



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Paul Krutko

**SUBJECT: ECONOMIC & FISCAL
IMPACT OF AIRPORT WEST
AND ISTAR DEVELOPMENT PROJECT**

DATE: February 19, 2008

Approved

Date

COUNCIL DISTRICTS: #2 and #3

RECOMMENDATION

Accept the following reports on the Economic and Fiscal Impact of the Proposed Development of the Airport West and iStar Properties:

- A. Market Assessment and Economic Impact Analysis for Proposed Soccer Stadium in the City of San Jose by Dr. Daniel Rascher of SportsEconomics, LLC.*
- B. Fiscal and Economic Impact Analysis of Major League Soccer Stadium Proposal by Economic and Planning Systems, Inc.*

OUTCOME

This memorandum responds to Council's direction on November 6, 2007 to provide an update to Council on the progress made related to the potential return of the Earthquakes Soccer Team to San Jose. Specifically, this memorandum focuses on the early findings related to the Cost Benefit Analysis of revenues and expenses to the City that would arise from the proposed Soccer project that is a part of the development of the Airport West and iStar Properties.

EXECUTIVE SUMMARY

The initial findings from the Economic & Planning Systems (EPS) and SportsEconomics reports show the impact of the development of the Airport West and iStar Properties including a Major League Soccer Stadium has a positive net fiscal benefit to the City and Redevelopment Agency.

Benefits

- Economic impact related to the Construction of the entire project over \$2.0 billion
- Annual economic impact of the Soccer Stadium \$62.3 million
- Annual net fiscal impact to City's General Fund between \$1.8 to \$2.8 million
- Annual net fiscal impact to Redevelopment \$7.7 to \$8.5 million
- Over 14,000 jobs related to construction activity and approximately 5,000 sustained jobs

- Nearly \$850,000 will be generated for arts and cultural program through Transient Occupancy Tax (TOT, 6%)

The community also gains a signature new asset in the form of a new soccer stadium and a Major League Soccer (MLS) Team, including a wider name recognition on a broad scale. According to MLS, the promotional and public relations exposure that a team--and its associated host city--typically receives, with extensive national and international broadcast and print coverage, delivers an audience of 44.7 million impressions worth in excess of \$2.7 million. The additional publicity San Jose receives from the San Jose Earthquakes complements ongoing promotional efforts and supports Council-adopted Economic Development Strategy Initiatives #14: Communicate a Compelling, Consistent Community Identity for San Jose. as well as #12. Encourage Sporting Teams, Events, and Facilities, Professional as well as Amateur., Other impacts benefiting San Jose include:

- Enhanced economic and related private sector development spurred by the operation of the development
- Laying claim to the only soccer franchise in Northern California
- Enhanced sports and recreational opportunities for local citizens
- Synergy with other entertainment facilities, including those operated by Team San Jose, leading to increased tourism activity
- Augmenting San Jose's reputation as a sports, entertainment tourism and commercial destination
- A diversified, fun and affordable entertainment alternatives for families in the local area
- Enhanced community pride, self-image, exposure and reputation

ANALYSIS

Cost Benefit Analysis Element: Economic Impact

Assumptions

As part of their scope of work, EPS was asked to evaluate the economic impacts from the proposed development. The analysis conducted by EPS evaluated three different development scenarios. The three scenarios are summarized below:

- Scenario A: This scenario assumes that both the Airport West and iStar sites are built out as they are currently entitled today: 1.5 million sq. ft. of office/industrial, 75,000 sq. ft. of retail and 300 hotel rooms at Airport West, and 1.0 million sq. ft. of office/industrial and 450,000 sq. ft. of retail at iStar. No Soccer Stadium would be built.
- Scenario B: This scenario assumes that Airport West/iStar are developed as proposed: 1.5 million sq ft of office/industrial, 75,000 sq. ft. of retail, 300 hotel rooms and a Soccer Stadium at Airport West, plus 1,300 units of residential at iStar. This scenario assumes that all of the industrial (1.0 million sq. ft.) and retail (450,000 sq. ft.) job capacity at the iStar site will transfer to the old Edenvale area of the City.
- Scenario C: This scenario assumes that Airport West is developed as proposed: 1.5 million sq. ft. of office/industrial, 75,000 sq. ft. of retail, 300 hotel rooms and

a Soccer Stadium at Airport West, plus 1,300 units of residential at iStar. This scenario assumes that all of the industrial job capacity will transfer to old Edenvale and none of the retail capacity will be retained.

City staff and Hexagon Transportation Consultants have determined that there is capacity within old Edenvale to shift all of the industrial job capacity off the iStar site. City staff are currently working with Hexagon Transportation Consultants to determine how much of the 450,000 square feet of retail job capacity at iStar could be shifted to old Edenvale. Thus, EPS was asked by the Office of Economic Development (OED) staff to evaluate Scenario C. It is important to note that prior to 2004, the iStar Property was entitled for 1.5 million square feet of industrial development only. The owners applied for and received a rezoning of the site in 2004 that added 450,000 square feet of retail capacity to the iStar site and intensified industrial capacity in new Edenvale area. Economic Development staff engaged the brokerage community about the feasibility of retail development at iStar and the initial feedback indicates that the site has some challenges for retail, in particular due to limited access to the site.

Economic Impact

Economic Impact focuses on not only the direct income, spending and jobs associated with the development but also measures how those dollars flow through the economy, generating multiplier effects. EPS calculated the Economic Impact associated with the construction of the stadium, hotel, office space, retail space, and residential development.

Economic Impact of Construction Activity

	Scenario A	Scenario B	Scenario C
Economic Impact	\$1,328,550,000	\$2,158,162,000	\$2,027,662,000

(Attachment B, table 8)

A second firm, SportsEconomics' focus was on estimating the economic impact of the proposed Soccer Stadium once operational after construction. The economic methodology employed by SportsEconomics is the same conservative approach that was approved by the City Council for events in February 2007. The methodology only counts spending by visitors to San Jose who are in town for the stadium event, not spending by local residents. The spending figures employed in the model were based upon surveys conducted at more than a dozen events by SportsEconomics since 2006.

SportsEconomics conducted extensive market research on six other soccer-specific stadiums built recently to develop benchmarks on the number of events and attendees that could be expected at a San Jose soccer-specific stadium. The Economic Impact findings are based upon a static analysis approach for a single year, as the stadium exists after it is built and does not include the impacts related to construction of the stadium.

The table below shows key summary measures of the Stadium at build out (see attachment A).

Summary Table	Single Year
Number of Events ¹	41 (20 Soccer Events, 21 non-soccer)
Estimated Annual Attendance ²	520,500
Relevant Visitors ²	261,300
Total Annual Economic Impact³	\$62.3 million
Total Annual Fiscal Impact to the City ⁴	\$1.6 million

COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE

Date: February 19, 2008

Subject: Economic & Fiscal Impact of Proposed Soccer Project

Page: 4 of 9

¹ Attachment A, Exhibit 5-1

² Attachment A, Exhibit 6-2, attendance was derived by using an average utilization rate of 64% for all events.

³ Attachment A, Exhibit 6-5

⁴ Attachment A, Exhibit 6-7

The annual economic impact of \$62.3 million dollars reflects both direct and indirect spending by non-locals. The direct spending, \$38.7 million reflects the spending that is occurring within the stadium on tickets, merchandise, food & beverage as well as facility related expenditures related to sponsorships, employee payroll, and television and finally spending that occurs outside the facility by patrons; hotels, parking, and transportation. The indirect spending, also known as the multiplier effect, adds another \$23.6 million of spending in the community.

Job Impacts

Employment Impacts from Construction (One-Time Effect)

	Scenario A	Scenario B	Scenario C
Direct Construction Employment	8,900	14,500	13,700
Associated Wages	\$541,533,000	\$879,693,000	\$826,500,000
Indirect Employment (Multiplier)	3,900	6,300	5,900
Associated Wages	\$316,354,000	\$513,900,000	\$482,826,000

(Attachment B, table 8)

The number of new sustained jobs that will result from the full build out of the proposed project is approximately 5,000. In Scenario B the number of new jobs, 6,000, increases substantially from Scenario A, 5,400, because of increased industrial densities that result from shifting the job capacity. However, in Scenario C, the number of jobs, 4,900 decreases from Scenario B because retail job capacity located at iStar is assumed not to transfer. As mentioned previously, city staff and Hexagon Transportation consultants are evaluating how much of the retail capacity can actually be shifted to the rest of old Edenvale.

In order to calculate the annual salaries related to jobs, staff adopted the same methodology that the California Employment Development Department (EDD) uses to determine the type of jobs that a proposed development would generate. Staff used the Occupational Employment Statistics (OES) job pattern data to determine the various salaries specific to Santa Clara County jobs. The following is a breakdown of jobs by salary category.

Number of Jobs by Salary Categories

Annual Salary Category	Scenario A	Scenario B	Scenario C
\$1-\$19,999	300	300	200
\$20,000-39,999	1,700	2,000	1,600
\$40,000-59,999	1,100	1,300	1,000
\$60,000-79,999	700	700	600
\$80,000 +	1,600	1,800	1,500
Total Jobs	5,400	6,100	4,900

Sources: Economic & Planning Systems, Inc (Job estimates), EDD, OES Employment and Wages by Occupation, 1st Quarter 2007 Santa Clara County.

Assuming the average household is between 1-2 persons, and that workers taking these jobs do not already have their housing needs met, this translates into a need of 410 (Scenario C) to 510 (Scenario B) ELI units.

Cost Benefit Analysis Element: Fiscal Impact

EPS also calculated the Fiscal Impacts of the proposed project under all three scenarios. The table below summarizes the net fiscal impact to the City of the three development scenarios.

A summary of the Fiscal Impact Analysis (see Attachment B).

	Scenario A	Scenario B	Scenario C
Total General Fund Revenue ¹	\$3,922,000	\$5,161,000	\$3,948,000
Total General Fund Expenditures ²	\$916,000	\$2,273,000	\$2,070,000
Net Annual Fiscal Impact General Fund	\$3,006,000	\$2,888,000	\$1,878,000
Net Tax Increment to Redevelopment	\$3,568,000	\$8,527,000	\$7,732,000
Housing Set-Aside Revenues	\$1,134,000	\$2,710,000	\$2,457,000
Net Impact to Redevelopment	\$4,702,000	\$11,237,000	\$10,189,000
Total Revenue to the City	\$7,708,000	\$14,125,000	\$12,067,000
Estimated Construction & Conveyance Tax (One-time)³	\$3.4 million		

(Source: Attachment B, Table 2)

¹ Revenues Include: Property Tax, Possessory Interest Tax, Sales Tax, Transit Occupancy Tax, Franchise Fees, Utility tax, Business Tax, VLF Fees and Conveyance Tax.

² Expenses Include: General Government, Public Safety, Capital Maintenance, Community Services.

³ Only a small portion of Construction & Conveyance Tax revenue goes to the general fund.

It should be noted that in both Scenarios B and C that General Fund expenses related specifically to the iStar residential development exceed the General Fund revenue. There are two important comments related to this. First, the resulting revenue received from Airport West and the transfer of industrial job capacity to Edenvale result in a positive net fiscal impact for the whole project under all three development scenarios. Second, the static analysis estimates Construction &

Conveyance Tax associated with the project to be \$3.4 million. The second phase of the Cost Benefit analysis will account for this revenue impact in more detail.

In addition, comparing the net fiscal impact of the proposed soccer project to the current revenue received from both development sites demonstrates that the current sites are under developed and there exists a significant opportunity to intensify the existing development at both sites, increasing the fiscal yield to the City.

Current Revenue to the City from each Site

	Airport West	iStar
Current Revenue ¹	\$38,000	\$35,000

¹Revenues Include: Property Tax, Sales Tax, Rent, Utility Tax and Business Tax. Source: GRIP database

Cost Benefit Analysis Element: Other Impacts

Schools Analysis

In addition to evaluating the three development scenarios, EPS was also asked to determine the net impact to the local school district as a result of the proposed residential development at iStar (3,600 new residents).

Impact to Schools

- Residential development at iStar is expected to generate about 240 elementary students, 60 intermediate students and between 120-180 high school students.
- Residential development at iStar is expected to generate the need for 9-10 elementary school classrooms, 2-3 intermediate school classrooms and 4-6 high school classrooms.
- There is no existing capacity currently at either Santa Teresa Elementary or Bernal Intermediate School attendance areas.

The City is not required to mandate production of schools or classrooms. However, the residential development at iStar would trigger school development fees to be paid directly to the school district before a building permit could be issued by the City. These fees are supposed to be used by the district to add capacity through the construction of new classrooms or schools.

Neighborhood Impacts

A transportation analysis by Hexagon Transportation Consultants and the Environmental Impact Report (EIR) is being conducted. Results will be released later in 2008. An analysis of the San Jose Public Library Master Plan 2020 shows that the addition of 3,600 new residents can be accommodated by the area served by the Santa Teresa, Edenvale and Seven Trees Branches.

BACKGROUND

On June 12, 2007 the San Jose City Council entered into a Memorandum of Understanding (MOU) with Fisher, Wolff, Storm & Hunter (FWSH) Partners. The MOU was established to explore the development of Airport West (the former FMC site), including the construction of a Soccer Stadium, and the possible conversion of the iStar Property, located at Hwy 85 and Cottle

Road from an Industrial Park General Plan Land Use Designation as proposed by FWSH Partners; FWSH Partners also has proposed to utilize any resulting revenues from that land re-designation to supply some of the finances needed to develop a Soccer Stadium in San Jose. The City is discussing with FWSH Partners the possibility of locating the Soccer Stadium at the former FMC site (Airport West).

On October 22, 2007, staff recommended and the Community and Economic Development Committee approved a time extension to continue to negotiate with the Developer to June 30, 2008.

The San Jose City Council approved a Cost Benefit Analysis pilot program on April 3, 2007 and expanded the program to include additional elements proposed by the Sunshine Reform Task Force (SRTF) on August 28, 2007. Due to the complexity of the Airport West and iStar project and at the request of Council, this proposal will be the first project to be evaluated under the adopted Pilot Cost Benefit Analysis Program. The four component elements in the Pilot Program include Fiscal Impact Analysis, Economic Impact Analysis, Other Impact Analysis, and Accountability. The Office of Economic Development's approach to conducting the analysis has two separate phases. The first phase and the focus of this memorandum is to conduct a static economic and fiscal impact analysis of the Airport West and iStar development. A static analysis represents a single snapshot in time after the project is completely built out. A static analysis does not consider costs and revenues that occur over time, adjusted for the time value of money. The static analysis, however, will help inform and draw out issues that need to be evaluated further through the dynamic analysis. The second phase of the analysis will take the findings and feedback from the static analysis to conduct a dynamic, time-value-of-money analysis. A dynamic analysis will evaluate the long-term revenue and expenses to the city, and economic impact on the community, resulting from the development. The second phase of the analysis is expected to be complete by June 2008 and any findings that are materially different will come back to the Community and Economic Development Committee for further consideration.

The consultant scope of work included evaluating the fiscal and economic impacts associated with the development at both the Airport West site and iStar site as well as evaluating the impact to schools near iStar and the transfer of the retail and industrial job capacity to the rest of old Edenvale Redevelopment Area. In order to estimate the economic and fiscal impact of the total project, the Office of Economic Development issued a Request for Proposals (RFP) for consultant services. Economic and Planning Systems (EPS) was selected as the firm that most closely met the evaluation criteria. In addition to retaining EPS to conduct the economic and fiscal impact analysis of the proposed project, the Office of Economic Development retained SportsEconomics to conduct an economic impact analysis of the soccer stadium and team-related business. Both EPS and SportsEconomics have completed the first phase of their analysis.

EVALUATION AND FOLLOW-UP

The next step for the project is for EPS to work with City Staff and the Project Developers to determine timelines to produce the dynamic analysis. The dynamic analysis is expected to be completed by June 2008. Should the findings from the dynamic analysis differ significantly

from the initial static findings, the reports will be brought back to Community and Economic Development Committee for further consideration in June 2008.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
(Required: Website Posting)
- Criterion 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)**
- Criterion 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 reports are being posted to the Office of Economic Development website (www.sjeconomy.com) on February 19, 2008.

Discussion of both reports will occur at Community and Economic Development Committee meeting on February 25, 2008.

COORDINATION

The Economic and Fiscal Impact findings have been coordinated with the Redevelopment Agency; Parks, Recreation & Neighborhood Services; Fire Department; Finance Department; Planning, Building & Code Enforcement; Library Department; Public Works Department and the Economic Development CSA. This memorandum has been coordinated with the Attorneys Office, Department of Transportation and the Redevelopment Agency.

FISCAL/POLICY ALIGNMENT

The Economic and Fiscal Impact analysis aligns to the Sunshine Reform Task Force Cost Benefit Analysis Pilot Program. In addition, this project aligns with the City's Economic Development Strategy #12, "Encourage Sporting Teams, Events, and Facilities, Professional as well as Amateur" and Strategy #13, "Develop Retail to Full Potential, Maximizing Revenue Impact and Neighborhood Livability."

COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE

Date: February 19, 2008

Subject: Economic & Fiscal Impact of Proposed Soccer Project

Page: 9 of 9

CEQA

CEQA: Not a Project

A handwritten signature in black ink that reads "Paul Krutko" with a stylized arrow-like flourish at the end of the last name.

PAUL KRUTKO
Chief Development Officer

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

Attachments: Market Assessment and Economic Impact Analysis for Proposed Soccer Stadium in the City of San Jose by Dr. Daniel Rascher of SportsEconomics, LLC. Fiscal and Economic Impact Analysis of Major League Soccer Stadium Proposal by Economic and Planning Systems, Inc.