

FISCAL RESPONSIBILITY AND FEASIBILITY STUDY 34th America's Cup

1. 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

of racing in the best of nine series. BMW ORACLE Racing has indicated a significant interest in hosting the Event in San Francisco because of the scenic backdrop, predictable winds, world-class visitor amenities and tremendous spectatorship opportunities offered by San Francisco's natural marine amphitheatre.

2. Project Purpose and Objectives

Background

The competition for the America's Cup, first held in 1851 at Cowes, England, is both the premier yacht racing event and one of the world's oldest continuously-held international sporting competitions. BMW ORACLE Racing, sailing for the Golden Gate Yacht Club of San Francisco ("GGYC"), won the 33rd America's Cup match in Valencia, Spain on February 14, 2010. The Team 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"). Under the Deed of Gift, GGYC is entrusted with the organization of AC34.

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 AC34, dated September 9, 2010 and executed September 13, 2010.

Since the announcement of the Protocol in September 2010, GGYC and CNR have created and appointed the America's Cup Event Authority ("Event Authority") to organize and manage AC34. The Team, through the GGYC, intends to select a venue for AC34 on or before December 31, 2010 and has authorized the Event Authority to assist it in receiving proposals and negotiating terms with prospective interested venues as part of the selection process. The Team has indicated that two locations, in addition to San Francisco, are under consideration to host the 34th America's Cup—a port in Italy and San Francisco.

In order to provide the Team and the Authority with reasonable assurances regarding a number of important issues(including the venue plan, key financial terms, sponsorship opportunities, schedule, and event logistics) Port and City staff has negotiated a Host City and Venue Agreement with the Event Authority. This HCA is subject to approval by the Board of Supervisors and is based on the Term Sheet (adopted by the Board of Supervisors by a vote of 9-2 on October 5, 2010). The Northern Waterfront Alternative was subsequently developed by Port and City staff in order to provide the Team with an additional hosting option that potentially better meets the needs of both the Event and the City. Both the HCA and the Northern Waterfront Agreement were approved by the San Francisco Port Commission on November 30, 2010.

Goals and Objectives

Hosting the Event in San Francisco would generate significant public benefits for the City including:

- (i) The Event would be a catalyst for funding for the repair, improvement and productive reuse of certain City piers (Piers 30/32) 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;
- (ii) The Event would create a large number of jobs and a positive economic impact in a very short period of time, including almost 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 and includes a November 9 update to their original analysis;

- (iii) The Event would substantially increase public access to the waterfront, creating new opportunities for people to view and enjoy the San Francisco Bay and showcasing the San Francisco Bay to the world.

3. Fiscal Impacts of Host City Agreement

Many of the Port sites within the HCA require significant improvements (in particular Piers 30/32 and 50) totaling in excess of \$150 million. From the beginning of negotiations with the Team, the City stated that a major public subsidy for the Event was impracticable. Instead, the City has consistently offered (i) land to support the facilities necessary to host the Event, (ii) a mechanism to recover the investment required to use that land and (iii) reasonable assurances regarding corporate sponsorship and fundraising.

To achieve these goals, the HCA grants 66-year development rights to Piers 30/32 and 50 and a 75 year lease of and best efforts to provide fee title to Sea Wall Lot 330 (the "Legacy Sites") to the Event Authority, along with the proceeds of tax increment financing from future development of such sites (through the formation of an Infrastructure Financing District ("IFD")).

Over time, the land value and the IFD proceeds from the Legacy Sites have the potential to reimburse the Event Authority for the cost of the investments in infrastructure related repairs and improvements. Under this proposal, the Event Authority (or its designees) and the Port would enter into long-term, rent-free leases or fee transfer 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 that the Event Authority may seek to change such development rights, or to the extent that such rights do not yet exist, any further development rights would be subject to separate environmental review and governmental approvals. In any event, the 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.

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.

The HCA is written to ensure that the City receives infrastructure improvements prior to the conveyance of any future development rights to the Event Authority. This "give-get" principle provides a mechanism to guarantee that the infrastructure improvement and public benefits are commensurate to the value of the future development rights.

Potential fiscal impacts of hosting the AC34 as described in the HCA can broadly be separated into four distinct categories:

- short-term increased tax revenue associated with the Event's activities
- the estimated increase in land value of Piers 30/32 and 50 and other Event sites after long-term development, as well as increased tax revenue due to the long-term development
- short-term impacts to Port's revenue due to the loss of tenant rent revenue at Piers 28, 30/34, 48 and 50 as well as SWL 330
- costs to the City associated with supporting the Event

After taking into account each of these four categories, the total fiscal benefit the City stands to gain from hosting the Event is \$88.1 million.

Summary Fiscal Impact		
<i>Category</i>	<i>Benefit to City</i>	<i>Cost to City</i>
Short-Term Tax Revenue related to Event	\$25,603,000	
Long-Term Revenue – Increased Land Value and Tax Revenue	\$92,780,812	
Lost Rent Revenue at Port		\$13,284,935
City Costs associated with Event (less ACOC contribution)		\$17,037,441
Total	\$118,383,812	\$30,322,376
Total	\$88,061,436	

a. Short-Term Increased Tax Revenues

Hosting an event of this magnitude will result in a marked increase in retail activity, tourism and employment, as detailed by the Beacon Economics Report (see Exhibit B). Previous analysis has predicted a 20% increase in spectators over the 2007 event in Valencia, Spain, which translates to 450,000 additional visitors to the San Francisco Bay Area during the summer of 2013. This methodology was largely confirmed in the Budget Analyst's Report to the Board of Supervisors on the Term Sheet, released November 18, 2010.

Using the Beacon Economics Report analysis, revenue for the accommodation industry during the Event is estimated to be in excess of \$156 million. San Francisco's Transient Occupancy Tax ("TOT") is currently at 14%, which translates to a \$12.4 million increase in TOT revenue. Valencia saw in excess of one million visitor days originating from the population base surrounding the Valencia area; given the Bay region's much larger size, the number of local spectators is expected to be significantly larger.

Local spending across various groups participating in or watching the Event is expected to reach approximately \$791 million, translating into a total effect on output in San Francisco of \$1.4 billion. Revenue from restaurant and retail sales is estimated to be \$182 million – at a rate of 1.75%, the City's general fund would see approximately \$3.2 million.

Finally, the America's Cup is estimated to create approximately 8,839 jobs. Assuming that 85% of those positions are at firms with a total annual payroll greater than \$250,000 (businesses with payroll below this amount are excluded from the Payroll Expense Tax), the City should see an increase in approximately \$8.3 million in Payroll Expense Tax Revenue.

Additionally, the Beacon Economics Report neglected to include anticipated increases in Parking Tax revenue. Previous analysis from the Controller's Office estimates this increase to be approximately \$1.7 million.

As discussed above, City revenues from the TOT, Parking Tax, Payroll Expense Tax and Sales Tax are expected to see significant increases over the course of the Event. Figures from both the Beacon Economics Report as well as preliminary figures from the Controller's Office estimate approximately \$25.6 million in additional General Fund revenue over the course of three years (see Exhibit C, Tab 2).

Short-Term Tax Revenue	
<i>Tax</i>	<i>Estimated Increased Revenues</i>
Transient Occupancy Tax	\$12,400,000
Payroll Tax	\$8,300,000
Sales Tax	\$3,200,000
Parking Tax (data from Controller)	\$1,703,000
Total Increased Revenues	\$25,603,000

b. Long-Term Land Value – Increased Land Value and Tax Revenue

In preparation for this analysis and negotiations with the Event Authority, an analysis was performed by BAE Economics to evaluate the land value of Piers 30/32, 50 and SWL 330 under various development scenarios (see [Exhibit D](#)). The most likely development scenario for Piers 30/32, 50 and SWL 330 is as follows:

- SWL 330: Mid-rise condominiums (approximately eight to ten stories) are considered to be the highest and best use for SWL 330. As a conservative estimate, it is assumed that condominiums at a newly-constructed condominium development would sell for \$750 per square foot or approximately \$860,000 per unit. Using these figures, SWL 330 has the potential to generate a one-time land sale payment to the Port of approximately \$33.1 million or \$132,000 per unit. This analysis assumes a sale of SWL 330 in 2014.
- Piers 30/32: Pier 30-32 is currently entitled for a 100,000 square foot cruise ship terminal, 370,000 gross square feet of office space, and 195,000 gross square feet of retail/entertainment space. In total this development is estimated to cost \$283 million to develop, which reflects relatively high per square foot construction costs relative to landside development, but does not include significant infrastructure costs to reinforce the piers and/or provide new trunk (water, sewer, electricity) infrastructure to the site.¹ This analysis assumes reuse of the improved land for parking and pads for ten years and the above described redevelopment for mixed use in year ten.
- Pier 50: Pier 50 was assumed to accommodate a 250-room resort hotel development, including a boating club and marina facility. Hotel and other visitor-serving uses are generally consistent with the Public Trust. Pier 50 is subject to the 50% open space requirement imposed by BCDC, and the sizing shown in the calculations reflects this. This analysis assumes a reuse of the improved land for industrial facilities for ten years and redevelopment for mixed use in year ten.
- This analysis assumes IFD bonding in year ten.

It is important to emphasize that each of the Legacy Sites (with the exception of SWL 330) are in such pronounced need of infrastructure investment that any development project, America's Cup related or not,

¹ Based on current market conditions this project would not be expected to generate a positive residual land value. In order to formulate an economically feasible model it requires assuming that market conditions will return 2007-08 levels after the America's Cup Event, including assumed office rents of \$45 per square foot annually (NNN) and retail rents of \$35 per square annually (NNN).

will require a significant investment – currently estimated at \$150 million - to simply bring the land to a developable state.

Based on the above likely development scenario, the Port has estimated 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. The Net Present Value of future lease payments at the Legacy Sites realized by the Event Authority is then taken at a discount rate of approximately 7%, and assumes IFD bonding in year ten of approximately \$33.8 million. This figure is then measured against the \$150,000,000 infrastructure investment of the Event Authority, which is required to bring the sites to developable status. After accounting for the \$150,000,000 investment, the City's residual benefit from the "give-get" of the Legacy Leases is \$30.1 million (see [Exhibit C, Tab 3](#)).

Net Present Value of Future Lease Payments

		Most Likely "Blended" Development Scenario				
		SWL 330 Rent Streams	Piers 30/32 Rent Streams	Pier 50 Rent Streams	Authority Investment/ IFD Bonding	Total
Discount Rate		7%	7%	7%		7%
Residual Land Value (2014\$)		\$33,050,413				NA
NPV of Lease Payments (2014\$)		\$30,888,237	\$28,674,018	\$49,321,754		(\$30,075,802)
Developer IRR						5.1%
Lease Payment Schedule						
<u>Lease Year</u>	<u>Calendar Year</u>					
	2011					
	2012				-	
	2013				\$150,000,000	(\$150,000,000)
	2014					\$0
1	2014	\$33,050,413	\$2,137,635	\$3,224,124		\$38,412,173
2	2015	\$0	\$2,191,076	\$3,304,727		\$5,495,803
3	2016	\$0	\$2,245,853	\$3,387,345		\$5,633,198
4	2017	\$0	\$2,302,000	\$3,472,029		\$5,774,028
5	2018	\$0	\$2,359,550	\$3,558,830		\$5,918,379
6	2019	\$0	\$2,418,538	\$3,647,800		\$6,066,339
7	2020	\$0	\$2,479,002	\$3,738,995		\$6,217,997
8	2021	\$0	\$2,540,977	\$3,832,470		\$6,373,447
9	2022	\$0	\$2,604,501	\$3,928,282		\$6,532,783
10	2023	\$0	\$2,669,614	\$4,026,489	\$33,800,000	\$40,496,103
11	2024	\$0	\$1,503,269	\$3,049,211		\$4,552,480
12	2025	\$0	\$1,503,269	\$3,049,211		\$4,552,480
...
65	2078	\$0	\$2,571,101	\$4,966,844		\$7,537,944
66	2079	\$0	\$2,571,101	\$5,215,186		\$7,786,287

Source: BAE, 2010.

Assuming the infrastructure investments and long-term development projects described above were to occur at the Legacy Sites, the City would realize a long-term increase in tax revenues related to increased economic activity at the sites. The Port has estimated this increased tax revenue, over the life of the leases, to be \$62.7 million (see [Exhibit E](#)). Thus, the combined fiscal benefit to the City totals \$92.8 million.

Total Long Range Development Value	
Net Present Value of Future Lease Payments	\$30,075,802
Long Range Development Tax Revenues - Sales, Payroll and TOT tax revenue over 66 year life of long term development	\$62,705,010
Total	\$92,780,812

The alternative to development through the HCA is less rosy. The BAE analysis concluded that the costs of improving the piers is so high that, without and infrastructure commitment from a source such as the Event Authority, there is greater value in continuing to use the Piers in their current unimproved status until they must be demolished or the Port must reinvest in the substructure to permit leasing for current uses.

c. Impacts to Port's Revenue

While the direct financial benefits to the City of hosting even a single Event are significant, and the costs of repairing the Legacy Sites exceed their fair market value, hosting the Event will have short-term negative impacts on the Port's revenues. These costs would come primarily in the form of lost revenues from parking and month-to-month leases. Port-provided estimates, which include the use of Piers 28, 30/32, 48, 48½, 50 and Seawall Lot 330, put this figure at approximately \$13.3 million (see [Exhibit C, Tab 4](#). Please note this analysis excludes potential short-term usage of Piers 38, 40, 54 and 80.). The most recent rent documentation for the Port is attached (see [Exhibit F](#)).

Estimate of Rent Loss			
Item	<i>Annual Income</i>	<i>Term</i>	<i>Total Rent Loss</i>
Pier 28	\$414,958	December 31, 2012 - March 31, 2014	\$414,958
Pier 48 and Pier 48½	\$1,724,463	December 31, 2011 - March 31, 2014	\$3,448,927
Pier 30/32	\$802,104	December 31, 2011 - March 31, 2014	\$2,406,312
Seawall Lot 330	\$559,512	December 31, 2011 - March 31, 2014	\$1,678,536
Pier 50 (Shed A-D, 50 1/2)	\$1,778,733	December 31, 2011 - March 31, 2014	\$5,336,202
Total Loss of Short-term Rent			\$13,284,935

To mitigate these impacts, the Port and the City will seek approval from the Board of Supervisors to 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 these revenue losses.

d. City Costs

The Event will be produced exclusively by the Event Authority, and supported by approximately \$270 million in corporate sponsorships attracted by the Event Authority with assistance from the ACOC. Nevertheless, the City would naturally incur costs by hosting a world-class sports championship. These costs can be separated into two discrete expenditures – the costs to perform required construction at Piers 30/32 and 50, and the costs for general City services.

i. Infrastructure Work on Legacy Sites (see [Exhibit C, Tab 5](#)).

Infrastructure Work and Other City Costs	
	<i>Amount</i>
Demolition of Pier 50 Sheds A-D	\$8,645,650
Space Planning Consultant	\$125,000
Maintenance Relocation Cost	\$15,953,905
COP Financing Costs	\$811,850
Tenant Relocation Costs	\$275,000
Unamortized Tenant Improvements	\$500,000
Tenant Relocation, Claims and Settlements	\$1,500,000
Staffing	\$606,372
Pier 80 Cargo / Maritime revenue loss	\$699,329
Subtotal	\$29,117,106

It should be noted that this table does not include an estimated cost for dredging, which is specifically required to be paid for by the City in the HCA. This estimate is currently approximately \$20 million. Because this cost is significantly higher than was anticipated by City and Port staff, and because the AC34 activities that require dredging are not directly required to conduct the sailing competition, the City has proposed that the expense be paid by the Event Authority. The Port Commission, at the November 30, 2010 meeting, passed resolution 10-73 approving the HCA. This resolution specifically calls for dredging costs under both the Central Waterfront and Northern Waterfront Alternatives to be shifted to the Authority.

ii. General City Costs Associated with Supporting the Event (see [Exhibit C, Tab 5](#)).

City Expenditures		
<i>Agency</i>	<i>Estimated Cost</i>	<i>Notes</i>
SFPD	\$8,900,000	
SFMTA	\$6,430,228	
DPW	\$685,800	Based on Fleet Week figures
CEQA for Venue Leases	\$2,180,000	Low Estimate from Planning. High estimate \$3.1 million
DBI Costs	\$1,724,307	Based on \$200M Construction
Subtotal	\$19,920,335	

Total City Costs	
Infrastructure Work and Other Port-Related City Costs Subtotal	\$29,117,106
City Expenditures Subtotal	\$19,920,335
ACOC Contribution	(\$32,000,000)
Total City Costs Associated with Hosting the Event	\$17,037,441

The subtotal for both the infrastructure-related and general City expenditures associated with hosting an event of this magnitude and duration are \$49 million. However, as part of the HCA, the ACOC has committed to raising \$32 million to offset a significant portion of these costs. Therefore, the net City costs related to hosting an America's Cup in the San Francisco Bay are \$17 million.

In addition, the ACOC has committed to covering costs specifically called out in both the Term Sheet and HCA, including related Possessory Interest and Property Taxes, Utilities and the cost of purchasing a performance bond (see Exhibit C – Tab 6). While these expenses total \$5.7 million, the total impact to the City is \$0.

ACOC Expenditures		
Possessory Interest Tax for Piers 30, 32, 50	\$215,598	3 years at rate of \$71,866.32 (PI rate for 2010/2011)
Personal Property Tax for Pier 50	\$244,047	Property value of \$7,018,898 assessed at rate of 1.159% for 3 years
Event Permits	N/A	
Utilities	\$2,000,000	Based on estimates from Pier 24 of roughly \$1 M for utility connection
Cost of Performance Bond Purchase	\$3,200,000	
Stevedoring Costs	\$19,189	\$19189 per unloading shift - assumes 10 boats unloaded per shift
<i>Subtotal</i>	\$5,678,834	
<i>ACOC Contribution</i>	<i>\$(5,678,834)</i>	
Total City Cost	\$0	

e. Debt Load to be carried by the City or Port

The long-term development rights would result in increases in real property and possessory income tax to the City. Under the HCA, the bonding capacity, as estimated above at \$33.8 million, is pledged as part of the Event Authority's "give-get". The debt service coverage however would accrue to the City. As shown in Exhibit G, the coverage tax stream and post-bonding property tax is estimated to have a net present value of \$17.3 million. It should be noted that the long-term development of these three sites will result in the long-term rent loss of \$3.4 million for the Port. This is equivalent to 40% of the Port's operating surplus and \$43 million in lost revenue bond capacity. These factors would result in a net decrease of \$60 million in debt capacity for the City and Port.

4. Fiscal Impacts of Northern Waterfront Venue Alternative

In addition to the HCA, City and Port staff has proposed an alternate scenario to the Authority. 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. The primary venues would be Pier 27, Piers 30/32, Pier 28 and SWL 330. Piers 19, 23 and 29 would also be used as support sites to primary venues. Piers 30/32 would 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 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 waterfront venues. The water basin between Piers 14 and 22½ could be either for short or long term uses. A resolution approving the Host City and Venue Agreement, including both the Northern Waterfront Venue Option, as well as the original, Central Waterfront Venue Option, were presented to the Port Commission on Tuesday, November 30 and approved by unanimous vote (see Exhibit H). Members of the Port Commission expressed a preference for the Northern Waterfront Alternative.

The Port would provide Venue Leases at no cost to the Authority. However, both the Port and the Authority's infrastructure obligations would be altered as compared with the current Host City and Venue Agreement. Changes include:

- Neither the demolition of the Pier 50 sheds nor the relocation of the Port Maintenance facility would be required;
- Neither the Pier 50 infrastructure investment nor the breakwater investment would be required;
- 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 be allowed to demolish portions of the Pier 29 shed 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 the City would provide \$6.5 million to help fund the project.

In a scenario similar to what is detailed in the HCA, the Authority would still be required to invest approximately \$47 million in Piers 30/32 and \$7.5 million in Pier 27, for a total of approximately \$54.5 million in up-front infrastructure investments. 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 and infrastructure improvements in the Northern Waterfront Venue Option, these rights would take the form of long-term development leases on commercially reasonable financial terms with a rent credit reflecting the Authority's infrastructure investment. 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.

Potential fiscal impacts of hosting the AC34 as described in the Northern Waterfront Alternative can broadly be separated into four distinct categories:

- increased tax revenue associated with the Event's activities
- increased tax revenue associated with the long term development

- short-term impacts to Port's revenue due to the reprogramming of Piers 30/32
- costs to the City associated with supporting the Event

Summary Fiscal Impact - Northern Waterfront Alternative		
Category	Benefit to City	Cost to City
Short-Term Tax Revenue related to Event	\$25,603,000	
Long-Term Development Tax Revenue	\$31,206,968	
Lost Rent Revenue at Port		\$6,711,685
City Costs associated with Event (less ACOC contribution)		\$0
Total	\$56,809,968	\$6,711,685
Net Fiscal Benefit	\$50,098,283	

a. Short-Term Increased Tax Revenue

It is estimated that City revenues from the TOT, Parking Tax, Payroll Expense Tax and Sales Tax would be the same, whether the Event was held at the venues foreseen in the HCA or at those proposed in the Northern Waterfront Alternative. As stated above, figures from both the Beacon Economics Report and preliminary figures from the Controller's Office estimate approximately \$25.6 million in additional General Fund revenue over the course of three years (see [Exhibit I, Tab 2](#)).

Short-Term Tax Revenue	
Tax	Estimated Increased Revenues
Transient Occupancy Tax	\$12,400,000
Payroll Tax	\$8,300,000
Sales Tax	\$3,200,000
Parking Tax (data from Controller)	\$1,703,000
Total Increased Revenues	\$25,603,000

b. Long-Term Increased Tax Revenue

The most likely development scenario for Piers 30/32 and SWL 330 remain the same in the Northern Waterfront Alternative:

However, under this scenario, there would be significantly less infrastructure investment made by the Event Authority and, as a result the development deal under the Northern Waterfront Alternative would be offered on commercially reasonable financial terms with a rent credit reflecting the Authority's infrastructure investment. This structure, which largely reflects the terms of the Exploratorium development lease at Piers 15-17, allows the Authority to equitably recover its investments in Port facilities. The net fiscal benefit of the infrastructure "give-get" is zero.

Were the above described long-term developments to occur at Piers 30/32 and SWL 330, the City would see a long-term increase in tax revenues related to increased economic activity at the sites. This increase is estimated to be \$31.2 million over the life of the leases (see [Exhibit E](#)).

c. Impacts to Port's Revenue

Using the current rent rolls and the timeframes that have been communicated to City and Port staff, the Northern Waterfront Alternative would reduce the Port's rent loss to \$6.7 million (see [Exhibit I, Tab 4](#)). The Northern Waterfront Scenario continues to include Piers 30/32, Pier 28 and SWL 330, but also adds Piers 19-23, Pier 27 and Pier 29. The Northern Waterfront Alternative eliminates the requirement of using Pier 50 and Pier 48 for the Event.

Estimate of Rent Loss - Northern Waterfront			
Item	<i>Annual Income</i>	<i>Term</i>	<i>Total Rent Loss</i>
Pier 30/32	\$802,104	2078 (66 years)	\$2,406,312
Seawall Lot 330	\$559,512	2087 (75 years)	\$1,678,536
Pier 28	\$414,958	December 31, 2012 - June 30, 2013	\$414,958
Piers 19-23	\$819,000	December 31, 2011 - August 31, 2012	\$1,024,875
Pier 27	\$1,134,538	January 1, 2013 - October 1, 2013	-
Pier 29	\$593,503	December 31, 2011 - June 30, 2013	\$1,187,004
Total Loss of Rent			\$6,711,685

d. City Costs

City costs under the Northern Waterfront Alternative can be separated into two discrete expenditures – the costs to perform required infrastructure improvements at Piers 30/32 and costs for general City services. The costs of general City services are the same for the Northern Waterfront Alternative as for the HCA.

i. Infrastructure Work on Legacy Sites – Northern Waterfront Scenario (see [Exhibit I, Tab 5](#)).

Infrastructure Work and Other Port-Related City Costs	
	<i>Amount</i>
COP Financing Costs	\$811,850
Tenant Relocation, Claims and Settlements	\$1,500,000
Cruise Terminal Shortfall	\$6,500,000
Staffing	\$290,072
Subtotal	\$9,101,922

It should be noted that this table does not include an estimated cost for dredging, which is specifically called out in the Host City and Venue Agreement. This estimate is currently approximately \$28 - \$36

million. As this cost came in significantly higher than was anticipated by City and Port staff, City staff are actively renegotiating for this cost to be covered by the Event Authority, rather than the City, and thus it is not included in the above calculation.

- ii. General City Costs Associated with Supporting the Event – Northern Waterfront Alternative (see [Exhibit I, Tab 5](#)).

City Expenditures		
<i>Agency</i>	<i>Estimated Cost</i>	<i>Notes</i>
SFPD	\$8,900,000	OEWD estimated figure
SFMTA	\$6,430,228	
DPW	\$685,800	Based on Fleet Week figures
CEQA for Venue Leases	\$2,180,000	Low estimate from planning. High estimate \$3.1 million
DBI Costs	\$1,724,307	Based on \$200 million construction
Subtotal	\$19,920,335	

Total City Costs	
Infrastructure Work and Other Port Related City Costs	\$9,101,922
Subtotal	
City Expenditures Subtotal	\$19,920,335
ACOC Contribution	(\$29,022,257)
Total City Costs Associated with Hosting the Event	\$0

The total City expenditures associated with hosting an event of this magnitude and duration on the Northern Waterfront are approximately \$29 million. However, as part of the HCA, the ACOC has committed to raising funds to offset a portion of these costs, up to \$32 million. As the estimated City expenditures are less than this \$32 million figure, the City would have no uncovered liability.

In addition, the ACOC has committed to covering costs specifically called out in both the Term Sheet and Host City Agreement, including related Possessory Interest and Property Taxes, Utilities and the cost of purchasing a performance bond (see [Exhibit I, Tab 6](#)). These commitments remain unchanged in both scenarios. While these expenses total \$5.7 million, the total impact to the City is \$0.

ACOC Expenditures		
Possessory Interest Tax for Piers 30, 32, 50	\$215,598	3 years at rate of \$71,866.32 (PI rate for 2010/2011)
Personal Property Tax for Pier 50	\$244,047	Property value of \$7,018,898 assessed at rate of 1.159% for 3 years
Event Permits	N/A	
Utilities	\$2,000,000	Based on estimates from Pier 24 of roughly \$1 M for utility connection
Cost of Performance Bond Purchase	\$3,200,000	
Stevedoring Costs	\$19,189	\$19189 per unloading shift - assumes 10 boats unloaded per shift
<i>Subtotal</i>	\$5,678,834	
<i>ACOC Contribution</i>	<i>\$(5,678,834)</i>	
Total City Cost	\$ -	

e. Debt Load to be Carried by the City or Port

The long-term development rights at Piers 30/32 and SWL 330 would result in an increase in real property and possessory income tax to the City. Under the Northern Waterfront Alternative the bonding capacity is estimated at \$26.6 million and \$13.7 million of debt service coverage and post-bonding property tax would accrue to the City (see [Exhibit G](#)). It should be noted that the long-term development of these two sites will result in the long-term rent loss of \$1.4 million resulting in \$18 million in lost revenue bond capacity for the Port. These factors would result in a net *increase* of \$23 million in debt capacity for the City and Port.

5. Project Schedule

The City will meet the following schedule regarding the Event:

- December 2010-November 31, 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 negotiate 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.
- December 2011 – Present environmental review documentation, long-term Event Lease and permits for approval.
- 2011 – possible “World Series” pre-regatta
- December 2011-December 2012 – Complete infrastructure improvements.
- 2012 – One or two “World Series” pre-regattas.

- Spring 2013 – Commence balance of Event.

6. Fiscal Feasibility Determination and Conclusion

Per Chapter 29 of the City and County of San Francisco's Administrative Code, fiscal feasibility is determined by five criteria - (1) direct and indirect financial benefits of the project to the City, including to the extent applicable costs savings or new revenues, including tax revenues, generated by the proposed project; (2) the cost of construction; (3) available funding for the project; (4) the long term operating and maintenance costs of the project; and (5) debt load to be carried by the City department or agency.

i. Direct and Indirect Financial Benefits of the Project to the City

As discussed above, hosting an America's Cup on the San Francisco Bay would bring an estimated additional \$25.6 million in tax revenue. This figure holds for both scenarios discussed in this report.

It should be noted that these additional revenues will be accrued during the main event in 2013. However, the City's fiscal obligations related to venue preparation and infrastructure will be incurred prior to this revenue being realized. This report has not addressed cash flow timing issues.

ii. Cost of Construction

The HCA for the Event outlines a number of improvements to Piers 30/32 and Pier 50 that must be carried out by the Port of San Francisco, including the relocation of all tenants at Pier 50, as well as the demolition of Sheds A – D at Pier 50. This work is expected to cost approximately \$29 million.

Under the Northern Waterfront Alternative, the Port of San Francisco's no longer has any construction, as Pier 50 is no longer being considered as an Event Venue. The new \$9 million infrastructure cost estimate includes the anticipated cruise terminal shortfall of \$6 million as well as staffing and tenant relocation costs.

iii. Available Funding for the Project

The primary source of available funding for the Event would be Certificates of Participation, repaid by the General Fund, valued at approximately \$25 million for the HCA scenario and approximately \$6.5 million (value of City's cruise terminal funding acceleration) in the Northern Waterfront Alternative. In either scenario, the San Francisco America's Cup Organizing Committee is committed to contributing up to \$32 million to offset the City's costs.

iv. Long Term Operating and Maintenance Costs of the Project

It is estimated that hosting the Event will not incur any long term operating and maintenance costs beyond the Event's 2014 end. Should San Francisco be considered as a venue for the 35th America's Cup, the Board of Supervisors would be presented with a new HCA, as well as a new accompanying fiscal feasibility report.

v. Debt Load to be carried by the City Department or Agency

It is estimated that there will be no additional debt load to be carried by any City department or agency except the Certificates of Participation noted above.

The Event provides economic benefits to the City and County – in the form increased tax revenue as well as increased land value, preserves and promotes maritime employment and activity, generates significant economic activity, supports San Francisco's tourism industry and provides badly needed infrastructure work on Port property. Simply put, an America's Cup in San Francisco would go far to showcase the natural beauty and splendor of our city, while providing a needed economic boost.

Exhibit A: Venue Plan (HCA Option)



**Exhibit B: Economic Impact Report & November 9, 2010 Update, Bay Area Council Economic
Institute and Beacon Economics**

[Link to Economic Impact Report](#)

Report Attached



To: San Francisco Mayor's Office

From: Jon Haveman, Beacon Economics LLC
Date: November 9, 2010

Subject: This memo is in response to two queries from the San Francisco Mayor's Office. These queries are:

- 1) The extent to which timing and spectator assumptions in the BACEI/Beacon Economics analysis of America's Cup potential economic benefits, and
- 2) Ways in which the report makes conservative assumptions.

1) The extent to which timing and spectator assumptions in the BACEI/Beacon Economics analysis of America's Cup potential economic benefits

The modeling undertaken in the BACEI/Beacon Economics report was based largely on the Valencia experience in 2007. For the timing of the event (duration), we assumed something very much akin to Valencia, which took place over the course of 3 months. In terms of spectators, our assumptions mirrored the evidence accumulated during the 32nd America's Cup in Valencia for non-local visitors, but were developed with consideration to spectator volumes during San Francisco's Fleet Week.

Although the time frame for the 32nd America's Cup was not as compressed as has been proposed by BMW/Oracle in its response to City of San Francisco questions, our assumptions regarding spectators are more conservative than are estimated in BMW/Oracle's answer sheet.

In terms of the economic impact, our report is quite consistent with the information in the answer sheet. BACEI/Beacon's assumptions regarding spectators indicate fewer spectators over the course of the event than is implied by BMW/Oracle's answer sheet. This offsets the shorter duration assumed and implies that the overall economic impact of the report is consistent with, and likely more conservative than, the impacts implied by the BMW/Oracle answers.

Northern California Office 415.457.6030

Southern California Office 310.571.3399

2) Conservative assumptions embodied in the report.

As the BACEI/Beacon Economics report was written in advance of many of the details regarding a possible America's Cup in San Francisco, a conscious approach was made to provide a conservative estimate of the overall economic impacts. More aggressive assumptions could have quite reasonably and significantly increased the estimated impacts.

The following includes a list primary ways in which the analysis was conservative:

1) Non-Local Visitors:

- a. The *number* of foreign/non-local spectators, in terms of visitor days, was limited to that experienced in Valencia
 - i. The notion of foreign in the present report includes any American spectators who might fly in for the event. Given the nature of San Francisco as a tourist destination, it seems likely that the combination of US and foreign visitors flying into the area would exceed that of foreign visitors to Valencia.
- b. *Expenditures* of non-local spectators were assumed to be comparable to those experienced in Valencia.
 - i. Adjusted for inflation and exchange rates, this implied a level of spending that is less than surveys indicate is usually the case for visitors who fly into San Francisco.
- c. Travel in the region beyond San Francisco was modeled after Valencia. Given the presence of Napa/Sonoma, Lake Tahoe, Yosemite, and Monterey, this is likely a significant underestimate. There is very little outside of Valencia to visit.

- 2) **Local Visitors:** The number of local spectators was assumed to be merely 2.5 times an average Fleet Week. Implying that the spectators over the course of one month of sailing would equal that of one weekend's worth of spectators during Fleet Week. We believe that the numbers will be significantly larger than this, but have no way of estimating a higher total.

- 3) **Super Yachts:** Because San Francisco is a much less common destination for Super Yachts, it was assumed that there would be a Super Yacht presence, but that it ~~would be one-quarter that in Valencia.~~ It has been indicated that efforts will be made to increase the Super Yacht presence relative to Valencia, but we have assumed a greatly diminished presence.

Exhibit C: Fiscal Feasibility Spreadsheet, Central Waterfront Scenario

Spreadsheet Attached

Exhibit D: Land Value of Legacy Lease Sites Memo, BAE

Report Attached

Exhibit E: Fiscal Benefits of Long Term Development at Legacy Lease Sites, Port Staff

Report Attached

Exhibit F: Port of San Francisco Rent Roll as of September 1, 2010

Spreadsheet Attached

Exhibit G: City Property Tax Potential

Spreadsheet Attached.

Exhibit H: Port Commission Resolution No. 10-73

**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.

Exhibit I: Fiscal Feasibility Spreadsheet, Northern Waterfront Scenario

Spreadsheet Attached