



# Memorandum

**TO:** COMMUNITY AND ECONOMIC  
DEVELOPMENT COMMITTEE

**FROM:** Paul Krutko

**SUBJECT: MEASURING ECONOMIC and  
FISCAL IMPACT OF CULTURAL  
AND SPORTING EVENTS**

**DATE:** 02-09-07

Approved

Date

2-9-07

**COUNCIL DISTRICT:** City-Wide

## **RECOMMENDATION**

Accept the attached report, *Analysis of the Economic and Fiscal Impact of Cultural and Sporting Events in San Jose: Explanation of Recommended Methodology and Impact Assessment for Six Representative Events*.

## **OUTCOME**

By accepting this report, City would be adopting a conservative, credible and consistent approach for assessing the economic and fiscal impact of events. This methodology will be used by the City and its partners in estimating economic impact from Cultural and Sporting events.

## **BACKGROUND**

*San Jose is a leader in supporting a range of cultural and sporting events that reflects the unique characteristics, interests, and history of this community.*

These events are important for several reasons, including but not limited to economic and fiscal impact.

- *Events drive economic and fiscal impact*—Cultural and sporting events can help drive economic impact by attracting visitors and stimulating new spending. Events can also generate revenue for the city.
- *Events build community strength and identity*—Cultural and sporting events can help celebrate the people and attributes of the community, connect people to each other, and build local pride. Residents can value them as community amenities.

- *Events raise community profile*—Cultural and sporting events can shape how San Jose is known and perceived in the Bay Area, nationally, and internationally, which can have myriad positive effects on the community in the long-term.
- *Events drive repeat business*—Cultural and sporting events can introduce people to the Downtown, who may like what they see and return again in the future to patronize businesses visit attractions, and live or work.

In support of the Economic Development Strategy, the City has stepped up its interdepartmental efforts to host new signature events that can attract external visitors and media attention and to evolve existing events to a greater external appeal. Interest has been growing in having a credible, consistent way to predict and assess the economic and fiscal impact of events.

*To date, staff at the city, Convention and Visitors Bureau, Sports Authority, and the event producers themselves have approached this question in independent and diverse ways.* For example, the Convention and Visitors Bureau undertook a study in 2003-2004 to measure the impact of convention visitors to San Jose. The San Jose Sports Authority has commissioned specific economic impact evaluations for unique events and, occasionally, for their overall program. The Office of Economic Development has been called on to come up with estimates for recent new events, and has used peer-city methodologies and national on-line tools. National as well as local event producers have offered up their own estimates of economic impact.

*City elected leadership and staff have recognized the need to develop a common methodology and tool that can be used by everyone.* OED initiated an effort in partnership with San Jose Convention and Visitors Bureau, San Jose Sports Authority, Team San Jose and the Office of Cultural Affairs (OCA) to develop a common methodology and tool that could be used by all parties to estimate the impact of the diverse range of existing and potential new events. OED issued an RFP in March 2006 to affirm the feasibility of this approach and identify a firm qualified to carry it out.

The RFP was released on the City's Economic Development website and eight RFP packets were mailed to firms located throughout the United States who specialize in economic impact research. The successful firm, SportsEconomics, LLC of Berkeley, was one of two respondents to the RFP. The review panel consisted of members from OED, OCA, Convention and Visitors Bureau, San Jose Sports Authority, and Silicon Valley Sports Entertainment.

The project scope included a) recommending a methodology to measure economic and fiscal impact, b) surveying six, diverse events to collect spending data from visitors, and applying the recommended methodology to assess the economic impact of each event, and c) developing an Economic Impact Calculator Tool that city staff and partners can use to estimate the impact of future events.

At an October 2006 committee meeting, OED provided the Driving Strong Economy Council Committee (former name of Community and Economic Development Committee) with an update on the project's progress. Based on feedback received, the current agreement with SportsEconomics, is being augmented to include an additional survey from Vietnamese Spring Festival & Parade (Feb.

18). Three additional surveys are planned for events at HP Pavilion. The additional data collected will further calibrate the Economic Impact Calculator Tool, which will be ready for use by April.

## **ANALYSIS**

### **Economic Impact Methodology**

The methodology recommended by Dr. Daniel Rascher of SportsEconomics is conservative because it only ‘counts’ spending by visitors to San Jose who are in town for the event, not spending by locals. Spending by locals, or by visitors in town for some other reason, may have happened without the event having taken place.

The methodology draws on primary spending data and modeling relationships that come from more than a dozen primary studies conducted in and around the San Jose community on a broad base of events, and on dozens more similar types of events conducted in other regions. San Jose’s methodology and tool will be regularly re-calibrated to ensure continuing accuracy. The methodology has been peer reviewed by independent university-level professors and researchers at the University of South Carolina (see attached letter). It is the opinion of these independent reviewers that, “the resulting study provides a relatively conservative estimate of the total economic impact on the city.” Additionally the letter states “the city and its residents can feel confident that the calculations in this economic impact study are valid.”

### **Survey Results for Six Events**

In order to secure data on visitor spending patterns, SportsEconomics conducted primary surveys of six diverse events held in Downtown San Jose from July-October of 2006. Six events worked collaboratively with the City and SportsEconomics: San Jose Grand Prix, San Jose Jazz Festival, ZeroOne San Jose, San Jose International Mariachi Festival, Tapestry Arts Festival, and Rock n Roll Half Marathon San Jose.

The City and SportsEconomics intentionally picked events that were diverse in terms of their audience, features, locations, and stage of development. The characteristics and spending data from these events will be used as proxies for measuring the impact of other events that happen and could happen throughout the year in San Jose. (While other primary survey work may be funded in the future to update and improve the model, it will not be feasible to conduct primary surveys for every single future event.) More than 3,000 surveys were completed, representing more than 10,000 people.

*Taken together, the economic assessment of these six events show that they generated very considerable economic and fiscal impact for San Jose.* Specifically, the total economic impact of these events was approximately \$74 million, with more than \$1.9 million in new tax revenues. The economic impact resulted in \$44.2 million in increased income for residents and supported 1,280 FTE (full-time equivalent) jobs.

The table below shows key summary measures for each of the six surveyed events (see Exhibit 1-2 in the full report for more detail). Although “Spending by Local Residents/Non-Incremental

Visitors” is not counted as part of true “economic impact” in the methodology recommended by SportsEconomics, it is provided here as an indicator of local/other participation in the event.

	<b>Economic Impact from Outside Visitors</b>	<b>City Fiscal Impact</b>	<b>Spending By Local Residents/Others</b>
Rock n Roll Half Marathon	\$16.4 million	\$554,900	\$5.5 million
San Jose Grand Prix	\$23.6 million	\$559,000	\$19.9 million
San Jose International Mariachi Festival	\$1.5 million	\$22,600	\$16.2 million
San Jose Jazz Festival	\$10.9 million	\$312,400	\$6.1 million
Tapestry Arts Festival	\$12.4 million	\$251,400	\$24.0 million
ZeroOne San Jose	\$9.3 million	\$225,500	\$4.0 million
<b>Total</b>	<b>\$74.1 million</b>	<b>\$1.9 million</b>	<b>\$75.7 million</b>

*Economic Impact from Outside Visitors* includes *direct spending*—dollars spent in the city related to events that otherwise would be spent outside the city’s economy, including spending by non-local visitors and event-related spending by vendors, media, sponsors, and event participants such as performers and teams. This also includes indirect spending—the ‘re-spending’ that results of the direct spending dollars as they circulate through the economy (commonly referred to as the ‘multiplier effect.’)

*City Fiscal Impact* includes the taxes and other revenues that accrue to local government as result of the events’ operations and non-local visitors traveling to the city.

*Spending by Local Residents/Non-Incremental Visitors* is *not* counted as part of true “economic impact” in the methodology recommended by SportsEconomics; it is provided here as an indicator of local/other participation in and support of the events.

### **PUBLIC OUTREACH/INTEREST**

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This memorandum and attached report are being posted to both the Office of Economic Development website ([www.sjeconomy.com](http://www.sjeconomy.com)) and the City of San Jose’s Committee Agenda website ([www.sanjoseca.gov/clerk/CommitteeAgenda/Committee.asp](http://www.sanjoseca.gov/clerk/CommitteeAgenda/Committee.asp)) on Friday, February 9, 2007.

Discussion of the report will occur at Community and Economic Development Committee meeting on February 26, 2007.

### **COORDINATION**

This report has been coordinated with the Budget Office, Finance Department, and Office of Cultural Affairs.

### **FISCAL/POLICY ALIGNMENT**

This project aligns with the City's Economic Strategy #4, "Evolve and Position Downtown as a Unique Creative and Cultural Center of Silicon Valley."

### **CEQA**

CEQA: Exempt.

A handwritten signature in black ink, appearing to read "Paul Krutko", with a long horizontal flourish extending to the right.

PAUL KRUTKO

Director, Office of Economic Development

For questions please contact John Lang, Development Officer, 408-535-8178.

*Attachment: Analysis of the Economic and Fiscal Impact of Cultural and Sporting Events in San Jose: Explanation of Recommended Methodology and Impact Assessment for Six Representative Events by Dr. Daniel Rascher of SportsEconomics, LLC*



SPORT AND ENTERTAINMENT MANAGEMENT  
COLLEGE OF HOSPITALITY, RETAIL AND SPORT MANAGEMENT

February 6, 2007

Les White  
City Manager  
City of San Jose  
200 E. Santa Clara Street  
San Jose, CA 95113

Dear Mr. White:

On behalf of the City of San Jose, California, we have been asked to review *Analysis of the Economic and Fiscal Impact of Cultural and Sporting Events in San Jose: Explanation of Recommended Methodology and Impact Assessment for Six Representative Events*, an economic impact study conducted by SportsEconomics, LLC. The methodology employed adheres to appropriate research practices. Unlike some other studies, this economic impact study utilizes an analysis that provides a more accurate assessment of economic impact. Further, it is one of the few studies to incorporate fiscal impact, which provides greater analysis of the true impact of events on a host community.

According to noted economic impact expert John Crompton, a professor with the Department of Recreation, Park and Tourism Sciences at Texas A&M University, economic impact studies often over-inflate the true economic impact of an event on a host community. Crompton lists in a January, 1995 *Journal of Sport Management* article 11 ways economic impact studies are often manipulated to provide larger, misleading figures. SportsEconomics did not employ any of these faulty methods to inflate the impact of the events on San Jose. The resulting study provides a relatively conservative estimate of the total economic impact on the city.

Importantly, the reviewed study properly assessed and accounted for event attendees to be included in the data analysis. SportsEconomics was careful to remove from the economic impact calculations local residents, time-switchers, casuals, and attendees who were both casuals and time-switchers when determining direct spending. As Crompton noted, only event attendees who reside outside the area of impact, in this case the City of San Jose, should be included in the study. In addition, he noted that time-switchers and casuals should not be included. Including local residents, time-switchers, and casuals would inflate the final economic impact calculation.

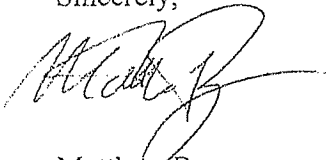
SportsEconomics used multipliers supplied by the Minnesota IMPLAN Group to calculate indirect spending, total economic impact, earnings (income), and employment. The use of these multipliers follows the guidelines for multiplier use established by Crompton. Further, multipliers provided by the Minnesota IMPLAN Group are considered the most appropriate to use when conducting economic impact studies.

One unique and distinctive aspect of this study, which increases its worth, is the inclusion of fiscal impact. A majority of economic impact studies do not include a fiscal impact analysis because of the difficulty of determining appropriate tax rates and fees to apply in the calculations.

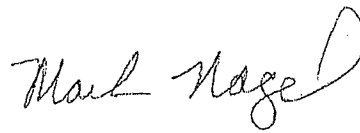
SportsEconomics covers the limitations of this study that affect the economic impact calculation. As noted, limitations related to media expenditures, partially completed survey responses, the removal of locals, time-switchers and casuals, media awareness, and psychic impact will underestimate the true economic impact. The main limitation which results in an overestimation is the exclusion of opportunity costs. As noted by Crompton, measuring opportunity costs of an event are difficult. SportsEconomics addresses known and unknown opportunity costs in section 4.2. To these limitations, SportsEconomics has acted in accordance with industry practice.

Because of the methods employed by SportsEconomics, the city and its residents can feel confident that the calculations in this economic impact study are valid. We appreciate the opportunity to review this study on behalf of the City of San Jose. If you have any questions regarding our analysis, do not hesitate to contact us.

Sincerely,



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