

5.0 ECONOMIC IMPACT ANALYSIS

Subject to the assumptions, terms, restrictions and limitations detailed in this section and elsewhere in the report, the major findings of this Section 5.0 are:

FINDING # 1 :	The study team evaluated the potential economic impacts of three development scenarios: (1) Railyards redevelopment with a SED and reuse and redevelopment of the North Natomas property; (2) Railyards redevelopment without a SED and development of a new arena in North Natomas; and (3) Railyards redevelopment without a SED and continued use of the existing ARCO Arena in North Natomas.
FINDING # 2 :	The scenario involving redeveloping the Railyards with a SED, combined with adaptive reuse of the North Natomas land, delivers the most significant overall economic impact of the scenarios evaluated. This scenario produces 3 times more economic impact <i>annually</i> ; 5 times more total output <i>annually</i> ; 3 times more earnings <i>annually</i> , and; 3 times as many jobs <i>annually</i> as the other scenarios evaluated.
FINDING # 3 :	Redeveloping the Railyards with a SED, combined with adaptive reuse of the North Natomas property, produces more than \$1 billion in construction period impacts to the greater Sacramento region (including approximately 19,500 jobs); and more than \$383 million in regional economic impact (approximately 12,700 jobs) <i>annually</i> .

This Section 5.0 analyzes three key scenarios for the purposes of estimating and comparing incremental impact (including total output, earnings, and employment):

SCENARIO #1: The incremental impact arising from a Railyards SED anchored by an Arena Complex plus the incremental impact arising from the adaptive reuse of the North Natomas ARCO site; and

SCENARIO #2: The incremental impact arising from a hypothetical “replacement” arena developed and operated next to the current ARCO arena plus the incremental impact arising from the Railyards redevelopment without an Arena Complex; and

SCENARIO #3: The incremental impact arising from the current operations at ARCO Arena plus the incremental impact arising from the Railyards redevelopment without the Arena Complex.

The total cumulative impacts for the City, plus the County, plus the MSA show that Scenario #1 would yield \$1 billion in incremental impact during the construction period and \$384 million *annually* during operation. These figures are materially larger than the corresponding figures for either scenario #2 or scenario #3. The below table summarizes the net new impacts on a cumulative basis (City plus County plus MSA) and then compares each of the scenarios to estimate cumulative net incremental impact:

SUMMARY OF CUMULATIVE IMPACTS							
			Scenario #1	Scenario #2	Scenario #3	Scenario #1 vs. #2	Scenario #1 vs. #3
						Net Incremental Impact	Net Incremental Impact
TOTAL CUMULATIVE IMPACTS (CITY, COUNTY + MSA)							
Construction Period Impacts							
NET INCREMENTAL	Economic Impact	\$1,000,482,141	\$843,805,276	\$736,923,139		\$156,676,865	\$263,559,002
	Total Output	\$1,680,043,405	\$1,417,021,659	\$1,237,012,884		\$263,021,746	\$443,030,521
	Earnings	\$801,338,208	\$675,866,048	\$589,760,952		\$125,472,160	\$211,577,256
	Employment	19,525	16,794	14,538		2,731	4,987
	Operational Period Impacts (Annual)						
	Annual Economic Impact	\$383,822,473	\$115,479,239	\$103,348,436		\$268,343,234	\$280,474,037
	Annual Total Output	\$606,556,767	\$182,882,066	\$163,702,884		\$423,674,701	\$442,853,883
	Annual Earnings	\$402,666,809	\$121,423,544	\$108,690,528		\$281,243,265	\$293,976,281
	Annual Employment	12,786	4,603	4,232		8,183	8,554
						CUMULATIVE NET INCREMENTAL	CUMULATIVE NET INCREMENTAL

There is a full description later in this section as well as in the Appendix describing “incremental impact,” “total output,” “earnings” and “employment.” The below table shows even further detail, breaking apart the separate impacts for the City, the County and the MSA:

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SUMMARY OF CITY IMPACTS

	Scenario #1	Scenario #2	Scenario #3	Scenario #1 vs. #2 Net Incremental Impact	Scenario #1 vs. #3 Net Incremental Impact
CITY OF SACRAMENTO					
Construction Period Impacts					
Economic Impact	\$423,385,311	\$355,572,237	\$323,894,010	\$67,813,074	\$99,491,301
Total Output	\$704,770,999	\$591,888,745	\$539,156,885	\$112,882,254	\$165,614,114
Earnings	\$322,634,849	\$270,958,845	\$246,818,896	\$51,676,004	\$75,815,953
Employment	8,147	7,113	6,372	1,034	1,775
Operational Period Impacts (Annual)					
Annual Economic Impact	\$284,586,424	\$56,613,326	\$48,836,589	\$227,973,098	\$235,749,835
Annual Total Output	\$448,524,778	\$89,225,899	\$76,969,309	\$359,298,879	\$371,555,469
Annual Earnings	\$297,718,800	\$59,225,775	\$51,090,177	\$238,493,025	\$246,628,623
Annual Employment	9,734	2,794	2,558	6,940	7,176
SACRAMENTO COUNTY					
Construction Period Impacts					
Economic Impact	\$310,559,271	\$261,769,870	\$226,136,699	\$48,789,401	\$84,422,572
Total Output	\$519,345,785	\$437,755,660	\$378,166,592	\$81,590,125	\$141,179,193
Earnings	\$269,966,069	\$227,553,931	\$196,578,371	\$42,412,138	\$73,387,698
Employment	6,128	5,199	4,462	929	1,666
Operational Period Impacts (Annual)					
Annual Economic Impact	\$60,068,136	\$39,055,080	\$35,978,787	\$21,013,056	\$24,089,349
Annual Total Output	\$95,055,402	\$61,803,088	\$56,934,978	\$33,252,314	\$38,120,424
Annual Earnings	\$63,134,826	\$41,048,979	\$37,815,631	\$22,085,847	\$25,319,195
Annual Employment	1,832	1,191	1,097	641	735
SACRAMENTO MSA					
Construction Period Impacts					
Economic Impact	\$266,537,559	\$226,463,169	\$186,892,430	\$40,074,390	\$79,645,129
Total Output	\$455,926,622	\$387,377,254	\$319,689,407	\$68,549,368	\$136,237,215
Earnings	\$208,737,290	\$177,353,272	\$146,363,685	\$31,384,018	\$62,373,605
Employment	5,250	4,482	3,704	768	1,546
Operational Period Impacts (Annual)					
Annual Economic Impact	\$39,167,913	\$19,810,833	\$18,533,060	\$19,357,080	\$20,634,853
Annual Total Output	\$62,976,587	\$31,853,080	\$29,798,597	\$31,123,507	\$33,177,990
Annual Earnings	\$41,813,183	\$21,148,790	\$19,784,721	\$20,664,393	\$22,028,462
Annual Employment	1,220	617	577	603	643
TOTAL CUMULATIVE IMPACTS (CITY, COUNTY + MSA)					
Construction Period Impacts					
Economic Impact	\$1,000,482,141	\$843,805,276	\$736,923,139	\$156,676,865	\$263,559,002
Total Output	\$1,680,043,405	\$1,417,021,659	\$1,237,012,884	\$263,021,746	\$443,030,521
Earnings	\$801,338,208	\$675,866,048	\$589,760,952	\$125,472,160	\$211,577,256
Employment	19,525	16,794	14,538	2,731	4,987
Operational Period Impacts (Annual)					
Annual Economic Impact	\$383,822,473	\$115,479,239	\$103,348,436	\$268,343,234	\$280,474,037
Annual Total Output	\$606,556,767	\$182,882,066	\$163,702,884	\$423,674,701	\$442,853,883
Annual Earnings	\$402,666,809	\$121,423,544	\$108,690,528	\$281,243,265	\$293,976,281
Annual Employment	12,786	4,603	4,232	8,183	8,554

Notes:

Scenario #1 represents the economic impacts from Railyards redevelopment with SED & arena, plus adaptive re-use of ARCO acreage
 Scenario #2 represents the economic impact from Railyards redevelopment (without an arena) and team moves to new arena in North Natomas
 Scenario #3 represent the economic impact from Railyards redevelopment without an arena - team remains at ARCO Arena

All scenarios include Railyards construction impacts in the SED and in the balance of the Railyards; however the operational impacts in the Railyards are for the SED acreage only. The balance of the redevelopment of the Railyards cannot be calculated at this time but would increase the operational impacts similarly for all three scenarios.

While a significant portion of the impacts are regional in nature, a close reading of the table above shows that the impacts to the City are larger than the impacts to the County or the MSA, both for the

construction period and then annually for each year of operation. Scenario #1 is estimated to yield very substantial impacts for the City, particularly in comparison to the other two scenarios. Scenario #1 will generate very significant impacts to the City - approximately \$423 million in incremental impact during construction and \$285 million *annually* during operation. It is estimated that the City would obtain more than 8,000 new jobs during construction and approximately 9,700 new jobs *annually* during operation from the implementation of Scenario #1. The below table summarizes the net new impacts for the City and then compares each of the scenarios to estimate cumulative net incremental impact:

SUMMARY OF CITY IMPACTS					
	Scenario #1	Scenario #2	Scenario #3	Scenario #1 vs. #2 Net Incremental Impact	Scenario #1 vs. #3 Net Incremental Impact
CITY OF SACRAMENTO					
Construction Period Impacts					
Economic Impact	\$423,385,311	\$355,572,237	\$323,894,010	\$67,813,074	\$99,491,301
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Employment	8,147	7,113	6,372	1,034	1,775
Operational Period Impacts (Annual)					
Annual Economic Impact	\$284,586,424	\$56,613,326	\$48,836,589	\$227,973,098	\$235,749,835
Annual Total Output	\$448,524,778	\$89,225,899	\$76,969,309	\$359,298,879	\$371,555,469
Annual Earnings	\$297,718,800	\$59,225,775	\$51,090,177	\$238,493,025	\$246,628,623
Annual Employment	9,734	2,794	2,558	6,940	7,176

The conclusion is that the redevelopment of the Railyards anchored by an SED, together with the adaptive reuse of the North Natomas property generates significantly more incremental impact, total output, earnings and jobs than either of the other hypothetical scenarios – both during construction and then annually during operations. The remainder of this section explains the terminology used herein and further breaks out the analysis across each of the three scenarios.

5.1 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 development project. The management of financial and real estate resources is decided directly by government officials or indirectly by citizen voting. Economic impact provides a metric for comparison to other possible investment projects.

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 incremental impact, the cause of the impact must first be identified. The most important underlying principle in evaluating incremental 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 construction of the arena, considering that the situation is purely hypothetical.

The financial return for citizens is in the form of new jobs, new earnings, and new tax revenues that occur because of the initial development of the arena, and through new spending in town during the operation of

the arena.¹² These new earnings, for instance, are generated for citizens who are not directly associated with the arena or its tenants, but who are the beneficiaries of the positive externalities that sports teams can provide to communities. Positive externalities, or overflow benefits, are those benefits that are produced by an arena and its tenants, but are not captured by either entity. When a visitor comes to Sacramento to watch a Kings game, 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 incremental impact.

An important concept that is determined early in a study is the geographic area of impact. Generally, the geographic region upon which the incremental impact is measured is the region that is considering funding part of the arena costs. In this way, the proper cost-benefit analysis is performed. If the City of Sacramento partially funds a development project, then the citizens of Sacramento pay for the investment. The correct comparison is to determine the benefits that the City of Sacramento receives, not some other city, county, or state or combination thereof. This Report analyzes the incremental impact on the City of Sacramento, Sacramento County (excluding the impact on the City), and the Sacramento MSA (excluding the impact on the City and County). Hence, each geographic area is mutually exclusive as defined.

The area of impact is a significant factor in determining the amount of new spending that occurs. As an example, imagine a local resident who typically spends his entertainment dollars attending the movies or the zoo. If a new arena is developed and the resident spends money at the arena and in the surrounding areas, but does not continue to attend the movies or zoo as often, then the spending that has occurred may not be new spending, but rather substituted, displaced, or redirected spending. In general, it is improper to count this spending in the incremental impact totals. However, if this person spends more in total on entertainment (as opposed to saving it or even spending it on entertainment outside of the city) then the net difference can be counted as new spending and part of incremental impact.

A resident of Elk Grove, for instance, may decide to attend events at a new downtown arena instead of her usual entertainment habits in the City of Elk Grove. In this case, she is adding new money to the City of Sacramento and providing a positive incremental impact. However, she is not adding new money to Sacramento County or the Sacramento MSA. She is, therefore, providing zero incremental impact for the County and MSA, but positive impact for the City. On the other hand, a resident of Santa Rosa would provide incremental impact for the City, County, and MSA since Santa Rosa lies outside of the Sacramento MSA.

To be conservative, most of local spending is considered to be displaced spending and is not counted as part of incremental impact. For this reason, it is very important to be able to delineate attendees into visitors and local citizens.

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 at events? 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 the arena and its tenants in their normal course of business?

During the construction phase of an arena or district, purchases are made on materials and labor. These purchases affect other industries such as transportation, utilities, manufacturing, etc. The resulting

¹² Additionally, having a local major professional sports team enhances community and civic pride. Sports teams help to create the identity of cities, especially those who have recently attracted a team. This is known as psychic impact and is discussed in Section 5.5.

construction impacts occur during the few years of construction (with some of the induced effects continuing afterwards).

During the operation of the arena or district, attendees spend money within the arena and in the surrounding area at food establishments, retail stores, etc. Also, event participants such as musical groups or visiting teams spend money in the local geographic area. Further, the arena and its tenants spend money on repairs, maintenance, event operations, salaries, supplies, and other expenses. The incremental impacts resulting from the operation of an arena or district occur every year during the useful life of the arena.

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

5.1.1 Direct Spending

Direct spending in the City of Sacramento, Sacramento County, and the Sacramento MSA that would not otherwise occur without each scenario in place is measured. Again, there are five scenarios examined: (1) current operations at ARCO Arena, (2) a new downtown arena, (3) a downtown SED, (4) an arena next to ARCO Arena, and (5) an adaptive reuse area in North Natomas. Direct spending will occur during the construction period on materials and labor. Some of the expenditures will be on materials and labor that are located outside of the City of Sacramento, the County, or the MSA, thereby not producing incremental impact for either of those areas. Direct spending will also occur during the operation of an arena or district. This spending will be derived from:

- Team operations (salaries, scouting, operations, administration, etc.);
- District tenant operations (e.g., payroll, supplies);
- Visiting team and other event participants' spending (a significant number of visiting participants come to Sacramento for events held annually at ARCO);
- Arena operations (operations, maintenance and repair, administration, salaries, etc.);
- Visiting spectator spending outside of the arena, inside of a district, or even outside of a district at local restaurants, retail stores, etc.¹³

Each of these expenditure categories will be adjusted for spending that occurs outside of the City, County, and MSA. This Report utilizes both primary research (e.g., survey analysis), and secondary research (comparable situations in other locations with adjustments for the local region). The details are discussed in the appropriate sections.

5.1.2 Indirect and Induced Spending

The incremental output that results from the direct spending during construction or operations of a district or an arena subsequently affects many other industries and workers. For instance, when a group of visitors attends a play in a theatre in the sports and entertainment district, they may spend money in a local restaurant before the show. The restaurant will disburse some of this money to pay employees, to

¹³ Visiting spectator spending that occurs within the arena will be accounted for in team and arena operations information.

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* incremental impacts are those that occur in the local region or area of impact (City, County, and MSA) that are the re-spending of the initial visitor expenditures. The summation of each successive round of re-spending constitutes the indirect impact estimate.

The *induced* incremental impact is the effect of the direct and indirect incremental impact on earnings and employment. As the initial spending and subsequent re-spending occurs, a portion is retained as income to local residents and employees. The increase in demand from the incremental impact leads to increases in employment, which will also affect earnings.

5.1.3 Multiplier Effect to Measure Indirect and Induced Impacts

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. 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, *ceteris paribus*.

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 the defined local economy affects the value of the multipliers. A smaller defined local geographic region implies that more game 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.

In this Report, direct spending is used to estimate indirect spending by using multipliers from a regional economic impact model from the USDA Forest Service IMPLAN (IMpact Analysis for PLANning), now supplied by MIG (Minnesota IMPLAN Group).

Here is an example of the multiplier in action. If a group of spectators from outside of the region comes to visit a downtown sports and entertainment district and spends \$500 in the community, or if this money

is spent by a visiting team or touring show coming to a city, then this initial direct expenditure stimulates economic activity and creates additional business spending, employment, household income, and government revenue in the host community. The initial spending is called the *direct impact* and the ripple effect is termed the *multiplier effect*.¹⁴

The local theatre, restaurants, retail stores, transportation, and others who receive the initial \$500 will spend it in one of the five ways listed above. The remaining portion of the initial spending that does not leak out of the economy is then spent in one of the same five ways and the chain of events continues. The subsequent rounds of spending are termed *indirect impacts* and stem from the *multiplier effect*.¹⁵

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.

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 incremental 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 FTE jobs are supported in the local economy as a result of visitor expenditure.

5.2 SUMMARY AND NET COMPARISON OF IMPACTS FROM EACH SCENARIO

The major objective of this section is to determine the net incremental economic impact (to the City, County, and the MSA) arising out of the relocation of the arena and team to a SED and thereby spurring the redevelopment of the Railyards. To do that we have examined three main scenarios:

SCENARIO #1: The incremental impact arising from a Railyards SED anchored by an Arena Complex and plus the incremental impact arising from the adaptive reuse of the North Natomas ARCO site; and

SCENARIO #2: The incremental impact arising from a hypothetical “replacement” arena developed and operated next to the current ARCO arena and plus the incremental impact arising from the Railyards redevelopment without an Arena Complex; and

¹⁴ To be clear, the *multiplier effect* leads to the calculation of the *indirect* and *induced* impacts.

¹⁵ It is important to note that most multiplier analysis does not account for when the money is re-spent. Some multiplier matrices attempt to account for this (e.g., REMI) and adjust for when spending occurs when calculating the multiplier by deflating it for money that is saved for a significant period of time.

SCENARIO #3: The incremental impact arising from the current operations at ARCO Arena and plus the incremental impact arising from the Railyards redevelopment without the Arena Complex.

5.2.1 Scenario #1

As shown below, the construction of the SED with arena complex and the redevelopment of the Railyards together with the adaptive reuse of the North Natomas property (current ARCO Arena site) yield an impact of just over \$1 billion on a cumulative basis for the City, County, and MSA. The operational impacts for the City, County, and MSA, on a cumulative basis, are also very significant - \$384 million of incremental impact *annually* and more than 12,700 jobs *annually*.

SCENARIO #1: NET INCREMENTAL IMPACT OF RAILYARDS SED WITH AN ARENA COMPLEX, PLUS THE REDEVELOPMENT OF THE RAILYARDS, PLUS THE ADAPTIVE REUSE OF THE ARCO ARENA ACREAGE

Net Economic Impact of Downtown SED + Arena + Railyards + Re-use of NN Property					
(Net Construction and Operational Impacts of Each Project)					
(Railyards Impact is only for Construction not Operational)					
City of Sacramento		➔	Total Output	Earnings	Employment
Construction	\$423,385,311		\$704,770,999	\$322,634,849	8,147
Operational	\$284,586,424		\$448,524,778	\$297,718,800	9,734
Sacramento County		➔	Total Output	Earnings	Employment
Construction	\$310,559,271		\$519,345,785	\$269,966,069	6,128
Operational	\$60,068,136		\$95,055,402	\$63,134,826	1,832
Sacramento MSA		➔	Total Output	Earnings	Employment
Construction	\$266,537,559		\$455,926,622	\$208,737,290	5,250
Operational	\$39,167,913		\$62,976,587	\$41,813,183	1,220
Total - Construction	\$1,000,482,141		\$1,680,043,405	\$801,338,208	19,525
Total - Operational	\$383,822,473		\$606,556,767	\$402,666,809	12,786

Note: Operational impacts are shown for 1 year. Construction impacts are for the entire construction period.

5.2.2 Scenario #2

As shown below, the impacts generated by Scenario #2 are not as large as Scenario #1. The construction impacts yield an impact of almost \$844 million on a cumulative basis for the City, County, and MSA. The operational impacts for the City, County, and MSA, on a cumulative basis, are \$115 million of incremental impact *annually* and 4,600 jobs *annually*.

SCENARIO #2: NET INCREMENTAL IMPACT OF HYPOTHETICAL “REPLACEMENT” ARENA (NEXT TO ARCO ARENA) PLUS REDEVELOPMENT OF THE RAILYARDS WITHOUT AN ARENA COMPLEX

Net Economic Impact of New Arena Next to ARCO Arena + Railyards (Base Case)						
(Net Construction and Operational Impacts of Each Project)						
City of Sacramento		➔	Total Output	Earnings	Employment	
Construction	\$355,572,237		\$591,888,745	\$270,958,845	7,113	
Operational	\$56,613,326		\$89,225,899	\$59,225,775	2,794	
Sacramento County		➔	Total Output	Earnings	Employment	
Construction	\$261,769,870		\$437,755,660	\$227,553,931	5,199	
Operational	\$39,055,080		\$61,803,088	\$41,048,979	1,191	
Sacramento MSA		➔	Total Output	Earnings	Employment	
Construction	\$226,463,169		\$387,377,254	\$177,353,272	4,482	
Operational	\$19,810,833		\$31,853,080	\$21,148,790	617	
Total - Construction	\$843,805,276		\$1,417,021,659	\$675,866,048	16,794	
Total - Operational	\$115,479,239		\$182,882,066	\$121,423,544	4,603	

Note: Operational impacts are shown for 1 year. Construction impacts are for the entire construction period.

5.2.3 Scenario #3

As shown below, the impacts generated by Scenario #3 are also not as large as Scenario #1. The construction impacts yield an impact of almost \$737 million on a cumulative basis for the City, County and MSA. The operational impacts for the City, County and MSA, on a cumulative basis, are \$103 million of incremental impact *annually* and 4,200 jobs *annually*.

SCENARIO #3: NET INCREMENTAL IMPACT OF ARCO ARENA AS IS, PLUS REDEVELOPMENT OF THE RAILYARDS WITHOUT AN ARENA COMPLEX

Net Economic Impact of Current ARCO Arena + Railyards (Base Case)						
(Net Construction and Operational Impacts of Each Project)						
City of Sacramento		➔	Total Output	Earnings	Employment	
Construction ¹	\$323,894,010		\$539,156,885	\$246,818,896	6,372	
Operational	\$48,836,589		\$76,969,309	\$51,090,177	2,558	
Sacramento County		➔	Total Output	Earnings	Employment	
Construction	\$226,136,699		\$378,166,592	\$196,578,371	4,462	
Operational	\$35,978,787		\$56,934,978	\$37,815,631	1,097	
Sacramento MSA		➔	Total Output	Earnings	Employment	
Construction	\$186,892,430		\$319,689,407	\$146,363,685	3,704	
Operational	\$18,533,060		\$29,798,597	\$19,784,721	577	
Total - Construction	\$736,923,139		\$1,237,012,884	\$589,760,952	14,538	
Total - Operational	\$103,348,436		\$163,702,884	\$108,690,528	4,232	

Note: Operational impacts are shown for 1 year. Construction impacts are for the entire construction period.
¹ - There is not a construction impact from ARCO Arena.

5.2.4 Comparison of Scenario #1 vs. Scenario #3

By comparing Scenario #1 (relocating team/arena to the Railyards SED) with Scenario #3 (team remains at ARCO and redevelopment of the Railyards proceeds without the arena) the table below presents the difference – the net incremental impact of moving the arena into a SED that can spur redevelopment of the Railyards. Scenario #1 yields net incremental impact that is very significantly larger than Scenario #3 – more than \$263 million more during the construction period (one time) and more than \$280 million more from operations (*annually*) for the City, County and Sacramento region. The table below shows a comparison of all impacts comparing Scenario 1 versus Scenario #3:

COMPARISON OF THE TOTAL NET INCREMENTAL IMPACT OF THE PROPOSED PROJECT (SCENARIO #1) VS. THE STATUS QUO (SCENARIO #3)

A Comparison of Proposed Project (Scenario #1) vs. Status Quo (Scenario #3)						
(Net Construction and Operational Impacts of Each Project)						
(Railyards Impact is only for Construction not Operational)						
City of Sacramento			Total Output	Earnings	Employment	
Construction	\$99,491,300	➔	\$165,614,114	\$75,815,953	1,775	
Operational	\$235,749,834		\$371,555,469	\$246,628,623	7,176	
Sacramento County			Total Output	Earnings	Employment	
Construction	\$84,422,573	➔	\$141,179,193	\$73,387,698	1,666	
Operational	\$24,089,350		\$38,120,424	\$25,319,196	735	
Sacramento MSA			Total Output	Earnings	Employment	
Construction	\$79,645,129	➔	\$136,237,214	\$62,373,605	1,545	
Operational	\$20,634,853		\$33,177,990	\$22,028,462	643	
Total - Construction			\$443,030,521	\$211,577,256	4,986	
Total - Operational			\$442,853,883	\$293,976,281	8,554	

Note: Operational impacts are shown for 1 year. Construction impacts are for the entire construction period.

In conclusion, the largest incremental impact for the taxpayers of the City, County, and MSA, separately and in aggregate for the region, is the construction and operation of a Railyards SED anchored by an arena, spurring the redevelopment of the balance of the Railyards, and along with the adaptive reuse of the ARCO Arena acreage. Implementing the concept plan described in this report produces clearly significant incremental economic impact over any other scenario studied in this report. During construction, on a cumulative basis (City plus County plus MSA), Scenario #1 is estimated to produce \$157 million more incremental impact than Scenario #2 and \$264 million more incremental impact than Scenario #3. During annual operation, on a cumulative basis (City plus County plus MSA), Scenario #1 is estimated to produce \$268 million *more* incremental impact than Scenario #2 and \$280 million *more* incremental impact than Scenario #3 – every year. Note that these figures do not even include the operational impacts of the Railyards redevelopment beyond the SED – inclusion of the operational impacts in the balance of the Railyards (outside the SED) would cause the incremental impacts of Scenario #1 to grow rather materially.

5.3 ANALYSIS OF PSYCHIC AND MEDIA IMPACTS

This portion of the Report provides a brief analysis of some of the less traditional, but very important types of economic impact that are not formally measured in this study. While no primary research was undertaken, secondary research shows a substantial gross media and psychic impact of the Sacramento Kings. The community's identity, cultural fabric, and leisure options are all expected to feel an impact from a new downtown SED.

5.3.1 Psychic Impact

One role of government is to provide cultural, civic, and entertainment goods and services that citizens enjoy, but that no private firm is willing to provide because the goods or services are "public goods."¹⁶ Major professional sports teams and entertainment districts add to the quality of life in a region in a manner similar to that of zoos, museums, aquariums, parks, the arts, and other public goods, but in significantly different ways. Professional sporting events provide an entertainment option for some, especially those who value attending or viewing spectator sports.

Having a local major professional sports team enhances community and civic pride. Sports teams help to create the identity of cities, especially those who have recently attracted a team. Many people find it important to live in a "major league city," recognizing that sports teams can help to put a town "on the map."

Psychic impact is the emotional impact that is generated by a team within a region. Teams often are part of the cultural fabric of the community. They add to civic pride and increase community spirit, especially when they are competitive and engaged with their local and regional communities. Emotional benefits that are received by members of a community who are not directly involved with managing a team or attending games, but who still strongly identify with the team, are part of the overall psychic impact.

A substantial portion of a community identifies with "its" team. Sport is often the only common glue that bonds strangers together. It is a common idiom that provides entertainment and conversation at the office, 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" 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 impact.

¹⁶ 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.

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.”

Team 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 citizens through sheer knowledge of the fortunes of the team. This is one of the primary reasons for the public-private partnerships that build sports venues.

The following statement illustrates the value of psychic impact: “I’m a Penguins fan and pay nothing for being one. I do not attend games nor watch them on television. I do, however, read about them, discuss them with friends and co-workers, watch highlights, etc. If someone said, ‘Give me \$100 or the Penguins will fold,’ I would pay it.” Adding up each of these values across the total population of a city would approximate the psychic impact.

An estimate of the psychic impact for the Pittsburgh Penguins of the NHL is \$16 million per year. This works out to an average of about \$7.27 per person in the MSA. The Indiana Pacers have an annual psychic impact on the Indianapolis community of about \$35 million per year. There are not any current estimates for the Sacramento Kings or Monarchs, but these provide a starting point. Further, the psychic impact of a downtown entertainment district is unknown at this time. One piece of a district, the Royal Theatre in Copenhagen, Denmark, is valued beyond its full cost of operating and maintaining even by the 93% of residents who do not use the theatre at all.

5.3.2 Media Impact

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. One way in, which this occurs, is through the media coverage of an event.

During the NBA Playoffs, for instance, television viewers see many images of people enjoying themselves in the host city, creating an enhanced image of the city. Further, the announcers mention the name of the city, often increasing awareness about the city. Moreover, other media such as newspapers, radio, and the Internet provide free coverage of the host city. It is extremely difficult to measure the translation of media coverage into actual new visitor expenditures. Notwithstanding, it is possible to calculate the cost that the local convention and visitors bureau would have to incur to get a similar amount of media coverage based on standard advertising rates.

5.4.1 Caveats & Limitations

1. The analysis contained in this document is based, in part, on data from secondary sources such as state and local government, planning agencies, real estate brokers, and other third parties. While SportsEconomics believes that these sources are reliable, we cannot guarantee their accuracy.
2. The analysis assumes that neither the local nor national economy will experience a major recession. If an unforeseen change occurs in the economy, the conclusions contained herein would likely no longer be valid.

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3. Any estimates of development costs, capitalization rates, income and/or expense projections are based on the best available data as well as the experiences of similar projects. They are not intended to be projections of the future of the Railyards, the SED, the Arena Complex, MSE, the Kings or any other components thereof. No warranty or representation is made that any of the estimates or projections will actually materialize.