

JANUARY 2010

**THE THRESHOLD REPORT:
AN INITIAL ECONOMIC ANALYSIS
OF A NEW ENTERTAINMENT & SPORTS
COMPLEX**

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KEY THRESHOLD QUESTIONS

This initial economic analysis is intended to address three key threshold questions regarding the potential economic impact that the construction and operations of an entertainment and sports complex can have in Sacramento, California:

- (1) How many jobs can be created?
- (2) How much immediate economic activity can be generated?
- (3) Have other cities, with similarities to Sacramento, seen such a facility serve as a larger, long-term economic catalyst?

This analysis considers the current economic climate in the Sacramento region and identifies the areas where a stimulus can help boost the economy using conservative assumptions.

EXECUTIVE SUMMARY

As described in this report, an entertainment and sports complex creates jobs, generates economic benefits, and can serve as a catalyst for long-term economic growth in community in which such a facility is located. ***The key finding of this Threshold Report is that an entertainment and sports complex has the potential to be a significant job producer and economic catalyst for Sacramento, which is especially important given the region's current job crisis and need for economic stimulus. Economic activity of this magnitude is always important, but with 12.7% unemployment, the ability to generate over 4,000 jobs represents the type of development activity needed to help stimulate the economy immediately and create a platform for sustained economic growth.*** Specifically, this study estimates that an entertainment and sports complex will:

- Create 4,095 total jobs
 - ⇒ 3,720 jobs during the construction phase (2,130 direct and 1,590 indirect and induced), with 1,302 in the City of Sacramento.
 - ⇒ 375 additional jobs during ongoing operations (217 direct and 158 indirect and induced), above jobs already in existence at ARCO Arena, with 229 in the City of Sacramento.
- Generate \$556 million in total spending and \$11.3 million in fiscal benefits to government agencies during the construction period.
 - ⇒ \$300 million in direct spending, with \$105 million in the City of Sacramento.
 - ⇒ \$231 million in indirect and induced spending, with \$81 million in the City of Sacramento.
 - ⇒ \$2.3 million in fiscal benefits to local government agencies.
- Generate \$25 million in total annual spending and \$775,000 in annual fiscal benefits to government agencies during ongoing operations, above the jobs already in existence at ARCO Arena.
 - ⇒ \$13.6 million in annual direct spending, with \$8.3 million in the City of Sacramento.
 - ⇒ \$11.5 million in annual indirect and induced spending, with \$7 million in the City of Sacramento.
 - ⇒ \$161,000 in annual fiscal benefits to local government agencies.

Furthermore, other cities, with similarities to Sacramento, have benefitted from the existence of entertainment and sports facilities, and when strategically located, such facilities have spurred economic growth beyond the facility itself.

BACKGROUND INFORMATION

Information provided in this study is based on both independent research and data and analysis completed for other recent studies pertaining to such a facility. The results of this analysis should be considered preliminary in nature and used simply as a guide to understanding the magnitude of the economic benefits that the development of this type of facility can generate. A comprehensive analysis should be completed once an actual site is identified, as well as when additional information is available related to the type of facility that will be designed. The main purpose of this study is to consider the current economic challenges being faced in the Sacramento region and to determine whether the construction of an entertainment and sports complex can create jobs in the short-term and provide economic stimulus to help support the region's economy.

The analysis portion of this study has been broken down into two main parts. Part 1 will address the economic benefits and jobs created as a result of the construction of a new entertainment and sports complex. This part will essentially address the short-term job gains and potential for economic stimulus. Part 2 will address the benefits of the operations of an entertainment and sports complex, using case studies of arena operations and impacts in other locations. Furthermore, this report will provide a description of other economic benefits that can be realized through the construction of an entertainment and sports complex.

Direct Versus Indirect Impacts

The economic analysis utilizes some specific and defined economic terms and principles in order to determine the true effect of the construction and operations of an entertainment and sports complex. One of those economic principals is related to the direct versus indirect impacts and how they are quantified.

The total direct spending associated with the construction and operations of a new entertainment and sports complex and direct support businesses, on an incremental basis, are referred to as "direct economic impacts".

As this spending takes place in the local and regional economy it represents revenue to the new entertainment and sports complex and to area restaurants, shops and other retail establishments. These entities, in turn, spend this revenue for various goods and services both inside and outside the local and state economies. Further, the employees who work for these businesses spend a portion of their income in the local and state economies. As this additional spending occurs, referred to as "second-round spending," it becomes income to other entities which in turn re-spend that money. In each round of

spending, some money stays in the local economies and some “leaks” to outside economies. The sum of these secondary rounds of spending is collectively referred to as “indirect economic impact” and the process is referred to as the “multiplier effect”.

Gross Versus Net Impacts

Additionally, there is the issue of whether these impacts, or this spending, is all net new spending in the respective economies or whether some of it is a transfer of spending from one part of the local economy to another. This is sometimes referred to as the “substitution effect”. It is measured by estimating the percentage of local versus non-local sources of spending for all spectator expenditures (tickets, food and beverage, lodging, etc.) and for other corporate spending (e.g., advertising, sponsorships, premium seating, media rights). The “local percentage” is then applied to estimate the amount of the substitution or transfer with the balance being the net economic impact.

Also, the analytical approach to this analysis will focus on the incremental impacts resulting from the operations of a new arena, net of the current annual impacts of ARCO Arena. The existing arena already garners economic benefits which should be accounted for.

Economic Multipliers

There are a variety of multiplier modeling techniques available that can be used to estimate the economic benefit and jobs created based on the total construction cost and ongoing operational revenue generated from a particular facility. These models produce only estimates and are subject to the accuracy of the underlying assumptions.

The economic impacts resulting from the calculations that utilize the economic multipliers only capture a portion of the economic benefits of various projects. It is also important to consider how the construction project and future operations of the facility support ongoing economic activity once the project is complete.

Facility Location

When estimating economic benefits of a facility, the actual location of such a facility and the nearby development, or potential for nearby development, can drastically affect the true economic impacts and fiscal benefits of a facility. As this study is not site-specific, many of these economic benefits have not been quantified, however, case studies are provided to provide examples of how such facilities can stimulate real estate development and lead to further economic benefits to a community

THE SACRAMENTO REGION

Location

The Sacramento region is made up of six counties – El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba. It is home to California's capital city, Sacramento, which is situated at the confluence of the American and Sacramento Rivers, located in the north-central portion of the state. This central location provides convenient access through major highways and freeways to other large metropolitan areas including San Francisco (87 miles west); Reno, Nevada (135 miles northeast); and Los Angeles (385 miles southwest).





Planning and development is underway to enhance the potential of the Sacramento River, located just west of downtown Sacramento, through a revitalization process. Furthermore, improvements are planned for a transportation hub in an area just north of



downtown Sacramento. The location of Sacramento, as the state capitol of the fifth largest economy in the world, and at the intersection of major thoroughfares makes it a prime location for businesses.

ARCO Arena serves the Sacramento region as the major entertainment destination, hosting nearly 200 events and accommodating approximately 2 million visitors annually. The arena is home to the Sacramento Kings of the National Basketball Association ("NBA"), and a wide variety of additional sports and entertainment. The Kings came to Sacramento in 1985 and were initially housed in the original ARCO Arena. After three seasons in that arena, the Kings moved to the current ARCO Arena in 1988. ARCO Arena adds to the local

economy by employing as many as 1,200 full- and part-time workers during the basketball season alone.

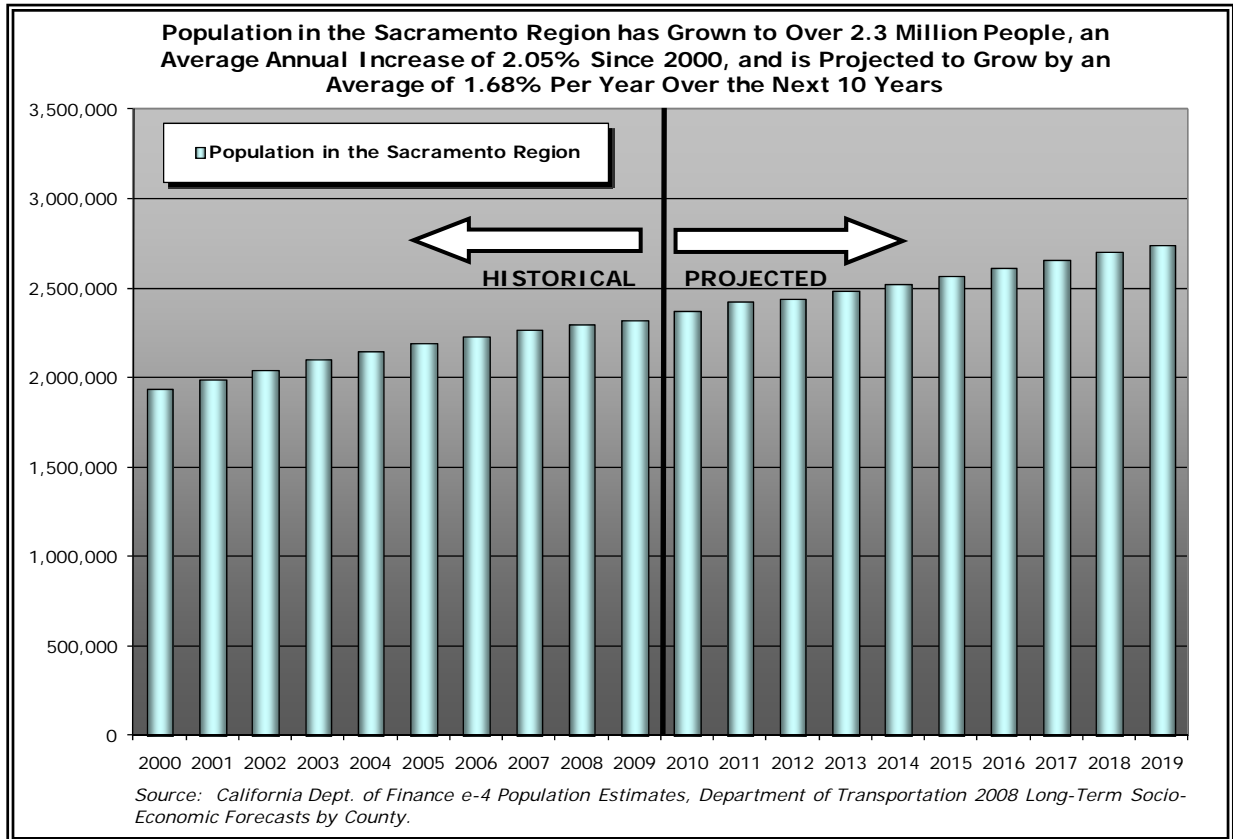
The Sacramento community has developed an identity and source of pride through the existence of the Sacramento Kings since 1985. The Kings have two of the highest consecutive sellout streaks in NBA history. The Kings sold out 497 games beginning with the first game in Sacramento until the 1996-97 season. Then, ARCO Arena hosted 354 consecutive sellouts from the 1999-00 season until the final regular season game of the 2006-07 season. With this high level of support, it is clear that the Sacramento community considers the Kings a source of community pride.



In addition to the Kings, other nationally televised events have been held at ARCO arena. Such events include National Collegiate Athletic Association ("NCAA"), Professional Bull Riders Ultimate Fighting Championship ("UFC"), and World Extreme Cagefighting ("WEC"), among others. Such nationally televised events create media exposure for the City of Sacramento and promotes tourism which benefits the economy.

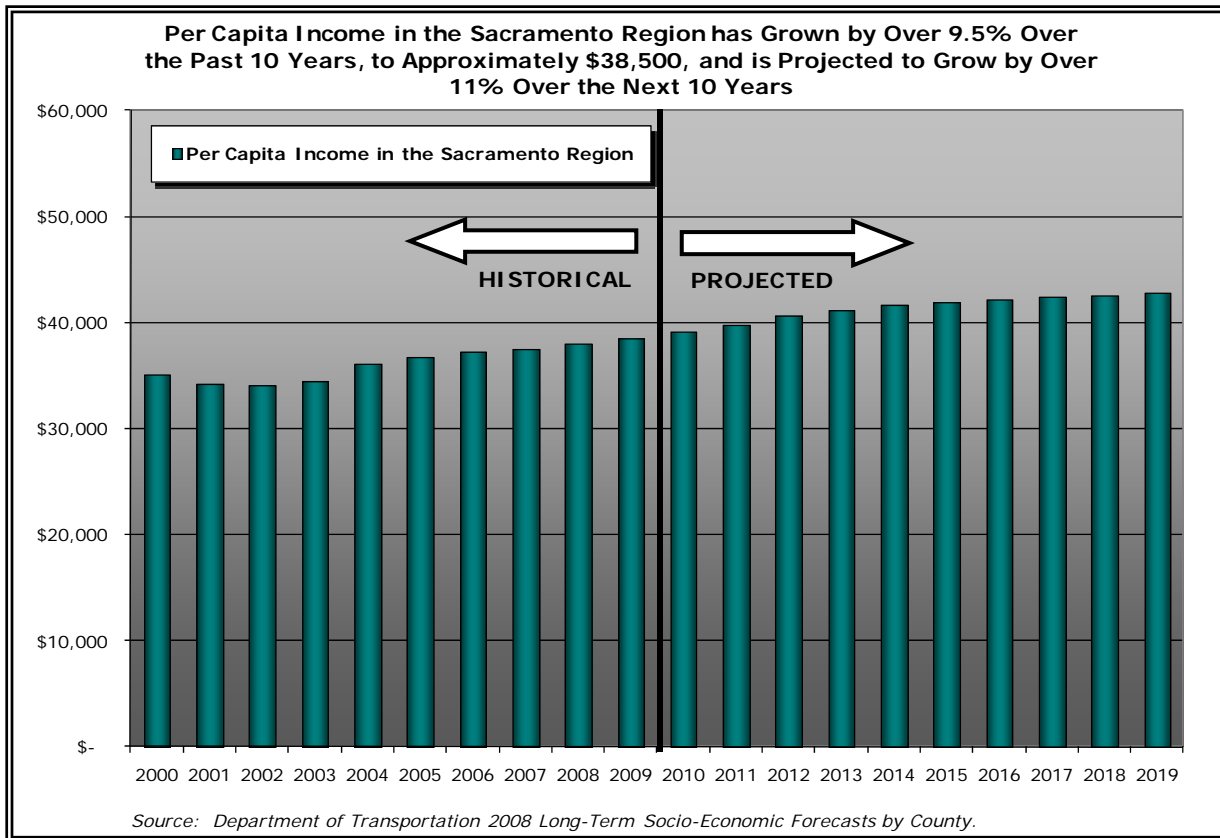
Demographics

This six county Sacramento region is the main population that will use and enjoy an entertainment and sports complex. Over the past 10 years, the total population in the Sacramento region has increased to more than 2.3 million people and is projected to grow to over 2.7 million within the next 10 years.



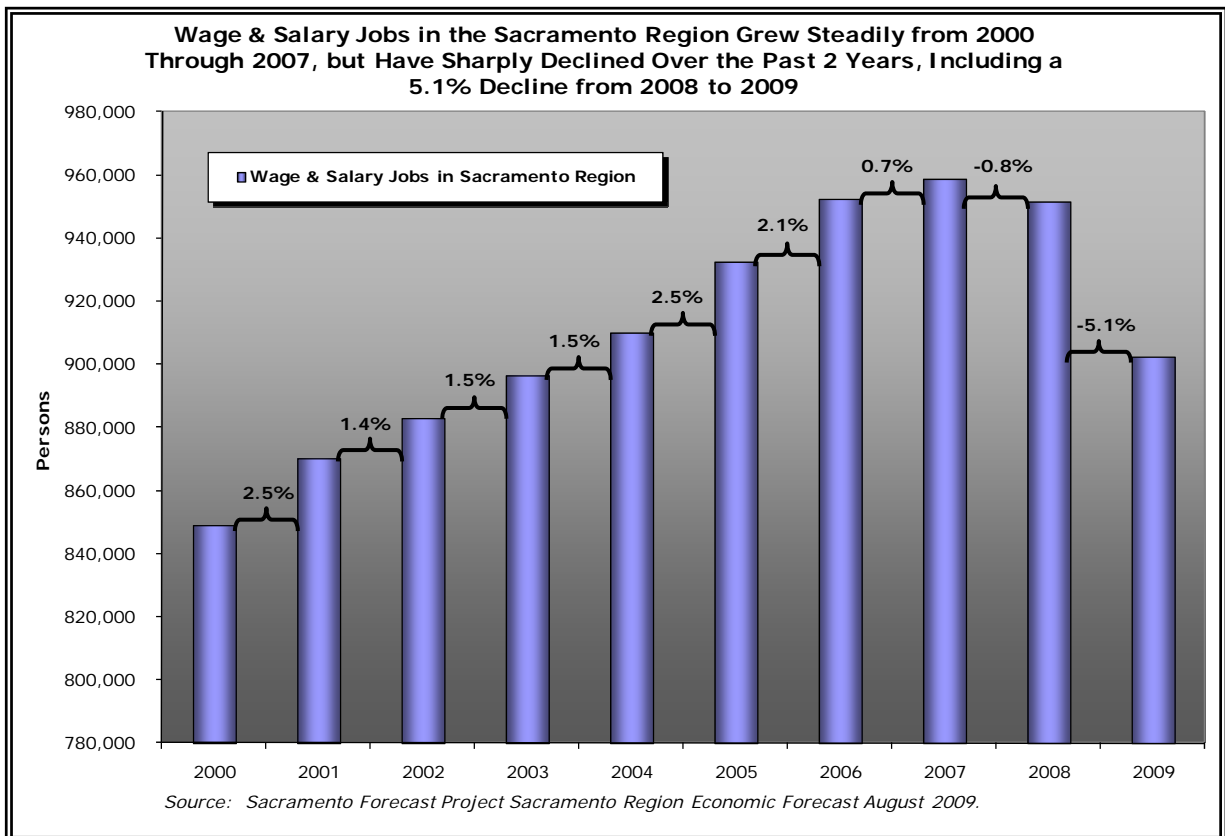
The population of the City of Sacramento alone is approximately 460,000 people and ranks 37th in the country. When considering the Sacramento region compared to other regions in the United States, the Sacramento region's population would rank at about 25th overall.

Per capita income in the Region is at \$38,500, and has grown over 9.5% over the past 10 years. Furthermore, the per capita income is projected to increase to almost \$43,000 over the next ten years.



Business Climate and Workforce

Job growth in the Sacramento region has been slow since the turn of the century, but had not had a decline in the number of jobs since 1992. However, in 2008, the Sacramento region experienced a *decrease* of approximately 0.8%, a *loss* of approximately 7,300 jobs. For 2009, the Sacramento Regional Research Institute ("SRRI") has indicated that as of October 2009, the Region has lost more than 49,000 jobs over the past year, equating to a 5.1% *decline*. A forecast by SRRI shows general improvement in the Region's economy during the next 12 months, but the recovery back to positive job growth on a consistent basis will likely be lengthy.



Only one of the Region's major employment sectors added jobs in the past year, that is the Education and Health Services Sector. The weakest sector was the Construction Sector, which posted annual losses of almost 13,000 jobs, a loss of approximately 19.5%. The Construction Sector is projected to have further job losses between October 2009 and October 2010 which is projected to amount to an additional 24% decline. Plus, overall, the Sacramento region is expected to have a further decline in jobs of about 4.5% in 2010.

One key to improving the Sacramento regional economy will be the creation of new construction jobs. The Construction Sector was clearly the hardest hit during the recent economic downturn, and new jobs created in this sector will provide a short-term stimulus to the Sacramento region and could potentially lay the foundation for sustained economic recovery. Furthermore, the job losses in the Leisure and Hospitality Sector can be addressed for the long-run through the construction of a new entertainment and sports complex.

Major Sector Annual Job Gains & Losses - Sacramento Region

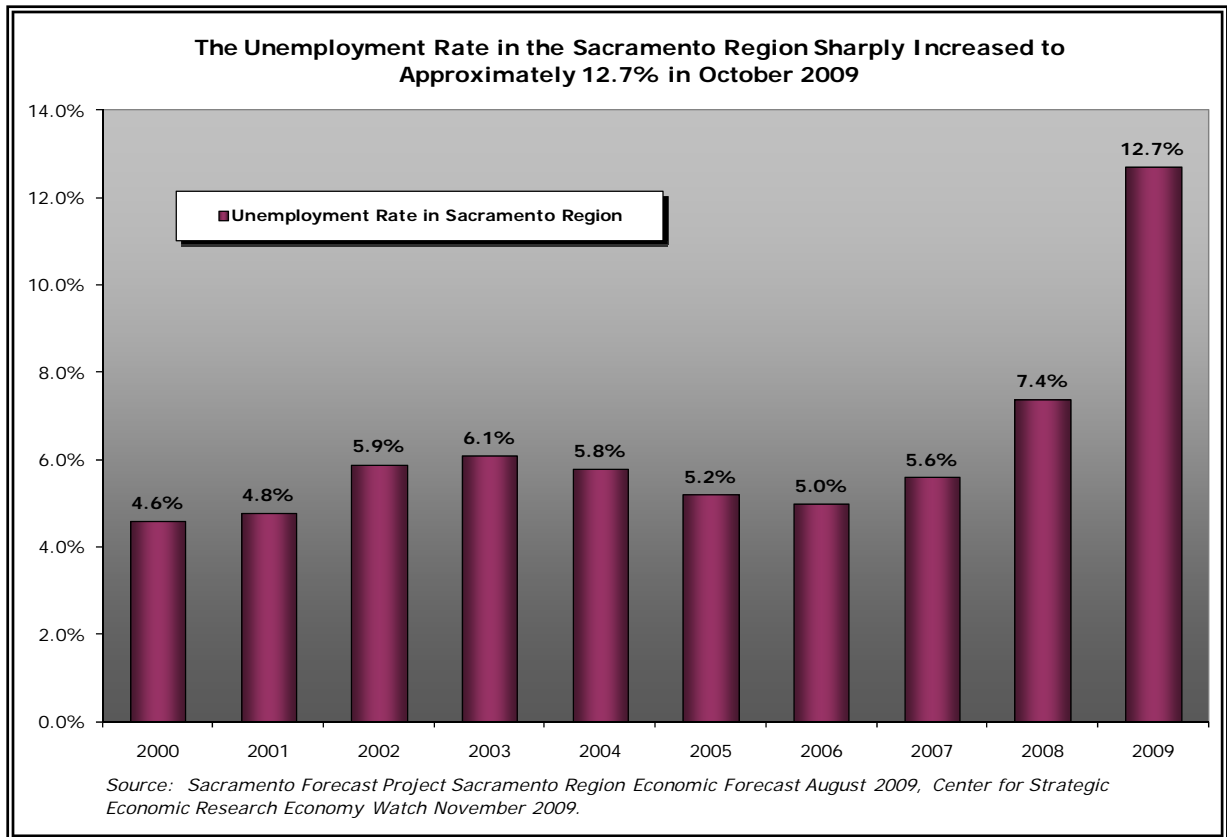
	Job Gain/ (Loss)
Education & Health Services	2,300
Mining & Logging	(100)
Other Services	(500)
Information	(1,700)
Manufacturing	(3,600)
Financial Activities	(3,600)
Government	(4,300)
Leisure & Hospitality	(4,400)
Trade, Transportation & Utilities	(9,800)
Professional & Business Services	(10,700)
Construction	(12,900)

Total Nonfarm (49,300)

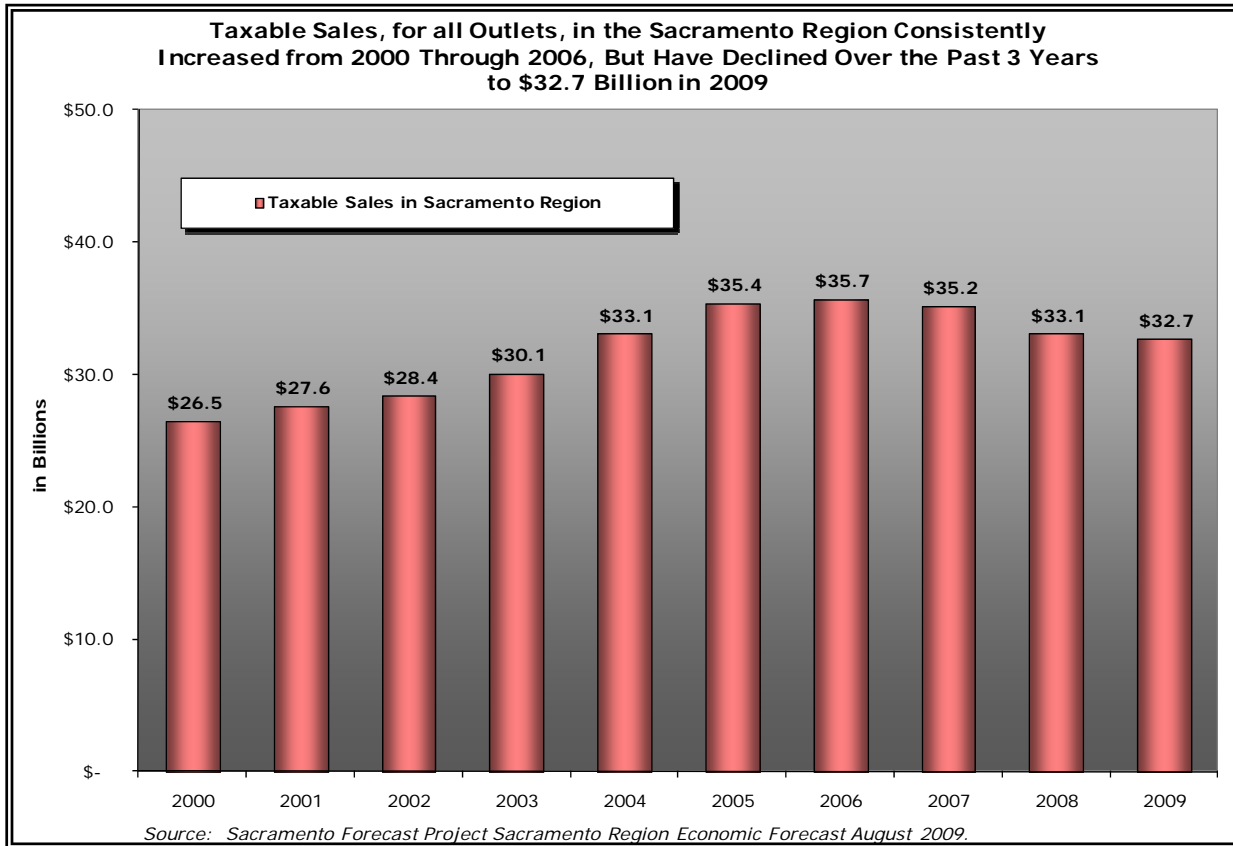
Source: CA Employment Development Department



The Region's unemployment rate saw a large jump in the last year. The average annual unemployment rate for the Sacramento region in 2008 was 7.4%, up from 5.6% in 2007. As of October 2009, the Region's unemployment rate has increased to 12.7%.



Taxable sales for all outlets in the Sacramento region amounted to over \$35.2 billion in 2007, a decline of 1.6% from 2006. For 2008, taxable sales declined by approximately 6%, a \$2.1 billion loss. The forecast for 2009 is for a smaller 1.2% decrease to \$32.7 billion, followed by an increase in taxable sales for 2010.



Major employers in the Sacramento region include Kaiser Permanente, Sutter Health, Raley's/Bel Air, Intel Corporation, and UC Davis Medical Center. A listing of the major employers in the Region are shown in the following table.

Private Sector Major Employers - Sacramento Region		
Company	Industry	# of Local Employees
Sutter Health Sacramento Sierra Region	Healthcare	10,405
Kaiser Permanente	Healthcare	9,319
Raley's	Grocery Retailer	7,565
Intel Corp.	Semiconductors and Related Devices	7,000
UC Davis Health Systems	Healthcare	6,404
Mercy/Catholic Healthcare West	Healthcare	5,119
AT&T California	Telecommunications	4,828
Hewlett-Packard Co.	Computer Hardware Manufacturer	3,800
Target	Retail	3,482
Wells Fargo & Co.	Financial Services	3,167
PRIDE Industries Inc.	Mail and Fulfillment Services; Manufacturing and Logistics	2,776
Health Net Of California, Health Net Federal Services	Healthcare	2,472
Cache Creek Casino Resort	Casino	2,500
Safeway Inc.	Grocery Retailer	2,289
Pacific Gas and Electric Co.	Utility	2,206
Vision Service Plan Inc.	Insurance Agents, Brokers and Servic	1,720
Blue Shield of California	Healthcare	1,696
Aerojet	Aerospace and Defence Manufacturin	1,650
Electronic Data Systems	Computer and Data Processing	1,511
Union Pacific Railroad Co. Inc.	Freight Railroad	1,370

Source: Sacramento Business Journal Top 25 Book of Lists 2007.

Summary and Conclusions

A study completed by ULI Sacramento District Council shows the value that museums, arts venues, sports, and recreation opportunities bring to creating and stimulating a regional economy. According to their research, civic amenities are proven to contribute to economic vitality by making a city or region an attractive business center, sparking urban redevelopment, increasing property values, improving public safety, raising the visibility of a city or region and generating money through tourism. Such civic amenities play an important role in the desire to live in a given area.

The Sacramento region has grown to a population of over 2.3 million people. The people that are already in the Region have expressed an interest in expanding the amenities available. Attracting additional people to the region will create a need to further expand the amenities available. Furthermore, per capita income has continued to rise and is projected to continue increases into the future. As income rises, the community is better able to support recreation and entertainment options provided in the Region.

Although population growth and per capita income growth has continued to rise, the Sacramento region has experienced a significant economic hit over the past two to three years. The number of wage and salary jobs in the region has sharply declined over the past two years, with the largest loss of jobs occurring in the Construction Industry Sector. Furthermore, the unemployment rate has drastically increased to over 12%. The creation of new jobs in the Region and specifically the Construction Industry, which has experienced significant losses, is needed to boost the economic revitalization of the Region.

ANALYSIS PART 1 – ECONOMIC BENEFITS & JOBS CREATED THROUGH CONSTRUCTION

Construction Cost Estimate

The first step to be completed in to estimate the economic benefits and jobs created through the construction of a new arena is to estimate the magnitude and cost of construction. The best way to estimate the type of facility to be constructed and the cost of such construction is to consider the actual cost of facilities recently constructed for the same or a similar purpose.

The primary tenant of an arena to be constructed in Sacramento would be an NBA team - namely the Kings. Therefore, arenas constructed in other cities with an NBA franchise can be used to estimate the scope and costs of an arena. The three most recent arenas constructed which house an NBA franchise are: Memphis, Charlotte, and Orlando (under construction). Furthermore, these three facilities are built in cities with similarities to Sacramento.



Photo: Memphis FedEx Forum.



Photo: Charlotte Time Warner Cable Arena.

In Memphis, the FedEx Forum was constructed with 2 main concourses and over 100 points of sale for concessions and retail items. The facility opened in 2004. In Charlotte, the Time Warner Cable Arena was constructed with seven levels and four concourses. The facility opened in 2005. In Orlando, the Amway Center is currently under construction. The facility is being constructed with multiple concourses and a 15,000 square foot plaza at the main entrance. These modern arena facilities can be used as a guide to estimate the size and cost of a new arena in Sacramento.

The following chart provides a summary of the arena specifications for the three most recently constructed arenas identified above:

Specifications of Recently Constructed Arenas			
	Memphis FedEx Forum	Charlotte Time Warner Cable Arena	Orlando Amway Center (Under Construction)
Year Completed	2004	2005	2010
Square Footage	805,850	780,000	800,000
Basketball Capacity	21,165	19,026	18,500
Total Suites	75	51	60
Total Club Seats	2,500	2,300	1,755
Facility Construction Cost	\$ 230,140,000	\$ 265,000,000	\$ 380,000,000
Cost Per Square Foot	\$ 285.59	\$ 339.74	\$ 475.00

The average square footage of each of the three most recently constructed areas is approximately 795,000 square feet. This average square footage can be used to estimate the square footage of a new arena in Sacramento.

In order to use the actual construction costs from these three facilities to estimate the cost for a Sacramento facility, construction costs should be adjusted for inflation. The following table shows the adjusted construction cost for each of the three facilities, applying the Building Cost Index since each of the facilities was completed.

Adjusted Construction Costs			
	Memphis FedEx Forum	Charlotte Time Warner Cable Arena	Orlando Amway Center (Under Construction)
Inflation Adjusted Facility Construction Cost	\$ 241,417,370	\$ 275,040,670	\$ 380,000,000
Inflation Adjusted Cost Per Square Foot	\$ 299.58	\$ 352.62	\$ 475.00

Based on the adjusted construction costs, the average cost per square foot of these three most recently constructed arenas is approximately \$375. Applying this cost to the average square footage of the three most recent arenas results in an estimated construction cost of approximately \$300 million.

Economic Benefit Analysis

If a similarly constructed arena were to be built in Sacramento, based on the specifications described above, the total cost of construction can be estimated at \$300 million, including on-site infrastructure. This cost does not include land acquisition, environmental, design, off-site infrastructure, financings or legal costs that would be associated with the construction of a new arena. This construction would occur over a 2½ - 3 year period. These construction cost figures are simply an estimate and will be used to provide an idea of the magnitude of the economic benefits generated from the construction of an entertainment and sports complex. Such costs will be adjusted when an actual site has been identified and project design has been completed.

At least two studies have previously been completed that evaluate the economic benefits of a new arena in Sacramento. The first study was commissioned by the City of Sacramento, Union Pacific Railroad and Maloof Sports & Entertainment and completed by the Goal Group, Keyser Marston Associates and SportsEconomics. Their study was completed in March 2002 and evaluated the economic benefits and jobs created by an arena to be constructed in both the Downtown Sacramento area and next to the current ARCO Arena. A second study was commissioned by the National Basketball Association and completed by Economics Research Associates in February 2009 for an arena to be constructed in the Cal Expo area. Both of these studies used economic multipliers to estimate the economic benefits of new arena construction.

Using the estimated construction costs previously identified and considering the estimates calculated in the previous two studies, the economic benefits and jobs created from the construction of a new arena can be estimated using commonly accepted economic multipliers.

As shown in the following table, the total direct construction expenditures of \$300 million will create approximately \$84 million in employee compensation and approximately 2,130 jobs. When considering indirect and induced economic expenditures, a new arena will generate approximately \$531 million in total spending, \$149 million in employee compensation and approximately 3,720 new jobs, based on the IMPLAN multiplier model. IMPLAN is an economic multiplier model that quantifies the interactions between industries within an economy. The IMPLAN model was selected for this analysis because it is relatively conservative when compared to other models available. The acronym stands for "Impact Analysis and Planning".

Gross Construction Economic Impact			
	Estimated Spending	Estimated Employee Compensation	Estimated Jobs
Direct Economic Impact	\$ 300,000,000	\$ 84,000,000	2,130
Indirect/Induced Economic Impact	\$ 231,090,300	\$ 64,705,284	1,590
Total Gross Economic Impact	\$531,090,300	\$ 148,705,284	3,720

Source: Employee compensation estimates are based on other similar large construction projects. Indirect and induced impacts are based on multipliers contained on the IMPLAN input-output model.

The gross construction impacts identified above, are estimated for the project as a whole, however, only a portion of the spending is new to the Sacramento region and specifically the City of Sacramento itself. For the purposes of this analysis, the City of Sacramento is considered to be the lead agency. Although the entire six county Sacramento region will benefit, use and enjoy an entertainment and sports complex, in order to determine economic benefit, it is important to isolate the specific locality that will make financial decision and serve the facility. In this case, we have assumed that the City of Sacramento will be the lead agency and will be responsible for serving a new entertainment and sports complex in Sacramento. As such, the new economic impact specifically on the City of Sacramento and its residents has been quantified and identified as "net" impacts. Again, as this analysis is only preliminary in nature, as more details are confirmed regarding location and financing arrangements, this can be changed or updated.

Of the total direct expenditures, approximately \$105 million is net spending, resulting in approximately \$29.4 million in employee compensation and 746 jobs for Sacramento residents. When considering indirect and induced economic expenditures, approximately \$186 million is net spending, resulting in approximately \$52 million in employee compensation and 1,302 jobs for Sacramento residents.

Net Construction Economic Impact			
	Estimated Spending	Estimated Employee Compensation	Estimated Jobs
Direct Economic Impact	\$ 105,000,000	\$ 29,400,000	746
Indirect/Induced Economic Impact	\$ 80,881,605	\$ 22,646,849	557
Total Net Economic Impact	\$185,881,605	\$ 52,046,849	1,302

Source: Employee compensation estimates are based on other similar large construction projects. Indirect and induced impacts are based on multipliers contained on the IMPLAN input-output model.

Fiscal Benefits of Project Construction

The direct economic impacts of a new arena will create tax revenue for the State of California and various local government agencies, including the City and County of Sacramento. Construction spending is estimated to generate over \$11 million in tax revenue, approximately \$2.3 million of which will benefit local government in the Sacramento area.

Fiscal Benefits from Project Construction			
	Sales and Occupancy Tax	Income Tax	Total
Local Tax Receipts	\$ 2,342,108	\$ -	\$ 2,342,108
State Tax Receipts	\$ 8,030,085	\$ 951,714	\$ 8,981,799
	\$ 10,372,194	\$ 951,714	\$ 11,323,907

Summary of Construction Economic Benefits

The Construction industry in the Sacramento region has experienced a sharp decline in availability of jobs over the past 2 years, losing approximately 13,000 jobs over the last year alone. The outlook for the Region is that job growth for most major sectors will be slow to recover, but will be headed in a positive direction over the next year. However, the Construction Sector is forecast to have a further decline in the number of jobs, losing an additional 24.5%. With the 12.7% unemployment rate, an influx in the number of jobs available is essential to the recovery in the region. The construction of a new arena would create approximately 3,720 jobs, approximately 1,302 of which would be for City of Sacramento residents. One of the main benefits of such a construction project is the jobs created through such an endeavor.

Furthermore, the economic spending and fiscal benefits to the local government can provide a stimulus effect to the region and aid in the development or redevelopment of the location selected for an entertainment and sports complex.

ANALYSIS PART 2 – ECONOMIC BENEFITS & JOBS CREATED THROUGH OPERATIONS

Operations Revenue Estimates

For an analysis of a facility that would, in theory, be constructed to replace a facility that is already in operation, the economic benefits of operational revenue should only consider revenue generated in addition to revenue generated from the current facility. Based on information from Maloof Sports and Entertainment, a new entertainment and sports complex will generate approximately \$13.7 million more in annual revenue than the existing ARCO Arena due to the addition of lower-level seating, premium club seating, and additional suites. Plus, new facilities are designed with greater opportunities for additional points of sale for concessions and merchandise which generate additional operational revenue.

Economic Benefit Analysis

The \$13.7 million in estimated additional annual operational spending that can be generated from a new entertainment and sports complex, will directly create approximately \$5.4 million in employee compensation and create approximately 217 new jobs. When considering indirect and induced economic expenditures, a new arena will generate approximately \$25 million in additional annual spending, \$10 million in employee compensation and approximately 375 new jobs.

Gross Operations Economic Impact			
	Estimated Additional Spending	Estimated Additional Employee Compensation	Estimated Additional Jobs
Direct Economic Impact	\$ 13,655,000	\$ 5,462,000	217
Indirect/Induced Economic Impact	\$ 11,519,904	\$ 4,607,962	158
Total Gross Economic Impact	\$ 25,174,904	\$ 10,069,962	375
<i>Source: Estimates for additional operational spending provided by Maloof Sports & Entertainment and included in a study by Economics Research Associates in February 2009. Indirect and induced impacts are based on multipliers contained on the IMPLAN input-output model.</i>			

Of the total additional direct operational expenditures, approximately \$8.3 million will be gross expenditures, generating approximately \$3.3 million in employee compensation and 133 jobs for Sacramento residents. When considering indirect and induced economic expenditures, a new arena will generate approximately \$15 million in additional annual spending, \$6 million in additional employee compensation and approximately 229 new jobs for Sacramento residents.

Net Operations Economic Impact			
	Estimated Additional Spending	Estimated Additional Employee Compensation	Estimated Additional Jobs
Direct Economic Impact	\$ 8,329,550	\$ 3,331,820	133
Indirect/Induced Economic Impact	\$ 7,027,142	\$ 2,810,857	96
Total Net Economic Impact	\$ 15,356,692	\$ 6,142,677	229

Source: Estimates for additional operational spending provided by Maloof Sports & Entertainment and included in a study by Economics Research Associates in February 2009. Indirect and induced impacts are based on multipliers contained on the IMPLAN input-output model.

Fiscal Benefits of Project Operations

The direct economic impacts of the operations of an arena will create tax revenue for the State of California and various local government agencies, including the City and County of Sacramento. Tax revenue is estimated to increase by approximately \$775,000 per year.

Fiscal Benefits from Project Operations			
	Sales and Occupancy Tax	Income Tax	Total
Local Tax Receipts*	\$ 161,245	\$ -	\$ 161,245
State Tax Receipts	\$ 552,841	\$ 64,448	\$ 617,289
	\$ 714,086	\$ 64,448	\$ 778,534

** Property taxes are not included as often property for this type of facility is owned by a public agency and property taxes are not collected.*

Summary of Operational Economic Benefits

On an ongoing basis, the \$13.7 million in additional spending at a new entertainment and sports complex (above the operational spending at the current ARCO Arena) will generate approximately 375 new jobs, 229 of which will be for City of Sacramento residents. From a financial perspective, a new arena will generate \$25 million in total spending, \$15 million of which will be within the City of Sacramento.

The economic benefits of a new arena will only marginally increase the total spending in the region. However, this analysis does not fully quantify all the economic benefits of such a facility. Subsequent sections of this report will summarize some of the non-quantifiable, but equally important economic benefits of such a facility.

CASE STUDIES

Memphis FedExForum

The City of Memphis has a population of approximately 675,000 people, which is approximately 200,000 more than the City of Sacramento. Memphis has an estimated per capita income of \$37,792, compared to \$38,500 for Sacramento. Memphis can be considered a reasonable comparison to the Sacramento market.

The FedExForum was a \$250 million project completed in July 2004, after an approximate 2 year construction period. The facility is over 800,000 square feet, with a capacity of 21,165. There are 75 suites, 2,500 club seats and approximately 1,800 attached parking spaces. There are 2 main concourses, with more than 100 points of sale for concessions and retail items. The facility contains a casual sports bar along with premium restaurants and lounges.



Photo: Downtown Memphis including FedEx Forum.



Photo: Beale Street in Memphis, part of Sports & Entertainment District.

The arena is located in downtown Memphis in a Sports & Entertainment District. The area the arena is located in was largely neglected for decades and is adjacent to the Peabody Place Entertainment and Retail Center. This has become a multifaceted entertainment center that is essentially a city within a city and attracts more than 8 million visitors per year. The Sports & Entertainment District encompasses 3 blocks and encompasses various attractions including the FedExForum, Autozone Park (home of the AAA Memphis Red-Birds baseball team), the Peabody Hotel, the Orpheum Center, plus about 80 restaurants.

This facility can be used as an example of a recently constructed arena that was built as part of a Sports & Entertainment District and aided in the revitalization of a portion of the downtown area of Memphis. The construction of AutoZone Park for a AAA baseball team (just as the Sacramento Rivercats) in conjunction with FedExForum have acted as a catalyst to economic growth in Memphis.

San Jose HP Pavilion

HP Pavilion opened 15 years ago and was constructed on a site specifically selected to help boost the downtown area. Since its construction, the HP Pavilion has built “momentum for nearby restaurants, entertainment and transportation options,” according to San Jose’s Mayor, Tom McEnergy. The San Jose downtown has been revitalized with new high-rise housing, restaurants and retail.



Photo: San Jose HP Pavilion.

In its 15 years of operations, HP Pavilion has welcomed more than 20 million visitors and held more than 2,600 sports and entertainment events resulting in \$1.7 billion in cumulative economic activity. The arena hosts more than 170 events annually, 40 of which are San Jose Sharks Hockey Team regular season home games.

According to a study completed by SportsEconomics in April 2008, HP Pavilion has annually provided the City of San Jose with direct fiscal benefits of \$5.4 million and with an ongoing economic impact of \$254 million and the creation of approximately 5,000 full time equivalent jobs.

This facility can be used as an example to show the ongoing benefits of an entertainment and sports facility that provided a economic boost and revitalization of a California City. Furthermore, the ongoing operational benefits are based on actual figures from over 15 years of operations of the facility.

San Antonio AT&T Center

The greater San Antonio area is estimated to have a population of just over 2 million, which is slightly less than the 2.3 million people estimated in the Sacramento region. San Antonio has a similar industry structure as Sacramento, with a large number of jobs in the health care field. Additionally, per capita income in the San Antonio region is estimated at just under \$33,000, slightly less than the per capita income in Sacramento estimated at \$38,500. San Antonio can be considered a similar region, in terms of size, and economic market to Sacramento.

The AT&T Center was a \$186 million project completed in 2002. The facility has a capacity of 18,797. The AT&T Center was constructed amidst vacant land and a hodge podge of mixed use zoning. The building is surrounded by parking lots, the old Freeman



Photo: San Antonio AT&T Center

Coliseum and rows and rows of corrals and storage buildings that house the San Antonio Livestock Exposition.

The arena construction was planned in conjunction with facilities needs of the San Antonio Livestock Exposition. Per economist Jon Hockenyos, the San Antonio Spurs contribute approximately \$95 million per year of economic benefit plus another \$12.5 million of new tourist-related activities is estimated to come from non-Spurs-related activities and events held at the arena.

Although the location of the arena was not selected to revitalize a particular area, the arena was designed in such a way where economic benefits and revenues are still generated from the facility itself. This arena complex can be viewed as an example of the potential revenue generation and economic benefits of a stand-alone arena, outside of a downtown revitalization area.

SUMMARY OF NON-QUANTIFIABLE BENEFITS OF AN ENTERTAINMENT & SPORTS COMPLEX

In addition to the quantifiable economic benefits, there are other types of impacts that are beneficial to the community from the existence of an entertainment and sports complex that has a major league sports team as its primary tenant. Some of these are more tangible than others.

Entertainment Value & Quality of Life

First and foremost, the existence of an entertainment and sports venue adds to the quality of life in a region. There is entertainment value for residents in having additional things to do in their home community, especially for those who highly value spectator sports and live entertainment. In technical economic terms, there is a consumer surplus which is realized by each fan attending a live sporting or entertainment event, to the extent that the person would have been willing to pay more than the price of parking and admission to see the event. When multiplied conceptually by the total number of patrons at all events year-round, the aggregate values are large for the community.

Although Sacramento already has the benefit of housing a National Basketball Association Team, presumably, a new facility is needed to house the team in order for them to remain in Sacramento for the long-run. Other sports and entertainment events utilize the existing facility, but the use of the facility is somewhat limited due to its size and age. This can be exemplified when the NCAA chose an alternative city to host the NCAA Basketball Tournament as ARCO Arena was not a sufficient venue for the tournament. The construction of a new facility will enable Sacramento to maintain a quality of life that has been in existence.

Business Location Decisions

Given the enhanced quality of life and community pride provided by major league sports and modern facilities to house the teams, the community becomes, presumably, a better place to live, and more people want to live there. As a result, the owners of businesses will find the community more attractive, and on the margin some location decisions will be influenced by the presence of major league sports facilities, creating a stimulus for the in-migration of businesses to the host community.

Stimulus to Real Estate Development

Entertainment and sports facilities are significant financial investments in the infrastructure and vertical development within urban areas. This investment, and the foot traffic generated by events in the facilities, can provide a stimulus to the development of real estate in the surrounding neighborhoods. There are a number of other factors, however, which affect the likelihood of spin-off development being created.

The stimulus to real estate development has been experienced in a number of other cities throughout the country after the construction of a sports and entertainment venue. The Memphis FedEx Forum and the San Jose HP Pavilion, as described earlier in this report, can be viewed as examples of sports and entertainment facilities that have helped to revitalize an area and stimulate real estate development.

Community Pride

Although impossible to quantify with any economic basis, it is commonly accepted that there is a high value to the community pride that is created by being the host of a sports franchise. Many people find it very important to feel they live in a "major league city". Major league sports franchises "put a town on the map". When traveling, people can speak with pride of their home town, knowing full well that those in other areas are familiar with the location (and team reputation) of their city. This pride is augmented by such community development functions as having new state-of-the-art facilities. The franchises themselves also tend to be good corporate citizens within their communities, giving generously to worthy causes and providing youth sports programs and other social services.

Value of Media Exposure

There is also a tremendous advertising value to the exposure the community enjoys in the media as a result of hosting a major league team. On the national nightly news, there is a value gained every time the city's name is listed in the sports report. During games, the weather and other cultural attributes of the community are showcased for national consumption. The value of media exposure affects businesses, whose location becomes obvious to their clients, and the attraction of tourists to the area.

Summary of Non-Quantifiable Benefits

Some of the most important reasons to construct a new entertainment and sports complex are the difficult to quantify reasons identified above. The construction of an entertainment and sports complex is essentially a quality of life issue that creates community pride and has some tangible but unquantifiable effect on business activity in the host community, including media exposure and the effect on business location decisions.

Unfortunately, the political process tends to focus on those reasons which can be quantified. Consequently, the primary focus in most community debates has been on economic and fiscal impacts.

CONCLUSION

The development of an entertainment and sports complex can act as an economic catalyst for the Sacramento region. With a high unemployment rate and significant job losses in the region, specifically in the Construction Sector, a large project can create jobs and such a facility can create a platform for sustained economic development. Additionally, if such a facility is constructed in a strategic location, it can spur economic growth beyond the facility itself.

As explained in this study, an entertainment and sports complex is estimated to:

- Create 4,095 total jobs
 - ⇒ 3,720 jobs during the construction phase (2,130 direct and 1,590 indirect and induced), with 1,302 in the City of Sacramento.
 - ⇒ 375 additional jobs during ongoing operations (217 direct and 158 indirect and induced), above jobs already in existence at ARCO Arena, with 229 in the City of Sacramento.
- Generate \$556 million in total spending and \$11.3 million in fiscal benefits to government agencies during the construction period.
 - ⇒ \$300 million in direct spending, with \$105 million in the City of Sacramento.
 - ⇒ \$231 million in indirect and induced spending, with \$81 million in the City of Sacramento.
 - ⇒ \$2.3 million in fiscal benefits to local government agencies.
- Generate \$25 million in total annual spending and \$775,000 in annual fiscal benefits to government agencies during ongoing operations, above the jobs already in existence at ARCO Arena.
 - ⇒ \$13.6 million in annual direct spending, with \$8.3 million in the City of Sacramento.
 - ⇒ \$11.5 million in annual indirect and induced spending, with \$7 million in the City of Sacramento.
 - ⇒ \$161,000 in annual fiscal benefits to local government agencies.

A new entertainment and sports complex can serve the immediate purpose of creating jobs and generating economic activity while creating a structure that will help provide long-term economic growth.