MARKET ASSESSMENT AND 
ECONOMIC IMPACT ANALYSIS 
FOR PROPOSED SOCCER STADIUM 
IN THE CITY OF SAN JOSE 
(A SECONDARY STUDY) 

Prepared for City of San Jose

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1.0 EXECUTIVE SUMMARY

The City of San Jose (“City”) retained SportsEconomics, LLC (“SportsEconomics”) to evaluate the economic and fiscal benefits to the City of San Jose (“City”) associated with the operations of a proposed Major League Soccer (MLS) facility in the City of San Jose. Secondary information was employed to estimate the potential economic impact of the facility once it has been constructed. This analysis presents estimates of the quantifiable impacts and a discussion of qualitative benefits to the City as a result of the events it is assumed will be hosted at the new stadium. The study’s key findings are presented in this Executive Summary. The full Report must be read in its entirety, including the limiting conditions provided at the end of the Report, to understand the background, context, methods and assumptions underlying the study’s findings.

The City of San Jose is proposing the construction of an open-air professional sports stadium for the San Jose Earthquakes (MLS) franchise. The project is envisioned to include an 18,500 seat soccer-specific stadium, as well as associated retail, food service, and community facilities, and a parking structure.\footnote{The seating capacity for concerts is expected to be about 23,000.} In addition to hosting MLS games, the stadium would be used for other civic and entertainment events. In total, the development would encompass approximately seventy-five acres. Approximately eight of the acres will be set aside for BART, and the remaining sixty-seven acres will be allocated amongst the proposed stadium as well as other development including a hotel, office space, and retail space. It is envisioned that the stadium would host the San Jose Earthquakes (MLS) as well as international and collegiate soccer matches, concerts, and other sports and entertainment events. The project remains in the conceptual stages.

As part of the planning effort for the proposed stadium, the City of San Jose engaged SportsEconomics to evaluate the local economic impacts of the stadium on the City. This report will assist the City and local stakeholders in their evaluation of the stadium proposal. It is important to note that this study only addresses the economic impacts of operating the facility once it is constructed. Construction impacts, alternate location evaluations, or the feasibility of any particular financing program for stadium development are not part of this report and will need to be explored in other stages of the planning process.

The information contained in this report is based on estimates, assumptions, and other information developed from research of the market, knowledge of the sports industry, and other factors, including certain information provided by the City of San Jose. All information provided to us by others was not audited or verified, and was assumed to be correct. Because the procedures available were limited, SportsEconomics expresses no assurances on the achievability of any projected information contained herein and this report should not be relied upon for that purpose. Furthermore, there will be differences between projected and actual results. This is because events and circumstances frequently do not occur as expected, and those differences may be material. SportsEconomics will not be held responsible for updating this report for events and circumstances occurring after the date of this report.

It is anticipated, based on our research, that the facility will host 41 events annually, drawing over 500,000 attendees. These events and the operations of the facility will generate considerable economic impacts and tax...
revenues for the City. Specifically, the total economic impact on the City from the proposed facility and its operations ranges from $49.6 million to $62.3 million, with between 1,480 and 1,860 jobs being created, and nearly $1.5 million to $1.7 million in new tax revenues.\(^2\) Over a 30-year period, the NPV of the total economic impact from the facility is over $1 billion with nearly $34 million in fiscal impact on the City of San Jose.\(^3\) The details for impact from outside spending are shown in Exhibit 1-1 below.

<table>
<thead>
<tr>
<th>FINDING # 1:</th>
<th>In addition to the media exposure for the City resulting from the events at the proposed stadium, the proposed stadium will also generate considerable economic impacts for the City.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINDING # 2:</td>
<td>Direct Economic Impact to City: $30.8 million – $38.7 million</td>
</tr>
<tr>
<td>FINDING # 3:</td>
<td>Total Economic Impact to City: $49.6 million – $62.3 million</td>
</tr>
<tr>
<td>FINDING # 4:</td>
<td>Induced Economic Impacts to City: $32.3 million – $40.7 million in increased resident income, and 1,480 – 1,860 FTE jobs created</td>
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<td>FINDING # 5:</td>
<td>Incremental Tax Impacts to City: $1.5 million – $1.7 million</td>
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<td>FINDING # 6:</td>
<td>30-year NPV of Total Economic Impact to City: $1.27 billion, counting expenditures inside of the stadium</td>
</tr>
<tr>
<td>FINDING # 7:</td>
<td>30-year NPV of Fiscal Impact to City: $34.0 million, counting expenditures inside of the stadium</td>
</tr>
</tbody>
</table>

The economic impact portion of this study evaluates the areas described as follows:

- **Direct Spending** – This represents dollars spent within the City related to the events at the proposed stadium that otherwise would be spent outside the City’s economy (e.g., non-local visitor spending, and event-related spending by vendors, media, participants (artists, soccer teams), and corporate/sponsors that is truly incremental to the City).

- **Indirect Spending** – Indirect Spending results from the re-spending of those “direct” dollars as they circulate throughout the local economy (commonly referred to as the “multiplier effect”, which is discussed in a following section).

\(^2\) The provision of an estimate with a range is due to two different methods to account for spending that takes place inside of the soccer stadium itself. One method counts visitor spending inside of the facility as economic impact to the City, while the other method only accounts for spending made by facility operations into the City of San Jose. The former method provides the larger estimate of economic impact.

\(^3\) This estimate of tax revenues does not include any rent that the facility operators might pay to the City of San Jose.
- **Total Economic Impact** – Total Economic Impact (Output) is equal to the sum of direct and indirect spending.

Direct spending also increases economic activity, which increases resident income levels (associated with new and existing jobs), resulting in additional spending within the local economies, referred to as the induced effect. The Total Economic Impact is inclusive of the induced impacts.

- **Induced Economic Impact Affecting Earnings** – The direct and indirect increase in resident income levels resulting from direct spending activity related to the events hosted at the proposed stadium.

- **Induced Economic Impact Affecting Employment** – The number of direct and indirect full-time equivalent (FTE) jobs that are supported in the local economy as a result of direct spending activity related to the events hosted at the proposed stadium.

- **Fiscal Impact** – The annual taxes collected as a result of the events’ operations and non-local visitors traveling to the City that would not have accrued to the region if it were not for the presence of the events hosted at the proposed stadium.

In addition to generating economic impact, the presence of the proposed soccer stadium in San Jose could enhance the market area’s reputation as a sports, entertainment, tourism and commercial destination in addition to increasing the area’s national exposure and reputation.

**Other Key Highlights**

- The City of San Jose ranks favorably versus other markets which host or are considering hosting an MLS franchise.

- It is estimated that the proposed stadium would host approximately 41 events per year including Earthquakes games, other soccer games, San Jose events, concerts, and other non-soccer events. In total, it is estimated that the proposed stadium could attract about 520,000 annual attendees, or approximately 13,500 per stadium event. If a professional women’s soccer league is established and it places a team in San Jose, the number of events would increase by about 10.

As described in Section 7.0 of this Report, there are aspects of economic impact that are difficult to quantify. For instance, sports and cultural events can provide free media coverage for a city (known as media impact) that can lead to future tourism in the community. Additionally, local events can provide an emotional benefit to residents above and beyond any tangible financial benefit. This is known as psychic impact or public consumption benefit. Valuing the benefits of media and psychic impact are beyond the scope of this study.

Section 2.0 of this Report describes economic impact concepts and the methodology used. Section 3.0 provides a background on MLS and compares San Jose to other MLS markets. Section 4.0 discusses the project background and assumptions used in the Study. Section 5.0 discusses the estimates of demand, while Section 6.0 discusses the findings of economic impact. Section 7.0 discusses limitations of the study, including sources of economic impact that are not accounted for.
2.0 ECONOMIC IMPACT METHODOLOGIES & CONCEPTS

One purpose of economic impact analysis is to provide the public with relevant information regarding the return on an investment in a project or event. The management of financial resources is decided directly by government officials or indirectly by citizen voting. Economic impact analysis provides a metric for comparison to other possible investment projects or events, or, in this case, comparison with similar investments the City could have made into other properties.

Economic impact is based on the theory that a dollar flowing into a local economy from outside of the local economy is a benefit to the locality. In order to measure economic impact, the cause of the impact must first be identified. The most important underlying principle in evaluating economic impact is to measure new economic benefits that accrue to the region that would not have otherwise occurred. While this sounds simple, part of the difficulty lays in measuring what would have happened to the region without the events having taken place, or without the facility being constructed, considering that the situation is purely hypothetical.

The financial return for residents is in the form of new jobs, new earnings, and new tax revenues that occur because of the occurrence of the events at the proposed stadium each year. These new earnings, for instance, are generated for residents who are not directly associated with the event, facility, or team, but who are the beneficiaries of the positive externalities that the events at the proposed stadium can provide to the San Jose community. Positive externalities, or overflow benefits, are those benefits that are produced by an event, but are not captured by the event owners or facility being used. When a visitor comes to the City of San Jose to watch an event at the proposed stadium, they may spend money at local food establishments, gas stations, retail stores, etc. This spending benefits the owners and employees of those establishments thereby creating a positive direct economic impact.

An important concept that is determined early in a study is the geographic area of impact. Generally, the geographic region upon which the economic impact is measured is the region that is considering funding part of the event costs. In this way, the proper cost-benefit analysis is performed. If the local government partially funds an event or facility, then the residents of the region pay for the investment. The correct comparison is to determine the benefits that the local region receives, not some other city, county, or state or combination thereof.

The area of impact is a significant factor in determining the amount of economic impact that occurs. As an example, imagine a resident of Cupertino who typically spends his entertainment dollars attending the movies near home. This person, for instance, may decide to attend an event in the proposed stadium instead of his usual entertainment habits near home. In this case, he is adding new money to the City of San Jose and providing a positive economic impact, as his spending would have otherwise occurred in Cupertino. However, he is not adding new money to the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) because it includes Cupertino, and this spending is therefore considered substituted, displaced, or redirected spending. Thus, he is

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4 Additionally, having local major cultural and sporting events at a facility enhances community and civic pride. This is known as psychic impact and is discussed in Section 7.0.
providing zero economic impact for the MSA, but positive impact for the City of San Jose. On the other hand, a resident of Santa Rosa would provide economic impact for the City, County, and MSA since Santa Rosa lies outside of all of these geographies. For the purposes of this study, the geographic area of impact is the City of San Jose.

Because spending by local residents is considered to be displaced spending and is not counted as part of economic impact, it is very important to delineate attendees into visitors and local residents. There is a further delineation of visitors into: (1) visitors who were already in town for another reason, but decided to attend an event at the Proposed stadium anyway ("casual" visitors), (2) visitors who would have come to town during another nearby time period, but instead opted to attend an event at Proposed stadium during this time period forgoing coming to town another time ("time-switchers"), and (3) visitors who are in town because of the event and would not have otherwise come to town. This latter group, referred to as “relevant visitors” or “incremental visitors”, constitutes visitors whose spending is fully counted as being part of direct spending economic impact.

Economic benefit is measured through direct spending, which has two different components. The first component is visitor spending. For example, how much are people spending because of events hosted at the proposed stadium? This also includes how much they are spending for their entire stay on restaurants, retail, transportation, etc. Another component is organizational spending. How much is spent by event organizers to run these events, accounting for the source of funding for the events? Additionally, how much is spent on the operations of the proposed facility and the events hosted there each year? If the City is partially funding a local event, than those expenditures should not be counted as part of economic impact since the City could have spent that money elsewhere within the community. Where possible, care is taken to avoid double-counting of spending by spectators inside of an event coupled with the event organizers spending in town (see Section 2.1 for more details). Some vendors within an event are local businesses and thus spending by visitors on those vendors provides economic impact. However, spending by visitors on vendors who are not local does not necessarily provide local economic impact. To account for this issue economic impact is measured in two ways, one counting all visitors spending inside of an event and another not counting it at all. This provides the upper and lower bounds for economic impact.

For the purposes of this Report, quantifiable impacts are in the form of economic impacts which are subdivided into three stages of impact: direct, indirect, and induced impacts. Each of these is further sub-divided into total output, earnings or income, employment, and fiscal effects. Descriptions of each term follow.

### 2.1 Direct Spending Methodology

Direct spending is measured for spending in the City that would not otherwise occur without the presence of the events hosted at the proposed stadium. This spending will be derived from:

- Visiting spectator spending outside of the events (at local restaurants, retail stores, etc.); and
- Visiting teams/artists/corporations/sponsors and other event participants’ spending.
Each of these expenditure categories are adjusted for spending that occurs outside of the City. This Report utilizes secondary research from other primary studies conducted in San Jose, as well as studies for comparable facilities located outside of the City to estimate spending. The economic impact findings are discussed in Section 6.0.

2.2 INDIRECT AND INDUCED SPENDING METHODOLOGY

The economic output that results from the direct spending during an event subsequently affects many other industries and workers. For instance, when a group of visitors attends an event at the proposed stadium, they may spend money in a local restaurant before the event. The restaurant will disburse some of this money to pay employees, to purchase food, to pay utilities, and so on. The food wholesaler will pay the farmer who then purchases clothing at the local retail store. These additional expenditures continue through the successive rounds until the money either leaks out of the local economy or is saved within the local economy for a significant period of time.

The indirect economic impacts are those that occur in the local region or area of impact (City of San Jose) that is the re-spending of the initial visitor expenditures. Indirect spending arises from the need of one industry to purchase goods or services from other industries to produce its output. When one business that is a direct recipient of event-related spending purchases goods from another business within the City in order to produce its output, the second business also realizes economic benefit through the “ripple” (or indirect effect) of the initial expenditure. For example, when attendees purchase food at the proposed stadium, the concessionaire must purchase goods from producers/manufacturers in order to maintain inventory levels. To the extent this “re-spending” occurs in the San Jose economy, the initial dollars spent with the concessionaire have secondary effects on the local economy. Indirect impacts occur in various industries including: the wholesale industry as purchases of food and merchandise products are made; the transportation industry as the products are shipped from purchaser to buyer; and the manufacturing industry as products used to service the venue; utility industry as the power to produce goods and services is consumed; and other industries. The summation of each successive round of re-spending constitutes the indirect impact estimate.

In this study, expenditures made by the event organizer to host and manage the event and expenditures made by the vendors to offer concessions and merchandise during the event are included as indirect spending. Some of the direct spending by spectators and participants on tickets, participation fees, concessions, merchandise, etc. is then re-spent by the event organizer to host the event. In other words, the cause for the event organizer’s spending is based on the direct revenues it generates from spectators and participants. The round of spending by the event organizer is the second round, and is thus indirect spending. This is also true for vendors.

The induced economic impact is the effect of the direct and indirect economic impact on earnings and employment. Induced effects occur when the income levels of residents rise as a result of increased economic activity and a portion of the increased income is re-spent with in the local economy. As the initial spending and subsequent re-spending occurs, a portion is retained as income to local residents and employees, and as local,
regional, and state taxes. This indirect spending results in increased economic activity, which leads to increases in employment and which increases household income levels and allows for additional household spending (the “induced effect”). These impacts will be reported in terms of employment and earnings impacts.

2.3 Multiplier Effect to Measure Indirect and Induced Impacts

As previously noted, direct spending stimulates additional spending, referred to as the indirect effect. Direct spending also increases economic activity, which increases resident income levels (associated with new and existing jobs), resulting in additional spending within the local economies, referred to as the induced effect. These secondary indirect and induced effects are referred to as the “multiplier effects” of the initial direct spending. These effects are measured through the application of economic multipliers, which quantify the extent that dollars introduced to a local or regional economy are re-spent on goods and services within the local economy.

The concept of multipliers is based on the theory that part of a dollar injected into a local economy will be re-spent locally, thereby affecting more than the original recipient of the dollar. Multipliers are derived by tracing the interrelationships of industries within a specified economy to understand the impact that a dollar spent in a given industry has on other industries in that economy. A business that is an initial recipient of new spending will purchase goods and services from other producers. These purchases comprise the indirect effect of the initial expenditure. This process is repeated until subsequent purchases are made from producers that are not a part of the San Jose economy (i.e., a producer imports an input from another city, state, or country) and the flow of money within the San Jose economy ceases (or “leakage” occurs). The businesses, hotels, and organizations that receive the initial direct spending generally re-spend it in five ways:

- With other private sector businesses in the same local economy on inventory, maintenance, etc.;
- With employees who reside in the same local economy as wages, tips, etc.;
- With local government as sales taxes or property taxes;
- With non-local governments as sales taxes or taxes on profits;
- With employees, business, or organizations who reside outside of the local economy.

The first three items are types of spending that re-circulate throughout the local economy. These last two categories of spending are considered “leakages” outside of the geographic region and reflect the notion that a region is not economically isolated, but engages in commerce with other regions. The larger and more diverse the geographic region, the less leakage there is, all else equal.

Using the above five scenarios, input-output tables are created that disaggregate an economy into industries and examine the flow of goods and services among them. Multipliers are then mathematically derived which uniquely describe the change in output for each and every industry as a result of the injection of one dollar of direct impact into any of those industries. The process allows a separate multiplier to be applied for each of the 528 industry groups.
The size of a given economy’s multiplier is directly related to its geographic size, population and diversity of its industrial and commercial base. A larger population is generally able to support a more diverse economic base and more products are likely to be manufactured and purchased locally. Therefore, money injected into an economy with a larger population is re-spent more often, causing greater changes in local business volume. Conversely, a smaller defined local geographic region implies that more event attendees are visitors, as described above. However, smaller geographic areas suffer from a greater degree of “leakage” because a smaller geographic region is less self-sufficient than a larger region.

Direct spending that occurs from spectators in the venue, spectators out of the venue, and for team/exhibitor-related activities fosters additional spending in various industries. This indirect spending results in increased economic activity, which increases household income levels and allows for additional household spending (the “income effect”).

In this Report, direct spending is used to estimate indirect spending by using multipliers from a regional economic impact model based on the USDA Forest Service IMPLAN (IMpact Analysis for PLANning), now supplied by MIG (Minnesota IMPLAN Group). IMPLAN produces a report that provides multipliers for over 500 sectors of economic activity at the city, county, region, and state level, using data provided by the U.S. Department Bureau of Economic Analysis.

There are different types of multipliers and each has a specific purpose. *The multipliers are complementary, not additive.*

The first type of multiplier is called an output, sales, or transaction multiplier. It measures the direct, indirect, and induced effect of an extra unit of visitor spending on economic activity within a local economy. This multiplier relates tourism expenditure to the increase in business financial turnover that is created. There are 528 industries, each having its own multiplier. In the analysis that follows, the multipliers have been reduced to 39 aggregated industry sectors with the relevant tourism sectors analyzed.

The appropriate multipliers to be used are dependent upon certain regional characteristics and also the nature of the expenditure. We selected multipliers for the following industries, as these industries provide the best representation of initial spending associated with the operations of events the City may host: commercial sports, hotels, eating and drinking places, entertainment, retail trade, local transportation, and miscellaneous spending. Three different sets of multipliers are generated by IMPLAN corresponding to measures of regional economic activity, including: total sales, personal income, and jobs. Multipliers for total sales, personal income, and jobs were identified for each of the industries listed above.

Once estimates of direct spending are calculated, these estimates are entered into IMPLAN to obtain the total economic impact estimates. IMPLAN is a statistical software package that helps to calculate the total economic impact of various phenomena. The detailed matrix of multipliers imbedded in the IMPLAN software help to calculate the various spin-off impacts that originate from the initial direct injection of non-local money into a given region. Specifically, IMPLAN generates the following gross economic impact estimates: the short-term impact upon local spending and the long-term impact upon value-added. This long-term impact is comprised of additional local income; additional business taxes; and additional property-type income.
An *earnings* (also known as an *income*) multiplier, the second type, measures the direct, indirect, and induced effects of an extra unit of visitor spending on the level of household income in the local economy. It is operationalized as the ratio of change in income to the initial autonomous change in expenditure that brings it about. It is the clearest indicator of the effect of economic impact on residents of the host community.

The third type of multiplier is called an *employment* multiplier. Employment multipliers measure the direct, indirect, and induced effects of an extra unit of visitor spending on employment in the local economy. It measures how many full-time equivalent (FTE) jobs are supported in the local economy as a result of visitor expenditures.

### 2.4 Fiscal Impact Methodology

In addition to economic impacts, the government of the City of San Jose (as well as those of Santa Clara County and the State of California) benefit from the operations of these events in the form of tax revenues. Further, the City, County, and State will also receive tax revenues due to the operation of the facility itself. Fiscal impacts are calculated by analyzing the marginal tax rates for each category in relation to direct impacts. Indirect impacts are measured by using recent historical aggregate average tax rates collected by the local government, accounting for the share that pertains to the tax categories listed below.

Fiscal information used in this analysis was obtained from the Office of Economic Development for the City of San Jose, Bureau of Economic Analysis, State of California GSP, the State of California Department of Finance, www.economy.com, and other governmental resources. The primary taxes affected by event-related expenditures include the State of California Sales and Use tax, and the Innkeepers tax. The following is a brief discussion of these taxes.

**Sales Tax**

The State of California levies a tax of 6.75 percent on the sale of most consumer goods and services. However, the City of San Jose levies an additional tax of 1.5 percent, bringing the total rate to 8.25 percent. Since the area of impact is defined as the City, only taxes flowing to that entity are included in this analysis.

The sales tax is applied to prepared food items, retail products, auto rental, gasoline, and business services, and not applied to local transportation services (taxi, bus, etc.), and admissions to amusement establishments (movie theaters, golf, football, baseball, etc.). It is applied to merchandise and concessions sold inside of an event that

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6 To reiterate, only fiscal impacts to the City are measured in this report. Fiscal impacts to the State and County are generated by these events and operations, but are not detailed in this report.

7 The State General Fund is allocated 93%, and the County of Santa Clara is allocated 7%.

8 The City of San Jose receives 1.0 percent of the tax, and the Valley Transit Authority receives an additional 0.50 percent, for a total of 1.5 percent directed towards local funds.
charges an admission fee. For events that do not charge an admission fee, it is applied to alcohol and merchandise sales, but not food sales.  

**Transit Occupancy (Hotel Occupancy) Tax**  
In addition to sales tax, the City of San Jose levies a ten percent Transit Occupancy Tax on hotel room sales. In addition to the Transient Occupancy Tax, additional funds are levied which are directed towards the Business Improvement District (BID).

**Hotel Business Improvement District (HBID) Fee**  
In March 2006, a marketing partnership of 35 hotels began collection of the Hotel Business Improvement District (HBID) Fee. Funds generated are used for visitor and convention promotion. Funds collected are managed by the non-profit corporation, San Jose Hotels, Inc.

All hotels operating within the hotel business improvement district (HBID) are charged a flat fee per occupied room per night. The fee paid by a specific hotel is determined by which zone it is in:
- Zone A consists of hotels within a one-mile radius of the San Jose McEnery Convention Center,
- Zone B consists of hotels located one to three miles from the convention center,
- Zone C consists of hotels located outside of the three-mile radius.

The Zone A fee is $2.00; the Zone B fee is $1.00; the Zone C fee is $0.75. The weighted average HBID fee is $1.25, with the number of rooms available in each zone used as the weight. This amount, $1.25, will be used to calculate the HBID portion of fiscal impact.

**Food and Beverage Tax**  
The City of San Jose does not levy a separate tax on the sale of prepared food and beverages. However, the sale of prepared food and beverages is subject to sales tax.

**Other Taxes**  
In addition to the above major taxes affected by venue events noted above, the Counties and State may realize additional event-related tax revenues such as gasoline tax and others.

These taxes and corresponding tax rates provide the basis to calculate fiscal impact for the City from direct and indirect revenues as a result of event-operations. Indirect fiscal impact is based on the average (not marginal) taxes collected for each dollar spent within San Jose.

One method that is commonly used to increase fiscal return is to assess a facility fee on all events hosted at the proposed facility. At other comparable venues, this fee ranges from $0.25 to nearly $5.00 per ticket. Others are

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9 Sales tax collection information is provided by the City of San Jose.  
10 Please see [http://www.sanjoseca.gov/clerk/Agenda/062006/062006_04.03a.pdf](http://www.sanjoseca.gov/clerk/Agenda/062006/062006_04.03a.pdf) for more details.
based on a percentage of the ticket price, ranging from as little as 0.5 percent to nearly 5.0 percent. Assuming a ticket price of $19 per ticket for MLS games, this would imply a range of $0.10 to just under a $1.00 per ticket for MLS tickets, and to more than $2.00 for concert tickets and other higher priced events hosted at the facility.
3.0 MAJOR LEAGUE SOCCER BACKGROUND

3.1 SOCCER OVERVIEW

Professional sports have grown in the U.S. at a pace exceeding the rest of the economy over recent decades.\textsuperscript{11} While professional football is the most popular sport in the U.S. (as measured by number of viewers and total revenues), the most popular sport in the world is soccer, and its popularity is growing. Youth participation in soccer is soaring and is second only to basketball in the U.S., in terms of participation in team sports.\textsuperscript{12} Those three facts combine to give soccer a very bright future in the U.S.

Soccer still has room to grow in terms of its ultimate popularity compared to other domestic professional sports. When polled, in late 2002, on their favorite sport, three percent (3\%) of Americans listed soccer. This puts soccer on par with hockey (3\%), and just below golf (4\%) and men’s college basketball (4\%), three other major sports which currently draw higher ratings and revenues than MLS.\textsuperscript{13} Moreover, the demographics for soccer are valuable to sponsors and advertisers because they contain young professionals with higher than average incomes and contain both men and women.\textsuperscript{14}

MLS has one very distinct advantage over its professional team sport brethren in the U.S. It is organized as a single entity and able to have significant control over player costs, the largest expense item for nearly all professional sports leagues. This control enables it to keep player costs at manageable levels. Under the single-entity concept, the league owns the member clubs, negotiates stadium leases (or has in the past), national television deals, apparel contracts and national sponsorship agreements. It also signs all players and allocates them to teams throughout the league. With a hard salary cap and no free agency, teams have avoided the pitfall of overspending that afflicted the failed North American Soccer League. The single-entity structure maintains competitive balance, limits financial disparities between markets, integrates sponsorship and licensing, and allows the league to make decisions that protect its interests. One drawback of the structure is that the teams are limited in their ability to compete for international star players. However, using the David Beckham contract as an example, in which only a small percentage of his total compensation counts against the salary cap, there are ways around this “cap”.\textsuperscript{15}

The MLS structure consists of investors purchasing stakes in the league for the operating rights of an individual team. The investors-operators are responsible for hiring front office personnel, negotiating local media contracts and conducting local promotions. In return, each ownership group retains 70 percent of ticket revenue and 100 percent of parking, concessions and other stadium revenues. Using 2005 as a base, since that was the last year

\textsuperscript{12} For instance, from 1989 to 1999, youth participation in soccer surged by 73\%, far exceeding a 7\% gain for basketball and 5\% for baseball, according to trade association SGMA International.
\textsuperscript{14} Study conducted by international marketing research firm TNS Intersearch.
\textsuperscript{15} Currently, each team is allowed two international designations that allow international players to be signed for salaries above the cap with only a portion of those salaries counting against the cap.
the Earthquakes played in San Jose, team payroll was approximately $2.0 million per team, ranging from a high of $2.7 million for the Los Angeles Galaxy to a low of $1.2 million for the New England Revolution. Payroll for the San Jose Earthquakes ranked tenth out of the twelve teams at $1.7 million.\textsuperscript{16}

MLS investors are allowed to invest in multiple clubs both within the league and in other professional sports leagues. In MLS, two investor-operators, Anschutz-Entertainment Group (AEG) and Lamar Hunt, controlled seven of the twelve teams as recently as two years ago. Today, they each control two of the thirteen teams playing in MLS. MLS is expecting the diversification of the investor-operators to continue towards the goal of one investor-operator per team.

\subsection{3.2 Soccer Participation}

The historical level of soccer participation in the United States provides a general indication of the broad-based market for professional and amateur soccer. Soccer participation in the U.S. has remained relatively stable since 1996, averaging approximately 13.2 million participants each year. While overall participation has remained relatively constant, the number of frequent participants, defined as those who participate 40 or more days per year, has increased 30 percent since 1996, leading to an increase in the demand for quality soccer fields throughout the United States.\textsuperscript{17}

The majority of soccer participants are youths. In 2004, approximately 68 percent of soccer participants in the U.S. were between the ages of 7 and 17. While the majority of soccer participants in the U.S. are youths, approximately 32 percent are age 18 or older. This participation in the sport parlay into fanaticism for viewing professional soccer. The increasing number of youths playing soccer can be considered a base for future fans of MLS.

Further, soccer participation ranks favorably with many other popular youth sports, ranking second only to basketball for youths aged 7 to 11 years, and fourth for youths 12 to 17 years. The total for these two groups amounts to more than 9 million participants in the U.S. California, with a higher Hispanic population than other states, ranks first in soccer participation in the U.S, with 1.8 million soccer participants, or 5\% of the population.\textsuperscript{18} In comparison, the national soccer participation rate is approximately 4.5 percent.

More than 3 million youths registered to play organized soccer in 2004. The average annual growth rate for national youth soccer registrations is 13.5 percent.\textsuperscript{19} Again, California, and, specifically, northern California, ranked first among the top 55 regions for U.S. Youth Soccer registrations, with more than 217 thousand registrants.

\textsuperscript{16} Source: Sports Business Daily.
\textsuperscript{17} Trends evaluated from 1996 to 2004, using data from the Sports Business Research Network.
\textsuperscript{18} Source: Claritas and Sports Business Research Network.
\textsuperscript{19} Source: US Youth Soccer.
3.3 FORMATION AND GROWTH OF MLS

In fulfillment for hosting the Fédération Internationale de Football Association (“FIFA”) World Cup USA in 1994, FIFA awarded “Division One” status to Major League Soccer. MLS began play in 1996 in front of an announced crowd of 31,683 in San Jose and a national television audience on ESPN. The league began with ten teams and expanded into Chicago and Miami in 1998, totaling twelve teams. After the 2001 season, the league contracted the Tampa Bay and Miami franchises, leaving the league with 10 teams again for the 2002 season. In 2005, MLS increased back to twelve teams with new franchises in Los Angeles (Club Deportivo Chivas USA) and Salt Lake City (Real Salt Lake). An expansion franchise in Toronto began play in 2007, and a franchise in Cleveland is preparing to begin play in 2008. The San Jose Earthquakes are also planning to begin play in 2008.

Attendance for MLS began strong averaging nearly 17,500 per game in announced attendance during its first year. After a drop off in the early years, attendance has risen again to over 15,000 fans per game. Each team plays a 32-game regular season schedule, with eight of twelve teams making the playoffs. There is also an all-star game during the middle of the season which typically matches an MLS all-star squad against an international club team.

Commissioner Garber stated that corporate interest is at an all-time high. He is focused on the long-term where he states that teams will be worth hundreds of millions of dollars and the sport will be one of the dominant major leagues.

As previously mentioned, MLS is organized as a single-entity in which the league, not each team, contracts directly with players and pays them. The league has owner-operators or operator-investors who manage a particular team and are able to keep some of the net revenues from the team’s operations, but also share revenues with the rest of the league. The operator-investors hire local staff to run their team and are responsible for local office expenses, local promotional expenses for home games, and other local expenses. They can also sell local broadcast rights, sell home tickets, and conduct local marketing. These operator-investors control a majority of the Board of Governors of MLS. Over time, the league has become less centralized pushing more responsibility and reward to the operator-investors.

At the league level, all player contracts are negotiated and paid for, national marketing is conducted and national licensing, sponsorships, and media are sold via SUM. Each operator-investor owns one unit in MLS and is entitled to its pro rata share of all MLS income. Each operator-investor also purchases and owns a share of SUM. Each year, the league has a capital call, which provides funding for the league office, but mainly for player salaries.

MLS teams are primarily located in major metropolitan areas throughout the United States. A majority of these teams currently play in larger stadiums and typically share revenues with more than one tenant. Currently, MLS is committed to the development of soccer-specific stadiums to ensure the long-term success of the League. In 2006, the Chicago Fire began play in the new Toyota Park. In 2007, FC Dallas began play in the new Pizza Hut

21 Soccer United Marketing (SUM).
Park. Similarly, the Colorado Rapids opened up its new stadium in Colorado (Dick’s Sporting Goods Park). Real Salt Lake is working on a new facility, as is the New York Red Bulls.

According to MLS officials, the league would like to eventually expand to 18 teams, and is examining expansion into markets that have existing soccer-specific stadiums or plans for one. Some of the other locations that have expressed an interest in attracting an MLS team include Atlanta, Cleveland, Detroit, Milwaukee, Philadelphia, Rochester, San Antonio, Seattle, St. Louis, Tulsa, and, of course, San Jose.

San Jose has been granted a franchise to replace the San Jose Earthquakes, which departed for Houston for the 2006 season to become the Houston Dynamo. Once the team announced its relocation, Lew Wolff, Co-owner and Managing General Partner of the Oakland Athletics Major League Baseball team, publicly indicated his organization’s desire to bring Major League Soccer back to San Jose, provided a stadium is built specifically for the team. Major League Soccer, in acknowledgement of the outstanding fan support for the Earthquakes franchise, reserved the Earthquakes’ name, colors and records in trust for a potential expansion franchise. Similar to other recent and future expansions, the deal involves the team playing in a new soccer-specific stadium, which should financially help the league tremendously.

### 3.4 MLS DEMOGRAPHICS

Compared to other professional sports, MLS has the highest female fan base and the second highest percentage of minority fans. In particular, MLS draws a higher percentage of Hispanics than any of the other major professional sports leagues, with Hispanics representing more than 19 percent of the MLS fan base. With 40 percent of fans having incomes in excess of $50,000, MLS trails only the NHL in percentage of higher income fans. The relatively larger income of soccer participant households indicates that spectators and participants may have more discretionary income to spend when visiting the stadium and City to attend an event. Exhibit 3-1 shows the demographic and sociographic composition of MLS compared to other professional sports in the U.S.
Exhibit 3-1

<table>
<thead>
<tr>
<th>Gender</th>
<th>MLS</th>
<th>NFL</th>
<th>MLB</th>
<th>NBA</th>
<th>NHL</th>
<th>NASCAR</th>
<th>Total U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>51.5%</td>
<td>56.5%</td>
<td>53.4%</td>
<td>54.3%</td>
<td>59.0%</td>
<td>58.8%</td>
<td>48.9%</td>
</tr>
<tr>
<td>Female</td>
<td>48.5%</td>
<td>43.5%</td>
<td>46.6%</td>
<td>45.7%</td>
<td>41.0%</td>
<td>41.2%</td>
<td>51.1%</td>
</tr>
<tr>
<td>Ethnicity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caucasian</td>
<td>63.4%</td>
<td>71.1%</td>
<td>73.0%</td>
<td>61.8%</td>
<td>76.1%</td>
<td>74.9%</td>
<td>71.5%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>19.2%</td>
<td>11.2%</td>
<td>11.8%</td>
<td>14.5%</td>
<td>10.2%</td>
<td>10.6%</td>
<td>11.7%</td>
</tr>
<tr>
<td>African-American</td>
<td>11.3%</td>
<td>13.0%</td>
<td>10.8%</td>
<td>18.3%</td>
<td>8.4%</td>
<td>9.6%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Other</td>
<td>6.1%</td>
<td>4.7%</td>
<td>4.4%</td>
<td>5.4%</td>
<td>5.3%</td>
<td>4.9%</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Household Income</th>
<th>MLS</th>
<th>NFL</th>
<th>MLB</th>
<th>NBA</th>
<th>NHL</th>
<th>NASCAR</th>
<th>Total U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $20,000</td>
<td>17.9%</td>
<td>16.7%</td>
<td>17.7%</td>
<td>17.9%</td>
<td>14.4%</td>
<td>18.9%</td>
<td>22.6%</td>
</tr>
<tr>
<td>$20,000-$29,999</td>
<td>15.9%</td>
<td>15.3%</td>
<td>15.3%</td>
<td>16.4%</td>
<td>14.3%</td>
<td>16.5%</td>
<td>12.6%</td>
</tr>
<tr>
<td>$30,000-$49,999</td>
<td>26.2%</td>
<td>28.1%</td>
<td>27.7%</td>
<td>27.7%</td>
<td>27.7%</td>
<td>29.1%</td>
<td>22.2%</td>
</tr>
<tr>
<td>$50,000-$99,999</td>
<td>29.2%</td>
<td>29.6%</td>
<td>29.2%</td>
<td>27.9%</td>
<td>31.9%</td>
<td>27.6%</td>
<td>30.3%</td>
</tr>
<tr>
<td>$100,000+</td>
<td>10.8%</td>
<td>10.3%</td>
<td>10.1%</td>
<td>10.1%</td>
<td>11.7%</td>
<td>7.9%</td>
<td>12.3%</td>
</tr>
</tbody>
</table>

Source: Street & Smiths Sports Business Journal

3.5 MLS Attendance

The average reported MLS game attendance for the regular season for 2006 was 15,504, which was slightly up from 2005 and which has been relatively flat for the past five years. Exhibit 3-2 presents the average attendance and occupancy for each MLS team since the 1999 season. Excluding the Galaxy, which significantly boasts higher attendance due to the size of its facility and demand, the average attendance is around 15 thousand. During MLS’ inaugural season, the league achieved an average reported attendance of 19 thousand per game, which fell more than 20 percent the following year and which appears to have stabilized at approximately 15,000 per game.

As shown in the table, the San Jose Earthquakes had positive attendance growth during the five year period leading up to its transfer to Houston. While the Earthquakes attendance was lower than the average for MLS, this is partially attributable to the fact that its games were played in an older facility that was not built specifically for soccer and lacked fan amenities.
### Exhibit 3-2

<table>
<thead>
<tr>
<th>Team</th>
<th>Dates</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Trailing 5-yr avg</th>
<th>% change 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicago Fire</td>
<td>16</td>
<td>17,887</td>
<td>16,016</td>
<td>13,387</td>
<td>16,388</td>
<td>12,922</td>
<td>14,005</td>
<td>17,153</td>
<td>17,238</td>
<td>14,111</td>
<td>15,086</td>
<td>9%</td>
</tr>
<tr>
<td>CD Chivas USA</td>
<td>16</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>17,080</td>
<td>19,840</td>
<td>18,460</td>
<td>15,352</td>
<td>-24%</td>
</tr>
<tr>
<td>Columbus Crew</td>
<td>16</td>
<td>12,275</td>
<td>17,000</td>
<td>15,451</td>
<td>17,511</td>
<td>17,429</td>
<td>20,690</td>
<td>16,772</td>
<td>13,253</td>
<td>12,056</td>
<td>12,684</td>
<td>-10%</td>
</tr>
<tr>
<td>FC Dallas (1)</td>
<td>16</td>
<td>10,948</td>
<td>12,211</td>
<td>13,100</td>
<td>12,600</td>
<td>13,122</td>
<td>7,906</td>
<td>9,088</td>
<td>11,189</td>
<td>14,962</td>
<td>11,257</td>
<td>14%</td>
</tr>
<tr>
<td>D.C. United</td>
<td>16</td>
<td>17,700</td>
<td>18,600</td>
<td>21,500</td>
<td>16,500</td>
<td>15,565</td>
<td>17,232</td>
<td>16,644</td>
<td>18,195</td>
<td>18,835</td>
<td>18,933</td>
<td>10%</td>
</tr>
<tr>
<td>Houston Dynamo (2)</td>
<td>16</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>18,935</td>
<td>18,935</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Kansas City Wizards</td>
<td>16</td>
<td>12,275</td>
<td>16,016</td>
<td>13,387</td>
<td>16,388</td>
<td>12,922</td>
<td>14,005</td>
<td>17,153</td>
<td>17,238</td>
<td>14,111</td>
<td>15,086</td>
<td>9%</td>
</tr>
<tr>
<td>Los Angeles Galaxy (3)</td>
<td>16</td>
<td>17,700</td>
<td>18,600</td>
<td>21,500</td>
<td>16,500</td>
<td>15,565</td>
<td>17,232</td>
<td>16,644</td>
<td>18,195</td>
<td>18,835</td>
<td>18,933</td>
<td>10%</td>
</tr>
<tr>
<td>Miami Fusion</td>
<td>16</td>
<td>10,948</td>
<td>12,211</td>
<td>13,100</td>
<td>12,600</td>
<td>13,122</td>
<td>7,906</td>
<td>9,088</td>
<td>11,189</td>
<td>14,962</td>
<td>11,257</td>
<td>14%</td>
</tr>
<tr>
<td>New England Revolution</td>
<td>16</td>
<td>19,188</td>
<td>16,700</td>
<td>15,500</td>
<td>15,654</td>
<td>16,927</td>
<td>14,641</td>
<td>12,226</td>
<td>12,525</td>
<td>11,786</td>
<td>13,621</td>
<td>-30%</td>
</tr>
<tr>
<td>New York Red Bulls (4)</td>
<td>16</td>
<td>16,320</td>
<td>17,000</td>
<td>17,600</td>
<td>20,800</td>
<td>18,155</td>
<td>15,822</td>
<td>17,195</td>
<td>15,077</td>
<td>14,570</td>
<td>16,164</td>
<td>-20%</td>
</tr>
<tr>
<td>San Jose Earthquakes (5)</td>
<td>16</td>
<td>13,653</td>
<td>15,000</td>
<td>12,500</td>
<td>9,600</td>
<td>11,150</td>
<td>10,466</td>
<td>13,001</td>
<td>13,037</td>
<td>11,451</td>
<td>11,431</td>
<td>30%</td>
</tr>
<tr>
<td>Real Salt Lake (6)</td>
<td>16</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>18,935</td>
<td>18,935</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Tampa Bay Mutiny</td>
<td>16</td>
<td>10,948</td>
<td>12,211</td>
<td>13,100</td>
<td>12,600</td>
<td>13,122</td>
<td>7,906</td>
<td>9,088</td>
<td>11,189</td>
<td>14,962</td>
<td>11,257</td>
<td>14%</td>
</tr>
<tr>
<td>MLS Average</td>
<td>16</td>
<td>14,312</td>
<td>14,281</td>
<td>13,764</td>
<td>15,050</td>
<td>15,820</td>
<td>14,898</td>
<td>15,559</td>
<td>15,108</td>
<td>15,504</td>
<td>15,607</td>
<td>-2%</td>
</tr>
</tbody>
</table>

Source: Sports Business Journal, MLS.com

(1) Formerly the Dallas Burn
(2) Team moved to Houston from San Jose in 2006 and changed name to Houston Dynamo.
(3) Team moved into Home Depot Center in 2004.
(4) Formerly the NY/NJ MetroStars. Purchased in 2006 by Redbull, who changed the name that year.
(5) Average and growth for San Jose from 2001-2005.
(6) 2005 Expansion franchise.

Note: "Reported Attendance" may not account for no-shows and include complimentary tickets.

In total, MLS annual attendance has averaged around 245,000 per franchise for the past five years. Despite the addition of expansion franchises and with teams moving into soccer-specific facilities, the total average attendance per franchise has not changed much in the past decade. In 1996, the total attendance was approximately 2.79 million, or an average of 278,500 per franchise per year. In 2006, with two more franchises and several more facilities, the total attendance was just over 2.95 million spectators, or an average of 246,242 spectators per franchise. This represents almost no change on an absolute basis.

Attendance penetration tends to be inversely proportional to market size. Larger markets tend to exhibit lower penetration ratios, while smaller markets generally exhibit higher penetration ratios. Taking the proportion of 5-year average game attendance to the CMSA population, the Earthquakes have penetrated the San Jose CMSA at a rate of 0.2 percent of population per game, which would rank it eighth among MLS franchises. The average penetration per population falls below the average rate of all MLS franchises, which is 0.4 percent. Excluding the small markets of Salt Lake and Columbus, the MLS average falls to a penetration of 0.2 percent of CMSA population per game.

### 3.6 STADIUM ECONOMICS

As with all American professional sports, the quality of the stadium impacts team and league revenues. One goal of MLS has been to place its teams in soccer-specific stadiums that are not only better venues for soccer viewing, but allow the MLS team to be the major tenant and have access to many more revenue streams than when it shares a stadium with other tenants. Often, these facilities are partially funded by local government, providing the MLS tenant with a low debt service, but access to most of the revenue streams. For instance, Toyota Park,
home of the Chicago Fire, cost $98 million, but was paid for by the City of Bridgeview, Illinois. Exhibit 3-3 summarizes the stadium, year built, seating capacity, and occupancy for each MLS team.

### Exhibit 3-3

<table>
<thead>
<tr>
<th>Team</th>
<th>Stadium Location</th>
<th>Stadium Owner</th>
<th>Year Opened</th>
<th>Total Capacity</th>
<th>Soccer Capacity ($)</th>
<th>Club and Suite Seating</th>
<th>Total Occupancy % (6)</th>
<th>Soccer Occupancy % (6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicago Fire (1)*</td>
<td>Toyota Park, Chicago, IL</td>
<td>City of Bridgeview</td>
<td>2006</td>
<td>28,000</td>
<td>21,000</td>
<td>1,152</td>
<td>65%</td>
<td>67%</td>
</tr>
<tr>
<td>CD Chivas USA*</td>
<td>Home Depot Center, Carson, CA</td>
<td>Anschutz Entertainment Group</td>
<td>2004</td>
<td>27,000</td>
<td>27,000</td>
<td>1,342</td>
<td>77%</td>
<td>60%</td>
</tr>
<tr>
<td>Columbus Crew *</td>
<td>Crew Stadium, Columbus, OH</td>
<td>Hunt Sports Group</td>
<td>1999</td>
<td>22,555</td>
<td>22,555</td>
<td>1,635</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>FC Dallas (2)**</td>
<td>Pizza Hut Park, Frisco, TX</td>
<td>City of Frisco</td>
<td>2005</td>
<td>28,000</td>
<td>20,500</td>
<td>180</td>
<td>80%</td>
<td>64%</td>
</tr>
<tr>
<td>D.C. United (3)**</td>
<td>RFK Stadium, Washington, D.C.</td>
<td>District of Columbia</td>
<td>1994</td>
<td>60,200</td>
<td>23,863</td>
<td>230</td>
<td>29%</td>
<td>75%</td>
</tr>
<tr>
<td>Houston Dynamo ***</td>
<td>Robertson Stadium, Houston, TX</td>
<td>University of Houston</td>
<td>2004</td>
<td>32,000</td>
<td>25,462</td>
<td>20</td>
<td>N/A</td>
<td>74%</td>
</tr>
<tr>
<td>Kansas City Wizards ***</td>
<td>Arrowhead Stadium, Kansas City, MO</td>
<td>Jackson County</td>
<td>2004</td>
<td>78,513</td>
<td>20,269</td>
<td>10,279</td>
<td>19%</td>
<td>85%</td>
</tr>
<tr>
<td>Los Angeles Galaxy*</td>
<td>Home Depot Center, Carson, CA</td>
<td>Anschutz Entertainment Group</td>
<td>2004</td>
<td>27,000</td>
<td>27,000</td>
<td>1,342</td>
<td>77%</td>
<td>85%</td>
</tr>
<tr>
<td>New England Revolution ***</td>
<td>Gillette Stadium, Foxborough, MA</td>
<td>Robert Kraft</td>
<td>2002</td>
<td>60,000</td>
<td>22,385</td>
<td>6,087</td>
<td>20%</td>
<td>71%</td>
</tr>
<tr>
<td>New York Red Bulls (4)***</td>
<td>Giants Stadium, East Rutherford, NJ</td>
<td>N.J. Sports &amp; Exposition Authority</td>
<td>2004</td>
<td>80,000</td>
<td>25,576</td>
<td>261</td>
<td>21%</td>
<td>68%</td>
</tr>
<tr>
<td>San Jose Earthquakes ***</td>
<td>Spartan Stadium, San Jose, CA</td>
<td>San Jose State University</td>
<td>1993</td>
<td>40,000</td>
<td>19,566</td>
<td>N/A</td>
<td>40%</td>
<td>62%</td>
</tr>
<tr>
<td>Red Salt Lake***</td>
<td>Rio Tinto Stadium, SLC, UT</td>
<td>University of Utah</td>
<td>2008</td>
<td>45,796</td>
<td>22,831</td>
<td>N/A</td>
<td>40%</td>
<td>59%</td>
</tr>
</tbody>
</table>

MLS Average: 45,796, 22,831, 48%, 71%

Source: Sports Business Journal, MLS.com

Notes:
1. Expansion team Toronto FC moved into BMO Field during the 2007 season.
3. Formerly the Dallas Burn.
4. Formerly the NY/NJ Metrostars.
5. Soccer-specific stadium planning to be built by 2009.
6. Figures based on 5-year average attendance divided by soccer capacity. For soccer specific stadiums, the occupancy is calculated using the average attendance for the years since the facility opened.

As shown in Exhibit 3-3, the average total seating capacity for MLS stadiums was 45,796 in 2006. In most cases, teams restrict the capacity for soccer games versus other events by closing upper seating and end zones in order to reduce capacity to a level that reflects demand. For instance, an MLS team would have difficulty filling the 60,000 seats that Gillette Stadium allows for. Therefore, the average soccer seating capacity of an MLS stadium is approximately 22,831, which ranges from a low of 17,500 seats at Invesco Field to a high of 27,000 seats at the Home Depot Center. On average, soccer attendance equaled 48 percent of the total stadium capacity and 71 percent of total soccer capacity. For existing soccer-specific stadiums, the average is a capacity of 18,000 seats with a soccer utilization of 72 percent occupancy, and total utilization of 76 percent. The fact that capacity is nearly 50 percent higher than attendance reduces the demand scarcity for tickets. The trend for developing soccer-specific stadiums will continue to increase soccer capacity, as the majority of new facilities have a minimum capacity of 20,000 seats.

### Stadium Construction History

In May 1999, the first soccer-specific stadium built for MLS opened in Columbus, Ohio. Plans for a soccer specific stadium in Central Ohio had been in the works ever since the Crew's inaugural season. The entire cost of the stadium ($28.5 million) was privately funded. Capacity is 22,555, with a maximum of 30,000.

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23 The 2004 season was selected for comparison purposes with the San Jose Earthquakes.
The second soccer-specific stadium in the U.S., the Home Depot Center, opened in 2003, in Carson, California and is now host to the Los Angeles Galaxy and Club Deportivo Chivas USA ("Chivas"). The 27,000-seat Home Depot Center stadium is on the campus of California State University, Dominguez Hills. In addition to the soccer stadium, there is a 13,000-seat tennis stadium, a 20,000-seat track & field facility and an indoor velodrome. The $140 million soccer-specific stadium has drawn 24,000 fans per game for the Galaxy in its four and a half years in operation. AEG operates the facility and the Galaxy. Part of the financing for the stadium came from a $70 million naming rights deal from Home Depot.

The construction of MLS soccer stadiums is on the verge of a boom. A partnership consisting of Hunt Sports Group (HSG), the Frisco Independent School District, the City of Frisco, and Collin County opened Pizza Hut Park in August, 2005. The $65 million project, home of FC Dallas, consists of a 21,000-seat stadium as well as 17 tournament-grade fields for youth and high school soccer. In addition to MLS soccer, the stadium will be used by the Frisco Independent School District for high school football games. The multi-purpose stadium, also available for concerts, public entertainment, and community events, is on approximately 100 acres just north of the new Frisco Town Square, a mixed-use development.

In January, 2004, the Chicago Fire announced plans to develop a 20,000 seat (1,500 of which will be club seats) soccer stadium and concert venue in Bridgeview, a suburb of Chicago. Toyota Park, which opened in June, 2006, was developed on approximately 60 acres at a cost of about $98 million. Located on approximately 100 acres, the stadium will be a multi-purpose facility, serving as a major concert venue and a resource for the rapidly growing youth soccer communities and the Southland area at large. The Fire will be the stadium's primary tenant. Financing came from both Bridgeview and AEG, with each putting up $15 million, and $40 million from bonds. The source for the additional $228 million is unknown. Bridgeview will own the stadium, with the Fire holding a long-term lease.

The recent purchase of the MetroStars by Red Bull GmbH (renamed New York Red Bulls) also includes plans to build a $169 million stadium in Harrison, New Jersey (for the New York City market) to be ready for the 2008 season. The stadium is being constructed via a public-private partnership with AEG and Red Bull providing $100 million, Hudson County contributing $60 million for roadway infrastructure and parking facilities, and the town of Harrison spending $40 million for land acquisition. Red Bull Park will be the centerpiece of a $1 billion development dubbed Harrison MetroCenter.

Real Salt Lake is making progress in getting public funding for its own soccer-specific stadium, which broke ground in 2006 and is scheduled to open during the 2008 MLS season. The multi-purpose sports and entertainment center in Sandy, Utah, is the result of a public/private partnership. The team played its inaugural season at the University of Utah's Rice-Eccles Stadium, which accommodates 24,521 seats for soccer. The team has an option for three seasons at Rice-Eccles Stadium, and may not complete the facility for the 2008 season.

24 Its concert seating will be 28,000.
25 http://www.soccersiliconvalley.com/sites-mls.html
In 2005, Kroenke Sports Enterprises (KSE) and officials of Commerce City, Colorado, announced plans to develop 360 acres of land to house a 20,000-seat soccer stadium, youth soccer fields, retail development, and a new Commerce City civic center. The $130 million project was partially financed by a $64 million bond issue. The stadium opened in April 2007 with the Colorado Rapids beginning play. Dick’s Sporting goods signed a seven-figure deal to name the facility.

The Kansas City Wizards is investigating building a 22,000-seat stadium, which is estimated to have a $30-million-a-year economic impact on the area through sales of items such as tickets, restaurant meals and hotel stays. The complex also would result in an estimated 1,030 full-time jobs with an annual payroll of $20 million, and would generate an estimated $3.5 million a year in new tax revenues for local and state governments. The stadium could be the key to keeping the Wizards in Kansas City, as team owner Lamar Hunt announced he would sell the franchise if a soccer-specific stadium is not built for the franchise. The proposed facility is estimated to cost between $89 and $125 million, including land.

The latest addition to MLS is an expansion team, Toronto FC, which began play in a new US$63 million stadium near that city's downtown in 2007. The facility is called BMO Field, and is owned by the City of Toronto, but managed by Toronto FC. The Cleveland franchise is planning to build a new soccer stadium ready for the 2009 season. The New England Revolution and MLS are beginning the steps toward building a new soccer-specific stadium for the team.

D.C. United has plans to move into its own 27,000-seat stadium by 2008 or 2009. The team currently plays at the 60,000-seat RFK stadium, former home of the NFL Redskins and current home of the MLB Washington Nationals. The franchise operating rights were sold to Global Sports & Entertainment, which has been unsuccessfully seeking public contributions for building the soccer specific stadium.

In fact, only three of the fifteen franchises expected to be in MLS for the 2008 or 2009 season will not be in soccer-specific stadiums. Further, if the Kansas City franchise moves to the Philadelphia area, and the Houston Dynamo get a soccer-specific stadium, only one MLS team, the New England Revolution, will not be playing in a soccer-specific stadium in the near future. The current total cost of these new stadiums is approximately $625 million, not including the cost of D.C. United’s facility. Clearly, as MLS is able to put more of its teams in soccer-specific stadiums, it will increase revenues substantially.

Ticket Pricing
Among the newer, soccer-specific MLS facilities, the season tickets range in price from $240/ticket for general admission to more than $3,000 per ticket for field level seats. Suite prices range from $25,000 to $60,000 per
suite per year with various levels of escalation depending on the duration of the suite lease period. Single game tickets range from $15 per game for end line tickets to more than twice that for midfield tickets. Most of the clubs offer five game, half- and full-season packages, as well as age-based discounts such as that for children. It would be reasonable to assume that ticket prices for exhibition matches will average around $15.00 per ticket, and will grow to nearly $30.00 per ticket for playoff games.

3.7 MEDIA AND SPONSORSHIP

MLS currently plays in seven of the nation’s ten largest media markets. It has recently signed media deals worth approximately $15 million annually. Additionally, ESPN International can distribute MLS games internationally (reaching more than 180 million households outside of the U.S.). In each of its first eight seasons, over 90% of MLS games were shown locally, if not nationally, and all games are broadcast on radio in various local markets. MLS also has pay-per-view agreements with DirecTV, Dish Network, and iN DEMAND to offer a package of at least 100 locally broadcast games. MLS soccer games attract over 10 million television viewers annually.

MLS purchased the English-language television and radio rights in the U.S. for two FIFA Men’s World Cups (Japan/Korea 2002 and Germany 2006) and the Women’s World Cup (China 2003) from FIFA World Cup, for which it reportedly paid in excess of $40 million for the television and radio rights to these tournaments.
4.0 PROJECT BACKGROUND AND MARKET CHARACTERISTICS

4.1 PROPOSED STADIUM LOCATION

Only a few locations have been considered since the City began investigating where to build the new MLS stadium. Since early 2006, FWSH Partners were negotiating with San Jose State University (SJSU) for the development of an MLS stadium on SJSU owned land that would also house inter-collegiate football. Those negotiations terminated in April 2007 after the Earthquakes and SJSU could not come to an agreement on revenue sharing for the stadium.

Since May 2007 the primary location under consideration involves the redevelopment of the City owned 75-acre Airport West Property (formerly FMC) as a site for the soccer stadium and 2.25 million square feet of ancillary office research and development, commercial and hotel uses. The land lease would be at minimum fair market value, and which should be negotiated during the fall of 2007. The City completed the purchase of the property in 2005 for approximately $82 million. The annual debt service on the property is approximately $7.5 million. The property is located at 1125 Coleman Avenue adjacent to the San Jose Airport. In June 2007, the San Jose City Council voted unanimously to enter into a Memorandum of Understanding (MOU) to explore construction of a new stadium to bring MLS back to San Jose and adopted a resolution authorizing the city manager to enter into an Exclusive Right to Negotiate (ERN) agreement with Lew Wolff regarding the potential development of all 75 acres of the site. Eight of the acres will be set aside for BART, leaving sixty-seven acres for the mixed-use development and stadium. The architectural firm Rossetti has been commissioned to design the new stadium. The exact acreage dedicated to the stadium is currently not known.

The new stadium will be constructed through 100% private financing and would not require any public investment. The plan is based on the concept of using the profits from the sale of the iStar parcel, which is expected to generate approximately $80 million, located in the Edenvale area to pay for the stadium construction on a site within the City. Until the completion of a new soccer specific stadium, which may be as early as the 2010 season, the team will play its home games at one or two venues around the Bay Area and/or use multiple Bay Area sites as its home venue.

This analysis will review the economic benefit from locating the stadium at the Airport West location. Other alternate locations may generate different economic benefits than those generated by the Airport West location. The analysis of alternate locations was beyond the scope of this project.

To assess the potential market and economic impact of the stadium, SportsEconomics conducted the following research and analyses:

- Analyzed local market area characteristics including the size and age of the local populace, household income, corporate base, attractions, accessibility and other such characteristics;
- Analyzed the characteristics of comparable soccer stadiums and complexes operating or planned for major metropolitan areas to provide general background and to gain a perspective from which to assess potential activity at the proposed facility;
- Analyzed the feasibility and economic impact studies of comparable soccer-specific stadiums;
- Conducted interviews with and obtained information from the San Jose Earthquakes and other MLS franchises and facilities;
- Analyzed primary economic impact studies conducted within the City of San Jose to develop assumptions regarding the percentage of spectators that will be relevant visitors, how much spending will occur per spectator inside and outside of the facility, fiscal benefits from this spending, and other information relevant to this analysis;
- Developed economic impact models using assumptions developed through aforementioned research.

Exhibit 4-I: Study Methodology

![Study Methodology Diagram]
Market Analysis
The Market Analysis section is intended to estimate the regional need and opportunity for the proposed stadium. The major tasks needed in conjunction with this phase include the following: informational discussions with several of the City’s key personnel, other owners or developers of similar stadium initiatives, the public officials involved with supporting or financing similar stadiums, and business leaders in the marketplace. Moreover, in addition to information provided by the City and stakeholders, we will review key market and demographic information, as well as statistical information regarding team and stadium operating characteristics, provided by the following sources: Comparable Stadium Operating Budgets/Statements, Comparable Market Area Publications, Sports Business Daily, Street and Smith’s Sports Business Journal, Dun and Bradstreet, Kagan Guides, Revenues from Sports Venues, Team Marketing Report, and other various League data.

An important component in assessing the potential success of the proposed soccer stadium is the demographic and socioeconomic profile of the City of San Jose relative to other soccer markets which can successfully support a soccer-specific stadium and MLS franchise. The strength of a market in terms of its ability to attract events, and to draw participants and spectators, is affected by the size, demographics, and spending characteristics of the relevant market. Moreover, additional revenues from sponsorship and luxury box sales is also affected by the size and spending capabilities of the local corporate base. As such, the demographic and socioeconomic characteristics of the local market will be discussed, and comparisons will be made to other MLS markets.

The demographic and socioeconomic data for the local market will be discussed in terms of the City of San Jose and the surrounding Consolidated Metropolitan Statistical Areas (CMSA). The demographic and socioeconomic data presented for comparable markets is based on CMSAs. The U.S. Census Bureau defines MSAs as having at least one urbanized area with a population of at least 50,000 persons, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties. All data was derived from 2004 statistics from the United States Census Bureau or purchased from Claritas, which is also based on 2004 Census-adjusted data.

4.2 LOCAL MARKET CHARACTERISTICS
The demographic and socioeconomic data for the local market will be discussed in terms of the City of San Jose and the surrounding Metropolitan Statistical Area (MSA). All data was derived from the United States Census Bureau or purchased from Claritas, which is also based on Census data.

Population
San Jose is the largest city in the Bay Area, located roughly 50 miles south of San Francisco and 390 miles north of Los Angeles. San Jose is the third largest city in California, following Los Angeles and San Diego. It is the 10th largest city in the U.S., with a population of 912,332. The City represents approximately 54% of the population of Santa Clara County, which boasts a population of 1,675,734. The City is located in the San Jose-Sunnyvale-Santa Clara MSA, which has a population of 1,732,851. The population for the MSA has remained flat since 2000, but has grown 13% since 1990. It has lagged the national population growth rate of 4% from 2000 to
2004, and 18% from 1990 to 2004. However, nearly all large cities lagged the national average population growth rates due to existing large population bases and high densities.

**Age**

Another demographic characteristic that is often important to the overall viability of a stadium and a sports team is the age of the local population. Generally, sports and entertainment events attract patrons of various ages with the core group of patrons clustered in the 15 to 44 age group. More specifically, males aged 18 to 49 are considered a core demographic when considering locational viability for sports.

With a median age of 34.7 years, the population in the City of San Jose is slightly younger than the national median age of 36.2 years. Approximately 45 percent of the San Jose population falls within the core group of persons aged 15-44, which exceeds the national average of 43 percent in this demographic.

With regard to males aged 18 to 49 years, the San Jose MSA has more than 25% of the population in this age demographic. This population has fallen 6% since 2000, but has remained flat since 1990.

**Ethnicity**

The ethnic composition up of the local market can impact the ability of a market to support an MLS team. While soccer appeals to various ethnic backgrounds, domestically the Hispanic population is considered the best indicator of potential soccer interest. Specifically, while 14 percent of the United States population is Hispanic or Latino (of any race), nearly 32 percent of the City of San Jose population is defined as Hispanic. The secondary population for soccer attendance would be percentage identified as Caucasian. Half of the San Jose market is comprised of Caucasians, compared to a national average of 67 percent of the population.

**Income**

Household income is considered an important socioeconomic characteristic for showing the size of the population that can allocate discretionary income to various entertainment activities in a local market. Approximately 65 percent of San Jose households have incomes of over $50,000, compared to 57 percent of U.S. residents. Moreover, 34 percent of San Jose households have incomes of over $100,000, compared to 12 percent of U.S. residents. The median household income of San Jose is $70,921, which is nearly 49 percent higher than the national median household income of $47,723.

**Corporate Base**

It is also important to consider the corporate depth of the local market, as these corporations often purchase private suites, season tickets, naming rights and present other advertising/sponsorship opportunities. In total, the total MSA Corporate Inventory in San Jose is 11,900. This represents the number of corporations that are headquartered in the MSA that have at least 25 employees and $5 million annual sales. In addition, San Jose has 10 Fortune 500 companies headquartered in the City, and 22 that are headquartered in the MSA.

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31 Nearly 440,932 persons are males aged 18 to 49.

32 Source: Dun & Bradstreet.

4.3 **COMPARISONS TO MLS MARKETS**

It is important to analyze the demographic and socioeconomic data for the local market relative to other markets that currently have a soccer-specific stadium or MLS team. Comparisons will be made between the San Jose CMSA (San Francisco-Oakland-San Jose CMSA) to these markets for the categories profiled in Section 4.2.

**Summary**

As previously mentioned, the demographic and socioeconomic characteristics of a market are an important component in assessing the success of an MLS team and new stadium in the City of San Jose and surrounding market area. The strength of a market is predicated on the size of the population and television viewing audience, and the income of the residents. It is also important to consider the number of other competing professional sports teams in the area, as an MLS team will also compete with these franchises for local interest, disposable income directed towards entertainment, and sponsorships.

In a peer-reviewed research article on optimal locations for MLS teams, it is shown that the population, per capita income, and the percentage of the population that is Hispanic are important factors in determining which cities MLS has chosen for its team locations. Perhaps most importantly, the study lists the San Jose-San Francisco-Oakland CMSA as the most viable candidate for an MLS expansion franchise.

**Exhibit 4-2**

<table>
<thead>
<tr>
<th>Team</th>
<th>Television Households (a)</th>
<th>Rank</th>
<th>CMSA Population 2004</th>
<th>Rank</th>
<th>Professional Soccer Teams in CMSA (b)</th>
<th>Rank</th>
<th>Population/Team Median Income (c)</th>
<th>Rank</th>
<th>MSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicago Fire</td>
<td>3,417,330</td>
<td>4</td>
<td>9,157,540</td>
<td>3</td>
<td>6</td>
<td>1,520,287</td>
<td>7</td>
<td>697,789</td>
<td>Chicago--Gary–Kenosha, IL--IN--WI CMSA</td>
</tr>
<tr>
<td>CD Chivas USA</td>
<td>5,431,140</td>
<td>2</td>
<td>16,373,045</td>
<td>2</td>
<td>8</td>
<td>2,046,706</td>
<td>2</td>
<td>544,500</td>
<td>Los Angeles–Riverside–Orange County, CA CMSA</td>
</tr>
<tr>
<td>Colorado Rapids</td>
<td>1,891,760</td>
<td>9</td>
<td>2,581,306</td>
<td>9</td>
<td>5</td>
<td>516,301</td>
<td>12</td>
<td>71,650</td>
<td>Denver–Boulder– Greeley, CO CMSA</td>
</tr>
<tr>
<td>Columbus Crew</td>
<td>867,490</td>
<td>11</td>
<td>1,540,357</td>
<td>11</td>
<td>2</td>
<td>770,079</td>
<td>10</td>
<td>64,000</td>
<td>Columbus, OH MSA</td>
</tr>
<tr>
<td>D.C. United</td>
<td>2,284,610</td>
<td>8</td>
<td>7,408,070</td>
<td>4</td>
<td>7</td>
<td>1,086,867</td>
<td>4</td>
<td>89,300</td>
<td>Washington–Baltimore, DC–MD–VA–WV CMSA</td>
</tr>
<tr>
<td>FC Dallas</td>
<td>2,292,760</td>
<td>7</td>
<td>5,221,801</td>
<td>7</td>
<td>5</td>
<td>1,044,360</td>
<td>8</td>
<td>65,100</td>
<td>Dallas–Fort Worth, TX CMSA</td>
</tr>
<tr>
<td>Houston Dynamo</td>
<td>N/A</td>
<td>N/A</td>
<td>4,600,971</td>
<td>8</td>
<td>4</td>
<td>1,167,393</td>
<td>3</td>
<td>84,900</td>
<td>Houston–Galveston–Beaumont, TX CMSA</td>
</tr>
<tr>
<td>Kansas City Wizards</td>
<td>641,580</td>
<td>10</td>
<td>1,776,062</td>
<td>10</td>
<td>3</td>
<td>391,018</td>
<td>9</td>
<td>68,490</td>
<td>Kansas City, MO–KS MSA</td>
</tr>
<tr>
<td>Los Angeles Galaxy</td>
<td>5,431,140</td>
<td>2</td>
<td>16,373,045</td>
<td>2</td>
<td>8</td>
<td>2,046,706</td>
<td>2</td>
<td>54,450</td>
<td>Los Angeles–Riverside–Orange County, CA CMSA</td>
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<td>New England Revolution</td>
<td>2,591,800</td>
<td>1</td>
<td>5,893,100</td>
<td>5</td>
<td>5</td>
<td>1,163,820</td>
<td>6</td>
<td>82,600</td>
<td>Boston–Worcester–Lawrence, MA–NH–ME–CT CMSA</td>
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<tr>
<td>Real Salt Lake</td>
<td>1,000,000</td>
<td>12</td>
<td>1,333,914</td>
<td>12</td>
<td>2</td>
<td>466,957</td>
<td>11</td>
<td>61,300</td>
<td>Salt Lake City–Ogden, UT MSA</td>
</tr>
<tr>
<td>San Jose Earthquakes</td>
<td>2,359,870</td>
<td>6</td>
<td>7,039,362</td>
<td>5</td>
<td>6</td>
<td>1,173,227</td>
<td>3</td>
<td>105,500</td>
<td>San Francisco–Oakland–San Jose, CA CMSA</td>
</tr>
</tbody>
</table>

**Notes:**
(b) Professional Sports Teams include NHL, MLB, NFL, NBA, and MLS teams.
(c) HUD 2005 estimated MSA Median Family Incomes.

As shown in Exhibit 4-2, San Jose ranks first in terms of median income, fifth in population, sixth in the number of television households, and fifth in terms of the population per number of professional franchises.

It is also important to consider the corporate base, spending characteristics, and other socioeconomic data for a location. Overall, San Jose ranks above the median and average on all metrics with the exception of 5-year attendance, as shown in Exhibit 4-3.

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Exhibit 4-3

<table>
<thead>
<tr>
<th>Summary of MLS Market Area Characteristics</th>
<th>San Jose</th>
<th>MLS Average</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-year Average Attendance</td>
<td>11,800</td>
<td>15,211</td>
<td>9</td>
</tr>
<tr>
<td>Population</td>
<td>7,039,362</td>
<td>7,026,716</td>
<td>5</td>
</tr>
<tr>
<td>Population per Franchise</td>
<td>1,173,227</td>
<td>1,133,050</td>
<td>5</td>
</tr>
<tr>
<td>Avg. Household Income</td>
<td>$66,657</td>
<td>$49,726</td>
<td>1</td>
</tr>
<tr>
<td>Median Household Income</td>
<td>$105,500</td>
<td>$52,021</td>
<td>1</td>
</tr>
<tr>
<td>Percent Hispanic</td>
<td>21.7%</td>
<td>18.4%</td>
<td>5</td>
</tr>
<tr>
<td>Corporate Base Inventory</td>
<td>11,900</td>
<td>11,500</td>
<td>4</td>
</tr>
<tr>
<td>Number of Sports Franchises</td>
<td>6</td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>

Population
San Jose ranks fifth out of twelve MLS markets in terms of population, with a population of approximately 7.0 million. Of the seven team markets it is larger than, all have soccer-specific stadiums or are planning on building such stadiums. It is nearly equal with the MLS average market population of 7.0 million. In total, the City of San Jose represents nearly 25% of its CMSA population. Exhibit 4-4 shows the CMSA populations of the current MLS franchises compared to San Jose. In analyzing the population within a 50-mile radius, the San Jose CMSA ranks 6th among MLS markets.

Exhibit 4-4

Age
Again, using the core group of patrons aged 15 to 44 years as the main body of sports and entertainment event patrons, San Jose ranks as the second oldest MLS market, with a median age of 37.3 years. This is older than the
MLS average of 34.8 years. However, San Jose demonstrates the highest percentage of population within the key age range of 18 to 49, with 42% of the CMSA population in this range.35

Ethnicity
The ethnic composition up of the local market can impact the ability of a market to support an MLS team. Specifically, while 14 percent of the United States population is Hispanic or Latino (of any race), the MLS average is 19 percent Hispanic, and the median is 20 percent. Caucasians make up 61 percent and 60 percent in terms of average and median MLS market composition, respectively.

The San Jose region has a strong ethnic base. San Jose ranks fourth in terms of highest MLS Hispanic population, and ranks seventh in terms of highest Caucasian population. It falls behind Los Angeles, New York, Dallas and Houston as having the highest Hispanic population of the MLS markets.

Income
Nearly 51 percent of U.S. soccer households have annual income of at least $50,000, compared to the approximately 34 percent of all U.S. households.36 The larger income of soccer participants indicates that the core group of spectators at a new soccer stadium may have more discretionary income to spend on tickets, concessions, merchandise, and parking.

While the average household income is $49,726 and the median household income is $52,021 for MLS teams, San Jose far exceeds this, with an average household income of $66,657 in the CMSA. This is nearly 28 percent higher than the median MLS income. When examining median household income, the average for MLS teams is $69,045 and the median is $66,400. Again, San Jose far exceeds this, with a median household income of $105,500 in the CMSA, which is nearly 59 percent higher than the median MLS income.

Corporate Base
The corporate depth of the local market is often an important consideration, as corporations often purchase private suites, season tickets, naming rights and present other advertising/sponsorship opportunities. As shown in Exhibit 4-5, the Bay Area’s CMSA corporate base ranks 4th among MLS markets, with a corporate inventory of 11,900, compared to 11,500 for the average MLS franchise, and a median of 9,900 per MLS franchise. Moreover, the San Jose MSA’s corporate inventory as a proportion of total population is highest among MLS markets.

35 Source: CSL MLS Soccer presentation.
36 Source: Sports Business Research Network
Exhibit 4-5

<table>
<thead>
<tr>
<th>Total CMSA Corporate Inventory</th>
<th>11,900</th>
<th>4</th>
<th>25,300</th>
<th>11,500</th>
<th>9,900</th>
<th>3,220</th>
</tr>
</thead>
</table>

(1) Corporate headquarters with at least 25 employees and $5 million annual sales and corporate branches with at least 25 employees.
Source: Dun & Bradstreet.

Sports Franchises per Market
The number of sports franchises in competition for corporate dollars and attendance can be an indicator of demand, and can therefore impact the viability of a professional franchise. For purposes of this analysis, major professional sports franchises were assumed to include franchises from the following leagues: MLS, NFL, MLB, NBA and NHL. For this analysis, San Jose residents have access to the San Francisco 49ers (NFL), Oakland Raiders (NFL), San Francisco Giants (MLB), Oakland Athletics (MLB), Golden State Warriors (NBA), and the San Jose Sharks (NHL). The proposed relocations of the San Francisco 49ers and Oakland Athletics will benefit San Jose residents, as both will be located closer to the City of San Jose, but may add more competition for the proposed San Jose Earthquakes. Adding the Earthquakes to the market will bring San Jose to 7 teams in total. Exhibit 4-6 illustrates the number of major sports franchises in each MLS market.

Exhibit 4-6

San Jose has approximately 1.2 million residents per sports franchise, ranking fifth among the twelve MLS markets. San Jose ranks nearly equal with the average of 1.1 million and a median of 1.2 million people per sports franchise across MLS markets.
Television Viewership
The television viewing audience is also a reflection of potential team support, as a larger viewing population in an
area known to support an MLS team can lead to revenue opportunities for the team in terms of higher naming
rights, advertising and sponsorship revenues, for example. Overall, the San Jose market television audience ranks
sixth of the twelve MLS teams, with more than 2.3 million viewers.

4.4 Comparable MLS Stadiums
As with all American professional sports, the quality of the stadium impacts team and league revenues. One goal
of MLS has been to place its teams in soccer-specific stadiums that are not only better venues for soccer viewing,
but allow the MLS team to be the major tenant and have access to many more revenue streams than when it
shares a stadium with other tenants.

The purpose of this section is to present an overview of selected existing and proposed MLS stadiums and other
comparable stadiums to provide a benchmark from which to assess the potential operational performance and
event levels of the proposed stadium. To date, six soccer-specific stadiums have been developed in MLS, and
several MLS markets are still in the process of developing new stadiums.

Existing Facilities

Crew Stadium (1999)
Home of the Columbus Crew, this facility was the first soccer-specific stadium built for MLS. It opened in 1999
in Columbus, Ohio. Plans for a soccer specific stadium in Central Ohio had been in the works ever since the
Crew’s inaugural season, which was played in Ohio Stadium at Ohio State University. However, voters turned
down stadium initiatives in Franklin County and the city of Dublin, before the Crew proposed a stadium built on
land leased from the Ohio Expositions Commission. The facility is owned and operated by the team. The entire
cost of the stadium ($28.5 million) was privately funded. It is estimated that the team pays $50,000 in land rent
and $120,000 in parking per year.

Despite being a smaller market, the Columbus Crew has boasted above average MLS attendance from 1999 until
2004. It is believed that some of the success of the team can be attributed to the fact that the Crew was one of
the few teams playing in a soccer-specific stadium. Attendance for the 5-year period from 2002 to 2006 was
16,900.

Capacity is 22,555, with a maximum of 30,000 for non-soccer events. The stadium has the capacity to expand up
to 45,000-seats. It originally had 20 loges and no luxury suites. Prior to the 2004 season, a portion of the loges
were converted to suites in a project which also included the building of the Huntington Club. The stadium
currently includes 18 suites, two party suites, eight loges, the 125-seat Huntington Club and 1,191 club seats. The
suites seat 12 to 18 people and are priced from $22,500 to $30,000 and are priced on three to seven-year terms.
Events hosted at the stadium include MLS Crew Games, MLS All-Star Game, MLS Cup (2001), U.S. Open Cup, FIFA Women’s World Cup USA (2003), some Ohio State University (OSU) Soccer matches, the NCAA Men’s College Cup, Major League Lacrosse, Ohio High School Athletic Association (OHSSA) State Soccer Championships, U.S. Men’s and Women’s National Team soccer matches, and concerts.

**Home Depot Center (2003)**

The second soccer-specific stadium in the U.S., the Home Depot Center, opened in 2003, in Carson, California and is now host to the Los Angeles Galaxy and Club Deportivo Chivas USA (“Chivas”). The 27,000-seat Home Depot Center stadium is on the campus of California State University, Dominguez Hills. Developed by AEG, the Home Depot Center is a 125-acre development, featuring state-of-the-art stadiums and facilities for soccer, tennis, track & field, cycling, volleyball, baseball, softball, basketball and other sports. In addition to the soccer stadium, there is a 13,000-seat tennis stadium, a 20,000-seat track & field facility and an indoor velodrome. The stadium has drawn nearly 24,000 fans per game for the Galaxy in its three years in operation. AEG operates the facility and the Galaxy.

The stadium cost nearly $140 million, and was jointly financed with private and public funding. The Home Depot has a $70 million, ten-year naming rights contract for the complex, which contributed to the private funds needed for the facility. Part of the deal called for $30 million in building materials to be purchased from Home Depot.

The facility is the nation’s most complete training facility for Olympic, amateur and professional athletes, and is designated as a U.S. Olympic Training Site and is home to Athletes’ Performance Los Angeles. Local residents are also allowed access to the tennis courts, soccer training fields, a jogging trail, and some of the fitness stations, adding to its public appeal.

The stadium has 43 suites priced from $28,000 to $70,000 a year with leases ranging from three to ten years. This includes tickets to more than 40 other events. Single tickets range from $15.00 to $45.00, and season tickets range in price from $300 to $640.

The Galaxy has been one of the most successful MLS teams in terms of attendance. Since the opening of the stadium in 2003, the Galaxy has averaged 22,703 fans per game, compared to the league average of 15,267. CD Chivas USA is also showing promise, with an average of 18,460 since its founding in 2005.

The Home Depot Center averages 90 ticketed events per year with 45 percent of those being MLS related. Using the average attendance for the Galaxy and Chivas alone, approximately 660,000 visit the stadium for MLS games annually. The soccer stadium also annually hosts ten additional soccer games, two rugby matches, one lacrosse game, one motocross event, and six concerts. Under an agreement with the local community and University, the Home Depot Center is limited to holding a maximum of six concerts a year. For concerts, the facility has a capacity of 27,000.
Pizza Hut Park (2005)

A partnership consisting of Hunt Sports Group (HSG), the Frisco Independent School District, the City of Frisco, and Collin County opened Pizza Hut Park in August, 2005. The $65 million project, home of FC Dallas, consists of a 20,500-seat stadium as well as 17 tournament-grade fields for youth and high school soccer games used by the Frisco Independent School District. It is part of an $80 million soccer complex located in Frisco, Texas. The cost of the complex was divided amongst three public entities groups: (1) Collin County, $20 Million, (2) City of Frisco, $20 Million, (3) Frisco School District, $15 Million, and (4) HSG, which paid $25 Million. Funds not used for the facility construction, but which are likely collected by HSG to offset facility expenses, were purchased by Pizza Hut for $25 million over a 20 year period.

The multi-purpose stadium, also available for concerts, public entertainment, and community events, is on 117 acres just north of the Frisco Town Square, a mixed-use development. The stadium has a permanent stage at one endzone, capable of facilitating major concert and other entertainment events. The facility also includes a 6,000 square foot stadium club and 18 luxury suites. AEG will coordinate the musical entertainment bookings. The facility capacity will increase to 27,000 for concerts.

The City of Frisco owns the stadium and soccer complex and Frisco Stadium L.P. has a 20-year lease and operating agreement with an option for an additional 20 years. The City of Frisco will collect $100,000 annually in rent from HSG, which is also required to maintain the facility until 2025. In return, HSG will maintain control of all revenue generated at the complex including naming rights.

Prior to Pizza Hut Park, the team paid $50,000 in rent per game (15 home games in 2004) at the Cotton Bowl. Now, the team will generate $630,000 annually from luxury suites, $1.25 million per year in naming rights sponsorship, and up to $480,000 in parking revenues. This does not include concessions, merchandise, ticket, or other sponsorship revenue. However, just these additional, new, incremental revenues cover the team’s $2 million annual player payroll. Moreover, regular season ticket revenue for FC Dallas is expected to exceed $2.7 million in 2006, an increase of nearly 70% over the prior season.

FC Dallas is expected to host 20 events per year, which is supposed to generate 464,000 spectators each year. When accounting for the utilization of the 17 soccer fields on the facility by practices and other participatory recreational events, this number grow to 1.4 million participants and spectators per annum. The North Texas State Soccer Association (NTSSA), the largest joint youth and adult soccer association in the U.S., moved its headquarters to Pizza Hut Park after entering into an agreement to bring its sponsored tournaments to the facility. US Youth Soccer also relocated to the facility. The 20-year lease agreement with US Youth Soccer, coupled with a 15-year marketing agreement between FC Dallas and the North Texas State Soccer Association, makes Pizza Hut Park a focal point for soccer in the nation.

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37 The Construction of Pizza Hut Park also allowed the Frisco school district to avoid the need to build a $23 million football stadium of its own.
39 http://www.soccersiliconvalley.com/sites-mls.html
Toyota Park (2006)

In January, 2004, the Chicago Fire announced plans to develop a 20,000 seat (1,500 of which will be club seats) soccer stadium and concert venue in Bridgeview, a suburb of Chicago.\(^{40}\) Toyota Park, which opened in June, 2006, was developed on approximately 60 acres at a cost of about $98 million. The original price tag of $70 million was increased to accommodate expanded parking facilities, a permanent concert stage and increased cost of materials. Located on approximately 100 acres in the Chicago suburb of Bridgeview, Illinois, Toyota Park is a multi-purpose facility, housing luxury suites, food courts, retail displays, a press room, training rooms, locker rooms, meeting rooms, and a stage for concerts. The Park has the capability to expand to 30,000 seats, with an estimated capacity for concerts of 28,000 seats.

The Fire will be the stadium’s primary tenant. The site houses the Fire’s offices as well as a training center and a training field adjacent to the stadium. The site will also be the center point of a re-development that is expected to include restaurants, theaters and other commercial establishments.

Financing has come both from Bridgeview and AEG, with each putting up $15 million, and $40 million from other government bonds.\(^{41}\) The Village of Bridgeview also used funds from the bonds for the economic development of the area. The bonds will be repaid over 20 years using revenue from the stadium. Officials estimate the stadium will generate up to $12 million annually in revenue over the next 10 years.\(^{42}\) Bridgeview owns the stadium, leasing the facility to the team at a rate of $300,000 a year. The team will be able to maintain revenue from advertising and naming rights, but will share revenues from tickets, concessions, parking and luxury suites with the Village.

Dick’s Sporting Goods Park (2007)

In 2005, Kroenke Sports Enterprises (KSE) and officials of Commerce City, Colorado, announced plans to develop 360 acres of land to house a 20,000-seat soccer stadium, youth soccer fields, retail development, and a new Commerce City civic center. The $130 million project was partially financed by a $64 million bond issue. The facility opened in April 2007 in time for the Colorado Rapids 2007 season.\(^{43}\) The Rapids signed Dick’s Sporting Goods Park for naming rights. They also signed Coca-Cola to a mid-six figure deal to be a founding-level sponsor, and plan to get nine more of these sponsors and also a naming rights deal on the stadium.\(^{44}\)

The complex will be available for use year-round in anticipation of hosting NFL training camps and as many as ten concerts annually with a built-in stage and concert capacity of 28,000. The City bond issue will be paid by $52 million from existing city revenues, and the remaining $12 million from revenue generated by the stadium. Also, $43 million in Urban Renewal Development Bonds will be issued and will be repaid through revenue generated from the commercial, retail and entertainment usage. KSE contributed more than $20 million towards construction and infrastructure improvements, and guaranteed $45 million in bonds in conjunction with the project.

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\(^{40}\) Its concert seating will be 28,000.

\(^{41}\) The sources for the additional $28 million are unknown.


\(^{43}\) [http://www.soccersiliconvalley.com/sites-mls.html](http://www.soccersiliconvalley.com/sites-mls.html)

BMO Field (2007)
BMO Field, located at Exhibition Place in Toronto, is Canada’s first soccer-specific stadium and opened in May, 2007. The open-air structure seats 20,195 spectators and is home to the Canadian National Soccer Team as well as Toronto FC, Canada’s first MLS team.

The stadium was part of Canada’s successful bid to host the 2007 FIFA U-20 World Cup. The city secured an expansion franchise from MLS in May, 2006, and naming rights were sold to the BMO Financial Group three months later. BMO Field is also used for community soccer purposes, corporate functions and concerts and hosted the FIFA U-20 World Championships in July, 2007. The facility is also scheduled to host the 2008 All-Star Game as well an MLS Cup by the year 2012.

The facility is owned by the City of Toronto, and managed by Maple Leaf Sports & Entertainment Ltd. Toronto FC is owned by Maple Leaf Sports & Entertainment Ltd. (MLSE), owners of the National Hockey League's Toronto Maple Leafs and the National Basketball Association's Toronto Raptors. In addition, MLSE contributed towards the cost of the building of the stadium. With the total costs in the realm of $62 million ($72 million including land), contributions came from multiple sources. MLSE contributed $8 million towards the construction of the stadium and $10 million towards securing the naming rights of the stadium. The Canadian Federal Government contributed $27 million, with Ontario’s government adding an additional $8 million. Toronto paid $9.8 million, and has the ownership of the stadium.45

The largest attendance at the stadium was 20,522 on August 5, 2007 when Los Angeles Galaxy played to a 0-0 draw against Toronto FC. Despite sold out games and long waiting lists, the team has no plans to expand the stadium in the near future. The immediate success of BMO Field bodes well for the Earthquakes.

Planned Facilities

Salt Lake Facility
Real Salt Lake is making progress in getting public funding for its own soccer-specific stadium, which broke ground in 2006 and is scheduled to open for the 2008 MLS season. The multi-purpose sports and entertainment center in Sandy, Utah, is the result of a public/private partnership which will see $55 million in a combination of hotel taxes, redevelopment funds, and other public sources joined with $100 million from the team to complete the project. Real Salt Lake will also donate $7.5 million towards a youth soccer complex, build a youth academy in conjunction with Real Madrid, donate $1 million per year towards promoting tourism, contribute 500 tickets per home game to students to promote youth literacy, commit to staying in Salt Lake County for at least 30 years, and give the county 50 cents for every game ticket sold. The team played its inaugural season at the University of Utah’s Rice-Eccles Stadium, which accommodates 24,521 seats for soccer. The team has an option for three seasons at Rice-Eccles Stadium. Given the delays in funding, it is unlikely the facility will be completed in time for the 2008 season.

45 All figures are in Canadian dollars.
Harrison MetroCenter

The recent purchase of the MetroStars by Red Bull GmbH (renamed New York Red Bulls) also includes plans to build a $169 million stadium in Harrison, New Jersey (for the New York City market) to be ready for the 2008 season. The team currently plays at the 80,000-seat Giants Stadium in the Meadowlands. Harrison is near Giants Stadium in East Rutherford, New Jersey. The stadium is being constructed via a public-private partnership with AEG and Red Bull providing $100 million, Hudson County contributing $60 million for roadway infrastructure and parking facilities, and the town of Harrison spending $40 million for land acquisition. Red Bull Park will be the centerpiece of a $1 billion development dubbed Harrison MetroCenter. The development includes 300,000 square feet of mid- and high-rise office space, 300,000 square feet of retail space and 3,500 units of housing.46

The town of Harrison will finance the land purchase and other requisite costs through the sale of general obligation bonds. AEG will provide approximately $80 million for full funding for the construction and operations of the stadium, including debt service on the bonds, which it will finance using private funds and a guarantee on the taxable bonds. As a result, AEG will have the exclusive right to manage and operate the stadium.

The stadium will include 43 luxury suites, a permanent stage with a canopy and roof overhangs that will be able to cover approximately 15,000 people. The stadium is expected to anchor a $1 billion redevelopment of the historic Harrison waterfront, which will include a new hotel, 6,000 housing units and 3.5 million square feet of retail space. The Complex will also include a new 1,500-space parking garage, the $40 million cost of which will be funded by the Hudson County Improvement Authority via an issue of tax-exempt bonds.

Team management projects that the proposed stadium could host approximately 31 events annually consisting of 18 MetroStars games, five concerts, three other soccer games and five other events. Total annual attendance is estimated to approximate 630,000. It is expected that the new revenue streams from the stadium including naming rights, sponsorship and concessions will significantly improve the financial operations of the team.

Kansas City Stadium

The Kansas City franchise is investigating building a 22,000-seat stadium, which would be the key to keeping the Wizards in Kansas City. Team owner Lamar Hunt announced he would sell the franchise if a soccer-specific stadium is not built for the franchise. The proposed facility is estimated to cost between $89 and $125 million, including land.47

D.C. United Facility

D.C. United has plans to move into its own 27,000-seat stadium by 2008. The team currently plays at the 60,000-seat RFK stadium, former home of the NFL Redskins and current home of the MLB Washington Nationals. The franchise operating rights were sold to Global Sports & Entertainment, which has been seeking public contributions for building the soccer specific stadium. The team has yet to break ground on the facility, and it is unlikely they will meet their target of completion in 2008.

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46 http://www.soccersiliconvalley.com/sites-mls.html
47 http://blog.soccersiliconvalley.com/archives/2005/10/study_shows_eco_2.html
Other Possible MLS Facilities
The possible expansion team in Cleveland is planning to build a new soccer stadium ready for the 2009 season. The New England Revolution and MLS are beginning the steps toward building a new soccer-specific stadium for the team.48

In addition, Milwaukee Professional Soccer (MPS) has announced plans for a $320 million complex that would include a 20,000-seat soccer specific stadium, new retail and office space, and family housing. The cost of the stadium is estimated at $40 to $60 million and would anticipate hosting as many as 60 events annually by attracting MLS games, international competitions, NCAA, and youth events. The city has yet to obtain an MLS franchise. The St. Louis region has a number of groups moving forward with getting an MLS expansion franchise and constructing a soccer-specific stadium for the team.

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48 See Revs to take step toward new stadium, June 14, 2006, MLSnet.com, by Jonathan Nierman.
5.0 ESTIMATES OF POTENTIAL DEMAND

The purpose of this section is to estimate the potential demand and utilization of the proposed soccer stadium. The estimates for the number and type of events the facility may host annually, and the attendance for these events is based on the analysis of comparable facilities and the history of soccer in San Jose. Where possible, the economic impact and feasibility studies conducted for other soccer-specific stadiums were used, along with the actual results of the new stadiums (e.g., Dallas, Chicago, Toronto, Colorado), as a gauge of potential demand. Moreover, findings based on recent primary studies of various sporting and other events in San Jose provide the economic impact per attendee. These estimates are adjusted for the local market by examining the number of competing facilities in the regional marketplace, the plans for the facility amenities, the previous attendance of the San Jose Earthquakes, as well as the demographic and socioeconomic characteristics of the local marketplace.

Exhibit 5-1 presents a summary of the forecasted number and type of events, as well as the estimates of paid attendance per event, for the first year of facility operation. This represents a base case for the annual utilization of the facility for the first five years of operation. It should be noted that certain events are not assumed to recur each year, but will likely be substituted with other events with similar attendance yields.

It is estimated that the proposed stadium will host approximately 41 events per year including Earthquakes games, concerts, other soccer games and other non-soccer events such as football, lacrosse, motor sports, tournaments, and other such events. This is conservative, as the average soccer-specific stadium hosts nearly 50 events annually. Moreover, if a professional women’s soccer league is established and places a team in San Jose, this could grow by at least 10 more events. This does not include use of the facility for team practices, team operational meetings and functions, or other recurring, non-paid attendance usage.

The total attendance for the facility will equal nearly 520,000 persons per year. Of this, Earthquakes games will represent about 282,000 (54 percent of attendees). The average attendance per event is likely to be just over 13,500. This is on par with the average attendance per event for other MLS facilities, many of which are in smaller markets.

The implied occupancy utilization is 64 percent for all events, which is conservatively estimated to be slightly lower than that reported for other MLS facilities. This is based on an implied utilization of 77 percent for Earthquakes-related events, which is in line with the averages from comparable soccer-specific facilities.

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49 This is based on discussions with other new soccer-specific facilities. For instance, Pizza Hut Park, home of FC Dallas, hosts 46 events each year, about 30% more than the feasibility study conducted for FC Dallas anticipated.
Exhibit 5-1

<table>
<thead>
<tr>
<th>Categories</th>
<th>Events</th>
<th>Average Attendance per event&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Total Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Jose Earthquakes Games</td>
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<td></td>
<td></td>
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<tr>
<td>Regular Season games</td>
<td>16</td>
<td>14,500</td>
<td>232,000</td>
</tr>
<tr>
<td>Playoff games</td>
<td>1</td>
<td>18,000</td>
<td>18,000</td>
</tr>
<tr>
<td>Exhibition games (MLS)</td>
<td>3</td>
<td>10,500</td>
<td>31,500</td>
</tr>
<tr>
<td>Average/Sub-total MLS Events</td>
<td>20</td>
<td>14,333</td>
<td>281,500</td>
</tr>
<tr>
<td>Concerts</td>
<td>4</td>
<td>21,000</td>
<td>84,000</td>
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<td>Other Sports Matches</td>
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<tr>
<td>Major Sports Events</td>
<td>5</td>
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<td>Smaller Sports Events</td>
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<td>Other Non-Sports Events</td>
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<td>Average/Sub-total Non-MLS Events</td>
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<td>Averages/Totals</td>
<td>41</td>
<td>13,510</td>
<td>520,500</td>
</tr>
</tbody>
</table>

<sup>1</sup> Includes luxury suite and club seating.

Stadium Utilization: MLS matches

Unlike some soccer complexes such as Pizza Hut Park, which included several playing fields as well as other economic development initiatives, the 20,000-seat soccer-specific stadium is the central component of the developer’s plans for the Airport West development project. It is anticipated that the stadium will serve as the home of the San Jose Earthquakes and to host a variety of other events including other sports matches and concerts.

The Earthquakes averaged more than 12 thousand spectators per game from 1999 to 2005. It is anticipated that the team will have higher attendance in a new facility, which has improved atmosphere and amenities that Spartan Stadium lacks. Moreover, many studies have shown that for the few years following the construction of a new facility, team attendance rises.

Using the other MLS franchises which have built soccer specific stadiums, and examining the attendance pre- and post-facility, it appears the average team garnered a 29% attendance increase post-stadium construction. Using the average attendance for the last five years the Earthquakes played, this increase would imply attendance of 14,750 per game. Using the average attendance from the last two years of play as a base, this would imply an average of nearly 16,800 per game. To be conservative, an estimate of 14,500, or a 27 percent increase over the five year attendance average, is used for per-game attendance.

In total, twenty Earthquakes home games are expected to be played at the proposed stadium each year: 16 regular-season home games, 1 post-season game, and 3 pre-season and exhibition matches. The attendance for the regular-season home games is expected to be 232,000, as shown in Exhibit 5-1.
Stadium Utilization: Concerts
Other soccer-specific stadiums like Pizza Hut Park and the Chicago Fire Stadium are equipped with a built-in stage. Similarly, the proposed facility has plans for a dedicated stage.

In general, it is assumed that the majority of the concerts will be “outdoor” or “open-air” concerts that will be held in the summer and spring. This should pose the least conflict with the sporting events that are hosted in the autumn and winter.

As shown in Exhibit 3-3, MLS stadiums had an average capacity of 45,786. However, the existing soccer-specific stadiums have a capacity of just over 21,000, with Toyota Park and Pizza Hut Park having the ability to accommodate 28,000, and with the Home Depot Center having a capacity of 27,000. This is higher than the average of other amphitheaters, which average around 20,000 seats. AEG, the largest owner-operator of MLS teams, also promotes events, and therefore an event featured at a soccer-specific stadium can utilize this connection. Thus, AEG-owned facilities may average higher non-soccer events due to this relationship compared to non-AEG owned facilities.

The Home Depot Center hosts six concerts annually. It is possible they could host more, but they are limited to this due to their agreement with the local community and CSDHU. Although the capacity is 27,000 for concerts, since 2003, the Home Depot Center has averaged nearly 21,000 in attendance for concerts, or 77 percent of capacity. Pizza Hut Park also includes a built-in stage with a concert capacity of 27,000. Pizza Hut Park currently hosts four concerts per year (along with 23 non-MLS events).

Using this information and a review of local market and comparable facility concert activity, it is estimated that the San Jose Earthquakes proposed stadium will host four concerts each year, with an average attendance of 21,000. This implies a capacity utilization of 91 percent per concert, which is similar to the average utilization of 87 percent for existing concerts hosted at soccer-specific stadiums. In total, these events are expected to attract 84,000 spectators.

Stadium Utilization: Sporting Events
Based on the analysis, it is assumed that the facility will host four smaller, amateur sporting events or tournaments on the field. It is assumed that the attendance for these sporting events and tournaments will draw approximately 32,000 persons per year.

Other major sporting events, such as MLS Cup matches, MLS All-Star matches, NCAA and other college events, international soccer matches, or professional lacrosse matches, are anticipated to occur each year. It is assumed that five of these matches will occur each year, with an average attendance of 17,000.

\[\text{This is including tournaments, which average approximately four days per event, as well as other sporting events, which average one day per event.}\]
Stadium Utilization: Other Non-Sports Events

Using other economic impact studies and actual soccer-specific stadium utilization, it is assumed that the facility will host eight non-sporting events, with an average of 4,750 persons per event, bringing 38,000 spectators to the facility each year. These events will be in the form of trade shows, exhibits, or other religious or cultural events. This assumes an average stay of 1.5 days per non-sports event, which is based on soccer-specific stadium economic impact studies and from primary research from cultural events hosted in the City of San Jose.
6.0 MEASUREMENT OF ECONOMIC AND FISCAL IMPACT FROM PROPOSED STADIUM AND EVENTS

6.1 ECONOMIC IMPACT METHODOLOGY

While many of the perceived benefits of the proposed facility are intangible including media exposure, enhanced entertainment opportunities for local residents and enhanced community pride, the construction and annual operations of the facility can provide quantifiable benefits to an area. Moreover, any redevelopment associated with the stadium project such as housing, retail, and other such projects can generate significant economic impact. For the purposes of this analysis, only the impacts to the City of San Jose from the operations of the proposed stadium are measured in this report. While the City will benefit from the economic impact from the other acreage under development, since the development is still in planning stages, it has been excluded from this analysis and report. The City may also benefit from the construction of the facility, the impacts of which are beyond the scope of this report.

As explained in Section 2.0, quantifiable impacts from the proposed facility are characterized in terms of economic impacts and fiscal impacts. Economic impacts are conveyed through measures of direct spending, total output, personal earnings, and employment. Fiscal impacts denote changes in tax revenues to the City of San Jose. Although the tax revenues for the County of Santa Clara and the State of California will also be augmented by the proposed facility, only impacts to the City of San Jose are discussed in this report.

The assumptions underlying the estimates of economic and fiscal impacts are based on the results of a market and demand analysis presented previously in this report. The results presented are for the first stabilized year of operation, and are presented in 2008 dollars.

As noted, an important component of direct spending includes fan expenditures outside event venues at local establishments such as restaurants, retail shops and other such places. As discussed previously, only the spending that would not have occurred were it not for the events hosted at the proposed stadium is considered economic impact. To quantify this amount, spending was only included for attendees who met three conditions:

- Attendees must live outside the City of San Jose in order to generate “new” spending for the City;
- Attending an event at the Proposed stadium must have been the primary purpose for traveling to the area; and
- Attending an event must not replace a future visit to the City.  

As described in Section 2.0, the economic impact of the events and associated facilities is derived from new spending in the local region, mostly due to from visitors to the community. Corporate and team expenditures

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51 The adjustments are based on findings for over a dozen events in San Jose for which SportsEconomics conducted primary economic impact studies.
related to the events also provide economic impact. Impacts are in the form of total output, earnings, and employment and begin with direct spending, followed by indirect and fiscal impacts.

Organizational spending and visitor spending at local restaurants, retail stores, and other relevant establishments constitute the direct impacts in this Report. Exhibit 6-1 shows the sources of direct operations impact and various adjustments made to account for re-directed spending, as opposed to new spending, and leakages outside of the area of impact.

**Exhibit 6-1**

<table>
<thead>
<tr>
<th>Sources of Spending</th>
<th>Facility-Related</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In Facility</strong></td>
<td></td>
</tr>
<tr>
<td>• Tickets</td>
<td>• Sponsorships</td>
</tr>
<tr>
<td>• Concessions</td>
<td>• Television</td>
</tr>
<tr>
<td>• Merchandise</td>
<td>• Radio</td>
</tr>
<tr>
<td>• Parking</td>
<td>• Licensing</td>
</tr>
<tr>
<td>• Advertising</td>
<td>• Employee Payroll</td>
</tr>
<tr>
<td>• Advertising</td>
<td>• Property Taxes</td>
</tr>
<tr>
<td><strong>Out-of-Facility</strong></td>
<td></td>
</tr>
<tr>
<td>• Hotels/Lodging</td>
<td></td>
</tr>
<tr>
<td>• Restaurants/Eateries</td>
<td></td>
</tr>
<tr>
<td>• Retail</td>
<td></td>
</tr>
<tr>
<td>• Entertainment/Leisure</td>
<td></td>
</tr>
<tr>
<td>• Transportation</td>
<td></td>
</tr>
</tbody>
</table>

| Reductions                   |                  |
| • Leakage                    | • Displacement   |
| • Local Spending             |                  |

| Net New Direct Spending      |                  |
| • Non-Local Sources          | • Spending in Remaining Area |
| • Visitors                   |                  |

For each of the main participant groups (incremental visitors, non-incremental visitors, and local residents), we utilize estimates of per day, per group data on spending outside and inside of the facility on items such as lodging, transportation, dining, event-related merchandise, retail, and miscellaneous items.\(^{52}\)

Each set of sample data is adjusted to its corresponding population in order to obtain direct spending estimates for each of the primary spending categories listed above. The amount of incremental visitor spending is calculated by determining the total number of incremental visitors in the population (not local residents, time-switchers or casual visitors), and then taking a weighted average of those individuals’ spending, per person, per day. From this, we can determine the proportions of spending that were allocated to each of the spending categories, such as lodging, transportation, dining, etc. These relative proportional spending figures can be used

\(^{52}\) This is based on data collected by SportsEconomics for more than a dozen primary economic impact studies in San Jose. This data is calibrated to account for differences for MLS spectators.
to estimate the amount of spending that would occur in each of these spending categories during the events being measured.\(^{53}\)

### 6.2 CUMULATIVE ECONOMIC IMPACT OF EVENTS AT PROPOSED STADIUM

As detailed in Section 5.0, the cumulative number of estimated attendees for the proposed stadium is 520,500 persons per year. Of these, nearly 460,000 (88% of attendees) can be considered “unique”.\(^{54}\) Nearly 26% of unique attendees are estimated to be local residents of the City.\(^{55}\)

The number of unique visitors who are estimated to come to the City and participate in one of the events at the proposed stadium is approximately 340,000. Of the visitors to the City, those for which expenditures are counted toward the economic impact of the operations of the facility are approximately 260,000. This is about 23% fewer than the total number of unique visitors.\(^{56}\)

As shown in Exhibit 6-2 below, the average number of days that each person stayed in the City was 1.2 days. The average size of the typical party being paid for is 2.1 for visitors and 2.4 for local residents. The typical visiting spectator is expected to spend $77 per day outside of the proposed stadium, and an additional $51 on event-specific spending inside of the proposed stadium. This estimate is based on a weighted average of the nearly one dozen primary studies conducted over the past two years on events in San Jose, and imputed daily spending amounts from MLS games in other cities (Dallas, Chicago, Kansas City). On average, spectators are expected to spend approximately $142 for their entire trip to San Jose to attend an event at the proposed facility. This includes those visitors who stay overnight in a hotel, for instance.

These findings are based on a number of sources. These sources include the primary studies for a number of sporting events in San Jose conducted by SportsEconomics, economic impact studies of MLS facilities located around the country, and discussions with other MLS teams.

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\(^{53}\) This calculation is slightly modified for hotel expenditures since not all non-local groups will stay in a hotel. The modification is that the calculation is weighted to account for the number of parties that, separately, used a local hotel.

\(^{54}\) This is based on the results from more than a dozen primary studies conducted by SportsEconomics within the San Jose area within the past two years. Unique attendees are calculated by discounting the total attendance at multiple day events for spectators who attended all of the days of the event. For MLS games, all attendees are unique since the game is a one day event.

\(^{55}\) This is based on the results from more than a dozen primary studies conducted by SportsEconomics in the San Jose area within the past two years. Locals are defined as living in the City of San Jose.

\(^{56}\) The difference accounts for “time-switchers” and “casual” visitors.
Based on these findings, the total direct expenditures by incremental or relevant visitors in the City are nearly $24.0 million outside of the proposed stadium, and just over $13.0 million inside of the proposed stadium. As previously mentioned, total operational spending by the San Jose Earthquakes is not included in this figure (as it only pertains to spectators).

**Spending by Local Residents and Non-Incremental Visitors**

An estimate of spending from non-incremental visitors related to the events is about $10.7 million. An estimate of spending by local residents because of the events is over $13.0 million. If included, non-incremental visitors and locals would bring the total direct economic activity of the events in the facility and corresponding spending outside of and inside the stadium to approximately $60.0 million. Again, this does not include the expenditures by visiting teams/artists, sponsors, facility management, the Earthquakes, etc.

**Non-Spectator Spending & Operational Spending**

Besides spending by visiting spectators, expenditures by the team, visiting teams/artists, the facility operator, sponsors, media, and vendors can constitute economic impact if that spending would not have otherwise occurred, but for the existence and operation of the stadium. The ongoing operations impact for a stadium is mainly from new spending in the local region, mostly derived from visitors to the community. Stadium-related expenses that remain in the local economy consist of expenses directly related to the operations of the facility,

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57 This is based on the results of other SportsEconomics studies recently conducted in San Jose. Non-relevant visitors were assumed to have the same spending pattern and trip duration as relevant visitors.

58 These figures are provided for informational purposes only. As stated earlier, spending by non-incremental visitors and local residents is not included in economic impact.
including salaries, wages and benefits, utilities, repairs and maintenance, materials and supplies, marketing, general and administrative and other such expenses. These are the costs to manage the organization and actually run the games and other events that take place at the facility each year. For purposes of this report, only those sources of direct spending that are generated by the operations of the proposed stadium that directly benefit the City are included. The fiscal impact from such operations is also calculated, but excludes unsecured property taxes. Exhibit 6-3, below, shows the common sources of operational spending for a facility.

Exhibit 6-3

San Jose Earthquakes, LLC and the stadium facility management company (name TBD) have budgeted annual expenditures of approximately $15 million. About one-third of this is expected to be payroll. This does not include player payroll, which is paid directly by MLS, LLC. Player payroll is not accounted for in terms of its economic impact in this report. Based on an analysis of other professional sports teams, it is expected that just over 20% of this budget will be spent in the City of San Jose.

Visiting teams and artists are expected to spend about $600,000 in the City of San Jose. Sponsors and corporate partners are expected to spend about $1 million in the City of San Jose activating their sponsorships. In covering events at HP Pavilion (including televising events), it is estimated that the media will spend about $160,000 in the City of San Jose during a typical year.

As shown in Exhibit 6-4, total business spending used in this measurement of economic impact is approximately $7.1 million. The methods in which this spending is counted towards economic impact are explained in the subsection Direct and Indirect Spending.

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59 Assumptions for stadium operating expenses are based on historical and projected operating results from the operations of MLS teams and new soccer-specific stadiums, and information provided by San Jose Earthquakes.

60 The capture rates for expenditures within the cities were estimated by SportsEconomics based on other research in San Jose and other cities.

61 This is based on known travel costs for other MLS teams and an analysis of concert group travel expenditures.
Exhibit 6-4

| Expenditures by Organizations Affiliated with Events Hosted at Proposed Stadium |
|---------------------------------|---------|
| Media Expenditures\(^1\)        | $160,000|
| Corporate/Sponsor Expenditures\(^2\) | $1,000,000 |
| Visiting Teams/Artists Expenditures\(^3\) | $602,000 |
| Facility and Tenant Expenditures\(^4\) | $3,225,000 |
| Vendor Expenditures\(^5\)        | $2,090,487 |
| **Total**                        | **$7,077,487** |

1 Estimates include only non-local spending by media organizations to cover the event, estimated by primary studies conducted in San Jose. It is assumed that 2 non-local media attend all MLS and major sporting event matches, 3 attend the playoffs game, 1 attend the smaller sporting events and other non-sporting events, and none attend concerts. It is assumed media attendees only spend outside of the facility at the average visitor rate per diem.

2 Estimates include corporate and sponsor spending based on other MLS facility data. Includes spending for event organizers of non-Earthquakes events. Excludes expenditures on facility rental and advertising.

3 Estimates based on an analysis of MLS team travel costs (excluding air transportation) and music tour travel costs.

4 Based on an analysis of other professional sports teams and facility operators and their expenditures within the city they are located in.

5 Estimates include only vendor spending by non-local vendors to operate at event, based on other MLS team and facility data. Assumes 1,100 club seats and 200 suites. Also assumes expenditures of roughly $8 and $16 for catering per person per event for club seats and suites, respectively. This is not included in direct spending, and is instead included in indirect spending. For explanation of rationale, please refer to Methodology section of report.

**Direct and Indirect Spending**

As described in Section 2.0 (methods), there are two separate estimates of economic impact from the operations of a new soccer-specific stadium in San Jose. The first method (a) accounts for all spending by incremental visitors both outside and inside of the proposed facility, (b) accounts for all media expenditures, corporate and sponsor spending related to activation of the sponsorship, and spending by visiting teams and artists, and (c) does not account for spending by the facility, team, and facility vendor. This is based on the concept that the facility is a San Jose business and spending by visitors and businesses (media, sponsors, visiting teams) in San Jose because of the facility, including within the facility, is new incremental spending that constitutes economic impact. Counting spending within San Jose by the facility operator, San Jose Earthquakes, and the facility vendor would be double-counting because the funds for that spending come from visitors spending inside of the facility on events.

The second method (a) accounts for all spending by incremental visitors outside of the proposed facility (but not inside of it), and (b) accounts for all media expenditures, corporate and sponsor spending related to activation of the sponsorship, spending by visiting teams and artists, spending by the facility, team, and facility vendor on their operations. This is based on the notion that all new incremental spending within the San Jose community counts towards economic impact. The way to account for this (and avoid double-counting) is to measure how much money the facility operator, team, and facility vendor spend within San Jose directly and count that toward economic impact. Both methods are equally valid depending on the goal of the analysis. The proposed stadium would be a San Jose business, thus should be eligible to have spending within it count toward economic impact (first method). However, the facility and its operations also spend money in the community and that spending...
should count toward economic impact. If both methods are combined then there would be a double-counting issue.

In Exhibit 6-5 below the economic impact estimates from the first and second methods are shown. Direct spending ranges from $31 million to $39 million depending on which method is used. The total new incremental economic impact in the City due to the operations of the proposed stadium and related events ranges from $50 million to $63 million on an annual basis. All measurements account for new incremental spending by visitors, visiting teams/artists, sponsors activating sponsorships, media covering or producing the events, vendors operating their businesses, the facility management’s operations, and the team’s operations, that is above and beyond what they would have spent if not for the events being hosted at the proposed stadium. It does not include spending by local residents.

**Exhibit 6-5**

<table>
<thead>
<tr>
<th>Economic Impact of Events at Proposed Stadium on San Jose - Output</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct Spending</strong></td>
</tr>
<tr>
<td>Transportation</td>
</tr>
<tr>
<td>Parking</td>
</tr>
<tr>
<td>Retail</td>
</tr>
<tr>
<td>Lodging</td>
</tr>
<tr>
<td>Entertainment</td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
</tr>
<tr>
<td>Miscellaneous</td>
</tr>
<tr>
<td><strong>Total Relevant Visitor Spending Outside of Proposed Stadium</strong></td>
</tr>
<tr>
<td><strong>Spending Inside Proposed Facility</strong></td>
</tr>
<tr>
<td><strong>Teams/Media/Sponsor</strong></td>
</tr>
<tr>
<td><strong>Total Direct Spending</strong></td>
</tr>
<tr>
<td><strong>Indirect Spending</strong></td>
</tr>
<tr>
<td><strong>Total Economic Impact</strong></td>
</tr>
</tbody>
</table>

1This column shows economic impact using the "first method" as described in the text.
2This column shows economic impact using the "second method" as described in the text.

**Induced Economic Impact**

Induced economic impacts on the City due to events at the proposed stadium are shown in Exhibit 6-6. Between 1,500 and 1,900 full-time equivalent jobs will be generated from the direct and indirect spending, resulting in $32.0 million to $41.0 million in earnings impact within the City.62

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62 These impacts are not additive to the total economic impacts presented in the previous section. Rather, of the total impact, between $32.0 million and $41.0 million will be kept as incremental earnings.
Exhibit 6-6

<table>
<thead>
<tr>
<th>Economic Impact of Events at Proposed Stadium on San Jose - Earnings &amp; Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Impact</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Income</td>
</tr>
<tr>
<td>Employment</td>
</tr>
</tbody>
</table>

¹This column shows economic impact using the "first method" as described in the text.
²This column shows economic impact using the "second method" as described in the text.

Fiscal Impact

As Exhibit 6-7 shows, the total new incremental tax impact measurement due to the events at the proposed facility is between $1.5 million and $1.7 million. If inside and outside spending by non-incremental visitors and locals were included, the fiscal impact to the City for this event would grow by about $1.0 million.

Exhibit 6-7

<table>
<thead>
<tr>
<th>Net New Incremental Tax Impact of Events at Proposed Stadium on San Jose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Category</td>
</tr>
<tr>
<td>---------------------------------</td>
</tr>
<tr>
<td>Sales and Use</td>
</tr>
<tr>
<td>Net Parking Revenue³</td>
</tr>
<tr>
<td>Hotel Occupancy</td>
</tr>
<tr>
<td>Hotel Business Improvement District fee</td>
</tr>
<tr>
<td>Rent</td>
</tr>
<tr>
<td><strong>Direct Taxation</strong></td>
</tr>
<tr>
<td><strong>Indirect Taxation</strong></td>
</tr>
<tr>
<td><strong>Total Fiscal Impact</strong></td>
</tr>
</tbody>
</table>

¹This column shows economic impact using the "first method" as described in the text.
²This column shows economic impact using the "second method" as described in the text.
³Net parking revenue generated at City lots during events at proposed facility.

Annual and NPV Impacts for Proposed Stadium

As Exhibit 6-8 shows, the net present value of the economic and fiscal impacts from operations of the stadium could approximate nearly $800 million in direct spending and over $1 billion in total output in thirty years of operation. The 30-yr NPV of total net new annual tax revenues generated from operations are estimated to be $34 million to the City of San Jose.

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63 Tax impacts to the State of California and to Santa Clara County were also generated from the events, but are not reported in this report. NPV stated in 2008 dollars.
64 NPV calculation assumes a 3 percent annual growth rate and a 6 percent discount rate.
Exhibit 6-8

<table>
<thead>
<tr>
<th></th>
<th>Annual Estimate1</th>
<th>NPV of 30-year Impacts2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Spending</td>
<td>$38,719,690</td>
<td>$789,923,430</td>
</tr>
<tr>
<td>Total Output</td>
<td>$62,299,450</td>
<td>$1,270,975,970</td>
</tr>
<tr>
<td>Fiscal Impact</td>
<td>$1,665,720</td>
<td>$33,982,480</td>
</tr>
</tbody>
</table>

1 Includes spending within the facility.
2 NPV calculation assumes a 3 percent annual growth rate and a 6 percent discount rate.

Media Impact

In addition to economic impact, the City may also benefit from the national and international focus and media attention created by such events. During broadcasts of the San Jose Earthquakes games, for instance, the announcers mention the name of the City, often increasing awareness about it. Additionally, television viewers may see images of people enjoying themselves in San Jose, creating an enhanced image of the area and increased likelihood of future tourism. As a result of the Earthquakes games, San Jose will be exposed to millions of people through appearances in many media forums such as newspapers, radio, and the Internet. The benefits derived are similar to those of companies who advertise their company name as opposed to a specific product.

Although it is extremely difficult to measure the translation of media coverage into actual new visitor expenditures, the events will generate valuable media impressions. This media impact is not part of the economic impact in this report, but could lead to future tourism, thus providing more economic impact. For other limitations on what makes this an underestimate of economic impact, please refer to Section 7.1 of this report.
7.0 **LIMITATIONS OF THE STUDY**

This portion of the Report provides a brief analysis of the limitations of the study. There are a number of areas where the authors were conservative in the analysis, and a few areas where the authors were liberal. The overall goal was to come up with a proper, but conservative, estimate of the annual economic impact of the events the City will host at this facility.

7.1 **LIMITATIONS THAT MAKE THE ESTIMATE AN UNDERESTIMATE OF TRUE ECONOMIC IMPACT**

Expenditures by the media (e.g., ESPN) on local businesses to produce their coverage of the various events to be held within the City of San Jose are not always fully accounted for in this Report due to a lack of information available. Also, any business expenditures above what were reported are not counted in the measurement of economic impact, but they should be.

Since the study relies on secondary data, the spending per person may vary from estimates that may be obtained in a future primary study of the facility. While spending by local residents and by “casual” visitors and “time-switchers” is excluded from these economic impact estimates because it is assumed that their spending would have occurred even without the event having taken place, it is possible that local residents may actually spend more during an event at the facility than they would have otherwise. Although, large events can cause some local residents to leave town in order to avoid the crowds, thus reducing economic impact.

Only fiscal impacts related to the tax categories are calculated in this Report. There are other types of taxes and fees that are not included in this measurement of tax revenues generated within the City.

One shortcoming of standard economic impact analysis is that most measurements only account for the current new spending because of an event, team, etc., but ignore the possibility that an event might cause an increase in the number of future visitors to the community. These future visits (and associated economic impact) should at least partially be attributed to the events, yet the impacts of the future visits are not part of the measurement in this Report. Another way, in which this occurs, is through the media coverage of an event.

 Communities which support sporting and cultural events are believed to derive significant benefit from the national and international focus and media attention created by such events. During televised events, for instance, the announcers mention the name of the City, often increasing awareness about it. Additionally, television viewers may see many images of people enjoying themselves in the City, creating an enhanced image of the area. The City is exposed to millions of people through appearances in many media forums such as newspapers, radio, and the Internet. The benefits derived are similar to those of companies who advertise their company name as opposed to a specific product. The advertising or media attention creates "awareness" and "goodwill" toward that company, or in this case, the City. Increased awareness is translated into economic

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65 For instance, the 2004 NCAA Men’s Final Four basketball tournament economic impact analysis reported that approximately 20% of visitors said that coming to the area for the Final Four would make them come some other time during the future.
benefits in subtle, but meaningful ways. It is extremely difficult to measure the translation of media coverage into actual new visitor expenditures. This media impact is not part of the economic impact measured in this Report.

One role of government is to aid in the provision of cultural, civic, and entertainment goods and services that residents enjoy, but that no private firm is willing to provide because the goods or services are “public goods”. Major sports and cultural events add to the quality of life in a region in a manner similar to that of zoos, museums, aquariums, parks, arts institutions, and other public goods, but in significantly different ways. Cultural events of all types provide an entertainment option for some, especially those who value attending or viewing the events. Moreover, many of these events may be perceived by local residents as helping to portray San Jose as a cosmopolitan, ‘major-league’ city.

**Other Non-Quantifiable Impacts**

An MLS franchise such as the San Jose Earthquakes creates direct and indirect economic benefits in the geographical area in which it is located. Many of those benefits are qualitative, and their impact cannot be quantified. However, these benefits must be considered in a comprehensive review of the economic benefits derived from the City retaining an MLS franchise.

Geographic regions supporting sports franchises are believed to derive significant benefit from the national and international focus and media attention created by that sports franchise. Through this exposure, the San Jose community would be exposed to millions of people through appearances in many media forums. The benefits derived are similar to those of companies who advertise their company name as opposed to a specific product. The advertising or media attention creates awareness and goodwill toward that company, or in this case, the host city. Increased awareness is translated into economic benefits in subtle, but meaningful ways. Professional sports influence a community’s identity and cohesion, resulting in some of the intangible elements that comprise an area’s quality of life.

**Psychic Impact**

Psychic impact is the emotional impact that is generated by hosting significant regional, national or international events. Cultural events often are part of the fabric of a community. They add to civic pride and increase community spirit. Emotional benefits that are received by members of a community who are not directly involved with managing an event, but who still strongly identify with the event, are part of the overall psychic impact. Sports or other cultural events are often a common connection that provides entertainment and conversation at the office or in the neighborhood, for instance. Most other industries do not provide the same degree of emotional impact.

As an example, when Atlanta was awarded the 1996 Summer Olympics, locals were moved by the announcement. Many people cried with joy. They felt that Atlanta had now proved itself as a “real”

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66 Much of the value of psychic impact is a “public good” meaning that its consumption is non-excludable and non-rival. In general, public goods are funded by governments in the appropriate jurisdiction (e.g., parks, national defense). Because these benefits derive from externalities, no private investor could hope to capture enough of the benefits to justify privately financed construction.
international city. Newspaper reports described the city as a sea of honking horns and cheers as people were swept up with jubilation. If it were possible to quantify in financial terms the collective emotional upswing of Atlantans, what would it have been? The new psychic impact techniques focus on measuring this value. Proper decision-making on how the public should invest its tax dollars requires knowledge of economic impact plus psychic and image impact.

A more recent example comes from Minnesota where the former governor, Arne Carlson, feels that “If you were to make a list of 10 or 15 of the most prized possessions of the state, [the Twins] would probably be one of them, and you never want to lose one of your prized possessions. Never.”

Event owners are able to capture part of the value of psychic impact through ticket sales, merchandise sales, etc. However, much of the impact, as discussed above, is provided free to the residents through sheer knowledge of the event. This is one of the reasons for the public-private partnerships that build sports venues.

A few estimates of the psychic impact of sports teams have been generated. For instance, the Pittsburgh Penguins of the NHL are worth approximately $16 million per year to the residents of Pittsburgh solely in terms of emotional impact. This works out to an average of about $7.27 per person in the Pittsburgh MSA. The Indiana Pacers have an annual psychic impact on the Indianapolis community of about $35 million per year. The Minnesota Vikings are worth approximately $10 per resident of the state. There are not any current measures of psychic impact of cultural events such as the ones examined in this Report. Estimates of psychic impact are not included in this Report.

The field of economic impact analysis is ripe for the inclusion of psychic impact measurement. There are methods, such as Contingent Valuation Method, that can help quantify these important aspects of sports and cultural events.

### 7.2 Limitations that make the Estimate an Overestimate of True Economic Impact

This analysis does not account for “reverse time-switchers”, those local residents who leave town during the event period because of the event. To the extent that there are any “reverse time-switchers”, the expenditures that would have been spent by them in town are now spent outside of the local area. There is not any anecdotal evidence that leads the authors to believe that there is any significant loss in local spending due to “reverse time-switchers”.

**Opportunity Costs**

Economic impact analysis often neglects to account for important opportunity costs. For instance, if the City of San Jose had to turn down a major event (that would have generated its own economic impact) because of a time conflict with any of the events measured in this Report, then the total net new incremental gain from hosting the event should account for the lost economic impact that would have occurred had the other event been hosted. Similarly, if the land could have been used for a more productive outcome, then it might have produced an even higher economic impact than that measured for this facility.
Another potentially important opportunity cost is the impacts from visitors who would have come to town under normal circumstances, but were unable to because events at the facility filled all of the hotels to capacity. If these would-be visitors came anyway and stayed outside of town, then it isn’t as much of a loss in revenue. However, if there were people who did not come to the City of San Jose because of an event hosted at the facility, then any economic impact from the event being measured should take that loss into account. The authors believe that the typical excess hotel capacity in San Jose is large enough to absorb all of the events hosted at the proposed stadium.

Finally, all of the attendance figures and operational and corporate expenditures were obtained from other studies or were provided by the City or the San Jose Earthquakes. Where possible, attempts were made to discount for non-unique visitors. However, since some of this information was not collected by SportsEconomics, it is possible that these figures may have been improperly estimated or include non-unique or non-relevant spectators. SportsEconomics is not responsible for auditing these figures. However, guidelines were provided and discussions with City staff took place to ensure that they were aware of issues which may cause them to overstate these figures. Moreover, if alternate information was provided by the media, the events did need to verify which figures they wanted to use, and to explain the rationale for the difference in the estimates.

### 7.3 Other Limiting Conditions

The accompanying analyses do not constitute an audit, examination, review or compilation of historical or prospective financial information conducted in accordance with Generally Accepted Auditing Standards or with standards established by the American Institute of Certified Public Accountants ("AICPA").

Information, estimates and opinions furnished to us and contained in the Report were obtained from sources considered reliable and believed to be true and correct. However, no representation, liability or warranty for the accuracy of such items is assumed by or imposed on us, and is subject to corrections, errors, omissions and withdrawals without notice. Information from all sources not generated by SportsEconomics was taken without verification or audit.

The analyses were based on the work plan described in our contract, estimates and assumptions provided by the City of San Jose, estimates and assumptions from previous studies, information developed from primary and supplemental research, knowledge of the industry and other sources, including certain information that the City of San Jose and event organizers provided and studies conducted by organizations other than SportsEconomics. These sources of information and bases of significant estimates and assumptions are stated in the Report.

Possession of this study does not carry with it the right of publication thereof or to use the name of “SportsEconomics” in any manner without first obtaining the prior written consent of SportsEconomics. No abstracting, excerpting or summarization of this study may be made without first obtaining the prior written consent of SportsEconomics. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client.
without first obtaining the prior written consent of SportsEconomics. This study may not be used for purposes other than that for which it was prepared.

This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.
APPENDIX 1: PROPOSED STADIUM LOCATION ENVIRONS
Source: Microsoft Mappoint 2006
APPENDIX 2: 100-MILE RADIUS OF PROPOSED STADIUM LOCATION

Source: Microsoft Mappoint 2006