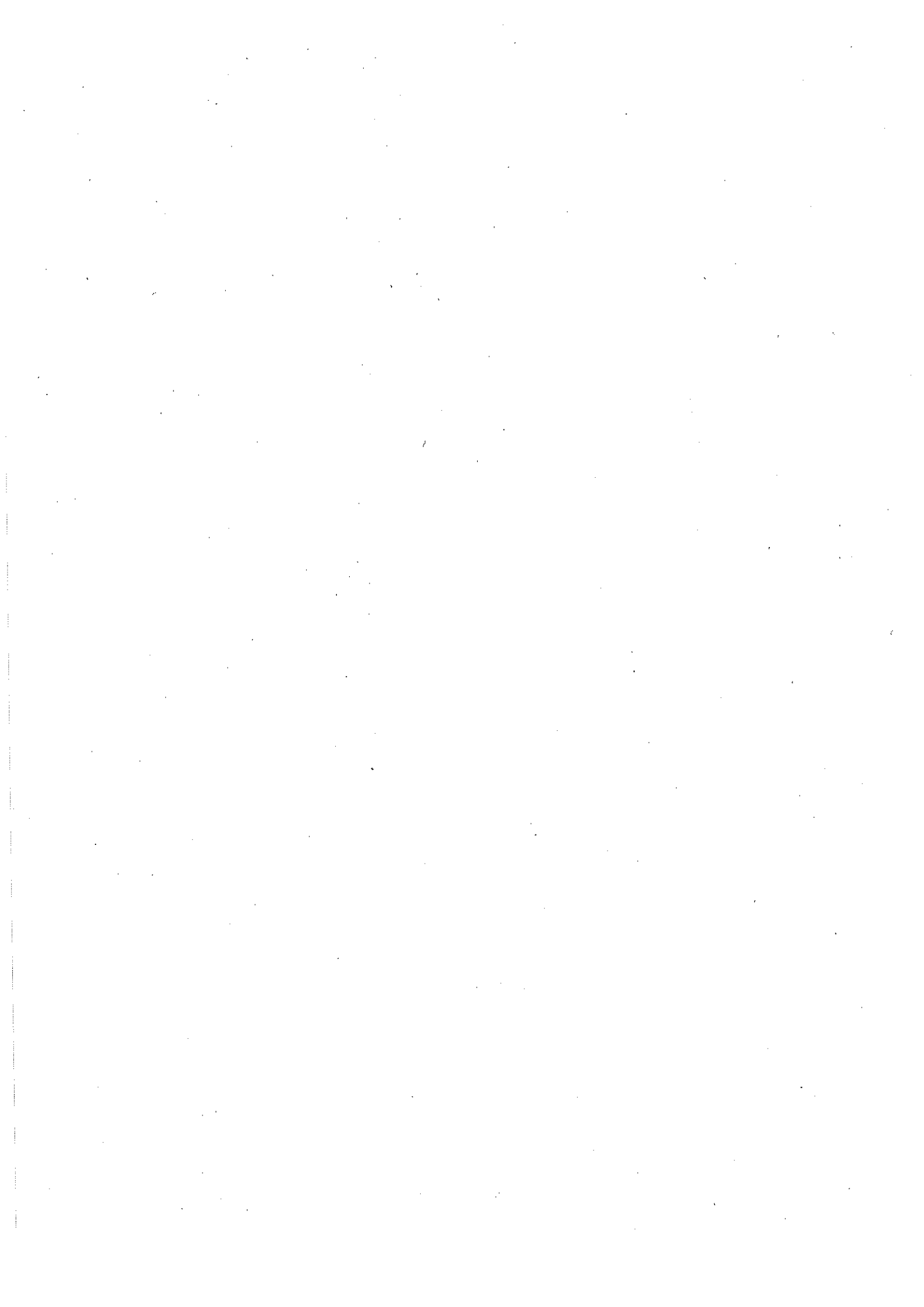
In February of 2010, in Valencia Spain, BMW ORACLE Racing, sailing for the Golden Gate Yacht Club (together, the "Team"), won the 33rd America's Cup. As the Defender of the America's Cup, they have the right and duty to organize the 34th America's Cup. The Team has indicated that three locations are under consideration to host the 34th America's Cup (the "Event") – two in Europe and San Francisco. The Team plans to create an "Event Authority" to oversee the Event in accordance with the Protocol for the 34th America's Cup, a copy of which is attached hereto as Exhibit A (the "Protocol"), after the location for the Event is finalized.

Hosting the Event in San Francisco would generate significant public benefits for the City including (i) providing a catalyst for the repair, improvement and productive reuse of certain City piers in prime locations along the City's central and southern waterfront that are currently in such a state of grave disrepair that there is no other viable plan to pay for the needed repairs and (ii) generating an enormous amount of jobs and economic development in a very short period of time, including over 9,000 jobs and more than \$1.4 billion of new economic activity. A copy of a detailed analysis of the potential economic benefits of hosting the Event in San Francisco, completed by the Bay Area Council Economic Institute and Beacon Economics, is attached hereto as Exhibit B.

The Team has indicated a significant interest in hosting the Event in San Francisco because of the beautiful backdrop, predictable winds, world-class visitor amenities and enormous spectatorship opportunities that the natural marine amphitheater of the San Francisco Bay offers. In order to provide the Team with reasonable assurances regarding a number of important issues, including the venue plan, key financial terms, sponsorship opportunities, schedule and event logistics, City staff has negotiated a Term Sheet with the Team for endorsement by the Board of Supervisors.

The key provisions of the Term Sheet are as follows:

1. Venue Plan. As shown on the Venue Plan, attached hereto as Exhibit C, the physical facilities for the Event will generally stretch from Pier 28 to Pier 50, with varying periods of use and occupancy ranging from a few months to a few years. The most intensive uses are at Piers 30-32 and Pier 50. Piers



30-32 will be the main public access and visitor area as the "live site," with interactive hospitality and viewing facilities. Pier 50 will serve as the main "base" for each of the teams competing in the Event.

Event uses also will occur at Pier 28, area around Pier 38, Sea Wall Lot 330, Pier 48, and certain areas around Sea Wall Lot 337. Media covering the Event will be hosted in Pier 28. During peak periods, Sea Wall Lot 330 will host additional visitor serving activities. Temporary berthage for large "super yacht" vessels traveling to see the Event will be accommodated in the vicinity of Pier 38, and will take advantage of the proximity to the new Brannan Street Wharf waterfront park currently in pre-construction. A temporary International Broadcast Center will be sited, as needed, on surface lots in the vicinity of Sea Wall Lot 337. In addition, portions of Pier 80 may be used for various support functions related to the Event.

One of the key benefits of this venue plan is that, because it is so centrally located, downtown San Francisco can serve as the "America's Cup Village", providing the hotel rooms, restaurants, retail shops, cultural attractions and other amenities, including a vast public transit system, needed to serve approximately two million new visitors.

2. Key Financial Terms. From the beginning; the Team acknowledged that a major public subsidy for the Event of the type being offered by the potential European venues (purportedly in the hundreds of millions of dollars) was impracticable. Instead, the Team has consistently sought (i) free land to support the facilities necessary to host the Event and (ii) reasonable assurances regarding corporate sponsorship and fundraising.

Because many of the sites within the venue plan require significant improvements (including Piers 30-32 and 50 in particular) totaling in excess of \$150 million, the Term Sheet contemplates granting long term development rights to Piers 30-32 and 50 and Sea Wall Lot 330 (the "Legacy Sites") to the Event Authority, together with the proceeds of tax increment financing from such sites (through the formation of an Infrastructure Financing District ("IFD")). Over time, the land value from the Legacy Sites - after they are improved by the Event Authority - and the IFD proceeds from the Legacy Sites have the potential to reimburse the Event Authority for the cost of the Team's investments in infrastructure related repairs and improvements. The Event Authority, or its designees, and the Port would enter into a long term (66-75 years), rent-free lease of the Legacy Sites (the "Event Lease"), after the completion of all required environmental review and governmental approvals related to the Event. To the extent development rights currently exist for the Legacy Sites, such rights would be included in the Event Lease. To the extent the Event Authority may seek to change such development rights, or to the extent such rights do not yet exist, any further development rights would be subject to separate environmental review and governmental approvals; but in any event the Event Authority would control the Legacy Sites for the entire term of the Event Lease and could choose to host multiple America's Cup Events before proceeding with longer term development options. ✓

While the direct financial benefits to the City of hosting even a single Event are enormous, and the costs of repairing the Legacy Sites exceed their fair market value, hosting the Event will have short-term impacts on the Port's revenues, primarily in the form of lost parking and month-to-month lease revenues. To mitigate these impacts, the Port and the City could enter into an MOU pursuant to Proposition D, adopted in 2009, under which a portion of the net revenues paid directly to the City because of the Event would be re-directed to the Port to offset those revenue losses.

3. Sponsorship Opportunities. Hosting the Event in the United States in general, and San Francisco Bay in particular, offers unique and potent corporate sponsorship and fund raising opportunities for the Event Authority. In order to provide the Event Authority with reasonable assurances that these opportunities will be fully realized, an America's Cup Organizing Committee ("ACOC"), comprised of local and national civic and corporate leaders, has been formed. In addition, an Honorary America's Cup Organizing Committee ("HACOC"), comprised of governmental leaders, has also been formed. A list of the current governmental members of the HACOC is attached as Exhibit D. The ACOC will work with Event Authority to raise at least \$270 million for the Event:

4. Schedule. The City will meet the following schedule regarding the Event:

- October 2010-October 2011 – Complete all studies and documentation to support environmental review and permitting for the Event. On a parallel course and during that same period, the Port and the Event Authority will finalize the terms of the long term Event Lease documents that will permit all of the uses related to the Event and any currently approved longer-term development uses for the Legacy Sites.
- November 2011 – Present long term Event Lease, environmental review documentation and permits for approval.
- December 2011-December 2012 – Complete infrastructure improvements.
- 2012 – Pre-regatta.
- Spring 2013 – Commence balance of Event.

At the election of the Event Authority and depending, in part, on how many times the Event Authority elects to defend the America's Cup in San Francisco, the Event Authority and the City may separately negotiate and finalize further long term development rights for the Legacy Sites under the Event Lease, subject to whatever separate environmental review and governmental approvals are required.

City staff has facilitated extensive public outreach regarding the Event. As a result, a number of regulatory, environmental and local community organizations have already pledged support for the Event and will play important roles in meeting the schedule set forth above, including the following:

- State of California – both the State Legislature (SCR124) and Governor Schwarzenegger
- Port of San Francisco
- Recreation and Parks Commission
- Bay Conservation and Development Commission
- Metropolitan Transportation Commission
- San Francisco International Airport
- Golden Gate National Recreation Area
- The Bar Pilots Association
- The Water Emergency Transit Agency
- The San Francisco Maritime Commerce and Bay Council
- The Sierra Club
- Save the Bay
- Environmental Defense Fund
- Planning and Conservation League of California

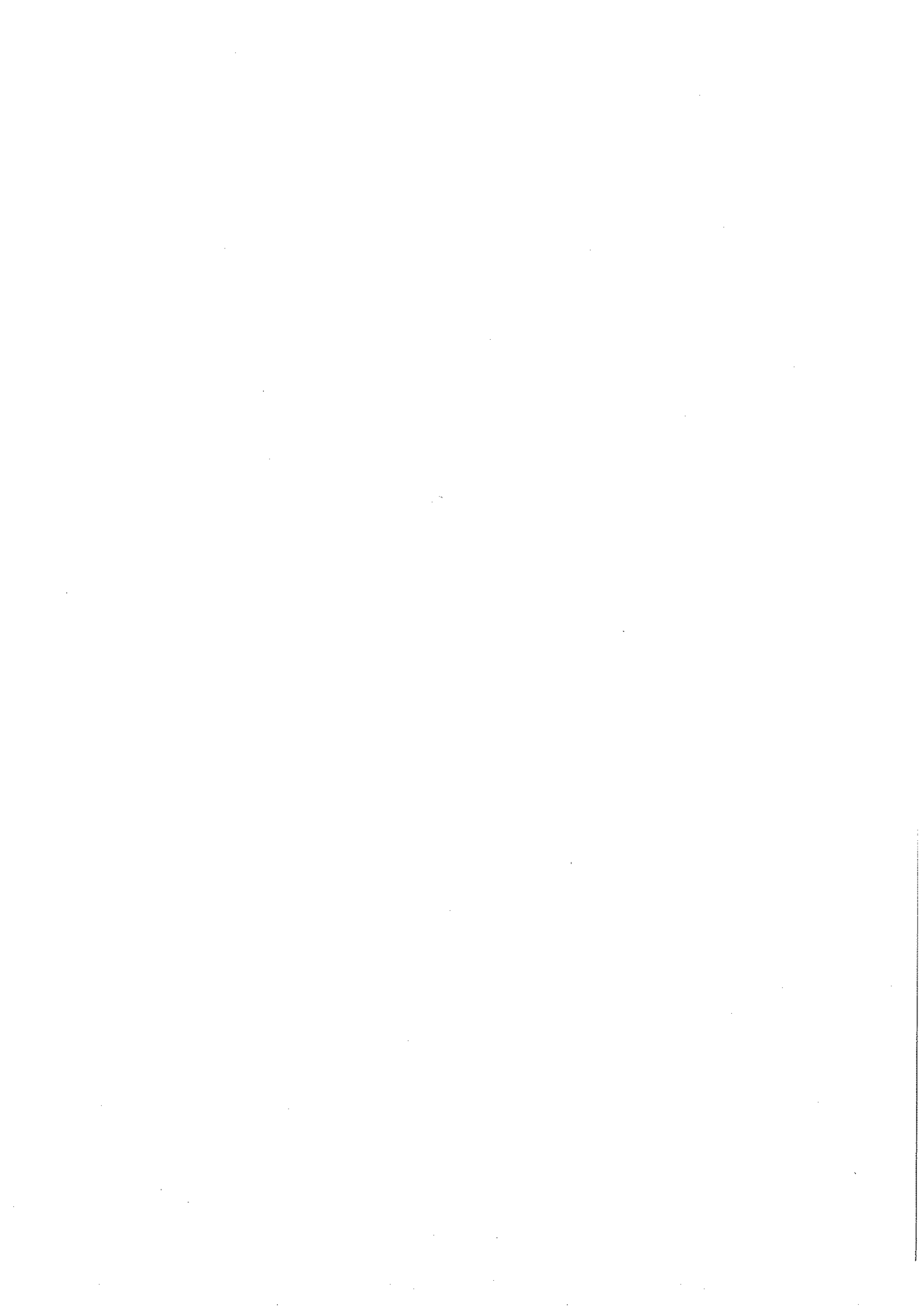
- Clean Water Action CA
- Golden Gate Audubon Society
- CA League of Conservation Voters
- San Francisco Convention and Visitors Bureau
- The San Francisco Chamber of Commerce
- The Bay Area Council

5. Event Logistics. Hosting more than two million people in San Francisco for the Event will require extensive coordination and planning. Fortunately, the City has extensive experience bringing large numbers of visitors to San Francisco and San Francisco Bay in connection with events like Fleet Week. Accordingly, the Term Sheet describes the City's commitment to work with other governmental agencies to coordinate a number of key activities, including securing the race course, promoting the Event, and coordinating transportation and security.

Exhibit A
Protocol for the 34th America's Cup

[Link to 34th America's Cup Protocol](#)

Document Attached





MEMORANDUM

November 23, 2010

TO: MEMBERS, PORT COMMISSION
Hon. Rodney Fong, President
Hon. Kimberly Brandon, Vice President
Hon. Ann Lazarus

FROM: Monique Moyer *By APMA*
Executive Director

SUBJECT: Resolution approving the Host City and Venue Agreement among the City, the America's Cup Event Authority and the San Francisco America's Cup Organizing Committee for the 34th America's Cup, authorizing and urging the Mayor or his designee and the Port to execute the Host City and Venue Agreement; and authorizing the Executive Director of the Port and such other City officials as appropriate to take such steps and execute such additional agreements as are consistent with the Host City and Venue Agreement to bring the 34th America's Cup to the San Francisco Bay.

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution

SUMMARY

Port staff is requesting approval of a Host City and Venue Agreement (the "HCA") – a binding agreement setting out the parameters under which the City through the Port Commission agrees to host the 34th America's Cup race (together with related activities, the "Event") scheduled for September 2013. The HCA contemplates an Event held primarily on the Port's Central Waterfront with Pier 28, Piers 30-32, Seawall Lot ("SWL"), 330, Pier 48 and Pier 50 as the primary venues of the Event (Exhibit A shows the location of proposed Event venues). The HCA would result in costs of \$43 million to the Port excluding dredging costs with the Port awarding (a) long term, zero rent leases for Piers 30-32 and Pier 50 and (b) the lease or sale of SWL 330, both in consideration for \$150 million in investment by the America's Cup Event Authority (the "Authority") in Piers 30-32 and Pier 50, with breakwaters at each location (the "Authority Infrastructure Works"). The HCA is subject to fiscal feasibility review and approval by the Board of Supervisors (the HCA is attached as Exhibit B).

The Authority and City staff also agreed to request fiscal feasibility approval from the Board of Supervisors of a second option, involving the use of Piers 19-29 as venues in lieu of Pier 48 and Pier 50 (the "Northern Waterfront Alternative"), and to analyze this option as

This Print Covers Calendar Item No. 5A

an alternative pursuant to the California Environmental Quality Act ("CEQA"). In response to a request from the Board of Supervisors, Port staff, in consultation with the City Office of Economic and Workforce Development (the "OEWD"), has developed commercially reasonable terms of an HCA to support this analysis (the "Northern Waterfront HCA" attached as Exhibit C). While Authority representatives conducted initial due diligence on the Northern Waterfront Alternative, they did not have time to complete this analysis prior to deadlines set for the City to submit its bid to host the Event.

The Northern Waterfront HCA would result in costs of \$15.8 million to the Port with the Port awarding long term leases for Piers 30-32 and SWL 330 on commercially reasonable terms plus rent credits in consideration for \$55 million in investment by the Authority in Port property.

Port staff supports the City's bid to host the 34th America's Cup in San Francisco at Port venues and recommends Port Commission approval to forward both the HCA and the Northern Waterfront HCA to the Board of Supervisors for its consideration.

BACKGROUND

In February of 2010, in Valencia Spain, BMW Oracle Racing, sailing for the Golden Gate Yacht Club (together, the "Team"), won the 33rd America's Cup. As the Defender of the America's Cup, they have the right and duty to organize the 34th America's Cup. The Team has worked with City staff to develop parameters for San Francisco to bid for and, if selected, host the 34th America's Cup. The Team has formed the America's Cup Event Authority, LLC (the "Authority") to oversee the Event in accordance with the Protocol for the 34th America's Cup, after the Team finalizes the location for the Event.

The Team has solicited bids from San Francisco and an undisclosed Italian port to host the Event. Team representatives have negotiated the terms of the City's bid with City staff over the past four months.

Exhibit C of the HCA describes the proposed locations of the various functions associated with hosting the 34th America's Cup. The primary sites proposed for the event derive from an assessment by the Team of the proposed race course, team facility requirements, and areas that enable the public to readily view and enjoy race events and festivities. Other piers and Port properties would house support functions. The period of use of these facilities for the 34th America's Cup Event would vary according to each function from a minimum of 6 months to a maximum of 3 years.

On October 5, 2010 the San Francisco Board of Supervisors approved Resolution 465-10 endorsing a non-binding Term Sheet outlining the City's and Team's commitments regarding a potential San Francisco based Event. Since that time City staff has negotiated the HCA that comprises the City's bid for hosting the Event and conforms to the major terms of the Term Sheet. On November 9, 2010 the HCA was introduced at the Board of Supervisors for analysis by the Budget Analyst and consideration by the Supervisors. The HCA contemplates an Event to be held primarily on the Port's Central Waterfront with Pier 28, Piers 30-32, SWL 330, Pier 48, and Pier 50 as the primary venues of the Event. The San Francisco America's Cup Organizing Committee, a recently formed nonprofits

corporation, also would be a party to the HCA and would have the obligation of raising \$32 million to assist the City and the Port in paying for certain of the costs of the Event.

In conjunction with introduction of the HCA on November 9, 2010, a letter from the Golden Gate Yacht Club was submitted indicating the Team's willingness to consider the option of conducting the Event on the Port's Northern Waterfront (the "Northern Waterfront Alternative"). In response to this letter, and a request from Supervisor David Chiu, Port staff has developed terms of a Northern Waterfront HCA which substitutes Piers 19-29 as the primary event viewing location and removes Piers 48 and 50 as sites to host the event and provides for the Authority to receive long-term development rights on Piers 30-32 and SWL 330 on commercially reasonable terms.

Unlike the HCA, the Northern Waterfront HCA has not been reviewed or approved by the Team.

HOST CITY AGREEMENT

Unless revised to mitigate environmental impacts of the Event and subject to completion of environmental analysis under the California Environmental Quality Act (CEQA), the HCA will govern the respective rights and obligations of the Authority, the City and the America's Cup Organizing Committee if the 34th America's Cup Event is held in San Francisco. It identifies a use program, financial terms and many operational details of the Event. The highlights of the agreement, focusing on the affects of the HCA on Port property, are summarized below.

Use Program

The HCA envisions an Event held on the Port's Central Waterfront using facilities there to host the public and support venues of the Event with the Authority leasing Pier 28, Piers 30-32, SWL 330, Pier 48, and Pier 50 as the primary venues of the Event. Piers 30-32 would be the primary event viewing venue for the public, Pier 28 would be used for team hospitality and parking venues, SWL 330 for the media center and parking, and Pier 48 for offices and storage for the Authority and affiliates. Pier 50 would be made available to the racing teams as their industrial bases – where they would store their racing yachts, equipment and work on their boats. The water area between Piers 30-32 and 38 is designated for water-side viewing.

The Port would also make available portions of Pier 80 for use in America's Cup World Series Pre-regattas (in 2011 and/or 2012), to berth USA 17 for public viewing (the BMW/Oracle yacht that won the 33rd America's Cup), operation of temporary heliport, race operations during the event and temporary facilities during the construction of venues at other locations.

The HCA also identifies facilities that will be made available for shorter periods coinciding with stages of the Event. During those periods, the Port will make available the Brannan Street Wharf, and on-shore and on-the-water spectator areas along the Port waterfront. Portions of SWL 337 (or surrounding areas) also will be licensed (at the Authority's election), as will exclusive use of Pier 38 (or like facility), the water area between Pier 32 and Pier 38 (or the water area between Pier 14 and Pier 22½), Pier 40 and Pier 54.

Portions of Pier 80 will be leased as early as September 2011. Spectator vessels including super yachts would berth in the water basin between Piers 30-32 and Pier 38 or alternate between Piers 14 and 22½.

Table 1 below summarizes the proposed locations and uses:

Table 1: HCA Venue Locations and Uses

Location	Event Use
Pier 28	Team & Sponsor hospitality
Piers 30-32	Race viewing platform
Brannan Street Wharf	Race viewing
Pier 38 (or similar pier)	Super yacht center
Piers 32 – 38 water area	Super yacht mooring
SWL 330	Media center
Pier 40	TBD
Pier 48	Team offices & storage
Pier 50	Team industrial bases
Pier 54	TBD
SWL 337	TV compound
Pier 80	Berthing of <i>USA 17</i> Temporary heliport Temporary facilities during construction Staging of Pre-regattas

Infrastructure Obligations

As part of the HCA, both the City and the Authority have infrastructure obligations to perform. The City's obligations on Port property include the completion of the Brannan Street Wharf (including the demolition and removal of Pier 36) and the dredging of the Bay floor in the water basin between Piers 30-32 and Pier 38 to a depth of five meters (approximately 16 feet) to accommodate super yachts. Alternately, if the parties agree, the City can dredge the water basin between Pier 14 and Pier 22½. Additionally, the City has the obligation to remove Sheds A, B, C, and D from Pier 50 as soon as possible following certification of an Environmental Impact Report.

The Brannan Street Wharf is a fully funded project previously approved by the Port Commission and in the final stages of environmental review. Port staff estimates the cost of removing the Pier 50 sheds at approximately \$8,645,000. The Port Maintenance Division occupies Pier 50 Shed D and approximately 150,000 square feet of improved land surrounding the shed. Port staff estimates the cost of vacating Shed D and moving the Maintenance Division to another location at approximately \$16 million.

Port staff estimates the cost of dredging the Piers 30-32 – Pier 38 water basin at approximately \$16 million. Dredging to this depth in this area also adds \$3.8 million to the

costs of removing Pier 36 because it necessitates the removal of a large concrete caisson that supports the pier. But for the proposed dredging to accommodate the Event, this caisson would be left in place below the mudline.

The Authority has the obligation to complete, at its own cost, pile replacement, substructure strengthening and deck repair at Piers 30-32 and Pier 50. The Authority is responsible for constructing Event related infrastructure such as breakwaters and repairing other Port facilities to be used in the Event. Consultants to the Authority estimate the cost of Piers 30-32 and Pier 50 repairs at \$105.5 million and breakwater construction at \$36.4 million, totaling \$141.9 million. In the HCA, the City estimates that the Authority will expend \$150 million (or more) in hard and soft costs on Port assets, with a provision to "true up" these investments at the 60% design stage, subject to independent Port verification. If, at "true up" actual investments are estimated to be less than \$150 million, then the long development rights and/or the financial terms of the subject agreements will be reduced accordingly. It should be noted that this investment does not include any "vertical" building improvements used for the Event on these site. All vertical development costs are the responsibility of the Authority.

Financial Terms

Under the HCA, the Authority will have the rights to lease all short and long term venues described above at no cost. The Authority has the rights to lease long term venues (Piers 30-32, SWL 330, Pier 28, Pier 48 and Pier 50) for the duration of the run-up to the Event (following certification of an environmental impact report, currently projected to occur by the beginning of 2013) until six months after the Event concludes. The Port is required to deliver the facilities free of tenants. The leases on these venues may be extended for future America's Cup events at the immediate option of the Authority. During the Event, the Port will make available the Brannan Street Wharf and the on-shore and on-the-water spectator areas for the Authority's exclusive use. Piers 30-32, SWL 330 and Pier 50 will be subject to long-term leases and development rights discussed below, regardless of whether the Team wins the 34th America's Cup or the Authority elects to host future America's Cup races in San Francisco.

Long Term Development Rights

To enable the Authority to recover the \$150 million it is obligated to invest in Port infrastructure at Piers 30-32, Pier 50 and the breakwaters, the City would enter into disposition and development agreements (DDAs) under which it would award the Authority long term development rights to SWL 330, Piers 30-32 and Pier 50. Long-term development is proposed on Piers 30-32 and SWL 330 after all Event and subsequent Defense races, if any, have concluded, and the Authority has completed environmental analysis of its proposed development.

Piers 30-32 and SWL 330 are designated in the Port's Waterfront Land Use Plan as a maritime mixed use development opportunity area. Based on current Port policy and site requirements, Piers 30-32 and SWL 330 are viable for the America's Cup races and related activities, and for subsequent long-term development. Pier 50 is a more challenging development site because it is reserved for maritime activities under the Port's Waterfront Land Use Plan, it has not been the subject of public, long-range planning

efforts, and it is subject to the San Francisco Bay Conservation and Development Commission's ("BCDC") 50% fill rule (see permitting discussion below).

The long term development rights take the form of 66 year leases at Piers 30-32 and Pier 50 and the 75 year lease or transfer of title of SWL 330 to the Authority. Under Senate Bill 815 (2007), SWL 330 is free of public trust land use restrictions until 2094. The HCA would obligate the City to use best efforts to permanently lift the public trust designation from SWL 330 and subsequently transfer title of SWL 330 from the City to the Authority. The leases and transfer will be free of all rent, and free of all financial participation in profits earned from economic activity at these sites, including subsequent sales or transfers of the leaseholds or title. The City would relinquish its rights to negotiate the uses of these sites pursuant to proprietary lease terms (but would retain its zoning authority). Under the HCA, long-term uses must be consistent with the public trust, as determined by either the California State Lands Commission or the California Legislature. Additionally the HCA allocates the tax increment bonding capacity of these sites to the Authority, obligating the Port to issue long-term Infrastructure Financing District ("IFD") bonds leveraged against the Port's properties at Piers 30-32 and Pier 50 and the transferred property at SWL 330 and delivering all net bond proceeds thereof to the Authority or its successor. Repayment of such IFD bond proceeds would be made from taxes levied on the Authority's development and use of Piers 30-32 and Pier 50 and SWL 330 and paid by real property and possessory interest taxes generated at these sites. The Port would retain IFD collections attributable to the bonds' debt service coverage for its own use.

FISCAL ANALYSIS OF PORT-RELATED CITY OBLIGATIONS

Revenue Loss

The HCA allows the Authority rent free use of a number of Port facilities. Using the current rent rolls and the timeframes specified in the HCA, Port staff's best estimate of rent loss during the period of the Event is \$13,284,934 (shown on Table 2 below). Displacing maritime tenants at Pier 50 and the disruption of break bulk cargo activities at Pier 80 will lead to the loss of berthage and dockage fees from the Port's maritime operations; Port staff estimates the maritime revenue loss at \$699,329. Based on the long term development rights for SWL 330, Piers 30-32, and Pier 50 the expected permanent Port rent loss is anticipated at \$3,140,350 annually.

As discussed further below, to protect the Port's balance sheet and credit rating, Port staff has proposed a binding agreement between the Port and the Controller to provide payment in lieu of this lost rent, net of any increases to Port revenues attributable to the Event. The resolution pending at the Board of Supervisors approving the HCA contemplates such an agreement.

The Port is obligated to deliver these venues free of the existing 46 tenants. In order to deliver these venues, the Port will need to embark on a process of relocating tenants, paying unamortized tenant improvements performed by tenants, evicting tenants and paying any necessary litigation and settlement costs. Currently only one tenant – Westar Marine Services – has a lease that would require tenant relocation payments, estimated at \$275,000. The Port is likely to have to expend \$1.5 million for negotiated relocations

and/or settlements/evictions with other Port tenants. Payment for previously approved but unamortized tenant improvements are estimated at \$500,000.

Table 2: Port Rent Impacts from HCA Venue Leases

Facility	# of Tenants	Annual Rent	Venue Lease Term under HCA	Total Event Rent Loss
Pier 28	13	\$414,958	December 31, 2012 - June 30, 2013	\$ 414,958
Pier 48	5	\$1,724,463	December 31, 2011 - June 30, 2013	\$3,448,927
Piers 30-32	1	\$802,104	December 31, 2011 - June 30, 2013	\$2,406,312
SWL 330	1	\$559,512	December 31, 2011 - June 30, 2013	\$1,678,536
Pier 50	26	\$1,778,734	December 31, 2011 - May 31, 2013	\$5,336,202
Total	46	\$5,279,771		\$13,284,935

Notes: Based on the current Port rent roll. Total Event rent loss based on timing of the venue leases from HCA Exhibit C including assumption that Port leases would terminate three months before commencing the Venue Lease and Port could re-lease the facility three months after the Venue Lease term ends, except for parking leases.

Port Bonding Capacity

While the annual revenue loss during the Event is estimated at \$5.3 million, several of the properties listed in Table 1 will be returned to the Port following the Event for rental by the Port. Piers 30-32, Pier 50 and SWL 330 will be retained by the Authority (as discussed above) resulting in a permanent rent loss to the Port of approximately \$3,140,350 per year. This \$3.1 million in annual permanent rent loss amounts to approximately 40% of the future annual Port operating surplus. The Port's FY 2010-2011 Capital Plan designates this ongoing annual surplus to pay debt service on future Port revenue bond issuances currently contemplated for issuance in FY 2011-2012. This permanent rent loss would likely reduce the Port's ability to issue approximately \$43 million in future revenue bonds for Port capital projects.

Delivery of Infrastructure Works

The Port-related infrastructure obligations under the HCA will require significant efforts and expenditures by the City. The preparation of Pier 50 as an Event venue includes clearing all tenants, relocation of the Port Maintenance Division and demolition of Sheds A, B, C and D. These efforts will need to begin immediately following certification of an Environmental Impact Report to accomplish these tasks on the time line of the Event. The Port's costs to deliver such infrastructure obligations are estimated at \$25.8 million including \$811,850 of financing costs.

As discussed below, the resolution approving the HCA before the Board of Supervisors contemplates the use of Certificates of Participation or other City financing (rather than Port revenue bond debt) to finance these costs.

Other Port Costs

As outlined above, the Port will undertake a number of tasks for the City to host the Event. These activities include permitting, tenant relocation, and capital/infrastructure projects. Currently Port staff time related to these activities is estimated at \$606,372. As shown on Table 3, the anticipated total of all costs outlined above to fund the Port-related City obligations in the HCA is approximately \$43 million.

Table 3: Summary of Port-Related City Costs

Capital		
Pier 50 Readiness		
	<i>Maintenance facility move</i>	\$15,953,905
	<i>Space planning consultant</i>	\$125,000
	<i>Shed demolition (A-D)</i>	\$8,645,650
	<i>Tenant relocation - Westar</i>	\$275,000
Subtotal – capital		\$24,999,555
Other Costs		
Tenant Relocation, Claims and Settlements		\$1,500,000
Unamortized Tenant Improvements		\$500,000
Loss of Maritime Revenue		\$699,329
Loss of Venue Rents		\$13,909,710
COP Financing Costs		\$811,850
Staffing		\$606,372
Subtotal – other		\$18,027,261
Total		\$43,026,816

Note: Excluding all dredging costs as discussed below. Venue rent loss includes use of short term venues.

Valuation of Development Rights

The Port commissioned a study from real estate economics consultant BAE Urban Economics (BAE) to assess the value of long term development rights proposed in the HCA. BAE analyzed the value of long term rights on three sites (Piers 30-32, SWL 330, and Pier 50) and generated scenarios for the value of these sites by examining the sites' current revenue potential to the Port, as-is usage of the sites after the event and long term development of each site to its highest and best use. In order to assess the value of the long term development rights proposed in the HCA, Port staff generated a "most likely" development option based on BAE's analysis of value. This "most likely" development scenario is simply a guess by Port staff as to how the sites would be used in the near and long terms. It does not represent any vision by the Authority or negotiation of uses with the Authority. As described above, the Authority, in its sole discretion, would determine the proposed uses of the long term development sites, subject to a public trust consistency determination by the California State Lands Commission or the California Legislature.

The Port staff's "most likely" scenario (as contemplated by the rights enumerated in the HCA) includes sale of SWL 330 in 2014, 10-year interim leasing of Piers 30-32 for parking and improved development pads, and industrial sheds and land uses at Pier 50 (as allowed in Section 7.1(b) of the HCA). After 10 years, Port staff estimate that Piers 30-32 and Pier 50 would become sites for long term development. This 10-year horizon allows for subsequent America's Cup events to be hosted in San Francisco. Based on BAE's assessment of highest and best use, Port staff estimate that Piers 30-32 would be developed as a mixed use site with office, retail and passenger cruise terminal uses. Port

staff estimates that Pier 50 would be developed into a trust-consistent hotel resort facility. BAE noted that this use is contingent on the repeal of portions of the City's Proposition H (1990) to allow creation of hotel uses on a specific pier such as Pier 50. Long term development will allow the Authority to capture IFD bonding capacity, a further economic benefit to the Authority under the HCA.¹

Based on Port staff's "most likely" development scenario, it is expected that the long term development rights would generate \$33 million in proceeds from the sale of SWL 330 and annual lease payments ranging from \$4.5 to \$6.9 million. Upon completion of long term development, IFD bonds estimated at \$33.8 million could be issued bringing the total value of these sites to the Authority of \$126 million net present value. Measured against the \$150 million in investment in Port facilities, the Authority would realize a negative \$30 million net present value (based on a 7 percent discount rate) – equivalent to a 5% return on the Authority's investment in Port infrastructure.

ECONOMIC IMPACTS

Hosting the Event in San Francisco would generate significant public benefits for the City, generating an enormous number of jobs and economic activity in a very short period of time. In order to understand the potential economic impact, the City commissioned a detailed analysis of the potential economic benefits of hosting the Event in San Francisco². The Economic Impact report estimated that the Event would attract approximately 3 million local visitor days and over 600,000 visitor days from outside the region. The Event is expected to generate the equivalent of 8,840 jobs and more than \$1.4 billion of new economic activity for the region. The Event is expected to generate nearly \$85 million in local and state taxes and more than \$24 million to the City's General Fund.

Port staff analyzed the Event's potential effects on Port revenues. The Economic Impact report forecasts an increase in visitor serving industries equivalent to a 5% annual increase in revenues. Assuming that Port visitor serving revenues would increase 5 to 10 percent (assuming that tourist venues along the Port including Fisherman's Wharf would disproportionately draw a greater volume of visitors than the City as a whole), the Port's percentage rents in tourist related businesses including maritime excursions, restaurants and parking, would increase \$850,000 to \$1.5 million. It should be noted that the Port's variable tourist revenues accrue disproportionately on the Northern Waterfront. The HCA contemplates an Event in the Central Waterfront; however, an Event launched from the Northern Waterfront would most likely increase this estimate of ancillary revenue to the Port.

Revenues at other Port maritime tenants will likely increase as well. Port tenants such as the Bar Pilots, Bay and Delta tractor tugs, and Westar Marine Services will likely benefit

¹ Port staff judges that after a period of interim leasing, the Authority will exercise its long term development rights. Though the "as-is" scenario shows higher annual rent, the tax increment bonding capacity, available only after development, makes this blended scenario the highest value scenario.

² A detailed analysis of the potential economic benefits of hosting the Event in San Francisco, "*America's Cup: Economic Impacts of a Match on San Francisco Bay*" was completed jointly by the Bay Area Council Economic Institute and Beacon Economics and issued in September 2010.

from increased ship traffic on the Bay. For example, the Team anticipates as many as 70 large yachts could visit the San Francisco Bay to follow the Event. Such yachts may require the services from the Port's tug boat fleet during daily berthing operations on racing days. Certain of the yachts (and other vessels attracted or required by the Event), might require the San Francisco Bar Pilots to assist them into and out of the Bay. The Port's tenants offering yacht and boating services such as the St. Francis Boatyard and the BAE systems ship repair facility will likely benefit from the needs of an increased volume of small boaters and the larger yachts sailing in the Bay. Likewise, the dredging required to moor the various Event vessels will employ many of the dredging companies throughout the Bay. Port staff also anticipates increased demand for marina services at the Recreation and Park department's San Francisco Marina, the Redevelopment Agency's Pier 40 Marina, Pier 39's Marina, the St. Francis Yacht Club, the Golden Gate Yacht Club, the Bayview Boat Club, the Mariposa Boat Club and the Port's Hyde Street Harbor. Likewise, Port staff anticipate a surge in excursion and water transportation services which will likely benefit the Port's sports fishermen, water taxi operator and ferry operators such as Red & White Fleet, Blue & Gold Fleet, Hornblower Yachts, Golden Gate Ferry, and Alameda Ferry. Port staff hopes that hosting the Event will attract additional passenger cruise itineraries resulting in ongoing benefits to the Port and the City.

Finally, the Event is expected to direct new cargo to the Port for import and export. Boats are usually transported to the race location by ocean-going cargo vessels, meaning possible new cargo for the Port's Pier 80 Omni terminal.

Though the Port does not collect participation rents from most maritime tenants, the increased demand for their services will help the overall health of maritime industries and the demand for Port properties. The Port will experience increased percentage rents (as discussed above) from excursion operators as well as Port restaurants, retail stores and parking lots.

NORTHERN WATERFRONT VENUE OPTION

Pier 50 in the Port's Central Waterfront is currently used for maritime uses. Pier 50 houses the Port's central maintenance facility with over 100 Port employees and 20 craft shops, and the home of Westar Marine, a harbor services business. Both uses were relocated from Pier 46 to Pier 50 to facilitate the development of the San Francisco Giant's ballpark. Use of Pier 50 for the Event would create a competing maritime situation that would require the costly relocation of these uses in a very short period of time.

The City and Port staff has proposed to the Authority an alternate scenario, the Northern Waterfront Alternative, which would shift the Event to the Port's Northern Waterfront with public venues from Piers 19 northward through Piers 29 (Event venues are shown on Table 4 below). The primary Port venues would be Pier 27, Piers 30-32, Pier 28, and SWL 330. Piers 19, 23 and 29 would be available to support the primary venues. Piers 30-32 would host the Team's industrial bases with support uses located at Pier 28 and SWL 330. The yacht mooring would likely shift from the Piers 32 - 38 water location to the Piers 14 - 22½ water location. Pier 48, Pier 50 and Pier 54 would no longer be included for use by the Authority for the Event. All Northern Waterfront leases (Piers 19, 23, 27 and 29) would

be for short duration – no more than 6 months of active use for most northern venues. The water basin between Piers 14 and 22½ could be either for short or long term use.

Table 4: Northern Waterfront Alternative Venues and Possible Uses

Location	Event Use
Pier 19	Team storage
Pier 23	Team offices & storage
Pier 27	Team & Sponsor hospitality and race viewing platform
Pier 29	Media center
Pier 28	Team & Sponsor hospitality
Piers 30-32	Team industrial bases
Brannan Street Wharf	Race yacht viewing
Piers 14-22½ & water area	Superyacht center & mooring
SWL 330	TV compound, parking
Pier 80	Berthing of USA 17 Temporary heliport Temporary facilities during construction Staging of Pre-regattas

Pier 27 currently is used by the Port as a secondary cruise terminal to receive cruise ships that cannot be accommodated at the Port's main cruise terminal at Pier 35. Pier 27 has the longest berth (about one-quarter of a mile long) in the Port's Northern Waterfront. Accordingly, the Port is planning to improve this facility as its primary cruise terminal, because it is increasingly difficult to serve today's large cruise ships at Pier 35, which is deteriorating.

To accommodate this Northern Waterfront Alternative, the Port would accelerate the design and site preparation for the Pier 27 Cruise Terminal project. The Event would either use the site in advance of the construction of the cruise terminal or be the first user of the core and shell of a new cruise terminal building. During race events, Pier 27 could not be used to receive cruise ship calls.

The Port would provide Venue Leases at no cost to the Authority. However, both the Port and Authority's infrastructure obligations would diminish as compared with the current HCA – neither the demolition of the Pier 50 sheds nor the relocation of the Port Maintenance Division would be required of the City. Neither the Pier 50 infrastructure investment nor the breakwater investment would be required of the Authority³. The Authority would be required to demolish portions of the Pier 27 shed and temporarily move shoreside power installations at Pier 27. The Authority would also be allowed to demolish portions of the

³ According to America's Cup Race Management CEO and Regatta Director, the selection of AC72 catamaran yachts for the Match makes the construction of breakwaters unnecessary.

Pier 29 shed⁴ consistent with Secretary of the Interior's Standards for the Treatment of Historic Properties, if it chose to open the eastern portion of the Pier for viewing. The Port would be required to accelerate its Pier 27 Cruise Terminal and increase its short term funding of the project by \$6.5 million.

The Authority would still be required to invest approximately \$47 million in Piers 30-32 and \$7.5 million in Pier 27. In order to recover these investments the Authority would receive long term development rights at Piers 30-32 and SWL 330. However, to reflect the significantly lower investment in Port facilities, these rights would take the form of long term development leases⁵ on commercially reasonable financial terms with a rent credit reflecting the Authority's infrastructure investment (currently estimated at \$55 million). This structure, which largely reflects the terms of the Exploratorium development lease at Piers 15-17, offers the most flexibility to complete the needed improvements in the Northern Waterfront and allows the Authority to equitably recover its investments in Port facilities.

As shown on Table 5, the Northern Waterfront Alternative would reduce the Port's rent loss to \$6,711,685. Beyond lost rent, under this Northern Waterfront Alternative, the Port is likely to expend \$1.5 million for tenant relocations and settlements and to incur staff and finance related expenses. Based on the long term development rights for SWL 330 and Piers 30-32 the expected permanent Port rent loss is anticipated at \$1,395,606 annually. The overall cost estimate of Port-related City expenditures in this Northern Waterfront Alternative is \$15.8 million (shown on Table 6).

Table 5: Port Rent Loss – Northern Waterfront Alternative

Facility	# of Tenants	Annual Rent	Venue Lease Term under HCA	Total Event Rent Loss
Piers 30-32	1	\$802,104	2078 (66 years)	\$2,406,312
SWL 330	1	\$559,512	2087 (75 years)	\$1,678,536
Pier 28	16	\$414,958	December 31, 2012 - June 30, 2013	\$414,958
Piers 19-23	21	\$819,900	December 31, 2011 - August 31, 2012	\$1,024,875
Pier 27	5	\$1,134,538	January 1, 2013 - October 1, 2013	-
Pier 29	13	\$593,502	December 31, 2011 - June 30, 2013	\$1,187,004
Total	57	\$4,290,524		\$6,711,685

Notes: Based on the current Port rent roll. Total Event rent loss based on timing of the venue leases from HCA Exhibit C (based on moving similar use facilities to the Northern Waterfront) including assumption that Port leases would terminate three months before commencing the Venue Lease and Port could re-lease the facility three months after the Venue Lease term ends, except for parking leases.

⁴ The historic integrity of the portion of the Pier 29 shed that intersects with Pier 27 has been compromised and may be treated differently under the Standards for Treatment of Historic Properties.

⁵ The Authority and Port would still jointly explore transfer of SWL 330 if it reflects the best way to develop this site and maximizes the public trust values.

Table 6: Port-Related City Costs – Northern Waterfront Alternative

Item	Costs
Cruise Terminal Shortfall	\$6,500,000
Other Tenant Relocation Costs:	
Claims and Settlements	\$1,500,000
Loss of Venue Rents	\$6,711,685
Cost of Issuance	\$811,850
Staffing	\$290,072
Total	\$15,813,607

RECOVERY OF PORT COSTS

Without question, there are numerous benefits of hosting the Event in San Francisco and at certain of the Port's facilities. The specific benefits and costs to the Port have been enumerated above. A significant portion of the benefits will accrue to private entities throughout the City that, in turn, will remit revenues to the City's general fund.

Notwithstanding the foregoing, the terms of the HCA will require significant City capital investment and will result in substantial lost rent to the Port. In the estimation of Port staff, the Port cannot finance the proposed City capital improvements with Port revenue bonds, because the projects will not increase Port revenues. Likewise, due to its existing and planned debt issuances required for the Pier 27 Cruise Terminal and other approved capital projects, the Port cannot reasonably absorb \$16 million in lost rent over a 2 year period. The Port and OEWD staffs have discussed proposed solutions to address these issues. The proposed resolution approving the HCA states:

"(k) The City has identified potential financial impacts to the Port of hosting the 34th America's Cup and a range of potential solutions, including using Charter Section B7.320 to offset race-related, net short-term rent reductions to the Port, financing the costs of Pier 50 site preparations and relocation of the Port's maintenance facility with City certificates of participation, and City financing for waterfront improvements to offset reductions in the Port's revenue bond capacity, subject to the review and approval of the Capital Planning Committee, the Mayor and the San Francisco Board of Supervisors, as applicable; and"

Charter Section B7.320 states:

(a) The Mayor may submit to the Board of Supervisors for approval a memorandum of understanding or other form of interagency agreement between the Port Commission and another department or departments of the City and County, approved by the Port Commission by resolution, that requires the department(s) to expend funds or to transfer funds to the Port Commission, or requires the Port Commission to transfer funds to the department(s).

(b) If the Board of Supervisors approves the interagency agreement by resolution, the City and County shall appropriate funds sufficient to fund the

expenditure or transfer until such time as the agreement expires, or is terminated by the Port Commission and other departmental parties, subject to the approval of the Mayor and the Board of Supervisors by resolution.

Accordingly, Port staff will submit to the Mayor and the Controller a proposed Memorandum of Understanding ("MOU") for their consideration providing that the City will make payments in-lieu of rent for the Venue sites, net of any increased rents realized by the Port as a result of the Event. Such a binding MOU will provide the necessary certainty to existing bondholders that the Port's revenues will be stable.

Port staff has also met with the Controller and the Director of Public Finance to seek their recommendations as to the most practical means of financing City capital costs, including Pier 50 site preparation and moving the Port's maintenance facility, associated with the HCA.

CALIFORNIA ENVIRONMENTAL QUALITY ACT AND PERMITTING

The HCA, while a binding agreement, contemplates that the Event, site preparation activities, and the venue leases will be subject to analysis pursuant to CEQA. The HCA acknowledges that the City may elect, in its sole discretion, a different alternative with lesser environmental impacts, or to pursue no project (i.e., not hold the Event). The HCA permits either the City or the Authority to terminate the HCA prior to entering the Venue Lease with no penalty to either party.

Under the terms of the HCA, CEQA costs for analyzing the Event will be borne by the City. These costs are expected to be reimbursed by the America's Cup Organizing Committee from private fundraising. OEWD will lead the City's CEQA effort, with technical support from City Planning, Port staff and consultants.

Pursuant to the HCA, CEQA must be completed no later than twelve months after the Authority has provided the City with sufficient information to prepare the "project" description required for CEQA review. This is an extremely aggressive schedule for a CEQA review of this complexity.

Since the Authority Infrastructure Works contemplated under the HCA involves construction of two breakwaters, as well as the potential use of federal property for race viewing, the project will likely require concurrent review under the National Environmental Policy Act ("NEPA").

Due to the proposed in-Bay construction, numerous additional permits and reviews will be required from state and federal agencies including the U.S. Army Corps of Engineers, the National Oceanic and Atmospheric Agency, U.S. Fish and Wildlife Service, U.S. Environmental Protection Agency, the Bay Area Regional Water Quality Control Board, California Department of Fish and Game, and the San Francisco Bay Conservation and Development Commission. Consistent with the practice of the San Francisco Public Utilities Commission with its Water System Improvement Project, Port staff recommends

that the City facilitate this permitting with cooperative agreements with each of the subject agencies.

Port staff notes that CEQA/NEPA review and related permitting would be substantially simplified by limiting the review to one preferred option, instead of two. In particular, if they are not needed for race purposes, as represented to City staff by the America's Cup Race Management, eliminating the breakwaters from the project description would also substantially simplify the environmental analysis. City staff has conveyed these recommendations to the Team.

Under the HCA, the Authority is responsible for environmental review of long-term development at Piers 30-32, SWL 330, and Pier 50 before the Port will be obligated to enter those long-term agreements. Under CEQA review for each long-term development, the City may also elect, in its sole discretion, a different alternative with lesser environmental impacts, or to pursue no project.

Long-term development at Pier 50 is likely to be complicated by the application of the BCDC 50% fill rule and BCDC's water-dependent use restrictions that currently regulate the site. The 50% fill rule requires that future development of the site must set aside half of the site area for public open space or, alternatively, removal of half of the pier to create open water. The water-dependent use restrictions do not permit visitor-serving commercial uses that are otherwise permitted by the public trust. Changing these rules will require an amendment to the BCDC Bay Plan.

POLICY ANALYSIS OF HCA AND NORTHERN WATERFRONT ALTERNATIVE

As described above, City staff has spent 4 months negotiating the Term Sheet and HCA that form the basis of the City's bid to host the 34th America's Cup. While the decision of where to host the Event is in the sole discretion of the Team, indications are that if the City approves the HCA, San Francisco is likely to win its bid. The economic benefits of hosting the Event to local and regional businesses and workers will be substantial, and will help stimulate the region's recovery from the recent recession.

Fiscal analysis of the proposed HCA indicates that hosting the Event will require substantial public investment. The required public investment would be substantially lower in the draft HCA for the Northern Waterfront Alternative that staff has shared with, but has not been approved by, the Team. Port staff does not know whether the Northern Waterfront Alternative would be acceptable to the Team as a bid in lieu of terms in the HCA.

Port staff offers the following policy analysis to assist the Port Commission, the Board of Supervisors and the Mayor in their respective deliberations:

HCA - Pier 28, Piers 30-32, SWL 330, Pier 48, and Pier 50

Pros

- Transforms an entire segment of the City's Central Waterfront from Pier 28 to Pier 50;
- Requires \$150 million in private investment in Piers 30-32, Pier 50 and adjacent breakwaters;
- Focuses transportation and other race-related impacts in a single area of the waterfront, where existing residents historically welcome private development;
- Generates substantial tax increment financing that the Mayor and the Board of Supervisors may, in their sole discretion, dedicate to publicly-oriented waterfront improvements;
- Repurposes Pier 50 several decades before market forces would likely trigger relocation of existing Port uses;
- Provides a Space Plan that has been vetted and approved by the Team; and
- Brings new demand for services to all of the Port's maritime tenants.

Cons

- Requires substantial City investment, particularly at Pier 50, that will not yield direct financial benefits to the Port;
- Necessitates relocation of the Port's Pier 50 Maintenance Facility (including over 100 employees and 20 craft shops) and valued maritime tenants that carry out the Port's public trust mandate;
- Results in significant rent losses to the Port, which will likely need to be backfilled by the City;
- Incorporates breakwaters, which may not be needed for race-related purposes and are likely to complicate environmental review and permitting;
- Denies the City a role in negotiating uses of the subject long-term development sites on a proprietary basis;
- Proposes development at Pier 50 without the benefit of public planning and requires an uncertain BCDC Bay Plan Amendment to permit development of more than half of Pier 50; and

- Includes zero-rent lease terms that do not include standard Port provisions for participation rent and participation in subsequent sales and leasehold refinancings.

HCA – Northern Waterfront Alternative – Piers 19-29, Pier 28, Piers 30-32, SWL 330

Pros

- Locates race viewing activities closer to where races are most likely to be held (between the Golden Gate and Pier 27);
- Focuses visitor traffic in an area of the waterfront that has substantial existing retail and hospitality;
- Requires the relocation or eviction of fewer Port tenants and does not necessitate moving the Port's Maintenance Facility;
- Reduces rent losses to the Port that will likely have to be backfilled by the City;
- Requires only those City investments that the City was planning to undertake pursuant to its adopted Capital Plan (i.e., the Pier 27 Cruise Terminal) which will have a long-term benefit to the Port;
- Uses a portion of the Authority's required infrastructure investment to close the existing financing gap for the Pier 27 Cruise Terminal;
- Simplifies environmental review and approvals by eliminating the proposed breakwaters and the Pier 50 substructure work from the proposed plan;
- Brings new demand for services to all of the Port's maritime tenants.

Due to lower upfront investment by the Team:

- Includes commercially reasonable long term lease terms including a rent credit feature that are comparable to other Port development projects like the Exploratorium;
- Permits the City to negotiate uses of the subject sites and to remove the public trust from SWL 330 only in consideration for a substantial benefit to the trust; and
- Permits the use of tax increment bond proceeds by either the City or the Authority, at the discretion of the Mayor and the Board of Supervisors.

Cons

- Lowers the amount of private investment in the Central Waterfront by a factor of almost 3;

- Results in less tax increment that can be used to construct publicly-oriented improvements to the waterfront;
- Involves a Space Plan that has not been thoroughly vetted by the Team and has not been subject to significant public review for Event purposes;
- Requires aggressive shortening of the project timeline for the Pier 27 Cruise Terminal;
- Increases potential impacts to the Port's cruise business before and during the race; and
- Focuses traffic in an already congested area of the waterfront.

HCA DREDGING OBLIGATION

Under HCA Section 6.1, the City is obligated to perform dredging of the area between Pier 32 and Pier 38 or between Pier 14 and 22½, if the parties agree, to a depth of 5 meters. The Authority originally estimated the cost of this dredging at \$2 million.

Port staff completed its preliminary review of dredging costs under the HCA for these sites and estimates that:

1. Dredging the area from Piers 30-32 to Pier 38 to a depth of 5 meters will cost from \$14-18 million; or
2. Dredging the area between Pier 14 and 22½ to a depth of 5 meters will cost \$28-36 million.

There will be undetermined mitigation costs for either location. The area between Piers 14 and 22½ is approximately 1.75 times the area between Piers 32 and 38. Port maintenance staff reports that when the piers between Pier 14 and 22½ were removed, the supporting piles were removed (except for concrete piles that used to support the marginal wharf). However, there is more likely to be residual creosote in the sediment in the areas of the former piers. Thus any cost savings due to easier dredging are likely to be offset by more expensive dredge spoils disposal costs.

The next recommended step to refine these cost estimates is to perform a hydrographic survey of the subject areas.

Under the proposed HCA Section 6.1(b), dredging costs are a City responsibility. The need for this dredging is related to berthing super yachts, which is part of the business model for Event organizers and contributes to increased demand for the services of Port maritime tenants.

After consulting with City finance experts, Port staff does not see a practical City debt instrument to finance dredging costs on this order of magnitude. Neither the General Fund

nor the Harbor Fund seems like an appropriate source of funding for costs of this magnitude.

Port staff recommends shifting this dredging cost to the Authority under both the HCA and the Northern Waterfront Alternative HCA.

NEXT STEPS FOR HCA, BID & AWARD

After the Port Commission's consideration at its special meeting on November 30, 2010, the Board of Supervisor's Budget & Finance Committee is scheduled to consider the HCA at its regularly scheduled meeting on December 8, 2010. The full Board is scheduled to consider the HCA and make findings of Fiscal Feasibility and Responsibility under Chapter 29 of the Administrative Code at its regularly scheduled meeting on December 14, 2010. If the HCA is approved by the Port Commission and the Board of Supervisors and the accompanying City Resolution is signed by Mayor Gavin Newsom, the HCA will be submitted to the Team as the City's official bid. City staff expects a decision from the Team regarding the selection of a host city by December 31, 2010. If San Francisco is not selected, the HCA will terminate. If, after conducting CEQA, the parties do not negotiate mutually agreeable terms of Venue Leases, the HCA can be terminated by either party without liability, except for the City's obligation to indemnify the Authority for any claims by Port tenants.

If San Francisco is selected, Port staff will return to the Port Commission to report on staffing and contract needs required to execute the Port's role under the HCA.

The HCA and Northern Waterfront HCA set forth the basic elements of the Team's proposed venues and uses if the City is selected as the host city for the Event, and the economic parameters and other fundamental terms that will serve as the basis for negotiating detailed Venue Leases and DDAs that will provide the basis for the Legacy Leases and the Transfer Agreement, following further CEQA review of development on the properties subject to the DDAs, with the understanding that the Event will continue to evolve throughout the public review process. The HCA and Northern Waterfront HCA are subject to completion of environmental review of the Event, including a full range of appropriate alternatives and mitigation measures for the Event in its entirety under CEQA. The HCA and Northern Waterfront HCA may be subject to further changes in the course of public review of the Event during the extensive approval processes that will follow CEQA review and in response to other City, Port, and public concerns that may arise, and is limited to the uses currently proposed by the Team, and does not cover all potential uses for the Venues, which the Port may consider in the course of the approval processes. The HCA and Northern Waterfront HCA may be amended to reflect any subsequent proposal to change the uses, the mix of uses, the intensity of development, or other fundamental terms, subject to Port Commission review and additional CEQA review, if the changes have not already been analyzed. The HCA and Northern Waterfront HCA are not intended to be, and will not become, contractually binding until CEQA review is complete.

RECOMMENDATION

The 34th America's Cup offers an opportunity to create a one-of-a-kind maritime experience, even in a city that already hosts a diverse and colorful mix of maritime uses along the Port waterfront. If San Francisco is selected as the host city, the Event would provide an extraordinary public access opportunity along the Port's waterfront. The proposed race course would be a unique venue, providing viewing areas surrounding its entirety for the public to experience the excitement of the sail boats and the exhilaration of the various races, as well as appreciate the beauty of San Francisco Bay.

Port staff recommends shifting the dredging costs under Section 6.1 of the HCA to the Authority, and forwarding both the HCA and the Northern Waterfront HCA as amended to the Board of Supervisors for its consideration. Prior to Board action, City staff will further explore the Authority's willingness to enter into the Northern Waterfront HCA.

Prepared By:

Jonathan Stern, Asst. Deputy Director, Waterfront
Development Projects
Brad Benson, Special Projects Manager

Attachments:

Exhibit A: Venue Location Map

Exhibit B: Host City and Venue Agreement

Exhibit C: Northern Waterfront Host City and Venue Agreement

**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO**

RESOLUTION NO. 10-73

- WHEREAS, Charter Section B3.581 empowers the Port Commission with the authority and duty to use, conduct, operate, maintain, manage, regulate and control the lands within the Port jurisdiction; and
- WHEREAS, In February 2010, BMW Oracle Racing, sailing for the Golden Gate Yacht Club (together, the "Team"), won the 33rd America's Cup in Valencia, Spain; and
- WHEREAS, The Team, as Defenders of the America's Cup, has the right and duty to organize the 34th America's Cup and related activities (the "34th America's Cup Event"), and has created an Event Authority for purposes of organizing the Event; and
- WHEREAS, Hosting the 34th America's Cup Event in San Francisco would generate significant public benefits for the Port and the City, including: (i) the repair, improvement and productive reuse of certain Port piers along the Port's Central Waterfront that are currently in a state of disrepair; (ii) the generation of significant new jobs and economic development in a very short period of time, including over 8,840 jobs and more than \$1.4 billion of new economic activity, as projected in an economic impact analysis jointly completed by the Bay Area Council Economic Institute and Beacon Economics in September 2010; and (iii) substantially increased public access to the waterfront, new opportunities for people to view and enjoy the San Francisco Bay and an extraordinary showcase for the Bay to the world; and
- WHEREAS, On October 5, 2010, by Resolution 465-10 (File No. 101254), the Board of Supervisors approved a Term Sheet that outlined the basis for the City, the America's Cup Organizing Committee (the "ACOC"), and the Event Authority to negotiate a Host City and Venue Agreement for the 34th America's Cup; and
- WHEREAS, Consistent with the Term Sheet, City staff has negotiated a Host City and Venue Agreement with the America's Cup Organizing Committee and the America's Cup Event Authority (the "Authority") and has presented the agreement to the Port Commission for approval; and a copy of the agreement is on file with the Port Commission Secretary and is hereby declared to be a part of this Resolution as if set forth fully herein (the "Host Agreement"); and
- WHEREAS, Under the Host Agreement, the Team and the Authority will continue to assess and analyze information to determine the final type and placement of facilities and infrastructure necessary to host the 34th America's Cup Event,

and will work collaboratively with the City to further refine the plans for the 34th America's Cup Event that do not materially increase the obligations or liabilities of the City or the Port and are necessary to accomplish the Event contemplated by the Host Agreement; and

WHEREAS, The Team and the Authority currently are evaluating Piers 19-29 in combination with Piers 30-32 as an alternative Event location that may be preferred by the City, as further described in a letter dated November 8, 2010 from Stephen Barclay on behalf of the America's Cup Event Authority and Golden Gate Yacht Club; and

WHEREAS, City staff has drafted a Host City and Venue Agreement as amended for the Northern Waterfront Alternative described in the accompanying staff memorandum dated November 23, 2010 and a copy of the draft agreement is on file with the Port Commission Secretary and is hereby declared to be a part of this Resolution as if set forth fully herein (the "Northern Waterfront HCA"); and

WHEREAS, Port staff has conducted substantial economic analysis of the impacts on the Port under both the Host Agreement and the Northern Waterfront HCA and has recommended that dredging costs under both alternatives be shifted to the Team should a host city agreement be approved; and

WHEREAS, The City will undertake environmental review under the California Environmental Quality Act ("CEQA") of the 34th America's Cup Event and facilities and will work with the Team as well as experts and the public to develop a thorough environmental analysis that will inform both the design and placement of the 34th America's Cup Event and facilities, and the City and the Team intend the 34th America's Cup Event and facilities to be models of green, sustainable technology and event planning; and

WHEREAS, The Venue Leases (and licenses) and the disposition and development agreements ("DDAs"), Legacy Leases and Transfer Agreement contemplated in the Host Agreement will be subject to later discretionary approvals by the Port Commission and the Board of Supervisors, following completion of environmental review of the Event under CEQA; and

WHEREAS, Under Section 1 of the Host Agreement, the Host Agreement will terminate if the City is not selected as host city for the 34th America's Cup Event except for the City's obligation to indemnify the Team against claims of the City's tenants; and under Section 2 of the Host Agreement, the Host Agreement will terminate without liability to any Party (except for the City's indemnification obligations) if the Parties otherwise are unable to reach agreement on a variety of contingencies, including if environmental review under CEQA would require unacceptable modifications to the Event or other terms of the Host Agreement; and

WHEREAS, In accordance with Chapter 29 of the Administrative Code (Findings of Fiscal Feasibility and Responsibility), the City will conduct a financial feasibility study at such time as the project components are better defined through the process contemplated by this Resolution; and

WHEREAS, That the Port Commission hereby supports the defense of the 34th America's Cup to be held in San Francisco; and, now therefore be it

RESOLVED, That the Port Commission, together with Mayor Gavin Newsom and with the support of the entire city family, will do everything possible to secure a San Francisco venue suitable for the hosting of the 34th America's Cup Event on the San Francisco Bay, and, be it further

RESOLVED, That the San Francisco Port Commission affirms its support for the City's efforts to bring the 34th America's Cup Event to San Francisco; and, be it further

RESOLVED, That the City will conduct environmental review of the 34th America's Cup Event under CEQA and nothing in this resolution implements any approvals or facilities for the 34th America's Cup Event, or grants any entitlements to the Event Authority, nor does adoption of this resolution foreclose the possibility of considering alternatives to the proposal, mitigation measures or deciding not to grant entitlement or approve or implement any actions to construct necessary amenities for the 34th America's Cup Event after conducting appropriate environmental review under CEQA, and while the Host Agreement and Northern Waterfront HCA identify many of the essential terms of a proposed transaction between the Event Authority and the City, it does not set forth all of the material terms and conditions of a project proposal; and, be it further

RESOLVED, That the Port Commission hereby authorizes staff to forward both the Host Agreement and Northern Waterfront HCA to the Board of Supervisors for consideration, with the recommendation that dredging costs under any agreement it approves assigns the costs of any required dredging for the Event to the Authority and authorizes the Executive Director, to enter into and perform the Port's obligations under either the Host Agreement or Northern Waterfront HCA, if approved by the Board of Supervisors; and, be it further

RESOLVED, That direction to Port staff to forward the HCA and Northern Waterfront HCA to the Board of Supervisors for consideration and authorization for the Port Executive Director to enter into the HCA or Northern Waterfront HCA, as approved by the Board of Supervisors, as set forth above, do not commit the Port Commission to approval of final Venue Leases or DDA, or implementation of the HCA or Northern Waterfront HCA, or grant any entitlements to the Team, nor does the HCA or Northern Waterfront HCA, if approved by the Board of Supervisors, foreclose the possibility of considering

alternatives to the HCA and Northern Waterfront HCA, mitigation measures, or deciding not to grant entitlements or approve or implement the HCA and Northern Waterfront HCA, after conducting appropriate environmental review under CEQA, and while the HCA and Northern Waterfront HCA identify certain essential terms of a proposed agreement with the Port, it does not necessarily set forth all of the material terms and conditions of any final Venue Leases or DDAs; and, be it further

RESOLVED, That the Port Commission will not take any discretionary actions committing the Port to implement the HCA or Northern Waterfront HCA, and the provisions of the HCA and Northern Waterfront HCA are not intended and will not become contractually binding on the Port unless and until the Port Commission has reviewed and considered environmental documentation prepared in compliance with CEQA for the Event and negotiated and approved final Venue Leases and DDAs; and, be it further

RESOLVED, That the Port Commission hereby authorizes and urges the Executive Director to take such steps and enter into any additions, amendments or other modifications to the Host Agreement or Northern Waterfront HCA as they, in consultation with the City Attorney, determine are in the best interests of the City, do not materially increase the obligations or liabilities of the City or the Port except those obligations or liabilities that are offset by a commensurate benefit to the City or the Port and are necessary or advisable to bring the 34th America's Cup to San Francisco Bay and effectuate the purpose and intent of this Resolution, and further ratifies such actions that the Executive Director may undertake within the scope of this authority before final adoption of this Resolution, except for the Venue Leases and the DDAs, Legacy Leases and Transfer Agreement contemplated in the Host Agreement and the Northern Waterfront HCA, which all will be subject to later discretionary approvals by the Port Commission and Board of Supervisors, as applicable, following applicable CEQA review.

I hereby certify that the foregoing resolution was adopted by the San Francisco Port Commission at its meeting of November 30, 2010.

Secretary

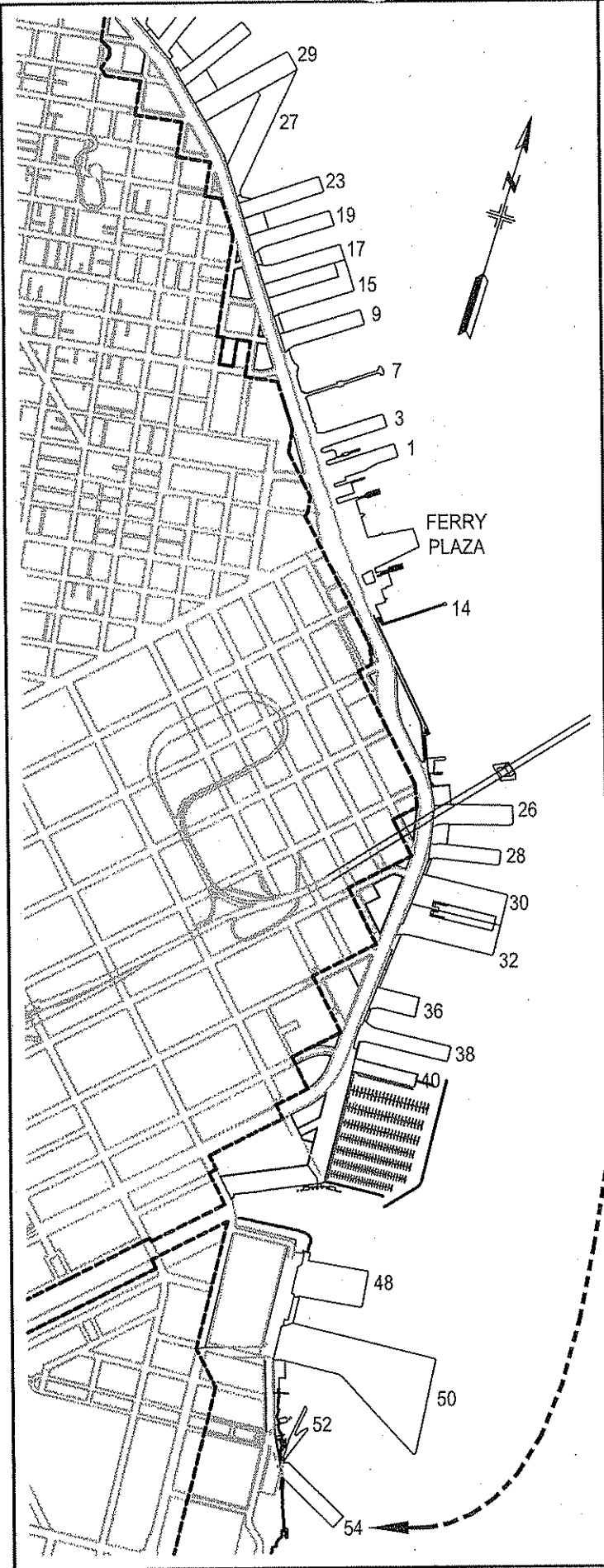
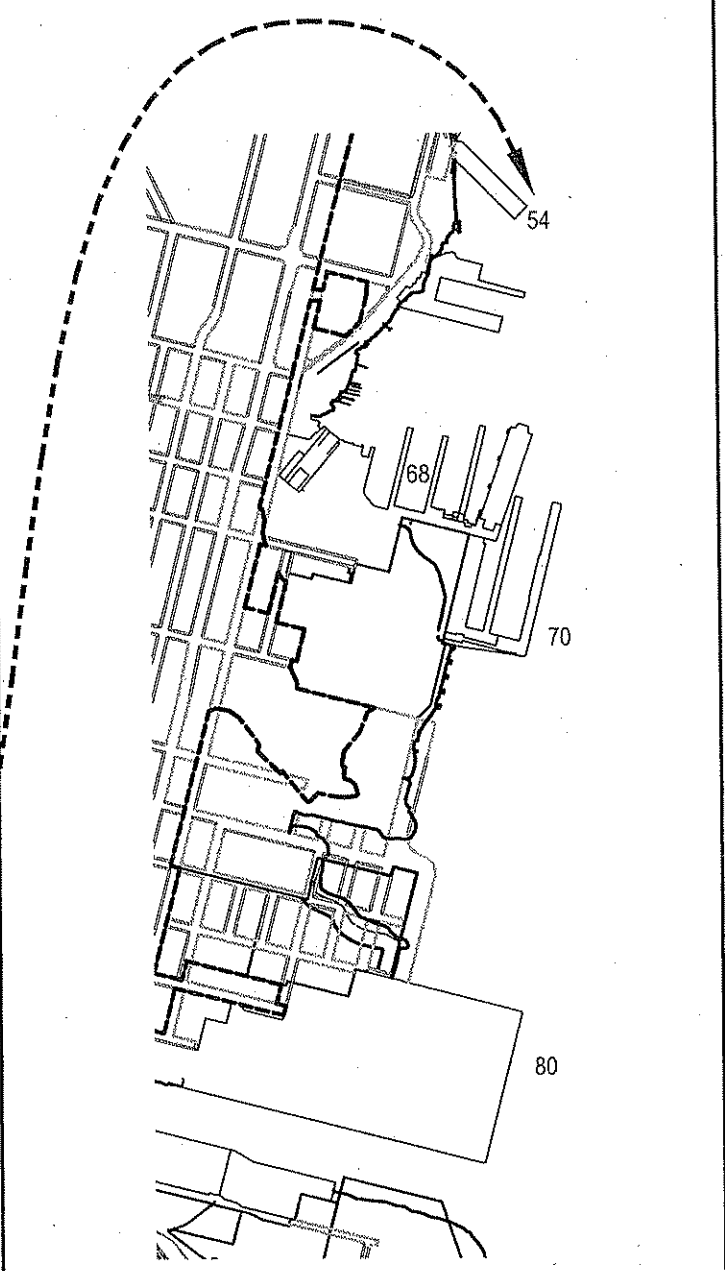


EXHIBIT A: VENUE LOCATION MAP



34TH AMERICA'S CUP HOST CITY AND VENUE AGREEMENT

This 34th America's Cup Host City and Venue Agreement ("Agreement"), dated November 9, 2010, is entered into by and among the City and County of San Francisco, a municipal corporation (the "City"), the San Francisco America's Cup Organizing Committee, a corporation organized under the California Public Benefit Non-Profit Corporation Law ("the Committee"), and the America's Cup Event Authority, LLC, a limited liability company organized under the laws of California (the "Authority"). The City, the Committee and the Authority are collectively referred to as the "Parties" and individually as a "Party."

RECITALS

A. The competition for the America's Cup, first held in 1851 at Cowes, England, is one of the oldest international sporting competitions and the world's premier yacht racing event. The Golden Gate Yacht Club of San Francisco ("GGYC") won the 33rd America's Cup match in Valencia, Spain on February 14, 2010 and is now trustee under the Deed of Gift dated October 24, 1887, between George L. Schuyler and the New York Yacht Club, as amended by final decisions of the Supreme Court of the State of New York (the "Deed of Gift"), governing the silver cup won by the yacht *America* in the first America's Cup competition. Under the Deed of Gift, GGYC is entrusted with the organization of the 34th America's Cup ("AC34" or the "Event").

B. GGYC has received and accepted the challenge of Club Nautico di Roma of Rome, Italy ("CNR"), and GGYC and CNR entered into The Protocol Governing AC 34, dated September 9, 2010 and executed September 13, 2010 (together with all attachments, schedules and appendices to thereto, and any amendment or any replacement protocol that governs AC 34, the "Protocol").

C. GGYC and CNR have appointed the Authority, per Article 4 of the Protocol, to organize and manage AC34, in association with America's Cup Race Management ("ACRM"). GGYC intends to select a venue for AC34 on or before December 31, 2010 and has authorized the Authority and ACRM to assist it to receive proposals and negotiate terms with prospective interested venues as part of the selection process.

D. The City wishes to host AC34 including certain of the America's Cup World Series Pre-regattas, the America's Cup Challenger Series, the America's Cup Defender Series (if held) and the Match. The Committee has been organized and exists for public and charitable purposes to foster national and international amateur sports competition in accordance with Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and particularly to assist in securing and conducting AC34 in San Francisco, California and intends to qualify as such a tax-exempt organization. The Committee wishes to support and facilitate the City's hosting of AC34, including through assisting in the

34TH AMERICA'S CUP HOST CITY AND VENUE AGREEMENT
As Amended for Northern Waterfront Alternative

This 34th America's Cup Host City and Venue Agreement ("Agreement"), dated November 9, 2010, is entered into by and among the City and County of San Francisco, a municipal corporation (the "City"), the San Francisco America's Cup Organizing Committee, a corporation organized under the California Public Benefit Non-Profit Corporation Law (the "Committee"), and the America's Cup Event Authority, LLC, a limited liability company organized under the laws of California (the "Authority"). The City, the Committee and the Authority are collectively referred to as the "Parties" and individually as a "Party."

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FISCAL RESPONSIBILITY AND FEASIBILITY STUDY 34th America's Cup

I. Project General Description

The 34th America's Cup ("AC34" or the "Event") is a multi-year international sailing event. It includes a series of pre-regattas or "World Series" events at various locations around the world beginning in 2011 and running up to the Challenger Selection Series in the summer of 2013, a possible Defender Selection Series and finally the Match (a best of nine series) in the fall of 2013.

In July of 2010, the BMW ORACLE Racing (hereafter referred to as the "Team"), winners of the 33rd America's Cup in Valencia, Spain, awarded San Francisco the designation of the sole United States city under consideration to host AC34. The City of San Francisco was invited to submit a bid for hosting the Event in the form of a Host City and Venue Agreement ("HCA"). This is an analysis of fiscal responsibility and feasibility of the HCA negotiated with the Team. Included is also a parallel analysis of fiscal responsibility and feasibility for a Northern Waterfront Alternative to the HCA.

As shown on the Venue Plan, attached hereto as Exhibit A, the physical facilities for the Event are expected to generally stretch from Pier 28 to Pier 50, with periods of use and occupancy ranging from a few months to a few years. The most intensive uses are at Piers 30/32 and Pier 50. Piers 30/32 are expected to be the main public access and visitor area, with interactive hospitality and viewing facilities. Pier 50 is expected to serve as the main "base" for each of the teams competing in the Event.

As described in the HCA event uses are also anticipated at Pier 28, the area around Pier 38, Sea Wall Lot 330, Pier 48, and certain areas on or adjacent to Sea Wall Lot 337. Media covering the Event are expected to be hosted in Pier 28. During peak periods, Sea Wall Lot 330 could host additional visitor serving activities. Temporary berthage for large "super-yacht" vessels traveling to see the Event could be accommodated in the vicinity of Piers 14 to 22 or between Piers 30/32 and Pier 38, and could take advantage of the proximity to the new Brannan Street Wharf waterfront park currently in pre-construction. A temporary broadcast center is anticipated to be sited on surface lots in the vicinity of Pier 50. In addition, portions of Pier 80 may be used for mooring USA 17 (the vessel that won the 33rd America's Cup), potential pre-regattas in 2011 and various support functions related to the Event.

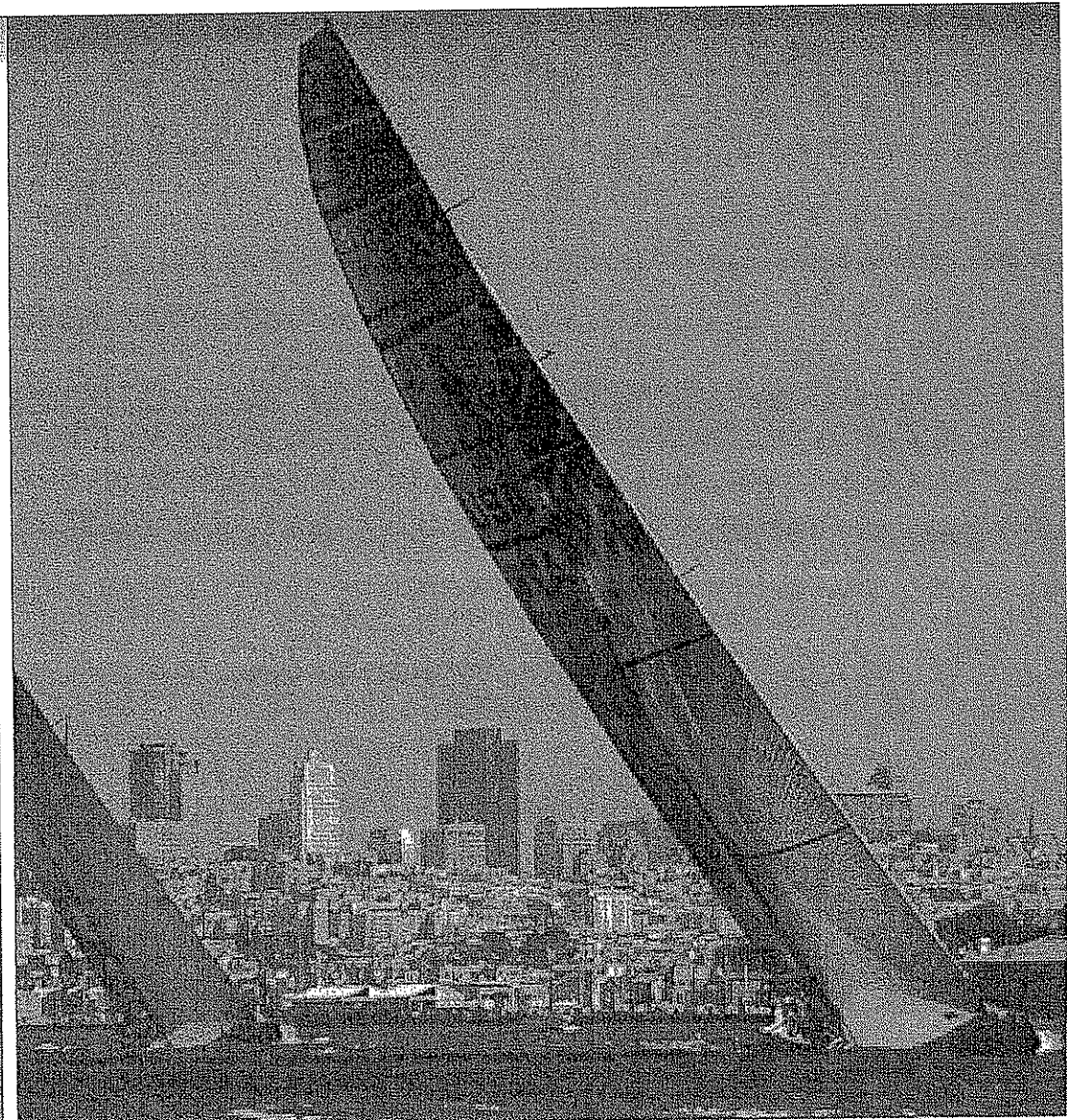
City and Port staff has also proposed to the Authority an alternate scenario to the Team: the Northern Waterfront Alternative. The Northern Waterfront Alternative would partially shift the Event to the Port's Northern Waterfront with public venues from Piers 19 northward through Piers 29. An alternative Host City and Venue Agreement, with language specific to the Northern Waterfront Alternative, has been submitted to the Board of Supervisors via Resolution by the Port Commission on November 30, 2010. The primary venues for the Northern Waterfront Alternative are expected to be Pier 27, Piers 30/32, Pier 28 and SWL 330. Piers 19, 23 and 29 could also be used as support sites to primary venues. Piers 30/32 could host the Team's bases, with support uses located at Pier 28 and SWL 330. The yacht mooring would likely shift from the Piers 32-38 water basin to the Piers 14-22½ water basin. Pier 48, Pier 50 and Pier 54 would no longer be used by the Authority for the Event. All Northern Waterfront leases (Piers 19, 23, 27 and 29) would be for short duration – no more than 6 months of active use for most northern venues. The water basin between Piers 14 and 22½ could be for either short- or long-term uses. In addition, portions of Pier 80 may be used for mooring USA 17, potential pre-regattas in 2011 and various support functions related to the Event.

In either scenario, the Event is predicted to attract a large number of spectators, culminating in a final Match, which it is estimated will draw between 250,000 and 500,000 spectators Bay Area-wide, per day

*Complete copy of document
located in File No. 101259

THE AMERICA'S CUP:

Economic Impacts of a Match on San Francisco Bay





Memorandum

To: Elaine Forbes, Jonathan Stern, Port of San Francisco

From: Janet Smith-Heimer, Steve Murphy, BAE

Date: 11/9/2010

Re: Estimated Value of Proposed America's Cup #34 (AC34) "Legacy Leases"

Purpose

This memorandum estimate the value of long-term leases (called the "Legacy Leases" in the AC34 Term Sheet) for three Port of San Francisco properties, Seawall Lot 330 (SWL 330), Pier 30-32, and Pier 50. The Port and City of San Francisco are considering offering these properties under long-term (66 to 75 year) leases to the America's Cup Event Authority or its nominee(s) (the "Authority") in exchange for a proposed package of infrastructure improvements with an estimated cost of \$150 million.

Summary of Findings

SWL 330

- Condominiums are the highest and best use for SWL 330 with the potential to generate a one-time land sale payment to the Port of approximately \$33.1 million or \$132,000 per unit. Sale of the site would require removal from the Public Trust.
- Development of rental housing would generate lower value than condominiums through long-term lease payments to the Port. The net present value of a 75-year stream of ground lease payments to the Port is estimated at \$15.9 million.
- If no additional development is carried out at SWL 330 beyond improvements constructed as part of the AC34 Event, the net present value of annual revenues from leasing these event improvements and a parking lot is estimated at \$14.4 million over the 75-year period.
- If the site were to continue to be leased by the Port in its current condition, without any event-related improvements, the net present value of annual revenues from the site over a 75-year period would be \$12.0 million.

Pier 30-32

- Pier 30-32 remains entitled for a cruise terminal and mixed use development, including more than 550,000 square feet of commercial space and a 100,000 square foot cruise terminal. This project is not feasible based on current market conditions. When office and retail market

*Complete copy of document
located in File No. 101259

Bay Area Economics

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