



FINAL REPORT:

Feasibility Study for a Permanent Mixed-Use Arena Facility in the City of Santa Cruz, California

November 1, 2016





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Bonnie Lipscomb
Economic Development Director
City of Santa Cruz
337 Locust Street
Santa Cruz, California 95060

Ms. Lipscomb,

Victus Advisors is pleased to present this report to the City of Santa Cruz (“City” or “Santa Cruz”) regarding the findings from our Feasibility Study for a Permanent Mixed-Use Arena Facility. Sections I through IV summarize our market demand analysis, demand projections, building program recommendations, and preliminary site analysis. Sections V through X include architectural site concepts, operational and financial analysis, project funding analysis, and economic and fiscal impact analysis.

This report relies on a variety of information and assumptions to develop market, financial, and economic projections. Sources of information and assumptions include, but may not be limited to, information provided by the City of Santa Cruz, input and opinions provided by relevant third parties, information provided by other potential project stakeholders, Victus Advisors’ industry experience and previous studies, and publicly available data from various industry sources. Any such information collected by Victus Advisors has not been audited or verified and has been assumed to be correct. There will be differences between actual events and the projections contained herein, and we express no assurances of any kind related to any projected information. Differences between projections and actual events may be material.

If you have any questions as you review this report, please contact Brian Connolly of Victus Advisors at (435) 604-0874 or bconnolly@victusadvisors.com.

Sincerely,

Victus Advisors LLC



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EXECUTIVE SUMMARY



THE ASSIGNMENT:

Victus Advisors was engaged by the City of Santa Cruz in 2015 to conduct an independent, objective, and research-based study of the potential market demand and financial feasibility of a permanent mixed-use arena facility in downtown Santa Cruz. Preliminary arena objectives, developed prior to Victus Advisors' engagement, include:

- The arena's location should be within or convenient to downtown Santa Cruz.
- The arena should be designed to drive economic development in Santa Cruz.
- The arena would be the permanent home to the NBA D-League Santa Cruz Warriors.
- The arena should be multi-use, possibly including concerts, entertainment, trade shows, conventions, youth and amateur sporting events, etc., dependent on market demand.

Our full Final Report should be read for a detailed understanding of our arena feasibility study research and findings, including but not limited to:

- Estimates of market demand for a new, permanent arena in Santa Cruz.
- Recommendations for a market-supportable building program.
- Forecast of event days by category of user.
- Preliminary assessment of potential venue sites.
- Estimates of the potential financial operations of the proposed concepts.
- Overview of arena funding approaches utilized by comparable markets.
- Review of facility management options.
- Analysis of the potential economic and fiscal impacts of facility development.

VICTUS ADVISORS' RECOMMENDATIONS:

Based upon our detailed analysis of local market opportunities and constraints, lessons learned from comparable facilities in other markets, and interviews with local, regional and national event organizers, we have developed the following set of recommendations and conclusions:

- **MARKET DEMAND FOR AN ARENA** - Based on the research and analysis conducted throughout Section II of this report, Victus Advisors believes that the Santa Cruz market may not generate enough demand for a multi-purpose sports and entertainment arena with 5,000 to 7,000 seats to operate profitably. A 3,000 to 4,000-seat arena may be more appropriate to meet market demand, however it is expected that an arena of that size would compete directly with the existing Civic Auditorium if the new arena was targeted at concert and live entertainment activity. Therefore, in order to reduce the potential impacts of a new permanent arena on the Civic Auditorium, Victus Advisors believes it would be preferable for the new arena to:

- a) have a 3,500-seat center-court configuration that caters to large sporting events (Warriors, college and high school basketball games and volleyball tournaments, and regional/national tournaments for volleyball, basketball and gymnastics), and
- b) utilize retractable seating and portable flooring systems to maximize daily/hourly use by local sports organizations, flat floor shows, and other community uses.

Such a sports and special events-centric business model could not only limit competition with the Civic Auditorium, but also generate more significant economic impacts for the City of Santa Cruz by hosting regional/national tournaments that draw athletes and overnight visitors from a much wider range than a typical concert arena (which typically draws primarily from within the local market). This model would also provide significantly increased access to the public for community sports and recreation uses on non-Warriors game days.

- **CIVIC AUDITORIUM** - Most concert promoters that we spoke with felt that the Civic Auditorium was an appropriate size (1,500 to 2,000 seats) for the majority of the touring acts that visit Santa Cruz. In addition, many stakeholders and event operators have a fondness for the Civic Auditorium (despite the age and operational difficulties of the facility) due to its history and unique “Santa Cruz feel”.

Furthermore, should the Civic Auditorium be renovated using public dollars (as is currently under consideration) to meet the existing market need for a 1,500 to 2,000-seat performing arts facility that primarily hosts concerts, comedy shows, and theater events, it is important that a new arena should be designed and operated not to compete with the Auditorium. A performing arts-focused renovation of the Auditorium could also force out certain types of athletic or flat floor events that are currently held at the Civic Auditorium, and Victus Advisors believes that most of these events would consider a potential relocation to a new arena that meets the description above.

- **CONCLUSION** - In summary, Victus Advisors believes that a 3,500-seat arena is the ideal seating capacity for a new arena venue in Santa Cruz, however if it is aggressively marketed for concerts/entertainment events it would directly compete with the Civic Auditorium. Therefore, it is recommended that a new 3,500-seat arena facility should be designed and operated in such a way to complement a renovated Auditorium by hosting Warriors games, high school/collegiate sports, youth and amateur basketball/volleyball/gymnastics, flat floor shows, and sports entertainment events not suitable for a performing arts venue (such as Globetrotters or Derby Girls), so as to maximize economic impacts for the City while reducing competition with the Civic Auditorium. Such an arena could be designed via the use of retractable seating technology to accommodate Warriors games and other sports and special events that require a seating capacity up to 3,500 seats, while serving the local/regional needs of sports, recreation, flat floor shows, and other community uses on a daily basis.

EXPECTED LEVEL OF PERFORMANCE:

- **USAGE** - Overall, it is estimated that the recommended arena could be used nearly 360 days per year for a mixture of both local-use events and regional/national events that could attract significant economic impact to the community, especially during the fall and winter months when: a) Santa Cruz does not typically attract significant beach visitation, and b) indoor sports center uses are in-season, such as indoor basketball, volleyball, gymnastics, wrestling, etc. Based on the site analysis conducted in Section IV of this report, DLR Group architects conducted a test fit analysis to ensure that the recommended arena program/uses could fit on the two highest rated sites, the Existing Arena Site and Depot Park. The existing site could fit a new 3,500-seat Warriors arena with additional multi-court configurations (“Base Model”). The Depot Park site could fit the same concept as the existing site, as well as additional indoor artificial turf fields (“Base Model + Indoor Fields”).
- **OPERATIONS** - Based on our analysis of comparable venues, as well as the public operations of the Civic Auditorium, it is recommended that a new permanent arena in Santa Cruz be operated by a qualified third-party operator with experience operating sports and event venues. The management goal should be to operate the facility at a positive annual operating margin, so as not to burden the City with annual deficits. In a stabilized year of operations, it is estimated that the proposed permanent arena in Santa Cruz could generate annual income from operations of approximately \$315,000 (Base Model) to \$397,905 (Base Model + Indoor Fields). Based on our financial projections and analysis of comparable venue financials, it is expected that the annual operations of the proposed arena in Santa Cruz are not likely to provide a significant return on capital. That said, the proposed arena’s operations should be considered a success if it consistently generates positive annual operating margins while providing increased community recreation access and driving long-term economic impact.
- **ECONOMIC & FISCAL IMPACTS** - The one-time construction and on-going operations of a new permanent arena in Santa Cruz are estimated to generate incremental direct spending within the City by outside businesses and visitors. Over the course of the estimated useful life of the arena (approximately 30 years), we have estimated that the on-going operations of the arena could generate cumulative economic and fiscal benefits over 30 years of more than \$855 million in total economic output, nearly 330 sustainable jobs, approximately \$339 million in labor income, and over \$19.6 million in City tax revenues.
- **INTANGIBLE IMPACTS** - In addition to the quantifiable economic impacts above, it should also be noted that the proposed facility would be more than just an arena for hosting the Santa Cruz Warriors’ D-League basketball games, but also a community sports and recreation venue that will allow public use of the facility when it’s not being used by the minor-league sports tenant or some other spectator event. As such, not only could this recommended operational model for a proposed permanent arena in Santa Cruz address many of the financial concerns that communities face when undertaking public financing of a professional sports arena, but it would also provide a community asset for public use.



I. INTRODUCTION



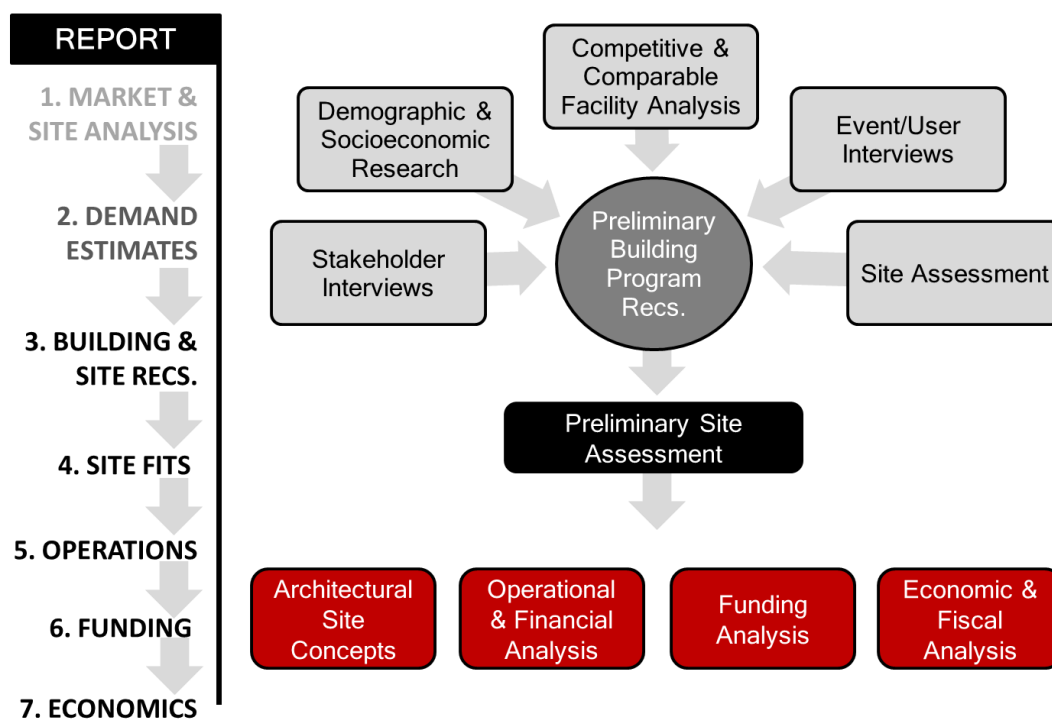
I. INTRODUCTION

Victus Advisors was engaged by the City of Santa Cruz in 2015 to conduct an independent, objective, and research-based study of the potential market demand and financial feasibility of a permanent mixed-use arena facility in downtown Santa Cruz. Preliminary arena objectives, developed prior to Victus Advisors' engagement, include:

- The arena's location should be within or convenient to downtown Santa Cruz.
- The arena should be designed to drive economic development in Santa Cruz.
- The arena would be the permanent home to the NBA D-League Santa Cruz Warriors.
- The arena should be multi-use, possibly including concerts, entertainment, trade shows, conventions, youth and amateur sporting events, etc., dependent on market demand.

Our Feasibility Study process is shown below:

FEASIBILITY STUDY PROCESS



This report summarizes all of our research and findings, including but not limited to:

- Estimating market demand for a new, permanent arena in Santa Cruz.
- Recommending a market-supportable building program.
- Forecasting event days by category of user.
- Developing a preliminary assessment of potential venue sites.
- Estimating the potential financial operations of the proposed concepts.
- Providing an overview of arena funding approaches utilized by comparable markets.
- Reviewing facility management options.
- Analyzing the potential economic and fiscal impacts of facility development.



II. MARKET DEMAND ANALYSIS



A. DEMOGRAPHIC & SOCIOECONOMIC ANALYSIS

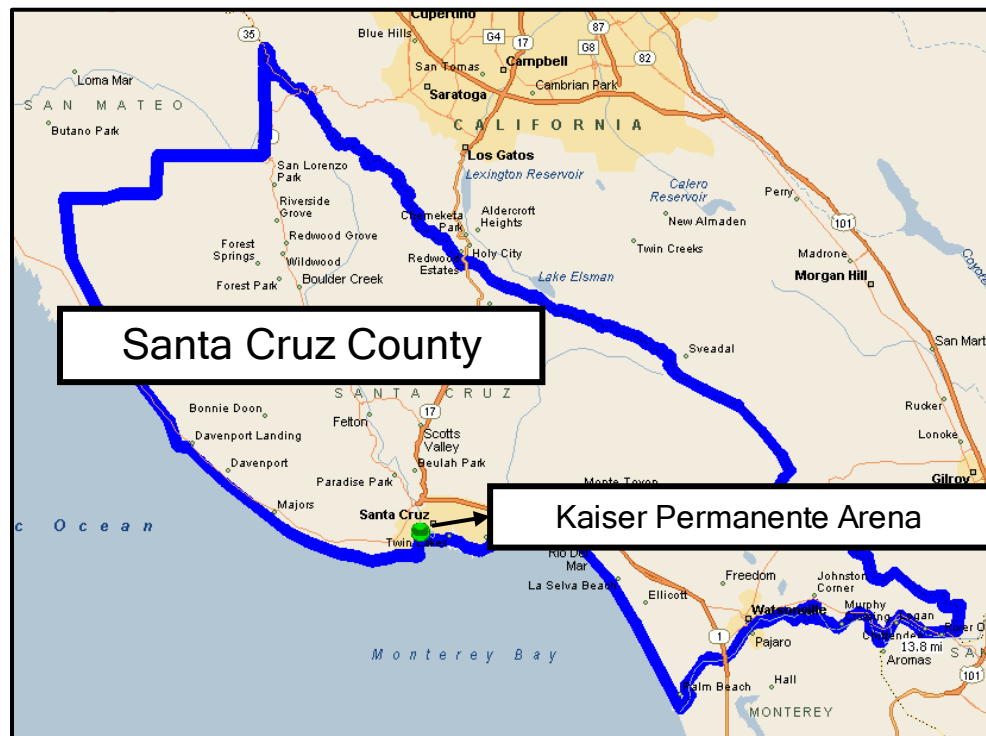
An important component in assessing the potential success of a permanent arena in Santa Cruz is the demographic and socioeconomic characteristics of the local market. The strength of a market in terms of its ability to attract events, attract patrons, and generate revenues can be measured, to some extent, by examining the regional market population, income levels, and corporate community. These characteristics must be measured within the context of other key factors, such as site factors and competition from other facilities.

Specific demographic and socioeconomic information that can provide an indication of the ability of a market to support a multi-purpose arena includes population trends, population age, household income, and corporate base. Event organizers and sports team operators typically consider these factors when selecting the appropriate facility or market for their events or teams.

When analyzing the market potential for a new mixed-use arena, it is important to consider the relevant economic market area, not just those areas defined by city or municipal boundaries. Any public assembly venue, not just sports arenas, must be supported by both resident attendance and commercial sponsorship throughout the relevant market area in which the venue operates. In this case, we have analyzed the market potential for a new arena based upon the broader Santa Cruz-Watsonville MSA (i.e. Santa Cruz County).

The primary market definition that we have utilized for this study is the Metropolitan Statistical Area (MSA). MSA's are defined by the U.S. Office of Management and Budget as a geographical region with a high degree of social and economic integration with an urban core of 50,000 people or more. The Santa Cruz-Watsonville MSA is geographically defined as Santa Cruz County (as shown on the next page) and currently has a population of nearly 275,000 people.

SANTA CRUZ-WATSONVILLE MSA



It should be noted that the Santa Cruz MSA is considered an economically unique market from the San Jose market to the north. Although downtown Santa Cruz and downtown San Jose are only 30 miles apart by car, there is very little residential or commercial development between the two population centers. Also, because of the Santa Cruz Mountains between the two cities, car travel on California State Route 17 can take as much as one hour or more depending on traffic conditions. As such, it is expected that the vast majority of attendance and sponsorship for a new permanent arena in Santa Cruz would come from within Santa Cruz County.

For purposes of comparative analysis, Victus Advisors also identified markets that are similar to the Santa Cruz MSA based upon the following criteria:

- MSA population between approximately 100,000 and 650,000 people;
- Multi-purpose arena opened in the past 15 years (excluding any on-campus university arenas); and,
- Fixed arena seating for less than 8,000 people.

Based upon these criteria, the comparative markets in this report include:

- Wichita, Kansas MSA;
- Toledo, Ohio MSA;
- Youngstown-Warren-Boardman, Ohio MSA;
- Reno, Nevada MSA;
- Reading, Pennsylvania MSA;

- Fort Collins-Loveland, Colorado MSA;
- Sioux Falls, South Dakota MSA;
- Fargo, North Dakota MSA;
- Prescott, Arizona MSA; and,
- Elmira, New York MSA.

Additional factors for selecting these markets included the presence of a comparable arena/event center development, among other factors, as described in further detail in Section II-B of this report.

POPULATION

The level of population from which to draw upon can impact the ability of an arena to attract events and attendees. The exhibit below presents the historical, current and projected population of the Santa Cruz MSA, as well as summary age, household income, and corporate base statistics. The context for each of these key factors will be explored further in the following pages of this report.

SANTA CRUZ-WATSONVILLE MSA STATISTICS

Population	274,927
Population Growth:	
Annual Pop. Growth (2000 to 2015)	0.5%
Annual Pop. Growth (5-year Projection)	0.9%
Projected Population (2020)	287,978
Median Age	37.3
Median Household Income	\$70,960
Corporate Base ⁽¹⁾	870

Sources: Nielsen, Hoovers

(1) Represents companies with at least 5 employees and \$1M+ annual sales.

The exhibit on the following page illustrates the population density for the Santa Cruz MSA. The MSA's population is clustered near two coastal locations, Santa Cruz and Watsonville. There are relatively few residents located in the area between the Santa Cruz MSA and the San Jose market to the north. The Santa Cruz MSA and the San Jose market are separated by the Santa Cruz Mountains.

POPULATION DENSITY



The following exhibit illustrates where the Santa Cruz MSA ranks relative to comparable markets in terms of population growth trends.

MSA POPULATION GROWTH

City, State	MSA	MSA Population 2000	MSA Population 2015	MSA Population 2020	Annualized Growth Rate Since 2000	Projected 5- Yr Annual Growth Rate
Park City, KS	Wichita	579,839	640,274	651,890	0.7%	0.4%
Toledo, OH	Toledo	618,204	607,192	606,352	-0.1%	0.0%
Youngstown, OH	Youngstown-Warren-Boardman	603,117	550,695	540,430	-0.6%	-0.4%
Reno, NV	Reno	342,882	442,240	462,965	1.7%	0.9%
Reading, PA	Reading	373,641	414,347	417,796	0.7%	0.2%
Loveland, CO	Fort Collins-Loveland	251,494	323,793	346,587	1.7%	1.4%
Santa Cruz, CA	Santa Cruz-Watsonville	255,602	274,927	287,978	0.5%	0.9%
Sioux Falls, SD	Sioux Falls	187,096	251,471	273,293	2.0%	1.7%
Fargo, ND	Fargo	174,367	232,348	251,975	1.9%	1.6%
Prescott, AZ	Prescott	167,520	218,089	228,100	1.8%	0.9%
Elmira, NY	Elmira	91,070	88,004	87,667	-0.2%	-0.1%
Average		331,348	367,580	377,730	0.9%	0.7%
Median		255,602	323,793	346,587	0.7%	0.9%

Note: Sorted by MSA Population 2020 in descending order

Source: Nielsen

II. MARKET DEMAND ANALYSIS - A. DEMOGRAPHIC & SOCIOECONOMIC ANALYSIS

As shown on the previous page, the Santa Cruz MSA's population of 274,927 people represents the seventh most populated out of the 11 markets selected for comparative analysis. Furthermore, the projected growth rate of the Santa Cruz MSA represents the median among comparative markets.

AGE

Another demographic characteristic that can be important to the overall viability of a permanent arena in Santa Cruz is the age of the local population. Generally, sports and entertainment events attract patrons of various ages with the core group of patrons clustered within the 25 to 54-year-old age group, which is most likely to have disposable income available for arena events.

A relatively lower median age of a population tends to be a positive market indicator for a multi-purpose sports venue due to the presence of a large working age population and young families. As with the population distribution chart shown on the previous page, younger median ages within the Santa Cruz market tend to be clustered around Santa Cruz and Watsonville, as seen in the exhibit below.

AGE DISTRIBUTION



Source: Microsoft MapPoint

II. MARKET DEMAND ANALYSIS - A. DEMOGRAPHIC & SOCIOECONOMIC ANALYSIS

When compared against similar markets, Santa Cruz ranks fifth out of 11 markets for median age as seen below.

MSA MEDIAN AGE SUMMARY

City, State	MSA	MSA Median Age
Fargo, ND	Fargo	32.8
Sioux Falls, SD	Sioux Falls	35.4
Park City, KS	Wichita	35.6
Loveland, CO	Fort Collins-Loveland	36.6
Santa Cruz, CA	Santa Cruz-Watsonville	37.3
Toledo, OH	Toledo	37.4
Reno, NV	Reno	38.0
Reading, PA	Reading	39.5
Elmira, NY	Elmira	40.8
Youngstown, OH	Youngstown-Warren-Boardman	43.7
Prescott, AZ	Prescott	51.0
Average		38.9
Median		37.4

Note: Sorted by MSA Median Age in ascending order

Source: Nielsen

In addition to median age, we also analyzed the presence of young families within each market. As shown below, the Santa Cruz market ranks fifth out of the 11 comparative markets in terms of the percentage of households in the market that have children under 18, which is consistent with the median age analysis shown above.

HOUSEHOLDS WITH CHILDREN

City, State	MSA	Total Households	Households w/ Children Under 18	% of Households w/ Children
Park City, KS	Wichita	247,287	86,083	34.81%
Sioux Falls, SD	Sioux Falls	99,035	34,047	34.38%
Reading, PA	Reading	154,854	51,298	33.13%
Reno, NV	Reno	171,451	54,831	31.98%
Santa Cruz, CA	Santa Cruz-Watsonville	98,856	30,645	31.00%
Toledo, OH	Toledo	245,868	76,160	30.98%
Elmira, NY	Elmira	35,430	10,697	30.19%
Fargo, ND	Fargo	96,609	28,198	29.19%
Loveland, CO	Fort Collins-Loveland	131,953	38,264	29.00%
Youngstown, OH	Youngstown-Warren-Boardman	227,602	64,201	28.21%
Prescott, AZ	Prescott	94,693	21,654	22.87%
Average		145,785	45,098	30.52%
Median		131,953	38,264	30.98%

Note: Sorted by % of Households w/Children in descending order

Sources: Nielsen

II. MARKET DEMAND ANALYSIS - A. DEMOGRAPHIC & SOCIOECONOMIC ANALYSIS

We also analyzed the size of each comparative market's population that is currently between the ages of 25 and 54, which tends to represent the people most likely to have disposable income available to purchase tickets for arena events.

POPULATION BETWEEN THE AGES OF 25 & 54

City, State	MSA	25-34	35-44	45-54	Total Ages 25-54	% of Total Pop 25-54
Park City, KS	Wichita	85,539	76,772	81,197	243,508	38%
Toledo, OH	Toledo	79,675	70,842	79,147	229,664	38%
Youngstown, OH	Youngstown-Warren-Boardman	59,445	61,230	75,182	195,857	36%
Reno, NV	Reno	61,993	54,720	59,610	176,323	40%
Reading, PA	Reading	47,894	48,584	59,428	155,906	38%
Loveland, CO	Fort Collins-Loveland	46,432	39,870	40,134	126,436	39%
Santa Cruz, CA	Santa Cruz-Watsonville	35,127	32,766	36,145	104,038	38%
Sioux Falls, SD	Sioux Falls	37,163	32,945	32,710	102,818	41%
Fargo, ND	Fargo	37,366	28,774	26,758	92,898	40%
Prescott, AZ	Prescott	19,575	19,243	25,640	64,458	30%
Elmira, NY	Elmira	10,607	10,185	12,187	32,979	37%
Average		47,347	43,266	48,013	138,626	38%
Median		46,432	39,870	40,134	126,436	38%

Note: Sorted by Total Ages 25-54 in descending order

Sources: Nielsen

As shown, the Santa Cruz market ranks seventh out of 11 comparable markets in terms of population aged 25 to 54.

INCOME

Another important socioeconomic variable that can be indicative of the market potential for a permanent mixed-use arena in Santa Cruz is household income. Household income can be used to measure the ability to purchase tickets, concessions, novelties, parking and other such items.

The exhibit on the next page illustrates the household income distribution within the Santa Cruz MSA.

HOUSEHOLD INCOME DISTRIBUTION



As shown above, household income levels within the Santa Cruz market tend to be lower as the distance increases away from the San Jose market (located to the north in the map). The highest areas of population density (i.e. Santa Cruz and Watsonville) also tend to have the lowest household income levels. High levels of disposable household income would be crucial to the success of any arena facility that hosts ticketed events such as professional sporting events or entertainment acts.

Comparatively speaking, when adjusted for the cost of living in each market, the Santa Cruz MSA's median household income ranks second to last among comparative markets, as shown in the exhibit on the following page. These income factors may indicate that Santa Cruz area households could have relatively less disposable income available for entertainment spending such as concert tickets.

II. MARKET DEMAND ANALYSIS - A. DEMOGRAPHIC & SOCIOECONOMIC ANALYSIS

HOUSEHOLD INCOME (ADJUSTED FOR COST OF LIVING)

City, State	MSA	MSA Median HH Income	Adjusted Median HH Income ⁽¹⁾
Sioux Falls, SD	Sioux Falls	\$55,322	\$67,057
Fargo, ND	Fargo	\$57,339	\$60,999
Loveland, CO	Fort Collins-Loveland	\$58,358	\$58,947
Reading, PA	Reading	\$54,255	\$56,457
Park City, KS	Wichita	\$49,124	\$53,805
Reno, NV	Reno	\$49,012	\$50,424
Elmira, NY	Elmira	\$50,259	\$48,606
Toledo, OH	Toledo	\$44,978	\$48,311
Youngstown, OH	Youngstown-Warren-Boardman	\$42,551	\$47,384
Santa Cruz, CA	Santa Cruz-Watsonville	\$70,960	\$46,623
Prescott, AZ	Prescott	\$44,633	\$45,590
		\$52,436	53,109
		\$50,259	50,424

Note: Sorted by Adjusted Median HH Income in descending order

(1) Adjusted for cost of living, according to ACCRA Cost of Living Index and citydata.com

Sources: Nielsen, ACCRA, citydata.com

In order to explore income levels further, we also analyzed the distribution of household income by income level within each market, as shown below.

HOUSEHOLD INCOME BY INCOME LEVEL

City, State	MSA	Households Earning <\$50k		Households Earning \$50k-\$100k		Households Earning >\$100k	
		Total	%	Total	%	Total	%
Park City, KS	Wichita	125,893	51%	78,772	32%	42,622	17%
Toledo, OH	Toledo	134,395	55%	71,297	29%	40,176	16%
Santa Cruz, CA	Santa Cruz-Watsonville	35,364	36%	29,041	29%	34,451	35%
Reno, NV	Reno	87,340	51%	51,065	30%	33,046	19%
Loveland, CO	Fort Collins-Loveland	58,119	44%	41,919	32%	31,915	24%
Reading, PA	Reading	72,250	47%	50,934	33%	31,670	20%
Youngstown, OH	Youngstown-Warren-Boardman	131,943	58%	66,780	29%	28,879	13%
Fargo, ND	Fargo	43,131	45%	30,437	32%	23,041	24%
Sioux Falls, SD	Sioux Falls	45,396	46%	33,877	34%	19,762	20%
Prescott, AZ	Prescott	53,010	56%	29,150	31%	12,533	13%
Elmira, NY	Elmira	17,645	50%	10,849	31%	6,936	20%
Average		73,135		44,920		27,730	
Median		58,119		41,919		31,670	

Note: Sorted by Households Earning >\$100k in descending order

Sources: Nielsen

The Santa Cruz market ranks third among comparative markets in terms of the number of households that earn more than \$100,000 per year, however just 29% of Santa Cruz households earn between \$50,000 and \$100,000 per year, which is the lowest percentage of any comparative market. This distribution of income among Santa Cruz households indicates that the Santa Cruz market may lack the overall market strength within all income levels to support a large concert

II. MARKET DEMAND ANALYSIS - A. DEMOGRAPHIC & SOCIOECONOMIC ANALYSIS

venue (more than 5,000 seats) with popular touring acts. That said, the upper-end of the market could be strong, which typically bodes well for the ability to sell premium sports tickets (such as courtside and club seats) and tickets to performing arts shows (typically 1,500 to 2,500-seat shows that cater to a wealthier 35 to 54-year-old age group).

CORPORATE BASE

Local companies can play a significant role in the overall success of a sports and entertainment arena by purchasing tickets, premium seating, and advertising and sponsorship opportunities. The following exhibit presents the number of corporate headquarters and branches with annual sales of at least \$1 million and at least five employees in the local market. These criteria were used in order to qualify companies that may have the financial wherewithal to purchase premium ticket packages, advertising or sponsorships in a sports and entertainment arena in Santa Cruz.

This analysis reviews the overall depth of the corporate base, as most arena facilities often have more than just a facility naming sponsor (such as Kaiser Permanente). They also depend on four to 12 founding (or cornerstone) sponsors, additional advertisers and signage buyers, and purchasers of premium seating packages ranging from private suites to club seats and courtside tickets. A typical multi-purpose arena can have key business relationships with well over 100 corporate partners at varying expenditure levels.

CORPORATE BASE SUMMARY

City, State	MSA	MSA Corporate Base ⁽¹⁾
Toledo, OH	Toledo	2,001
Park City, KS	Wichita	1,953
Youngstown, OH	Youngstown-Warren-Boardman	1,601
Reno, NV	Reno	1,352
Reading, PA	Reading	1,254
Sioux Falls, SD	Sioux Falls	971
Fargo, ND	Fargo	957
Loveland, CO	Fort Collins-Loveland	929
Santa Cruz, CA	Santa Cruz-Watsonville	870
Prescott, AZ	Prescott	543
Elmira, NY	Elmira	248
Average		1,153
Median		971

Note: Sorted by Corporate Base in descending order

(1) Defined as HQs and branch locations with at least 5 employees and \$1M+ annual sales.

Source: Hoover's

Among comparative markets, the Santa Cruz MSA has the third smallest corporate base, which could significantly affect the potential for a multi-purpose arena in the Santa Cruz market to generate key revenue streams such as premium seating and sponsorships from a wide range of corporations and local businesses.

DEMOGRAPHIC & SOCIOECONOMIC SUMMARY

- **SANTA CRUZ-WATSONVILLE MSA** - The Santa Cruz MSA is an economically separate market from the Santa Clara County market to the north. There is very little residential or commercial development between the two population centers, and because of the Santa Cruz Mountains, car travel between Santa Cruz and San Jose on California State Route 17 can take as much as one hour or more depending on traffic conditions. As such, it is expected that the vast majority of attendance and sponsorship for a new permanent arena in Santa Cruz would come from within Santa Cruz County.
- **POPULATION** - The level of population from which to draw upon can impact the ability of an arena to attract events and attendees. Santa Cruz MSA's population of 274,927 people represents the seventh most populated out of the 11 markets selected for comparative analysis. Furthermore, the projected growth rate of the Santa Cruz MSA represents the median among comparative markets.
- **AGE** - Generally, sports and entertainment events attract patrons of various ages with the core group of patrons clustered within the 25 to 54-year-old age group, which is the most likely age group to have disposable income available for arena events. When compared against similar markets, Santa Cruz ranks fifth out of 11 markets for median age. The Santa Cruz market also ranks fifth out of the 11 comparative markets in terms of the percentage of households in the market that have children under 18, which is consistent with the median age analysis. Lastly, the Santa Cruz market ranks seventh out of 11 markets in terms of population aged 25 to 54.
- **HOUSEHOLD INCOME** - Household income levels can be used to measure the ability to purchase tickets, concessions, novelties, parking and other such items. Household income levels within the Santa Cruz market tend to be lower as the distance increases away from the San Jose market. Furthermore, when adjusted for the cost of living in each market, the Santa Cruz MSA's median household income ranks second to last among comparative markets. These income factors may indicate that Santa Cruz area households could have relatively less disposable income available for entertainment spending such as concert tickets. Lastly, the Santa Cruz market ranks third among comparative markets in terms of the number of households that earn more than \$100,000 per year, however just 29% of Santa Cruz households earn between \$50,000 and \$100,000 per year, which is the lowest percentage of any comparative market. Taken together, the Santa Cruz market may not have an income profile that is suitable to support spectator events at a 5,000+ seat arena that would require attracting patrons across a wide range of price points.
- **CORPORATE BASE** - Local companies can play a significant role in the overall success of a sports and entertainment arena by purchasing tickets, premium seating, advertising and sponsorships. Among comparative markets, the Santa Cruz MSA has the third smallest corporate base, which could affect the potential for generation of major revenue streams that are crucial for the financial success of a 5,000+ seat arena.

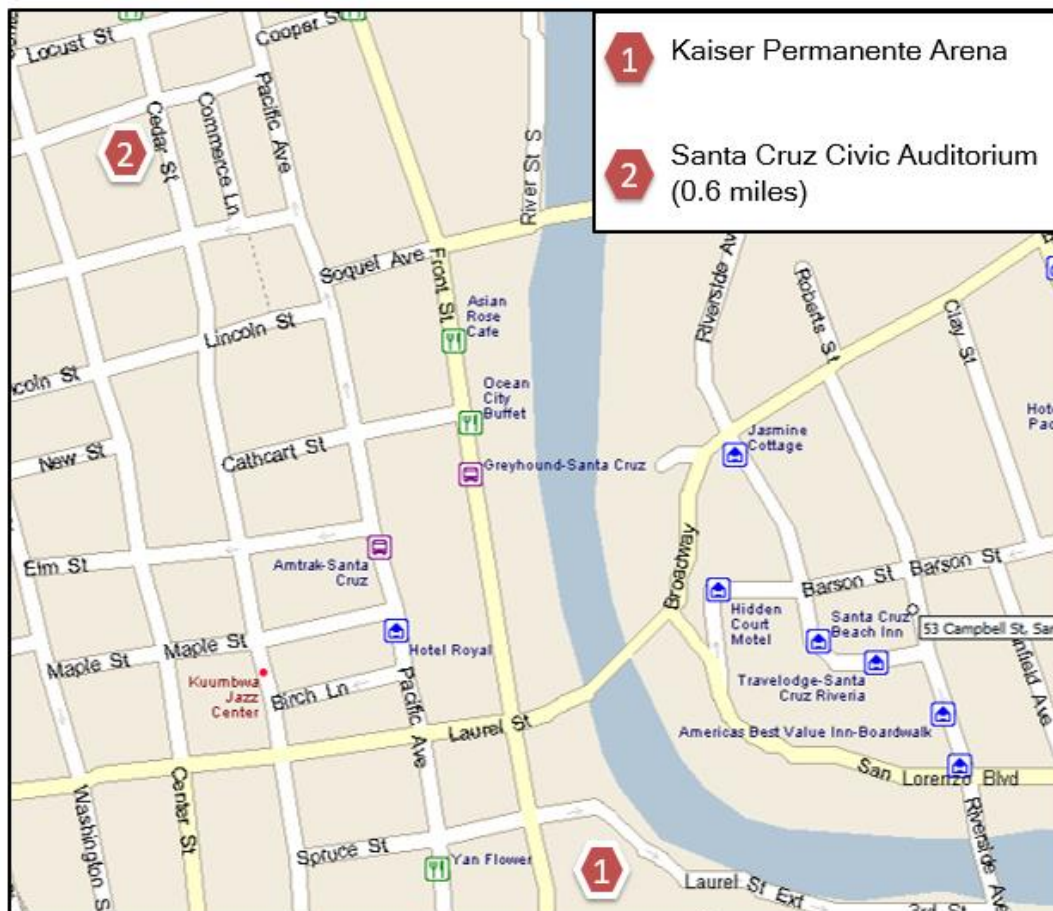
B. ANALYSIS OF LOCAL & COMPARABLE VENUES

LOCAL VENUES

The number and type of local facilities that could potentially compete for events, attendees and available sponsorship dollars will impact the market potential of a new permanent arena in Santa Cruz. The purpose of this section is to assess large assembly venues in the local area that could provide some level of competition to the Arena. As such, we have identified primarily those concert, sports and event venues in the Santa Cruz market with more than 1,500 seats. We recognize that other theaters and performing arts centers exist in the marketplace, however these facilities are either operated primarily for university/collegiate use (such as on-campus venues at UCSC or Cabrillo College) and/or have a significantly smaller seating capacity than what would be necessary to compete for events with the Santa Cruz Civic Auditorium or a multi-purpose arena (such as Colligan Theater, the Catalyst and the Kuumbwa Jazz Center)

Victus Advisors' research revealed that only one facility in the Santa Cruz market (the Santa Cruz Civic Auditorium, shown on the next page) would be likely to compete with a new arena in Santa Cruz, depending on the types of events held at the new arena.

PRIMARY SANTA CRUZ CONCERT & SPORTS EVENT VENUES



Source: Microsoft MapPoint

Note: Miles represent driving distance from Kaiser Permanente Arena

II. MARKET DEMAND ANALYSIS - B. LOCAL & COMPARABLE VENUES

The remainder of this section provides an overview of both the existing Kaiser Permanente Arena and the Santa Cruz Civic Auditorium, including a physical description of each facility, an overview of historical operations and conclusions regarding the degree of competition.

KAISER PERMANENTE ARENA

HISTORY

Opened in 2012, Kaiser Permanente Arena was built and designed for short-term use (seven years). With a footprint of 30,000 ft² and a seating capacity of 2,505, the Arena is the home of the Santa Cruz Warriors and the UC Santa Cruz Men's and Women's Basketball teams. Kaiser Permanente Arena cost \$7.0 million to build and was funded in part by a City-issued seven year loan to the Warriors in addition to facility use fees, admissions taxes, concession revenues and non-Warrior event revenues. The Arena is operated by the Warriors and owned by the City.



2014-15 EVENTS & ATTENDANCE

Kaiser Permanente Arena hosted 26 Warriors games averaging about 2,000 attendees per contest in 2014-2015. The Arena also hosted 12 Men's and 12 Women's UC Santa Cruz basketball games with each team averaging less than 300 in attendance per game. Kaiser Permanente has hosted additional events including: smaller comedy shows and concerts, high school sports, cheerleading, dancing, gymnastics, martial arts and conferences.



KAISER PERMANENTE ARENA FY 2014 EVENT ACTIVITY

Event Type	FY 2014 Event Days	Average Attendance	Total Attendance
Warriors Basketball	29	2,395	64,676
Santa Cruz Derby Girls	13	908	11,799
UCSC Men's/Women's Basketball	17	203	3,451
Brazilian Jui Jitsu	2	1,264	2,529
Samsung Seoul Basketball	1	1,370	1,370
SCCAL Basketball	1	1,256	1,256
CCS Basketball	1	798	798
Aptos HS Tournament	1	498	498
Basketball Tryouts	1	-	-
Gymnastics	1	-	-
Auctioned Jerseys	2	-	-
Zumba for Autism	1	-	-
Total	70	724	86,377

Source: City of Santa Cruz

SANTA CRUZ CIVIC AUDITORIUM

HISTORY

The Civic Auditorium was built in 1940 via a \$275,000 Works Progress Administration Grant. Owned and operated by the City of Santa Cruz, the Auditorium's maximum seating capacity is about 2,000 people.



ANNUAL EVENTS & ATTENDANCE

In its current configuration, the Civic Auditorium still features the original basketball court as the facility floor, and the seats are arranged in a stadium-style arrangement that is not ideal for concerts and performing arts activity. As a multi-use facility, the Auditorium held nearly 60 events during the 2014-2015 season and draws an estimated 85,000 attendees annually (note: this is an estimate because not all events are ticketed). The exhibit below illustrates the Civic Auditorium's event mix for FY 2014:



CIVIC AUDITORIUM FY 2014 EVENT ACTIVITY

Event Type	FY 2014
	Event Days
Classical Music	9
Popular Concerts	9
Speakers/Lectures	6
Dance	3
Musical Theater/Broadway	1
Flat Floor/Social Events	29
Total	57

Source: City of Santa Cruz

FUTURE OF THE CIVIC AUDITORIUM

Local arts groups are currently spearheading an independent consulting study, with the support of the City of Santa Cruz, analyzing the feasibility of converting the Civic Auditorium into a permanent, upscale, performing arts center. The new vision for the Auditorium would be likely to include removal of the basketball court and repositioning of the seating bowl to cater to concerts, orchestra, theater and other common performing arts center uses. It is expected that the new seating configuration could seat somewhere between 1,500 and 2,000 people.

COMPARATIVE VENUES

The purpose of this section is to present an overview of selected arenas that are comparable to the proposed permanent arena in Santa Cruz. An assessment of the physical, operational, and financial characteristics of comparable arenas provides a framework from which to benchmark the potential operations of the proposed arena.

The comparable facilities reviewed in this section were selected based on the following criteria:

- a) MSA population between approximately 100,000 and 650,000 people;
- b) Multi-purpose arena opened in the past 15 years (excluding any on-campus university arenas);
- c) Fixed arena seating for less than 8,000 people; and,
- d) Similar tenants (i.e., no major league, professional sports tenant such as NBA or NHL franchises).

Facilities selected as comparable arenas include:

- Hartman Arena (Wichita, Kansas MSA);
- Huntington Center (Toledo, Ohio MSA);
- Covelli Centre (Youngstown-Warren-Boardman MSA);
- Reno Events Center (Reno, Nevada MSA);
- Santander Arena (Reading, Pennsylvania MSA);
- Budweiser Events Center (Fort Collins-Loveland MSA);
- Sanford Pentagon (Sioux Falls, South Dakota MSA);
- Scheels Arena (Fargo, North Dakota MSA);
- Prescott Valley Event Center (Prescott, Arizona MSA);
- First Arena (Elmira, New York MSA);
- Rabobank Arena* (Bakersfield, California MSA); and,
- Stockton Arena* (Stockton, California MSA).

**Please note that we have also added two California venues for purposes of regional comparison: Rabobank Arena in Bakersfield and Stockton Arena in Stockton. It should be noted that these two venues do not fit the comparative criteria for the Santa Cruz market, as described above, since both of these markets are significantly larger (870,000 people within the Bakersfield MSA, and 715,000 within the Stockton MSA) and both arenas seat upwards of 10,000 people.*

The remainder of this section provides an overview of each comparative facility, including physical attributes, event utilization, financial performance, event priorities, construction funding sources, and other such information, as available.

RABOBANK ARENA - BAKERSFIELD, CALIFORNIA

HISTORY

Rabobank Arena was built in 1998 at a cost of \$38 million and financed 80% by City funds and 20% by a redevelopment authority. The Arena, is now operated by AEG and has a capacity of 8,800 for hockey and over 10,000 for other events. The venue is the current home of the Bakersfield Condors of the American Hockey League (AHL), which is the primary minor league for the major professional National Hockey League (NHL). Rabobank recently renewed its naming rights with the arena for 10 years at \$350,000 annually.



ANNUAL EVENTS & ATTENDANCE

For fiscal year 2015 Rabobank Arena held 106 ticketed events. These events included 36 Condors hockey games (4,736 attendees per game), and over 70 concerts, family shows and additional events such as high school and other sports events, trade shows and banquets.



PREMIUM SEATING

Rabobank Arena offers 27 total luxury suites with annual leases ranging from \$25,000 to \$75,000 (depending on location and term). Not all of the luxury suites are sold out, therefore the Condors also sell lower level suites ranging from \$500 to \$1,850 per game, and upper bowl suites from \$450 to \$550 per game. The Arena also offers 1,000 club seats at \$960 per year.

POTENTIAL LESSONS FOR SANTA CRUZ

Rabobank Arena was built as a 10,000+ seat arena in order to provide residents with access to major concerts and events locally, rather than having to drive two hours north to Fresno or two hours south to Los Angeles. However, even with professional third-party management, the facility has struggled with annual operating losses. SMG was the operator of the facility up until 2011, when the City reported \$2.4 million in operational losses over the previous five fiscal years. For the next two years, the City operated the arena and several other public assembly facilities (including a theater and convention center) formerly run by SMG, during which time the operating loss on the combined facilities was nearly \$1 million. AEG took over management of the venues in 2013 via a new 10-year operating agreement. As part of the agreement, AEG has guaranteed that the City's net loss would not exceed \$415,718 per year.

It also should be noted that a multi-purpose arena the size of Rabobank Arena (10,000+ seats for basketball) has been deemed too costly for use by the NBA D-League's Bakersfield Jam. The team's owner recently estimated that they are saving at least \$500,000 per year in rental fees by playing at the 500-seat Dignity Health Event Center instead.

STOCKTON ARENA - STOCKTON, CALIFORNIA

HISTORY

Stockton Arena was built in 2005, at a cost of \$68 million, as part of a larger \$113 million downtown revitalization effort. Funding was provided by a combination of a City bond issue backed by sales tax revenues, as well as developer fees and general budget funds. The arena (along with three other facilities: Stockton Ballpark, Bob Hope Theater and Oak Park Ice Arena) is operated by SMG and has a seating capacity of 9,700 for hockey and over 10,000 for other events. The venue is the current home of the Stockton Heat of the American Hockey League (AHL).



ANNUAL EVENTS & ATTENDANCE

Stockton Arena hosted over 150 events in fiscal year 2015 with a total attendance of 281,554, which represents an average of 1,877 attendees per event (less than 20% of total capacity). Events held in 2015 included 36 Heat hockey games at 4,621 attendees per game, which means the remaining 114 events averaged just over 1,010 attendees per event. These other events included high school and other sports events, trade shows, flat floor shows and banquets. In previous years, Stockton Arena had an arena football team, as well as a professional indoor soccer club, however both franchises have suspended operations.



PREMIUM SEATING

Stockton Arena offers 24 total luxury suites with annual leases ranging from \$35,000 to \$50,000 (depending on location and term). The arena also offers 344 Club Seats at \$800 per year.

POTENTIAL LESSONS FOR SANTA CRUZ

As mentioned above, Stockton Arena was built as part of a larger downtown revitalization effort. The early 2000's marked a period of aggressive capital expenditures by the City in an effort to improve the quality of life in Stockton. When sales tax-related funds ran short for construction of the arena and other projects, City officials also used funds from municipal utilities (water, in particular) to pay for the capital projects. In 2006, a lawsuit was successfully filed against the City by a retired City finance chief and a local taxpayers association, accusing the City of collecting public money for buildings and services that had nothing to do with water. The City of Stockton is currently paying back the funds taken from the municipal utilities over a 30-year period. Later, in July 2012, Stockton became the second largest city in U.S. history to file for bankruptcy. With a large seating capacity in excess of 10,000 for most events, and an event schedule that caters primarily to smaller events (less than 5,000 seats on average for hockey, approximately

II. MARKET DEMAND ANALYSIS - B. LOCAL & COMPARABLE VENUES

1,000 seats on average for other events), the arena continues to operate at a loss on an annual basis. Stockton Arena had operational losses of approximately \$1.3 million in fiscal year 2013, \$1.5 million in fiscal year 2014, and \$1.7 million in fiscal year 2015, with total City subsidies transferred to the Arena and other SMG-run facilities equaling \$2.6 million in 2013, \$3.1 million in 2014 and nearly \$3.5 million in 2015.

HARTMAN ARENA - PARK CITY, KANSAS

HISTORY

Hartman Arena was built in 2009 at a cost of \$18 million and financed privately by millionaire Wink Hartman. The arena is now operated by VenuWorks and has a fixed capacity of 5,000 seats, expandable to 6,500 for concerts. The 100,000 ft² venue is the current home of the Wichita B-52's of the Major Arena Soccer League.



ANNUAL EVENTS & ATTENDANCE

Hartman Arena was originally built to be the home of the now defunct Wichita Wild of the Champions Professional Indoor Football League (CPIFL), a franchise also owned by Mr. Hartman. Additionally, given the surrounding municipally-funded event centers and arenas in the nearby region, Mr. Hartman specifically planned his private arena not to compete with the other venues. However, after the CPIFL franchise folded, the arena's operations were turned over to a private operator (VenuWorks) that was tasked with generating a profit via aggressive competition in the concert and entertainment event sectors. Although the operations of the arena remain private, venue staff reports that the 2014 calendar year saw just over 60 ticketed events. The event mix now includes concerts, family shows and banquets.



PREMIUM SEATING

Hartman Arena offers 20 loge boxes, with 12 sold for annual lease prices ranging from \$2,000 to \$6,000 (depending on location), and eight available to be sold on a per event basis for \$450. The arena no longer offers a club seat option, which may be indicative of low demand for such seats due to a lack of an attractive sports tenant and premier concert/entertainment events.

POTENTIAL LESSONS FOR SANTA CRUZ

Hartman Arena was built specifically to house the now defunct Wichita Wild of the Champions Professional Indoor Football League. Now the arena must compete within the competing market for additional entertainment events to maintain profitability and sustainability.

HUNTINGTON CENTER - TOLEDO, OHIO

HISTORY

The 267,000 ft² Huntington Center was opened in 2009 and is the home of the Toledo Walleye of the East Coast Hockey League (ECHL), the second level of the National Hockey League's (NHL) minor league system (below the AHL). The \$105 million venue was financed by bonds which are to be repaid from hotel taxes, as well as naming rights and other major revenue streams related to the building. Lucas County owns the center and has contracted SMG to operate it. Huntington Bank recently renewed a naming rights deal that is worth \$2.5 million over six years (\$416,667 per year). The center has a seating capacity of 7,300 for hockey and over 8,000 for concerts.



ANNUAL EVENT ACTIVITY

The Huntington Center hosts about 60 ticketed sports or entertainment events per year, including 36 Walleye hockey games, nine concerts and 13 family shows. The Walleye are one of the most successful ECHL franchises, averaging nearly 6,500 attendees per game, which represents more than 88% of arena capacity and is second in the ECHL.

PREMIUM SEATING

The Huntington Center sells 19 luxury suites on five to 10 year terms ranging from \$40,000 to \$50,000 per year, including tickets to all events held at the center. The center also has four suites that are sold on a nightly event basis at a price range of \$1,400 to \$2,200 per night, depending on location and menu selections. Lastly, there are 1,200 club seats that are sold on three year terms for \$1,360 per seat per year, including tickets to Walleye games and the option to buy tickets to other arena events.



POTENTIAL LESSONS FOR SANTA CRUZ

The Huntington Center only hosts about 60 ticketed sports/entertainment events per year, however the hockey team is extremely successful in driving major arena revenue streams, especially naming rights and premium seating. The operational success of the arena is driven primarily by the strength of its primary sports tenant.

COVELLI CENTRE - YOUNGSTOWN, OHIO

HISTORY

The Covelli Centre is the current home of the Youngstown Phantoms of the United States Hockey League (USHL) and the Youngstown Nighthawks of the Major Arena Soccer League (MASL). The arena was opened in 2005 at a cost of \$42 million. The 169,000 ft² venue was funded in large part via a \$26 million HUD redevelopment grant, as well as \$11.9 million in City-issued revenue bonds backed by a 5.5% admissions tax and other arena-related revenues. The City hired JAC Management Group to operate the Covelli Centre. Covelli Enterprises currently pays \$200,000 per year for the naming rights to the building. The venue has capacities of 5,700 (hockey), 5,900 (basketball), and 7,000 (concerts).



ANNUAL EVENTS & ATTENDANCE

The Covelli Centre hosts between 100 and 150 ticketed events per year and averages up to 5,000 per event. These events include 32 Phantoms hockey games, 10 Nighthawks soccer games, over 30 concerts and family shows, about 16 high school and other sports events, and trade shows and other banquets.



PREMIUM SEATING

The Covelli Centre offers 20 Luxury Suites and 541 Club Seats. The Suite lease price ranges between \$22,500 and \$40,000 per year and includes tickets to all Phantoms home games and select events. The Club Seats cost \$350 per year and gives the seat holder first right of refusal for all events.

POTENTIAL LESSONS FOR SANTA CRUZ

As of 2014, the City was reporting an annual operating surplus before debt service of over \$700,000, which includes more than \$250,000 in annual admissions tax revenue. The City also announced plans in 2014 to begin applying annual operating surplus in excess of debt service towards paying down the outstanding principal amount. Multiple sports tenants provide strong

II. MARKET DEMAND ANALYSIS - B. LOCAL & COMPARABLE VENUES

usage, and the 550,000+ person metro area is able to support a strong schedule of multi-purpose use, including 5,000 to 7,000-seat concerts, high school sporting events, trade shows, banquets, etc., with minimal competition from other nearby public assembly venues. In addition, it should be noted that the \$26 million HUD redevelopment grant enabled the City to minimize its annual debt service costs on the project, and the dedication of a 5.5% admissions tax on arena tickets is able to cover a large portion of that annual debt service payment.

RENO EVENTS CENTER - RENO, NEVADA

HISTORY

The Reno Events Center was built in 2005 in downtown Reno, primarily as a convention-support facility, with the goal of helping to draw more interest in Reno as a convention location. With a footprint of 118,000 ft², the events center cost \$65 million to construct and was funded by a 30-year bond issue by the Reno-Sparks Convention & Visitors Authority (CVA). The CVA owns and operates the facility. It is the current home of the Reno Bighorns of the NBA Development League and seats up to 7,000 people.



ANNUAL EVENTS & ATTENDANCE

The Reno Events Center only hosts about 50 ticketed events per year and reports total annual attendance of just 75,000. Half of the ticketed events held at the arena are Bighorns home games that average about 2,370 attendees per game. Additional events include 12 to 15 concerts (5,000 to 5,500 attendees per concert), four to six MMA events (1,000 to 1,500 attendees per event), and four to six trade shows and conferences.



PREMIUM SEATING

The Bighorns have access to sell 123 courtside seats and 14 courtside tables, however these revenue streams do not accrue to the arena/CVA. Courtside seats are sold by the Bighorns for between \$1,100 and \$1,800 per seat annually, depending on location. The tables sell for \$3,600 per season, and each table seats four people. In addition, the CVA sells 10 private suites for \$75,000 per year, and the majority of those suites are sold to local casino organizations, most of whom utilize them as rewards for their VIP casino patrons. Suites include 24 tickets to all ticketed events at the facility.

POTENTIAL LESSONS FOR SANTA CRUZ

Reno Events Center was built by the CVA primarily to support its tourism and convention efforts, as well as to provide an additional amenity/attraction for use by its casino partners. The facility does not host a large number of annual events, however its financial operations and debt service obligations are combined with the operations of the Reno-Sparks Convention Center and the CVA as a whole and it is not likely that the events center would be operationally self-sufficient as a stand-alone facility at its current level of usage.

SANTANDER ARENA - READING, PENNSYLVANIA

HISTORY

Owned by the Berks County Convention Center Authority and operated by SMG, Santander Arena was built in 2001 for \$42.5 million. The arena project was publicly funded via a mix of grants from the State of Pennsylvania and Berks County hotel tax revenues. The 125,000 ft² facility is the home of the Reading Royals of the East Coast Hockey League (ECHL) and the ASI Panthers of the American Indoor Football League (AIFL) and has seating capacities of 7,200 (hockey) and 8,800 (concerts). Santander Bank is the current naming rights partner and is paying \$9 million over 30 years (\$300,000 per year).



ANNUAL EVENTS & ATTENDANCE

Santander Arena typically hosts between 100 and 110 events per year. 36 of those events are Royals hockey games, averaging nearly 4,200 attendees per game. Additional events include eight Panthers football games, eight to 12 concerts, and six to eight family shows. The Arena also holds high school, religious and trade show events.



PREMIUM SEATING

The Royals sell 22 luxury suites on one, three or five year terms. Each suite is priced between \$30,000 and \$40,000 per year. Club seats were removed in 2009 due to lack of demand.

POTENTIAL LESSONS FOR SANTA CRUZ

The operations of Santander Arena are supported by a mixture of tenant sporting events (two tenants) and multi-use events including concerts, family shows, flat floor and trade shows, high school use, and other community use, accounting for more than 100 total events per year.

BUDWEISER EVENTS CENTER - LOVELAND, COLORADO

HISTORY

Located on the Larimer County Fairgrounds in Loveland, Colorado, the 250,000 ft² Budweiser Events Center was opened in 2003. The \$28 million facility was built via a voter-approved county sales tax increase. Budweiser is paying about \$75,000 per year for the naming rights over a 20-year period. The events center, managed by Spectra Venue, is the current home of the Colorado Eagles of the East Coast Hockey League (ECHL) and Colorado Crush of the Indoor Football league (IFL).



ANNUAL EVENTS & ATTENDANCE

The Budweiser Events Center hosts about 160 events per year, averaging 3,750 per event. The Eagles play 36 home games during the season, with nearly 5,300 attendees per game, while the Crush typically play seven home games. The Events Center will also typically host 15 concerts, 35 family shows, and other miscellaneous events like conventions and trade shows.



PREMIUM SEATING

The Budweiser Events Center has 24 luxury suites, with 23 offered for long-term leases (three, five or seven year terms) ranging from \$30,000 to \$60,000 per year. There are also 777 club seats available for an annual seat license between \$375 and \$485, which requires seat license owners to buy tickets to any event they choose to attend in their reserved club seats.

POTENTIAL LESSONS FOR SANTA CRUZ

The Budweiser Events Center is part of the larger fair grounds, which helps drive significant usage without competing against any separately-operated public venues. The Center has both a strong tenant (5,300 attendees per ECHL game) and a diverse mix of other entertainment and community uses.

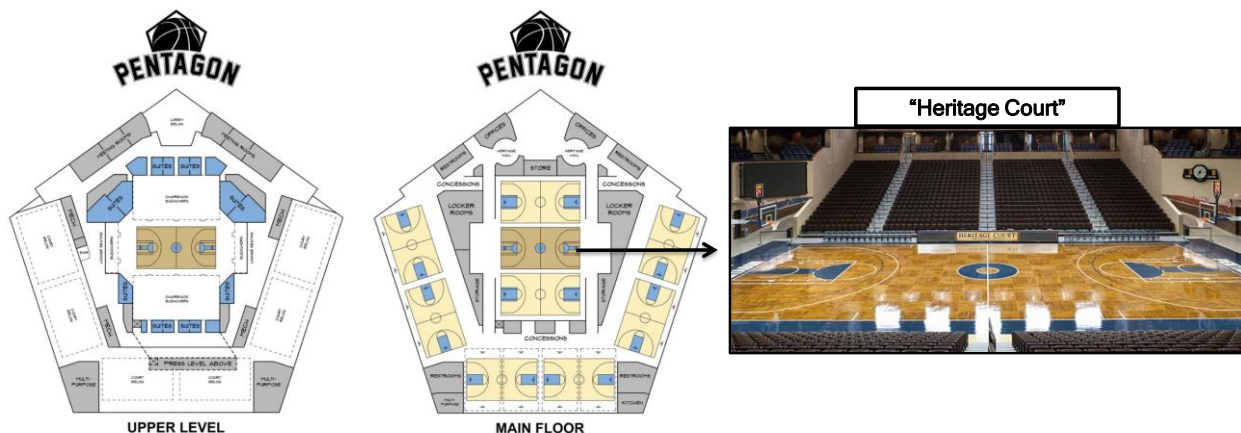
SANFORD PENTAGON - SIOUX FALLS, SOUTH DAKOTA

HISTORY

The \$19 million Sanford Pentagon was recently opened in 2013 as part of a larger \$27 million indoor-outdoor sports complex construction project. Funded, owned and operated by the Sanford Health System, the 160,000 ft² facility has retractable seating with a maximum capacity of 3,250. The Sioux Falls Skyforce of the NBA D-League is the primary sports tenant.



There are a total of nine basketball courts at the Pentagon: six high school regulation courts, two pro/college practice courts, and a Heritage Court configuration that can seat up to 3,250 people via the use of retractable seating systems. Court configurations are shown below:



ANNUAL EVENTS & ATTENDANCE

The Sanford Pentagon is utilized year-round as a professional, amateur and youth sports facility. It hosts 24 Skyforce home games (3,070 attendees per game), as well as multiple high school tournaments for boys and girls basketball, wrestling and volleyball. The Pentagon also hosts select NCAA Division I and II basketball games and tournaments. Additional uses include youth clinics, daily physical training and therapy, and MMA events.



PREMIUM SEATING (OPERATED BY SKYFORCE)

The Skyforce sell 14 private suites at a cost of \$50,000 to \$60,000 per year. There are also four party suites (for up to 50 people) that are rented on a per game basis at \$1,250 per game.

POTENTIAL LESSONS FOR SANTA CRUZ

The Sioux Falls market has less than 250,000 people, and the primary sports tenant is an NBA D-League franchise that requested no more than 3,250 seats for their games. The Pentagon is utilized on a daily basis for local sports, recreation, and physical therapy, and the Heritage Court (3,250-seat capacity) is assembled via use of retractable seating for Skyforce home games and other special events regarding this larger seating capacity. Victus Advisors believes that the operational approach of the Pentagon, in terms of daily sports/recreation use and hosting of a D-League franchise and special events via retractable seating, could be a successful approach in the similarly-sized Santa Cruz market as well.

SCHEELS ARENA - FARGO, NORTH DAKOTA

HISTORY

Scheels Arena was built in 2008 at a cost of \$25 million as part of a larger \$44 million tournament complex. The project was funded mostly through bank loans which were backed by future facility revenues. The 161,720 ft² arena seats 5,000 people for hockey and 6,600

for concerts. The arena is owned by the Fargo Parks District, a public entity, but is operated by the Metro Sports Foundation, a non-profit youth sports partnership. Scheels has been the naming rights partner since 2010, but terms were not disclosed. The Fargo Force of the USHL, a junior ice hockey league, is the primary tenant of the arena, while the North Dakota State men's basketball team will temporarily play there until their on-campus arena is ready.



ANNUAL EVENTS & ATTENDANCE

Scheels Arena averages approximately 200,000 attendees annually. The arena reported 100 events in 2014, including 30 Force games (3,500 attendees per game), 16 Bison games (temporary), 15 high school hockey games, and other state/regional volleyball and basketball tournaments. Although youth sports is the focus of the non-profit operator, the majority of youth sports usage is special events requiring a larger arena seating capacity, not daily sports/recreational use (such as practices, individual league games, etc.).



PREMIUM SEATING

Scheels Arena currently sells 36 private suites ranging in price from \$17,000 to \$27,500 per year. Suite purchases provide access to most events held at the arena. The arena also sells 292 club seats for \$699 per seat per year. These seats include tickets to Force games and first right to buy other events.

FINANCIAL TROUBLE

Scheels Arena has been in financial distress since the expected operating revenues needed to cover debt service never materialized. In 2012, the Metro Sports Foundation worked with creditors to restructure its payments on nearly \$23 million in outstanding debt. After initially promising not to ask for public money, the Metro Sports Foundation requested public funds to help add additional ice sheets on the property for daily sports and recreational use, however the Fargo Parks Board denied the foundation's request.

POTENTIAL LESSONS FOR SANTA CRUZ

The facility's seating capacity (ranging from 5,000 to 6,600 seats) was built too large to support the existing market demand for USHL hockey (approximately 3,500 attendees per game) and youth/amateur sports tournaments. Average attendance for all events at the arena is below 2,000 people per event. The arena is increasingly seeking to attract more local and regional sports usage (i.e. basketball, volleyball and hockey), however the seating capacity remains oversized for these type of events, which can make it difficult to operate such events profitably. Although the operator requested additional public funds to adapt the facility to increased daily sports/recreation use, the public sector declined to contribute funds to a facility that has struggled financially.

PRESCOTT VALLEY EVENT CENTER - PRESCOTT, ARIZONA

HISTORY

The Prescott Valley Event Center was built in 2006 with the primary intent to house the Arizona Sundogs of the now defunct Central Hockey League (CHL). The 183,000 ft² facility was built at a cost of \$35 million and primarily funded via a City bond issue backed by a mixture of excise tax revenues and projected arena operating income. Owned by the City of Prescott Valley and operated by Prescott Valley Event Center LLC, the center can seat up to 6,200 for concerts.



ANNUAL EVENTS & ATTENDANCE

In peak years, the Prescott Valley Event Center averaged around 90 total events with approximately 250,000 in total attendance. Recent years have seen a sharp reduction in events due to the Sundogs ceasing operations. The CHL was a lower-tier hockey minor league, unaffiliated with the major professional NHL, and the league filed for bankruptcy in 2012. Currently, without a primary sports tenant, the event center primarily hosts a mixture of second-tier arena events that typically pay low rents, such as yard sales, carnivals, weddings, graduations and bridal shows. The Prescott market area has a population of just over 215,000 people, which is not significant enough to attract a steady stream of concert events.



BANKRUPTCY

The original arena operator (Global Entertainment, parent company of the CHL) filed Chapter 7 bankruptcy in 2014. One of the original arena development partners, a local real estate developer, took over operations of the LLC that was left with responsibility for operating the arena. However, in August 2015, the LLC filed for Chapter 11 bankruptcy as well, citing \$50 million to \$100 million in liabilities, versus just \$10 million to \$50 million in assets. Although the LLC only pays \$1 per year in rent, it is obligated to pay debt service from projected annual arena operating surpluses that never materialized. The event center staff will continue to operate the facility and book events during bankruptcy proceedings. According to the bankruptcy filing, representatives of the operating LLC believe that they can achieve a sustainable business model if they are able to attract a new minor league hockey tenant from a stable league (such as the AHL or ECHL, both of which are affiliated with the NHL), however Victus Advisors is not aware of any imminent plans to attract such a tenant.

POTENTIAL LESSONS FOR SANTA CRUZ

An independent, third-party feasibility study was not conducted as part of the arena planning process, rather a feasibility study was conducted by the Central Hockey League's parent company, Global Entertainment, and this study projected significant annual operating surpluses sufficient to cover debt service. With the CHL and the Arizona Sundogs now defunct, the multi-purpose arena features a maximum seating capacity of more than 6,000 seats, while attracting mostly second-tier arena events more appropriate for a much smaller capacity event center.

FIRST ARENA - ELMIRA, NEW YORK

HISTORY

First Arena is the oldest arena out of all the comparable venues reviewed in this section, having opened in 2000. The facility was originally owned by Chemung County and operated by the ECHL Elmira Jackals, however it is now owned and operated by Elm Arena LLC. The arena cost \$16 million to build and was funded publicly via state and federal grants, as well as hotel tax revenues from Chemung County. First Transit is the naming rights holder of the 140,000 ft² facility and pays about \$100,000 per year. The arena is the home of the Elmira Jackals of the ECHL and has a seating capacity of 3,784 people for hockey games.



ANNUAL EVENTS & ATTENDANCE

First Arena hosts over 100 events per year, including 36 Jackals games (2,560 attendees per game), 10 concerts, over 20 family shows and over 20 trade shows.

PREMIUM SEATING

First Arena offers 31 luxury suites ranging in price from \$8,500 to \$24,000 per year.



POTENTIAL LESSONS FOR SANTA CRUZ

Although the arena was publicly funded and owned, it was operated by the owner of the ECHL Jackals (Elmira Downtown Arena LLC) for over a decade. The County and the Jackals went through nearly a decade of litigation over unpaid property taxes, with the Jackals insisting that they should not owe property taxes on a publicly-owned facility. In 2013, the County sold the arena to a local ownership/operating group, Elm Arena LLC, thus ending the litigation battle with the Jackals and placing the arena permanently on the property tax rolls. The Jackals have continued to play at the arena under lease agreement with Elm Arena LLC.

COMPARABLE ARENA SUMMARY

Comparable arenas were analyzed to provide a benchmark from which to assess potential operations for the proposed permanent arena in Santa Cruz. The exhibit on the following page provides an overview of the comparable arenas reviewed in this section.

II. MARKET DEMAND ANALYSIS - B. LOCAL & COMPARABLE VENUES

COMPARABLE ARENA OVERVIEW

Arena/Event Center	City, State	MSA Population	Year Open	Cost (\$M)	Fixed Seats	Primary Sports Tenants
Rabobank Arena	Bakersfield, CA	874,859	1998	\$38.0	10,400	AHL - Hockey
Stockton Arena	Stockton, CA	715,957	2005	\$68.0	10,500	AHL - Hockey
Hartman Arena	Park City, KS	640,274	2008	\$18.0	5,000	MASL - Soccer
Huntington Center	Toledo, OH	607,192	2009	\$105.0	8,000	ECHL - Hockey
Covelli Centre	Youngstown, OH	550,695	2005	\$42.0	5,900	USHL - Hockey, MASL - Soccer
Reno Events Center	Reno, NV	442,240	2005	\$65.0	7,000	NBADL - Basketball
Santander Arena	Reading, PA	414,347	2001	\$42.5	7,200	ECHL - Hockey, AIF - Football
Budweiser Events Center	Loveland, CO	323,793	2003	\$28.0	5,300	ECHL - Hockey, IFL - Football
Kaiser Permanente Arena	Santa Cruz, CA	274,927	2012	\$7.0	2,505	NBADL - Basketball
Sanford Pentagon	Sioux Falls, SD	251,471	2013	\$19.0	3,250	NBADL - Basketball
Scheels Arena	Fargo, ND	232,348	2008	\$25.0	5,000	USHL - Hockey
Prescott Valley Event Center	Prescott, AZ	218,089	2006	\$36.0	5,100	*NONE*
First Arena	Elmira, NY	88,004	2000	\$16.0	3,784	ECHL - Hockey
High		874,859	2013	\$105.0	10,500	
Low		88,004	1998	\$7.0	2,505	
Average		433,400	2006	\$39.2	6,072	

Note: Sorted by MSA Population in descending order

Source: Nielsen

Key findings regarding the comparable venues shown above included the following:

- **COMPARABLE FACILITIES** - The 12 comparable facilities profiled above have an average fixed seating capacity of 6,072.
- **DEVELOPMENT COST** - The average development cost of the comparable facilities was approximately \$39.2 million.
- **OWNERSHIP** - Ownership of comparable venues is primarily through a municipal entity. However, the majority of comparable facilities are operated by a private contract management firm.
- **EVENT MIX** - Comparable arenas hosted an average of 93 events per year with 320,000 attendees.
- **PREMIUM SEATING** - All 12 comparable facilities have private suites, averaging 26 suites per facility at a price of \$48,000 per year, however most of these venues have been unable to sell out all of their suites on an annual basis.

SUMMARY OF POTENTIAL LESSONS FOR SANTA CRUZ

- **TENANTS** - A strong, stable sports tenant can provide significant annual attendance and drive major revenue streams such as naming rights, sponsorship and premium seating. Secondary sports tenants can provide significant additional usage to the facility. Potential sports tenants should be vetted on a league-by-league basis regarding their sustainability and appeal.
- **VENUE SIZE** - The seating capacity of an arena venue should not be larger than what the market can consistently fill. Seating capacity and footprint are the single most important drivers of arena operating costs, therefore great care should be taken to design a facility that can be filled at or near capacity on a regular basis.
- **LOCAL MARKET COMPETITION** - The most successful comparable arenas do not face a significant amount of competition within their own market from other arenas and public assembly venues.
- **USAGE MODEL** - For smaller markets that may not be able to consistently attract events that depend on crowds in excess of 5,000 people for profitability, significant pressure is placed on facility operators to identify other sources of daily or regularly usage, such as youth sports, community/civic events, flat floor/trade shows, etc.
- **FINANCIAL RISK** - Rabobank Arena, Stockton Arena and Prescott Valley Events Center are just several examples of arenas that were overbuilt relative to the event demand that exists within their markets, and as a result these facilities have struggled operationally and financially over extended periods of time.

This review of comparable facilities will be considered together with an assessment of local market characteristics, competitive facilities and the results of community and event interviews to estimate the market potential for the proposed permanent arena in Santa Cruz.

C. INTERVIEWS WITH POTENTIAL ARENA USERS & EVENT PROMOTERS

STAKEHOLDER MEETINGS & FOCUS GROUPS

In July 2015, Victus Advisors held a series of informational interviews and focus group meetings in Santa Cruz with representatives of:

- City of Santa Cruz (Mayor, Economic Development, Parks & Rec., etc.)
- Santa Cruz Warriors
- University of California Santa Cruz
- Seaside Company
- Warriors Ticket Holders & Boosters
- Civic Auditorium Users & Arts Supporters
- Various Local Real Estate Developers
- Santa Cruz County Conference & Visitors Council (CVC)
- Various Local Hotel Operators

The primary purpose for these interviews was to discuss: goals for the arena project, successes and failures of the current venue and site, perceptions of potential future sites, perceptions of the Santa Cruz event market, and other key discussion points related to the project.

ADDITIONAL 1-ON-1 MEETINGS & TELEPHONE INTERVIEWS

In addition to stakeholder meetings, Victus Advisors also met between July and August 2015 for both in-person and telephone interviews with operators, promoters and influencers of sports, entertainment and arts events both regionally and nationwide. In total, we spoke with:

- Santa Cruz Warriors
- Feld Entertainment
- Harlem Globetrotters
- Cardenas Marketing Network
- USA Gymnastics
- USA Volleyball
- VEE Corporation
- United States Youth Volleyball League
- Icon Entertainment
- First Robotics
- Rick Bartalini Presents
- Live Nation
- Kirby School
- Santa Cruz Home Show
- Direct to Consumer Wine Symposium
- Natural Products Expo West
- California Restaurant Association
- Pulse Productions
- Goldenvoice
- Soquel High School
- Santa Cruz Derby Girls
- Pacific Collegiate School
- Harbor High School
- Club Cruz Volleyball
- Santa Cruz Breakers Youth Soccer
- Santa Cruz City Youth Soccer Club
- California Interscholastic Federation
- Santa Cruz Parks & Recreation

A summary of each interview is presented on the following pages. Please note that the majority of the responses have been anonymized for purposes of this report.

LOCAL/REGIONAL SPORTS USER GROUPS

SANTA CRUZ WARRIORS

Jim Weyermann, President of the Santa Cruz Warriors, believes that a new sports arena in Santa Cruz should be first and foremost a ***multi-purpose sports facility***. He indicated that a new sports venue (with a ***maximum seating capacity in the Warriors configuration of no greater than 4,500 seats***) should focus on usage by the Warriors, UC Santa Cruz Athletics (volleyball/basketball), collegiate and high school tournaments (volleyball, basketball, gymnastics), basketball camps/clinics, non-profit recreation groups, etc.

Mr. Weyermann also believes that Santa Cruz ***lacks the corporate base or concert market*** to support a traditional multi-purpose arena that attracts 5,000 to 7,000-seat events and generates a significant amount of its profitability from: a) concerts and entertainment attractions that drive significant ticket sales at premium prices, and b) corporate hospitality and sponsorships.

Mr. Weyermann feels that a new venue should ***integrate with an overall downtown development and collaborative sports tourism plan*** and should be ***complementary to the Civic Auditorium*** and not conflict with the existing performing arts programming at the Civic Auditorium or elsewhere in the City. He also believes that a new regional ***sports commission*** would greatly benefit the Santa Cruz community and be of significant assistance in promoting a new sports arena for use by regional and national amateur sports events and tournaments.

Lastly, he also indicated that the Warriors are not interested in operating the new arena to be a profit source for the franchise, and they would be open to having the venue operated by the City or a third-party. Mr. Weyermann stressed that they are more concerned with the arena ***servicing the public good and continuing to generate positive community relations*** for the franchise.

UC SANTA CRUZ ATHLETICS

UC Santa Cruz's men's and women's basketball teams ***currently play their home games at Kaiser Permanente Arena at little cost to UCSC***, as the Santa Cruz Warriors underwrite the costs of UCSC's basketball games. Leaders from UCSC Athletics indicated that they have been grateful for the opportunity to play at the Arena, as it is an attractive and clean facility that is well-operated. UCSC's athletic programs are currently in the lowest competitive division of the National Collegiate Athletic Association (NCAA), as detailed in Section III of this report. As is common with most NCAA Division III athletic programs, ***UCSC basketball draws less than 300 attendees*** for most of their home games.

Leaders of UCSC Athletics indicated that they ***do not currently have a sufficient budget available to pay rent for usage of Kaiser Permanente Arena or a new permanent arena*** in Santa Cruz. That said, they are currently weighing the potential opportunity (and significant costs) of moving up to the NCAA Division II level of competition. They believe that competing at a higher level of the NCAA could create increased interest in both their basketball and volleyball programs, thus attracting larger crowds to their games and potentially allowing them to pay a portion of increased

ticket sales as rent to Kaiser Permanente Arena or a new permanent arena facility. However, the potential move to Division II is not likely in the immediate future, as it would require a significant increase in donation support and other funding for UCSC Athletics.

In the meantime, should the City of Santa Cruz develop a new permanent arena facility and require that rent be paid by UCSC for use of the venue, UCSC Athletics believes that their *most likely use of a new arena facility would be primarily for special events*, such as a Division III basketball tournament, or the occasional women's volleyball game against a premier opponent.

SANTA CRUZ PARKS & RECREATION

Staff from Santa Cruz Parks & Recreation indicated that Santa Cruz currently has a *shortage of indoor court space for use by their basketball leagues*. Currently, for the majority of their basketball leagues, they rent a multi-purpose gymnasium with one small basketball court at Natural Bridges Elementary School. They also utilize Kaiser Permanente Arena and the Civic Auditorium occasionally when available. Parks & Recreation indicated that their ability to grow their basketball programs beyond the current two night (Monday/Wednesday) programs has been limited by the lack of available court space. In addition, they indicated that they are seeing *growing demand in Santa Cruz for indoor soccer and volleyball*, and would expect both of those sports to utilize indoor practice space if it was available in Santa Cruz, especially during the fall and winter months.

DERBY GIRLS

This potential user is a local competitive roller skate club. They formerly held events at Kaiser Permanente Arena, but currently use the Civic Auditorium. Although the *Civic Auditorium* has a great PA system, and is pretty accessible, the cost is high for the user and it is *not big enough to hold regional and national events*. Top priorities for a potential arena would be: *great lighting, PA system, and permanent track with a footprint of 75 x 108 feet*. If the basketball floor is removed from the Civic Auditorium and it is converted to full-time performing arts focus, the Derby Girls would no longer be able to utilize the Civic Auditorium for their events.

LOCAL/REGIONAL SPORTS USER 5

This potential user is a governing body overseeing a region of high school athletics in Northern California. They typically host nearly 400 different types of events and tournaments per year, including a recent basketball tournament at Kaiser Permanente Arena. Regarding Santa Cruz, they are *very interested in hosting girls' volleyball in the new arena*. Their preferred seating capacity is *approximately 4,000 seats* with high rafters to allow volleyball games to be played there. Additional recommendations include: *more space at the front entrance (foyer)* to allow for mingling, *better locations for concessions stands*, and *high rafters for volleyball*.

LOCAL/REGIONAL SPORTS USER 6

This potential user is the leader of a local sports club and oversees both volleyball and soccer programs. They currently hold practices and matches at local high schools and elementary schools. For volleyball, they ideally would look for ***a facility with four to six volleyball courts that could be used three to four times a week.*** Additionally, the user would like to host volleyball tournaments. For soccer, they would also be interested in utilizing indoor turf space for training, should it be included in the arena program. Ideal amenities for their athletes and visitors would include: ***storage for equipment and gear, concession stand capabilities, and access to locker rooms for participants.***

LOCAL/REGIONAL SPORTS USER 7

This potential user is a volleyball club that currently uses a facility at a nearby college for training. They pay a ***\$10,000 rental fee*** for use between December and the end of June. The user currently has about 300 youth players, and with access to a new permanent sports arena, they would be able to double its participation. The biggest concern for the group would be parking and traffic issues, in addition to having enough gym space. They are very interested in using a permanent arena provided the rental fee is comparable to what they currently pay. Additional wants would be a workout/training area and storage space for equipment.

LOCAL/REGIONAL SPORTS USER 8

This potential user is a local high school that has used Kaiser Permanente Arena and the Civic Auditorium for fundraising events and tournaments that are too big for their own facility. If they had access to a new arena, they would likely use it for volleyball and basketball tournaments. In particular, the user envisions ***organizing a 35 team volleyball tournament*** at a new arena which they feel could have a significant impact on restaurants, boardwalk, etc.

LOCAL/REGIONAL SPORTS USER 9

This potential user is a local school that has occasionally played basketball games at the existing Arena. They are excited at the prospect of a new arena because they have seen some schools refuse to schedule games with the school due to their poor facility. The ideal amenities for the user include: ***great lighting, equipment storage, and concessions area.***

LOCAL/REGIONAL SPORTS USER 10

This user is a local high school that has used both the Civic Auditorium and Kaiser Permanente Arena for an annual basketball tournament. Potential usage of a new arena ***would completely depend on rental fees.***

LOCAL/REGIONAL SPORTS USER 11

This user is a local school and has never used either the Civic Auditorium or Kaiser Permanente Arena due to expensive rental fees. The user currently rents space at four different venues across the county, and they are very interested in a new downtown arena in light of the user's five to 10 year strategic plan which called for a new gymnasium. A new downtown sports facility could alleviate the need to build its own. If hourly-use *rental fees were affordable*, the user would rent the arena for boys and girls basketball in addition to volleyball.

LOCAL/REGIONAL SPORTS USER 12

This potential user is a local youth soccer group that fields competitive teams between the ages of eight and 18. They said that the *"local soccer community is always in dire need of soccer fields."* If the arena program included indoor turf, they felt that the soccer community would certainly benefit. They also said that indoor turf could be used for training for other sports groups like lacrosse, or for community recreation. They also said that having a significant amount of parking on-site would create a "win-win scenario" for both the Warriors and the community.

NATIONAL SPORTS USER GROUPS

NATIONAL SPORTS USER 1

This governing body for gymnastics will be hosting a major event next year in San Jose. Although they have never held an event in Santa Cruz they would be interested in hosting smaller events if the capacity in a new arena was *at least 3,500 seats*. This user *prefers to work with existing local sports commissions or convention and visitors bureaus because they help to minimize costs*. Before making any decisions, they would also need to know what the rent would be for the facility, accessibility to airports, hotel blocks, available technology at the arena (LED boards, ribbon boards, internet bandwidth etc.), and overall facility footprint. Furthermore *retractable seats* are a plus, as they need 85 x 200 feet of floor space with at least 30 feet of ceiling height. Lastly, they mentioned if there was a convention/exhibit space connected to the arena, ancillary events would be possible.

NATIONAL SPORTS USER 2

This governing body for volleyball currently hosts one to two events per year in the Bay Area, principally in San Jose. The user is not familiar with the Santa Cruz market. Their ideal capacity for their *national events is typically a minimum of 6,000 seats*. Average ticket price for their events is between \$12 and \$15 and average attendance ranges from 4,000 to 7,000. Their events have done well in California, but they usually go to larger markets such as San Jose, Los Angeles, and Orange County. The user would consider hosting events in Santa Cruz (potentially one to two events per year in addition to Bay Area events) contingent on venue size, *incentives from the City*, and walking distance from the hotels to the venue.

NATIONAL SPORTS USER 3

This potential user is a national youth volleyball league. They have never used the Civic Auditorium or Kaiser Permanente Arena. They currently use the Polo Grounds County Park. They are interested in a new permanent arena facility, but *usage would depend on pricing*. Their ideal amenities include: *large restroom facilities, plenty of water fountains and ample parking*.

LOCAL/REGIONAL CONCERT PROMOTERS

LOCAL/REGIONAL CONCERT PROMOTER 1

Prior to our interview, this potential user also sought a national concert agency's thoughts regarding a potential new arena/event center in Santa Cruz, and both parties were in agreement that any event center in Santa Cruz with a concert capacity of *more than 2,500 would be too large for the market*.

The user was *not very optimistic regarding a larger arena* (5,000-7,000 seats) being able to attract strong event activity. They mentioned that the Santa Cruz *concert market is not appealing* to upper-tier talent that wants to play in large markets to drive significant ticket sales revenues from each concert.

The user expressed their endearment for the *Civic Auditorium as the preferred venue for their events* because of its historical significance to the community. However, they felt that the Auditorium had a few operational issues, primarily: a) the staff did not seem primarily focused on and accustomed to operating a top-tier concert facility, b) the City imposes a significant amount of taxes and fees which has led to pricing tickets higher than they would like.

LOCAL/REGIONAL CONCERT PROMOTER 2

This potential user is a local entertainment promoter with events ranging from concerts to festivals. They promote over 50 events per year and have over 30 years of experience in the Santa Cruz market. Like many of the other promoters we spoke to, they believe Santa Cruz is a *secondary market* for top tier events, and as a result they have found it difficult to secure top talent. They also mentioned that there *might be potential for a venue of up to 3,500 seats, but even then it could be tough to sell that many tickets*. If a new arena was built in the 2,500 to 3,500-seat range, they would possibly use it, planning on two to four events per year. The user would anticipate charging between \$65 and \$110 per show at the new arena depending on talent. Their suggestions for the new arena included fixing the existing *parking issues at Kaiser Permanente*, using *retractable seating for different configurations*, and creating *more open floor space*.

LOCAL/REGIONAL CONCERT PROMOTER 3

This potential user promotes concerts in the western United States. Over the last seven years, the user has hosted about 15 concerts in the Santa Cruz area. They *haven't held a show in three years* in Santa Cruz, because they were not pleased with the *ancillary income agreement* (concessions, ticket company fees, etc.). The user believes there may only be enough market demand to host *2-3 major concerts per year in a 3,000-seat arena*. A new arena would draw interest if the acoustics were acceptable and if there would be no restrictions on noise control from the surrounding neighborhood.

NATIONAL CONCERT/ENTERTAINMENT PROMOTERS

NATIONAL PROMOTER 1

This potential user produces music and comedy events throughout the United States and Canada. They have never taken a show to Santa Cruz, and they indicated they would only consider Santa Cruz if there was a theatre or arena with *at least 2,500-seats*. Their only suggestions for the planning of the venue would be a good design of the stage that would allow views for the audience, side stage access, and accommodating back stage dressing rooms.

NATIONAL PROMOTER 2

This potential user is a live-events company focused on concert and comedy promotions. They generally only tour comedy shows in the Santa Cruz market at the Civic Auditorium. They mentioned that Santa Cruz is a *"decent market"* for their shows and usually have great crowds for the size of the Auditorium. Lastly, relative to the local market, they believe *the 2,000-seat Civic Auditorium may actually be a little bit larger than what they would prefer*.

NATIONAL PROMOTER 3

This user produces concerts throughout the United States and Latin America. They currently host three to four concerts in San Jose every year. They *do not believe the demographic makeup of the Santa Cruz market makes it an appealing option for large concerts*. They indicated they would only be willing to try the market for a large concert (up to 7,000 seats) if they received *guarantees from the City in terms of concessions, parking revenues and rebates*. Their additional suggestions includes: designing arena to local culture (surfing), accessible downtown, parking friendly, and quality acoustics.

NATIONAL FAMILY SHOW PROMOTERS

FAMILY SHOW PROMOTER 1

This potential user is a family entertainment production company that produces popular shows throughout the United States. They typically book eight to 10 shows per year in the Bay Area. They have never booked a show in Santa Cruz, but have looked at the Civic Auditorium as a possibility before. The user, on average, charges about \$24 per show and sees attendance of 800-1,500 people. Their ideal seating capacity for Santa Cruz was ***between 2,000 and 3,000 seats***. The user could potentially use the new arena, but it would largely depend on how many times they tour the Bay Area and the possibility of ***hosting mid-weeks shows in Santa Cruz***. Lastly, the user's specific requirements for the design of the building included retractable seating, 85-90 x 100-150 footprint, and 40 x 80 stage footprint.

FAMILY SHOW PROMOTER 2

This potential user is a live show production company which operates ice shows and circuses, among other events. The user indicated that ***Santa Cruz does not have a facility that meet its current needs***, as they typically ***prefer an arena with a capacity of at least 8,000 seats***.

FAMILY SHOW PROMOTER 3

This potential user is a traveling basketball exhibition that tours all over the world. They currently host five to six shows in the Bay Area, primarily in San Jose and Oakland. Average ticket prices range between \$25 and \$30, with average attendance of about 3,000 people. ***The Santa Cruz market is very appealing***, but the ***facilities haven't met their needs yet***. They suggest the arena have ***ample space for courtside seating*** as the user sells those seats for premium prices. The preferred seating capacity is anywhere ***between 3,000 and 4,000 seats***. If they could ***secure the same dates for shows every year*** they would be very interested in hosting an event in a new arena in Santa Cruz in addition to the other events they currently hold in the Bay Area.

FLAT FLOOR SHOW USER GROUPS

FLAT FLOOR SHOW USER 1

This potential user promotes and hosts national and regional robotics competitions for children and adolescents from Kindergarten to High School age. They currently host two events per year in the Bay Area. The regional director is a life-long resident of Santa Cruz and is ***very interested in potentially hosting events at a new arena***. Their preferred seating capacity is ***3,500 seats***. He also recommends that there be ***retractable seating***. They could envision hosting one to two events per year in addition to their other events held in the Bay Area.

FLAT FLOOR SHOW USER 2

This potential user hosts an annual expo for restaurateurs, typically held in Los Angeles, California. In previous years they have held events at the Moscone Center in San Francisco. Ultimately, ***high costs and conflicts with the local labor unions*** have caused the user to stay away from the Bay Area. Since this event attracts more than 10,000 attendees, the user does not think it is practical to host it in a market like Santa Cruz. That said, however the user would be ***interested in hosting a smaller event in Santa Cruz if they developed a facility dedicated solely to convention/conference events***. The determining factors in choosing Santa Cruz would be traffic patterns, capacity, and hotel availability.

FLAT FLOOR SHOW USER 3

This potential user currently holds an annual trade conference for 350 to 400 gourmet beverage industry suppliers. Their conference lasts about two days and they typically use two 4,000 ft² ballrooms and three to four breakout rooms. Since 70% of the attendees are from the Napa and Sonoma regions, they ***would not seriously consider going as far as Santa Cruz*** to host an event.

ADDITIONAL CONFERENCE/CONVENTION COMMENTARY

It is worth noting that Victus Advisors also reached out to several other local, regional and national conferences and conventions that declined to be interviewed for this study due to their lack of interest in utilizing a multi-purpose arena for their events, versus a dedicated conference/convention venue.

SANTA CRUZ COUNTY CONFERENCE & VISITORS COUNCIL

A representative from the Santa Cruz County Conference & Visitor's Council (CVC) indicated that less than five percent of the current event inquiries they receive each year are from event managers for flat floor shows. However, they also indicated that they ***do not currently market Santa Cruz as a flat floor show destination*** due to the lack of a suitable venue.

If a new permanent arena facility was built with portable flooring technology that allowed for the removal of the center court to provide flat concrete floor space, the CVC expects that the arena could potentially host ***three to four, multi-day, flat floor events each year***, such as home and garden shows, trade shows, drone and robotics conferences, or food-related shows.

The CVC also indicated that they ***would not expect a new arena to attract a significant account of multi-day conference/convention activity***, as the majority of those events are looking for multiple, flexible/sub-dividable, on-site meeting spaces and an adjacent hotel (or hotels). That said, the CVC indicated that a hospitality lounge at the arena (such as those typically used by sports teams for their courtside seating patrons) could be useful for ***small, local meetings and banquets***, assuming on-site catering options would be available.

KEY TAKEAWAYS

- **SANTA CRUZ WARRIORS** - The Warriors believe the facility should be, first and foremost, a multi-purpose sports facility with a maximum seating capacity in the Warriors configuration of no greater than 4,500 seats. They believe the primary users of the facility should be the Warriors, UC Santa Cruz Athletics (volleyball/basketball), collegiate and high school tournaments (volleyball, basketball, and gymnastics), basketball camps/clinics, non-profit recreation groups, etc. Santa Cruz lacks the corporate base or concert market to support a traditional multi-purpose arena that attracts 5,000 to 7,000-seat events and generates a significant amount of its profitability from: a) concerts and entertainment attractions that drive significant ticket sales at premium prices, and b) corporate hospitality and sponsorships. A new venue should integrate with an overall downtown development and collaborative sports tourism plan and should be complementary to the Civic Auditorium and not conflict with the existing performing arts programming at the Civic Auditorium or elsewhere in the City. A new regional sports commission would greatly benefit the Santa Cruz community and be of significant assistance in promoting a new sports arena for use by regional and national amateur sports events and tournaments. The Warriors are more concerned with the arena serving the public good and continuing to generate positive community relations for the franchise.
- **LOCAL/REGIONAL SPORTS USERS** - Santa Cruz currently has a shortage of indoor court space for use by their basketball leagues. There is also growing demand in Santa Cruz for indoor soccer and volleyball. Demands for a permanent arena include concessions, more storage room for equipment, and high rafters for sports such as volleyball. Rental fees are the biggest consideration for potential usage.
- **NATIONAL SPORTS USERS** - Most potential users agree that the facility would need to have at least 3,500 seats. Users prefer to work with existing local sports commissions or convention and visitors bureaus because they help to minimize event costs. Additional needs include concession areas, retractable seating and ample parking.
- **LOCAL/REGIONAL CONCERT PROMOTERS** - All local promoters thought that more than 2,500 seats would be too large for the market. The Santa Cruz market is not appealing to upper-tier talent that wants to play in large markets. The Civic Auditorium is the preferred venue for their events because of its historical significance to the community.
- **NATIONAL CONCERT PROMOTERS** - The majority of national promoters feel that the Santa Cruz concert market is ideally suited for a venue in the 1,500 to 2,500 seat range.
- **FAMILY SHOW PROMOTERS** - The ideal seating capacity for family shows in Santa Cruz would be between 2,000 and 3,000 seats, however it would require the ability to host mid-week shows in Santa Cruz, as the promoters prefer to utilize the larger, more profitable markets in the Bay Area on weekends.

- **FLAT FLOOR SHOW USERS** - Several potential users indicated a strong preference for public assembly venues that are dedicated solely as conference/convention facilities rather than multi-purpose arenas. Flat floor show usage would require the use of retractable seating in order to open up large enough floor space for these types of events. Most interested flat floor show users required capacity up to 3,500 people.
- **SANTA CRUZ COUNTY CONFERENCE & VISITORS COUNCIL** - Santa Cruz is not currently marketed as a flat floor show destination due to the lack of a suitable venue. The CVC expects that the a new arena could potentially host three to four, multi-day, flat floor events each year, such as home and garden shows, trade shows, drone and robotics conferences, or food-related shows. They would not expect a new arena to attract a significant account of multi-day conference/convention activity.

D. FINDINGS REGARDING MARKET SUPPORT FOR PUBLIC ASSEMBLY VENUES

MARKET DEMAND FOR AN ARENA

Based on the research and analysis conducted throughout Section II of this report, Victus Advisors believes that the Santa Cruz market may not generate enough demand for a multi-purpose sports and entertainment arena with 5,000 to 7,000 seats to operate profitably. A 3,000 to 4,000-seat arena may be more appropriate to meet market demand, however it is expected that an arena of that size would compete directly with the existing Civic Auditorium if the new arena was targeted at concert and live entertainment activity. Therefore, in order to reduce the potential impacts of a new permanent arena on the Civic Auditorium, Victus Advisors believes it would be preferable for the new venue to:

- c) have a 3,000 to 4,000-seat center-court configuration that caters to large sporting events (Warriors, college and high school basketball games and volleyball tournaments, and regional/national tournaments for volleyball/basketball/gymnastics), and
- d) utilizes retractable seating and portable flooring systems to maximize daily/hourly use by local sports organizations, flat floor shows, and other community uses.

Such a sports and special events-centric business model could not only limit competition with the Civic Auditorium, but also generate more significant economic impacts for the City of Santa Cruz by hosting regional/national tournaments that draw athletes and overnight visitors from a much wider range than a typical concert arena (which typically draws primarily from within the local market).

CIVIC AUDITORIUM

Most concert promoters that we spoke with felt that the Civic Auditorium was an appropriate size (1,500 to 2,000 seats) for the majority of the touring acts they bring to Santa Cruz. In addition, many stakeholders and event operators have a fondness for the Civic Auditorium (despite the age and operational difficulties of the facility) due to its history and unique “Santa Cruz feel”.

Furthermore, should the Civic Auditorium be renovated using public dollars (as is currently under consideration) to meet the existing market need for a 1,500 to 2,000-seat performing arts facility that primarily hosts concerts, comedy shows, and theater events, it is important that a new arena should be designed and operated not to compete with the Auditorium. A performing arts-focused renovation of the Auditorium could also force out certain types of athletic or flat floor events that are currently held at the Civic Auditorium, and Victus Advisors believes that most of these events would consider a potential relocation to a new arena that meets the description above.

CONCLUSION

In summary, Victus Advisors believes that a 3,500-seat arena is the ideal seating capacity for proposed permanent arena in Santa Cruz. However if it is aggressively marketed for concerts/entertainment events it would directly compete with the Civic Auditorium. Therefore, it is recommended that a new 3,500-seat arena facility should be designed and operated in such a way to complement a renovated Auditorium by hosting Warriors games, high school/collegiate sports, youth and amateur basketball/volleyball/gymnastics, flat floor shows, and sports entertainment events not suitable for a performing arts venue (such as Globetrotters or Derby Girls), so as to maximize economic impacts for the City while reducing competition with the Civic Auditorium. Such an arena could be designed via the use of retractable seating technology to accommodate Warriors games and other sports and special events that require a seating capacity up to 3,500 seats, while serving the local/regional needs of sports, recreation, flat floor shows, and other community uses on a daily basis.



III. DEMAND PROJECTIONS & BUILDING RECOMMENDATIONS



INTRODUCTION

The purpose of this section is to estimate the potential event mix and attendance levels that could be attracted to the proposed permanent arena in Santa Cruz. A variety of factors have been analyzed in order to gauge the ability of a new, permanent facility to attract various events, including:

- Local market analysis was completed, including demographic and socioeconomic comparisons.
- Event levels and physical characteristics of comparable arenas were used as benchmarks to gain an understanding of the types and number of events typically hosted by similar arenas.
- Interviews with local, regional, and national event organizers were conducted to gauge interest in utilizing a new arena.
- Discussions were held with representatives from the City of Santa Cruz, regional sports associations and various national sports governing bodies to obtain opinions regarding potential uses and support for the proposed new arena in Santa Cruz.

This information, along with Victus Advisors' knowledge of potential event markets and industry trends, was used to recommend an optimal building program for the proposed new arena and estimate the number of events that the proposed arena could host in a stabilized year of operations.

BUILDING PROGRAM RECOMMENDATIONS

Based on the interviews conducted with project stakeholders and event promoters, Victus Advisors' research, and our team's industry experience, we have developed the following recommendations for a new permanent arena in Santa Cruz.

SEATING CAPACITY

The preferred maximum seating capacity for the proposed new venue should be no more than 3,500 to 4,000 seats in center-court basketball configuration.

Most concert/entertainment promoters felt that the Civic Auditorium has an appropriate seating capacity (1,500 to 2,000 seats) for the majority of their touring concert activity in Santa Cruz. In addition, many stakeholders and event operators have a fondness for the Civic Auditorium (despite the age and operational difficulties of the facility) due to its history and unique "Santa Cruz feel".

III. DEMAND PROJECTIONS & PROGRAM RECOMMENDATIONS

For larger concerts, most concert promoters either indicated that a 5,000 to 7,000-seat capacity would be too much for the Santa Cruz market, and some suggested that they would require a “guarantee” from the City (or CVC) to ensure they did not lose money.

Victus believes that a 3,500-seat arena (approximately) that is aggressively marketed for concerts/entertainment events would directly compete with the Civic Auditorium for events. Therefore we are recommending a 3,500-seat venue primarily for sports/recreation and special event use, not for concerts, as described below. It is recommended that a renovated auditorium should be the primary concert venue in the market.

VENUE PROGRAMMING

The arena venue should be multi-purpose and maximize daily use (when not in 3,500 to 4,000-seat event configuration) by featuring retractable seating in order to accommodate a wide variety of potential uses and configurations.

Victus Advisors believes that programming for a new venue should complement a renovated Civic Auditorium, with recommended programming to include: Santa Cruz Warriors games; collegiate sports such as UCSC or conference tournaments; high school sports; youth/amateur basketball, volleyball, and gymnastics; flat floor and consumer shows (i.e. Robotics, Drone Conference, home & garden shows, other events that utilize a non-carpeted/concrete floor), any sports-oriented entertainment events not suitable for a renovated Civic Auditorium (i.e. Globetrotters or Derby Girls).

Victus Advisors also believes that a significant number of regional and national youth/amateur sports tournaments could be held at a new arena in Santa Cruz, which would help maximize the potential economic impacts to the local community by drawing families for overnight visits, in contrast to other ticketed sports or concert activities that tend to attract from within a smaller, local market radius.

CONFERENCE/CORPORATE RETREAT SPACE

During initial stakeholder meetings, numerous interviewees noted a perceived shortage of corporate conference space in the Santa Cruz market. Victus Advisors does not believe that the non-carpeted, flat-floor space in this proposed venue would be suitable for high-end corporate conference use, especially without an adjacent hotel space connected to the venue. As such, it is recommended that the City should separately explore future opportunities, incentives and/or public-private partnerships to promote development of an upscale, carpeted, conference center with adjacent/attached hotel rooms.

That said, if the new arena were to include some sort of hospitality club lounge (a common feature in most arenas that host professional sports franchises), such a space could be marketed for local meetings and banquet opportunities, although that space would not be likely to attract any regional/national conferences or corporate events.

PARKING

As many event organizers/promoters felt that the current Kaiser Permanente Arena site has a significant lack of parking, a parking plan should be put in place to maximize the inventory of convenient parking spaces within walking distance of the new arena.

TENANT EVENTS

Several event types have been considered for potential facility usage at the proposed new permanent arena in Santa Cruz. Potential events have been categorized into two types: **Tenant Events** and **Market Driven Events**.

Tenant events at an arena typically consist of basketball, hockey, football, soccer or lacrosse games played by sports teams that are tenants of the arena. Tenant events are usually scheduled well in advance and provide a facility with a predictable level of facility usage. The majority of multi-purpose arenas have at least one sports tenant.

Potential tenants evaluated as part of this analysis include the Santa Cruz Warriors and the University of Santa Cruz Men's and Women's Basketball teams.

NBA DEVELOPMENT LEAGUE

The NBA Developmental League ("D-League") began operating in 2001 and serves as the official minor league of the National Basketball Association (NBA).



The NBA D-League has achieved stability due in large part to the fact that every D-League team is affiliated with at least one NBA team that allocates players with less than two years of professional experience to their D-League affiliate for developmental purposes. 14 of the current 22 D-League franchises are owned by their respective NBA affiliates.



III. DEMAND PROJECTIONS & PROGRAM RECOMMENDATIONS

D-League teams play 50 games per season, coinciding with the NBA regular season, including 25 home games. The regular season is followed by an eight team playoff, culminating in a best of three series in the final round. The Santa Cruz Warriors claimed their first D-League championship this past season.

Currently there are three types of D-League franchise ownership and operations: **Parent Club**, **Hybrid**, and **Independent**:

- **PARENT CLUB OWNERSHIP** - 14 D-League teams (including the Santa Cruz Warriors) are owned and operated by its NBA Parent Club. The Parent Club runs both the basketball and business operations.
- **HYBRID OPERATIONS** - Eight D-League teams currently employ this model. The NBA affiliate runs the team basketball operations, while a local ownership group handles business operations.
- **INDEPENDENT OWNERSHIP/OPERATIONS** - The Fort Wayne Mad Ants are currently the only D-League team that has full control of basketball and business operations. However, pending league approval, the Indiana Pacers will purchase the Mad Ants and employ a Parent Club ownership model. The NBA is expected to delay approval of this acquisition for at least one season in order to allow the other eight clubs to find or develop a new affiliate (or affiliates) for the 2016-2017 season. It is anticipated that all D-League teams will eventually have a single affiliation via either a Parent Club or Hybrid model, which should continue to add long-term stability and growth potential to the D-League.

The table on the following page summarizes the current ownership models of each team in the D-League.

III. DEMAND PROJECTIONS & PROGRAM RECOMMENDATIONS

D-LEAGUE OWNERSHIP MODELS

Team	City	Affiliate(s)	Ownership Model	First Year In League
TBD	Greensboro	Hornets	Parent Club	2016
TBD	Chicago	Bulls	Parent Club	2016
Long Island Nets	Long Island	Nets	Parent Club	2016
"Raptors 905"	Mississauga	Raptors	Parent Club	2015
Westchester Knicks	Westchester	Knicks	Parent Club	2014
Maine Red Claws	Portland	Celtics	Hybrid	2009
Reno Bighorns	Reno	Kings	Hybrid	2008
Erie Bayhawks	Erie	Magic	Hybrid	2008
Delaware 87ers	Wilmington	76ers	Parent Club	2007
Iowa Energy	Des Moines	Grizzlies	Parent Club	2007
Fort Wayne Mad Ants	Fort Wayne	Pacers (1)	Parent Club	2007
Rio Grande Valley Vipers	Hidalgo	Rockets	Hybrid	2007
Los Angeles D-Fenders	El Segundo	Lakers	Parent Club	2006
Idaho Stampede	Boise	Jazz	Parent Club	2006
Santa Cruz Warriors	Santa Cruz	Warriors	Parent Club	2006
Texas Legends	Frisco	Mavericks	Hybrid	2006
Grand Rapids Drive	Grand Rapids	Pistons	Hybrid	2006
Bakersfield Jam	Bakersfield	Suns	Hybrid	2006
Sioux Falls Skyforce	Sioux Falls	Heat	Hybrid	2006
Austin Spurs	Austin	Spurs	Parent Club	2001
Oklahoma City Blue	Oklahoma City	Thunder	Parent Club	2001
Canton Charge	Canton	Cavaliers	Parent Club	2001

Note: Sorted by First Year In League in descending order

(1) Transfer of ownership to Pacers expected to take place in 2016

Sources: NBA Development League, Victus Research

In regards to the arenas that D-League teams utilize (as shown in the exhibit on the following page), there is currently no standard or typical model for D-League venues. Franchises utilize venues that vary widely in terms of age and capacity, depending on the availability of secondary arenas (smaller, non-NBA or NHL arenas) within their market area, as well as the operating goals of the franchise (player development focus vs. profit-oriented).

III. DEMAND PROJECTIONS & PROGRAM RECOMMENDATIONS

D-LEAGUE VENUES AT A GLANCE

Arena/Event Center	City, State	Team	NBA Affiliate	MSA Population	Year Open	Cost (\$M)	Basketball Capacity	Primary Sports Tenants
Bert Ogden Arena	(1) Edinburg, TX	Rio Grande Valley Vipers	Rockets	831,073	2016	\$68.0	8,500	NBADL
Sanford Pentagon	Sioux Falls, SD	Sioux Falls Skyforce	Heat	251,471	2013	\$19.0	3,250	NBADL
Kaiser Permanente Arena	Santa Cruz, CA	Santa Cruz Warriors	Warriors	274,927	2012	\$7.0	2,505	NBADL, NCAA - Basketball
Cedar Park Center	Cedar Park, TX	Austin Spurs	Spurs	1,943,299	2009	\$55.0	4,672	NBADL, AHL - Hockey
Dignity Health Event Center	Bakersfield, CA	Bakersfield Jam	Suns	874,589	2009	\$2.0	500	NBADL
Reno Events Center	Reno, NV	Reno Bighorns	Kings	442,240	2005	\$65.0	3,306	NBADL
Dr. Pepper Arena	Frisco, TX	Texas Legends	Mavericks	6,954,330	2003	\$27.0	6,000	NBADL
State Farm Arena	Hidalgo, TX	Rio Grande Valley Vipers	Rockets	831,073	2003	\$23.0	5,500	NBADL, X-League - Football
Wells Fargo Arena	Des Moines, IA	Iowa Energy	Grizzlies	611,549	2002	\$117.0	16,110	NBADL, AHL - Hockey, IFL - Football
Toyota Sports Center	El Segundo, CA	Los Angeles D-Fenders	Lakers	13,262,220	2000	\$24.0	336	NBADL
Hershey Centre	Mississauga, ON, CA	"Raptors 905"	(2) Raptors	5,583,064	1998	\$22.0	5,400	NBADL, OHL - Hockey, CSL - Soccer
CenturyLink Arena	Boise, ID	Idaho Stampede	Jazz	664,422	1997	\$50.0	5,732	NBADL, ECHL - Hockey
Bob Carpenter Center	Newark, DE	Delaware 87ers	76ers	6,051,170	1992	\$20.5	3,200	NBADL, NCAA - Basketball
Erie Insurance Arena	Erie, PA	Erie Bayhawks	Magic	278,443	1983	\$9.3	6,754	NBADL, OHL - Hockey, PIFL - Football
Cox Convention Center	Oklahoma City, OK	Oklahoma City Blue	Thunder	1,336,767	1972	\$23.0	2,601	NBADL
Memorial Coliseum	Fort Wayne, IN	Fort Wayne Mad Ants	Pacers (3)	427,183	1952	\$35.0	13,000	NBADL, ECHL - Hockey
DeltaPlex Arena	Walker, MI	Grand Rapids Drive	Pistons	1,027,703	1952	n/a	6,200	NBADL
Canton Civic Center	Canton, OH	Canton Charge	Cavaliers	403,923	1951	n/a	5,200	NBADL
Westchester County Center	White Plains, NY	Westchester Knicks	Knicks	20,092,883	1930	\$0.08	2,100	NBADL
Portland Exposition Building	Portland, ME	Maine Red Claws	Celtics	523,552	1914	\$0.08	3,100	NBADL
High				20,092,883	2016	\$117.0	16,110	
Low				251,471	1914	\$0.1	336	
Median				831,073	1999	\$23.0	4,936	
Average				3,133,294	1986	\$31.5	5,198	

Note: Sorted by Year Open in descending order

(1) New home of Rio Grande Valley Vipers set to open in 2016

(2) Will begin play in 2015-2016 season

(3) Transfer of ownership to Pacers expected to take place in 2016

Sources: Nielsen, Victus Research

Currently the only arena that was specifically built to house a D-League team is Kaiser Permanente Arena in Santa Cruz. Bert Ogden Arena (to be completed in 2016, as shown above), will be the second arena built specifically for a D-League team. Given that the typical D-League team currently averages approximately 2,700 attendees per game, Victus Advisors believes that there will not be great demand in the near future for new 5,000+ seat arenas to be built with a D-League team as the primary tenant, rather it is expected that the majority of D-League franchises will continue to utilize smaller and/or more affordable arena venues in the near future.

The Santa Cruz Warriors reported total attendance of just under 60,000 people for the 2014-2015 season. The exhibit on the following page illustrates where the Warriors' attendance ranks relative to their D-League counterparts.

III. DEMAND PROJECTIONS & PROGRAM RECOMMENDATIONS

D-LEAGUE TOTAL REPORTED ATTENDANCE (2014-2015 SEASON)

Arena/Event Center	City, State	Team	NBA Affiliate	Basketball Capacity	2014-15 Total Reported Attendance ⁽¹⁾
Dr. Pepper Arena	Frisco, TX	Texas Legends	Mavericks	6,000	139,725
State Farm Arena	Hidalgo, TX	Rio Grande Valley Vipers	Rockets	5,500	121,700
Wells Fargo Arena	Des Moines, IA	Iowa Energy	Grizzlies	16,110	105,000
Erie Insurance Arena	Erie, PA	Erie Bayhawks	Magic	6,754	92,175
DeltaPlex Arena	Walker, MI	Grand Rapids Drive	Pistons	6,200	77,500
Sanford Pentagon	Sioux Falls, SD	Sioux Falls Skyforce	Heat	3,250	76,750
Canton Civic Center	Canton, OH	Canton Charge	Cavaliers	3,905	75,675
Memorial Coliseum	Fort Wayne, IN	Fort Wayne Mad Ants	Pacers (2)	13,000	72,925
CenturyLink Arena	Boise, ID	Idaho Stampede	Jazz	5,732	66,250
Cox Convention Center	Oklahoma City, OK	Oklahoma City Blue	Thunder	2,601	60,375
Kaiser Permanente Arena	Santa Cruz, CA	Santa Cruz Warriors	Warriors	2,505	59,875
Reno Events Center	Reno, NV	Reno Bighorns	Kings	3,306	59,225
Cedar Park Center	Cedar Park, TX	Austin Spurs	Spurs	4,672	57,400
Portland Exposition Building	Portland, ME	Maine Red Claws	Celtics	3,100	55,575
Bob Carpenter Center	Newark, DE	Delaware 87ers	76ers	3,200	53,500
Westchester County Center	White Plains, NY	Westchester Knicks	Knicks	2,100	40,475
Dignity Health Event Center	Bakersfield, CA	Bakersfield Jam	Suns	500	12,500
Toyota Sports Center	El Segundo, CA	Los Angeles D-Fenders	Lakers	336	7,700
High				16,110	139,725
Low				336	7,700
Median				3,606	63,313
Average				4,932	68,574

Note: Sorted by 2014-15 Average Reported Attendance in descending order

(1) Based on Victus' professional experience, reported attendance generally represents "tickets distributed" and can be as much as 30-40% higher than turnstile attendance

(2) Transfer of ownership to Pacers expected to take place in 2016

Sources: NBA Development League, Victus Research

The majority of D-League teams average between 40,000 and 90,000 attendees per year, which is not usually significant enough attendance to drive major revenue streams for a multi-purpose arena. As a result, very few D-League teams are considered the primary sports tenants of the arenas in which they play. Most of the above facilities that house D-League teams either must rely on multiple tenants and/or other day-to-day uses (concerts, entertainment, recreation, special events, banquets/meetings, community uses, physical therapy, etc.) to attract a more significant attendee load and stable revenue streams.

Although the Warriors were 11th in the league by total reported attendance, they played in one of the more appropriately-sized arenas in the league, with their average crowd representing approximately 96% of the arena's per-game capacity, as shown on the next page.

III. DEMAND PROJECTIONS & PROGRAM RECOMMENDATIONS

D-LEAGUE AVERAGE REPORTED ATTENDANCE (2014-2015 SEASON)

Arena/Event Center	City, State	Team	NBA Affiliate	Basketball Capacity	2014-15 Average Reported Attendance ⁽¹⁾	% Average Capacity
Dr. Pepper Arena	Frisco, TX	Texas Legends	Mavericks	6,000	5,589	93%
State Farm Arena	Hidalgo, TX	Rio Grande Valley Vipers	Rockets	5,500	4,868	89%
Wells Fargo Arena	Des Moines, IA	Iowa Energy	Grizzlies	16,110	4,200	26%
Erie Insurance Arena	Erie, PA	Erie Bayhawks	Magic	6,754	3,687	55%
DeltaPlex Arena	Walker, MI	Grand Rapids Drive	Pistons	6,200	3,100	50%
Sanford Pentagon	Sioux Falls, SD	Sioux Falls Skyforce	Heat	3,250	3,070	94%
Canton Civic Center	Canton, OH	Canton Charge	Cavaliers	3,905	3,027	78%
Memorial Coliseum	Fort Wayne, IN	Fort Wayne Mad Ants	Pacers ⁽²⁾	13,000	2,917	22%
CenturyLink Arena	Boise, ID	Idaho Stampede	Jazz	5,732	2,650	46%
Cox Convention Center	Oklahoma City, OK	Oklahoma City Blue	Thunder	2,601	2,415	93%
Kaiser Permanente Arena	Santa Cruz, CA	Santa Cruz Warriors	Warriors	2,505	2,395	96%
Reno Events Center	Reno, NV	Reno Bighorns	Kings	3,306	2,369	72%
Cedar Park Center	Cedar Park, TX	Austin Spurs	Spurs	4,672	2,296	49%
Portland Exposition Building	Portland, ME	Maine Red Claws	Celtics	3,100	2,223	72%
Bob Carpenter Center	Newark, DE	Delaware 87ers	76ers	3,200	2,140	67%
Westchester County Center	White Plains, NY	Westchester Knicks	Knicks	2,100	1,619	77%
Dignity Health Event Center	Bakersfield, CA	Bakersfield Jam	Suns	500	500	100%
Toyota Sports Center	El Segundo, CA	Los Angeles D-Fenders	Lakers	336	308	92%
High				16,110	5,589	100%
Low				336	308	22%
Median				3,606	2,533	74%
Average				4,932	2,743	71%

Note: Sorted by 2014-15 Average Reported Attendance in descending order

(1) Based on Victus' professional experience, reported attendance generally represents "tickets distributed" and can be as much as 30-40% higher than turnstile attendance

(2) Transfer of ownership to Pacers expected to take place in 2016

Sources: NBA Development League, Victus Research

The following is a summary of D-League trends and future outlook:

- **VENUE AGE** - Just over half of the current D-League teams play in a venue older than 15 years old, indicating that relatively few arenas have been built in recent years specifically for primary use by an NBA D-League franchise.
- **PURPOSE BUILT ARENAS FOR D-LEAGUE TEAMS** - Currently the only arena that was built to house a D-League team is Kaiser Permanente Arena. Bert Ogden Arena (to be completed in 2016) in Edinburg, Texas, will be the second arena built specifically for a D-League team. Given that the typical D-League team currently averages approximately 2,700 attendees per game, Victus Advisors believes that there will not be great demand in the near future for new arenas to be built with a D-League team as the sole or primary tenant. Rather, we expect that most mid-sized municipal arenas (with 5,000 to 10,000 seats) will continue to be built for sports tenants that draw larger crowds (such as AHL or ECHL hockey franchises, for example) and/or in markets where there is significant market demand for a larger scale concert arena (with a minimum concert seating capacity significantly greater than 7,000 seats).

Furthermore, it should be noted that we believe that the planned Bert Ogden Arena may be a risky proposition given that the current home of the NBA D-League's Rio Grande Valley Vipers (State Farm Arena) is an arena located just 15 miles away and built only 12 years ago. State Farm Arena recently lost one of its primary sports tenants (the Rio Grande Valley Killer Bees of the North American Hockey League) and will now also lose the Vipers, and so it is expected that the two arenas will compete very aggressively for the available concerts and entertainment acts that tour through the area, which could harm the ability of both arenas to be profitable.

- **MARKETS** - The majority of D-League venues built after 2000 are located in markets with less than one million people, illustrating: a) the League's desire to expand in small-to-mid-sized markets that are underserved in terms of professional sports franchises, and b) the increasing willingness of these small-to-mid-sized markets to partner (either publicly or privately) with D-League franchises as the league has continued to prove and increase its long-term stability.
- **ATTENDANCE** - Attendance varies widely by market (300 to 5,500 per game) but, on average, D-League franchises report attendance of more than 2,700 per game.
- **OUTLOOK & SUSTAINABILITY** - Recent trends, including the reported change in ownership with the Fort Wayne Mad Ants, suggest improved long-term growth and stability for the NBA D-League. The aforementioned ownership change will leave 10 NBA clubs without a minor league affiliate, however these remaining clubs should be compelled to move quickly to establish minor league affiliates either via parent ownership or hybrid operation.

Over the next 10 to 15 years, we expect the D-League to become significantly more stable and continue to grow in popularity as all D-League teams are able to market their affiliation with a single NBA team via either a Parent Club or Hybrid model. It should also be anticipated that the NBA affiliate clubs will prefer to have their D-League teams be located within a close regional area, in order to reduce NBA player/coach travel costs and promote the D-League team's affiliation within an amenable market that supports the NBA club, as is currently the case in Santa Cruz with the Warriors.

Lastly, it should be noted that the D-League, even by minor league sports standards, is not typically a major revenue driver by multi-purpose arena standards. For example, the D-League generates less annual attendance than the primary minor leagues for Major League Baseball and National Hockey League, as shown on the next page.

2015 MINOR LEAGUE SPORTS ATTENDANCE

<u>Minor League</u>	<u>2015 Annual Attendance</u>
MiLB AAA	18,062,947
MiLB AA	8,917,570
AHL (Hockey)	6,279,281
MiLB A	4,670,503
ECHL (Hockey)	4,635,201
NBADL	1,234,325
USL (Soccer)	1,121,962
NASL (Soccer)	975,558

Note: Sorted by Attendance in descending order

With 30 teams playing (which is estimated to occur within the next three years), it could be expected for annual attendance to gradually increase and eventually become more comparable to figures for the ECHL (which is the second-tier of minor leagues for the NHL, below the AHL). It will still be important however, for any new arena constructed in Santa Cruz to be planned and programmed to accommodate a variety of multi-purpose uses in addition to the Warriors.

UC SANTA CRUZ ATHLETICS

The UCSC Banana Slugs' athletic teams currently participate in the NCAA's Division III. The Banana Slugs' Men's and Women's Basketball teams have been playing at Kaiser Permanente Arena since 2013, and each team averages less than 300 attendees per game. UCSC Athletics does not currently pay rent to utilize Kaiser Permanente Arena, and they do not believe they could afford to do so in a new arena as long as they remain a Division III athletic program. As such, Victus Advisors does not believe that UCSC would be a viable, rent-paying tenant of a new arena in Santa Cruz as long as they remain a Division III athletic program.

The National Collegiate Athletic Association (NCAA) is the largest governing body that oversees athletes, conferences, and over 1,200 academic institutions. NCAA oversees three divisions of collegiate basketball: Division I, Division II and Division III. The NCAA classifies the divisions based on key metrics, as described in the exhibit on the next page.

DIVISIONAL DIFFERENCES OF NCAA

DIVISION I	DIVISION II	DIVISION III
<ul style="list-style-type: none">• Must sponsor at least 7 sports for men and women each• Must meet minimum financial aid awards for their athletic programs• Most student-athletes play on athletic scholarships	<ul style="list-style-type: none">• Must sponsor at least 5 sports for men and women each• Teams usually feature a number of local or in-state student-athletes• Athletes pay for school through mix of scholarships, grants, loans, and employment income	<ul style="list-style-type: none">• Must sponsor at least 5 sports for men and women each• Athletic scholarships are not offered• Special emphasis on student-athletes rather than spectators

The main difference between Division III and the other higher levels of the NCAA are that athletic scholarships are not offered at the Division III level, thus creating a significant competitive disadvantage in athlete recruiting. Since the physical talent levels of athletes are significantly lower in Division III, and since emphasis at the Division III level is placed on the student-athletes and not the ability to draw spectators or service sponsors, attendance for Division III events is very low and often goes unreported for most sports. For example, the NCAA does not report basketball attendance for more than just the top 10 Division III basketball programs.

For UCSC Athletics to move up to the Division II level (let alone the Division I level which is the most competitive level of NCAA competition and the only level at which games are regularly shown on national television and teams can generate significant sponsorship, media rights and ticket revenues), it would require a significant change in UCSC's approach to athletics. In particular, the school would need to significantly increase their athletics budget in order to accommodate athletic scholarships, not to mention develop an athletic donor base willing to support the cost of significant upgrades to other on-campus athletic facilities for a wide variety of sports. Although UCSC has received an invitation to move up to Division II, Victus Advisors believes that it is not currently likely for UCSC to raise the necessary funds in the near future to support such a move.

Victus Advisors also found that almost all of the comparable markets identified in this report have at least one NCAA institution within a 10 mile radius of the City in question. Their respective NCAA Division and enrollment is illustrated in the following exhibit on the next page.

III. DEMAND PROJECTIONS & PROGRAM RECOMMENDATIONS

COMPARABLE MARKETS - NCAA INSTITUTIONS WITHIN 10 MILE RADIUS

Arena/Event Center	City, State	MSA	NCAA INSTITUTIONS
		Population	
Hartman Arena	Park City, KS	640,274	Wichita State (D1), Newman (D2)
Huntington Center	Toledo, OH	607,192	Toledo (D1), Heidelberg University (D3)
Covelli Centre	Youngstown, OH	550,695	Youngstown State (D1)
Reno Events Center	Reno, NV	442,240	Nevada (D1)
Santander Arena	Reading, PA	414,347	Albright College (D3), Alvernia (D3)
Budweiser Events Center	Loveland, CO	323,793	Colorado Christian (D2)
Kaiser Permanente Arena	Santa Cruz, CA	274,927	University of California Santa Cruz (D3)
Sanford Pentagon	Sioux Falls, SD	251,471	Augustana College (D2), Sioux Falls (D2)
Scheels Arena	Fargo, ND	232,348	North Dakota State (D1)
Prescott Valley Event Center	Prescott, AZ	218,089	*NONE*
First Arena	Elmira, NY	88,004	Elmira College (D3)
High		640,274	
Low		88,004	
Average		367,580	

Note: Sorted by MSA Population in descending order

Source: Victus Research

As shown below, UC Santa Cruz is the only college/university in the comparative market set with more than 5,000 students that is not a Division I athletic program. In addition, UCSC Santa Cruz is the only school on the list (in any division) that does not compete on-campus.

ENROLLMENT SUMMARY OF SELECTED NCAA INSTITUTIONS

INSTITUTION	DIVISION	ARENA	ENROLLMENT
University of Toledo	I	On-Campus	18,130
University of Nevada	I	On-Campus	17,295
UC Santa Cruz	III	Off-Campus	16,277
North Dakota State	I	On-Campus	14,747
Wichita State	I	On-Campus	14,495
Youngstown State	I	On-Campus	13,381
Colorado Christian	II	On-Campus	5,000
Newman University	II	On-Campus	2,796
Albright College	III	On-Campus	2,335
Augustana College	II	On-Campus	1,800
Alvernia University	III	On-Campus	1,500
Sioux Falls	II	On-Campus	1,419
Elmira College	III	On-Campus	1,170
Heidelberg University	III	On-Campus	1,000
High			18,130
Low			1,000
Average			7,953

Note: Sorted by Enrollment in descending order

Source: Victus Research

III. DEMAND PROJECTIONS & PROGRAM RECOMMENDATIONS

Out of the 14 schools presented above, the only one currently playing the majority of their home basketball games in an off-campus facility is UC Santa Cruz. Based on Victus Advisors' industry experience, most collegiate athletic programs prefer to play their basketball games on-campus for several reasons, including:

- Schools prefer to hold games on-campus so that students can easily attend.
- Many alumni and athletic donors prefer games to be held on-campus due to the enhanced on-campus atmosphere and their fondness for campus.
- On-campus arenas can often be utilized by the university to meet the needs of not just athletics, but also academic and student services, such as graduations, commencements, job fairs, summer camps, and other such uses.

Based on the research and findings completed by Victus Advisors, it is believed that UC Santa Cruz Athletics could not afford to pay to rent to host its home basketball games in a new permanent arena in Santa Cruz, as long as the athletic program remains in Division III. Furthermore, we do not believe at this stage that an expensive move to Division II is likely for UCSC, and therefore planning decisions for a new Santa Cruz arena should not be made based upon UCSC as a key tenant. However, opportunity may exist to host non-tenant events involving UC Santa Cruz Athletics, such as a Division III basketball tournament or other such special events.

TENANT EVENT PROJECTIONS

It is expected that the Santa Cruz Warriors would be the primary sports tenant of a new permanent arena in Santa Cruz, hosting approximately 25 games per year with average attendance of approximately 3,000 people per game.

MARKET DRIVEN EVENTS

Market-driven events are defined as those events that are affected by local market forces and characteristics, and represent events that are either part of a national tour and/or do not have a permanent home venue. The number of market-driven events in a given community is typically a function of the size of the marketplace, the number of available facilities to host these events, facility availability, and the outcome of a competitive bid process.

The types of market-driven events evaluated in this section include:

- Concerts
- Family Shows
- Ice Uses
- Other Sports
- Flat Floor Shows
- Miscellaneous Other Events

CONCERTS

Analysis of the Santa Cruz-area competitive landscape indicates that there are no venues in the marketplace that can currently accommodate large, touring concerts. The Civic Auditorium can hold up to 2,000 people, but is not sufficient for a larger concert with 5,000 or more attendees. Kaiser Permanente Arena is not built for concerts and has had minimal success hosting them.

Within the context of the current facilities in the marketplace, the consensus among the promoters (both regional and national) that we interviewed was that Santa Cruz is a secondary concert market that lacks the population characteristics to accommodate an arena with a 5,000 to 7,000-seat capacity that is targeted at capturing concerts on mid-sized arena tours.

In addition, based upon interviews with key stakeholders and concert promoters, as well as the current concert/entertainment activity held at the Civic Auditorium, Victus Advisors believes that a new permanent arena in Santa Cruz with a seating capacity of approximately 3,500 people that is marketed as a concert destination would directly compete with the Civic Auditorium to book events.

As a result of all the factors described above, it is recommended that a new permanent arena in Santa Cruz should not be marketed as a concert venue, and therefore would not consistently host concert activity.

FAMILY SHOWS

Family shows are events that cater to spectators of all ages and include a wide variety of events including Sesame Street Live, Ringling Brothers and Barnum & Bailey Circus, Barney, and Nickelodeon shows, among others. A new arena's ability to attract events such as family shows will depend somewhat on the physical characteristics of the facility as well as the demographic make-up of the local population.

Based upon our experience in the arena industry and input from family show organizers for this study, it is believed that most family shows prefer to tour in major markets and rent large arenas (8,000 or more seats) for multiple days in that market, while hosting several daily shows. The touring family show organizers that we interviewed for this study indicated that they would prefer to continue hosting their weekend family shows in the San Jose market, even if a new permanent arena was built in Santa Cruz.

As a result of all the factors described above, it is estimated that a new permanent arena in Santa Cruz would not consistently attract family show activity.

ICE USES

Ice would require ice-making capabilities such as Zambonis, chillers, etc. Most event facilities are developed with ice based upon the need of a primary tenant, such as a minor league or collegiate hockey team. Otherwise, recreational ice uses (amateur hockey, figure skating, open skate, etc.) are not typically accommodated within a multi-purpose arena, but rather within a dedicated ice rink facility with permanent ice sheets.

In addition to a primary hockey tenant, there are also several types of market driven arena events that would require ice making capabilities, such as Disney On Ice. However, as stated in the Family Shows section above, the Santa Cruz market is not likely to attract those events away from existing arenas in the San Francisco and San Jose markets.

Victus Advisors has also recently been made aware of preliminary discussions between the NHL San Jose Sharks and the Seaside Company regarding the Sharks' consideration of the Santa Cruz market as a potential relocation option for their primary minor league affiliate, the San Jose Barracuda of the American Hockey League (AHL). Details of these discussions have not been disclosed to Victus Advisors, therefore it is not known at this time whether the Sharks and Seaside Company have discussed a permanent ice facility, with multiple ice sheets and the ability to accommodate numerous other ice uses on non-game days, such as Barracuda practices, youth hockey, skating, etc.; or if the Sharks would prefer the Barracuda to play in a large, multi-use arena that is more typical of a typical AHL team venue.

Should the Sharks prefer a multi-use arena option, the exhibit on the following page summarizes the current arenas that AHL teams utilize in the United States, including market size, arena seating capacity, recent AHL attendance, and estimated arena construction cost in 2015 dollars.

III. DEMAND PROJECTIONS & PROGRAM RECOMMENDATIONS

AHL VENUES AT A GLANCE

Arena/Event Center	City, State	Team	NHL Affiliate	MSA Population	Year Open ⁽¹⁾	2015 Estimated Cost (\$M) ⁽²⁾	Hockey Capacity	'15-'16 Avg. Reported Attendance
Allstate Arena	Rosemont, IL	Chicago Wolves	Blues	9,554,598	1980	\$70.3	16,692	7,852
Citizens Business Bank Arena	Ontario, CA	Ontario Reign	Kings	4,441,890	2008	\$158.4	9,736	8,387
Valley View Casino Center	San Diego, CA	San Diego Gulls	Ducks	3,263,431	1966	\$61.4	12,920	8,513
Bojangles' Coliseum	Charlotte, NC	Charlotte Checkers	Hurricanes	2,380,314	2015 *	\$16.3	9,605	5,543
AT&T Center	San Antonio, CA	San Antonio Rampage	Avalanche	2,328,652	2002	\$288.2	16,151	5,861
Quicken Loans Arena	Cleveland, OH	Lake Erie Monsters	Blue Jackets	2,063,598	1994	\$202.3	20,056	8,138
SAP Center	San Jose, CA	San Jose Barracuda	Sharks	1,952,872	1993	\$338.8	17,562	4,238
Cedar Park Center	Cedar Park, TX	Texas Stars	Stars	1,943,299	2009	\$63.4	6,863	5,002
Dunkin' Donuts Center	Providence, RI	Providence Bruins	Bruins	1,609,367	2008 *	\$84.5	11,075	8,092
BMO Harris Bradley Center	Milwaukee, WI	Milwaukee Admirals	Predators	1,572,245	1988	\$211.8	17,845	5,752
XL Center	Hartford, CT	Hartford Wolfpack	Rangers	1,214,295	1975	\$145.3	15,635	4,209
Blue Cross Arena	Rochester, NY	Rochester Americans	Sabres	1,083,393	1998 *	\$71.6	10,669	6,211
Van Andel Arena	Grand Rapids, MI	Grand Rapids Griffins	Red Wings	1,027,703	1996	\$146.2	10,834	8,196
Webster Bank Arena	Bridgeport, CT	Bridgeport Sound Tigers	Islanders	945,438	2001	\$88.1	8,525	3,667
Times Union Center	Albany, NY	Albany Devils	Devils	880,167	1990	\$150.9	14,236	3,200
Rabobank Arena	Bakersfield, CA	Bakersfield Condors	Oilers	874,589	1998	\$66.4	8,800	5,033
PPL Center	Allentown, PA	Lehigh Valley Phantoms	Flyers	829,835	2012	\$221.1	8,420	8,194
Stockton Arena	Stockton, CA	Stockton Heat	Flames	715,597	2005	\$91.0	9,700	4,521
Memorial Arena	Syracuse, NY	Syracuse Crunch	Lightning	661,478	1994 *	\$34.4	6,159	5,412
MassMutual Center	Springfield, MA	Springfield Falcons	Coyotes	629,100	2005 *	\$95.0	6,866	3,073
Wells Fargo Arena	Des Moines, IA	Iowa Wild	Wild	611,549	2005	\$156.5	15,181	5,734
Giant Center	Hershey, PA	Hershey Bears	Capitals	560,849	2002	\$100.7	10,500	9,651
Mohegan Sun Arena	Wilkes-Barre, PA	Wilkes-Barre Penguins	Penguins	559,679	1999	\$74.0	8,300	5,455
Cross Insurance Arena	Portland, ME	Portland Pirates	Panthers	523,552	2014 *	\$35.1	7,005	3,316
BMO Harris Bank Center	Rockford, IL	Rockford IceHogs	Blackhawks	342,411	2008 *	\$24.3	5,895	4,834
Memorial Auditorium	Utica, NY	Utica Comets	Canucks	296,615	1960	N/A	3,860	3,860
Memorial Arena	Binghamton, NY	Binghamton Senators	Senators	247,219	1973	\$44.1	4,679	3,898
Median				945,438	1999	\$89.5	9,736	5,455
Average				1,596,805	1996	\$116.9	10,880	5,772

Note: Sorted by MSA Population in descending order

(1) * Denotes major renovation year

(2) According to 4th Quarter 2015 Turner Building Cost Index

Sources: Turner Construction Company, American Hockey League, Victus Research

The bullets below summarize key findings from the chart above that could be relevant to the potential for a new AHL facility in the Santa Cruz market:

- **Market Size** - As shown above, out of the 27 American-based clubs, only three are located in markets with less than 500,000 residents. Furthermore those markets are located in the central and northeast part of the country where a strong hockey culture and history exists.
- **Venue Seating Capacity & Attendance** - It is also worth noting that the average seating capacity for hockey at these venues is over 10,000 people, with average attendance for AHL games during the most recent hockey season of more than 5,700 people per game.

- **Venue Construction Cost** - Victus Advisors utilized the Turner Building Cost Index to estimate the cost of building each of these AHL venues in 2015 dollars (via Turner's Q4 2015 Index). On average, a typical AHL arena would cost approximately \$117 million to construct in 2015 dollars.

Based on a review of existing AHL hockey arenas, it is likely that the Barracuda would desire a new arena (in any market) with more than 5,000 seats for hockey, which is larger than Victus Advisors' recommended seating capacity for a new permanent arena in Santa Cruz. In addition, larger multi-use arenas (i.e. capacities in excess of 5,000 seats) typically require a steady flow of market driven events, such as concerts and entertainment acts, in order to achieve positive operational margins. Victus Advisors believes that such a multi-purpose arena constructed and operated within the Santa Cruz market, would not only be larger than the demand existing within the marketplace, but also would compete with a renovated Municipal Auditorium to host market driven concert events.

Conversely, if an ice center (with permanent ice sheets, rather than a multi-use arena floor) was built in Santa Cruz that not only was capable of hosting Barracuda games, but also operated year-round as an amateur and recreational ice center, Victus Advisors believes it would be possible for both a proposed Santa Cruz Warriors arena (as described within Section III of this report) and a permanent ice center to coexist within the Santa Cruz market. However, it should be noted that Victus Advisors' interviews and research conducted within the Santa Cruz market did not reveal a strong, existing hockey community (in terms of youth and amateur participation and interest in hockey clubs and leagues), therefore it is likely that relocation of the Barracuda to any new permanent ice center in Santa Cruz would require expenditure of significant resources by the Barracuda and/or the Sharks to develop new interest in hockey and ice sports via local outreach and program development.

NON-TENANT SPORTS EVENTS

Other individual sporting events held at a new permanent arena in Santa Cruz could include a variety of events such as the Harlem Globetrotters, collegiate tournaments (basketball, volleyball, and gymnastics), wrestling (both professional and amateur), etc.

Many of the regional and national event organizers we spoke with were interested in hosting events at a new permanent arena in Santa Cruz, however they were also interested in knowing the potential ability to work with a visitors bureau or sports commission to minimize their rental costs, the availability of hotel chains near the arena, and that the facility met the minimum standards and needs of their respective sports event.

It is estimated that a new permanent arena in Santa Cruz could host approximately 20 sports exhibition and tournament days each year, with average attendance of 2,500 people per event.

FLAT FLOOR SHOWS

Flat floor shows typically include conventions, trade shows, job fairs, and consumer shows that can utilize column-free, concrete floor space. The most common flat floor shows hosted by arenas include home and garden shows, automobile shows, boat shows, recreational vehicle shows, food festivals, and other similar consumer shows.

Based upon the market research conducted by Victus Advisors for this study, it is estimated that a new permanent arena in Santa Cruz could host approximately 10 flat floor show days per year with average daily attendance of approximately 1,000 people.

COMMUNITY EVENTS

Based on the analyses of comparable facilities, other events that are often held in multi-purpose arenas include high school and collegiate graduation ceremonies, religious services, holiday/ethnic festivals, corporate meetings, private banquets, professional certification testing and other community or private events. The number of civic-type events held at the proposed permanent arena in Santa Cruz will depend somewhat on the operating philosophy of facility management and competition from other facilities in the marketplace. In general, these events do not represent a significant income source to an arena, but rather serve to increase the utilization of the building and meet the needs of the local community.

Based on the market research conducted by Victus Advisors for this study, it is estimated that a new permanent arena in Santa Cruz could host approximately 25 community events per year with approximately 100 attendees per event.

OTHER SPORTS ACTIVITY (DAILY & HOURLY USE)

Victus interviewed numerous local, regional and national sports organizations, and the majority of these users are very interested in using a new permanent arena in Santa Cruz if it had a flexible configuration that allowed for at least four basketball/volleyball courts to be available for daily use (via use of retractable seating technology). Although rental fees appeared to be a critical factor for most of these potential users, the daily use sports configuration allows for the facility operator to rent the facility on an hourly basis, which keeps costs down for each individual user while allowing the operator to generate significant daily rentals fees from multiple users each day. A well-operated daily and hourly use sports center of this kind can typically generate usage in the range of 10 to 12 hours each day, by focusing on the sports and recreation needs of local/regional amateur athletes, teams and leagues, as well as hosting regional/national amateur sports tournaments.

Based primarily on our extensive interviews with local, regional and national sports/recreation organizations, it is estimated that the proposed new permanent arena in Santa Cruz could be utilized as an amateur sports center for at least 280 days a year, with total annual attendance of more than 80,000 unique visitors.

SUMMARY OF MARKET DRIVEN EVENT PROJECTIONS

In summary, the Santa Cruz market may not be able to profitably support a multi-purpose arena that is dedicated solely to market-driven events. Therefore we are recommending an amateur sports/recreation facility (similar to usage of the Sanford Pentagon in Sioux Falls, South Dakota) that could also be used by the Warriors for home games as well as larger one-off sporting events (such as collegiate basketball tournaments) and other special events and trade shows.

The exhibit below summarizes Victus Advisors' estimated annual event activity at a new permanent arena in Santa Cruz. These estimates are primarily based on local market factors, discussions with stakeholders and event promoters, and our review of historical event activity at comparable arenas operating in mid-sized, competitive markets.

ESTIMATED UTILIZATION OF A PERMANENT ARENA IN SANTA CRUZ

	<u>Annual Event Days</u>	<u>Average Daily Attendance</u>	<u>Total Annual Attendance</u>
TENANT EVENTS:			
Santa Cruz Warriors	25	3,000	75,000
MARKET DRIVEN EVENTS:			
Non-Tenant Sports Events	20	2,500	50,000
Flat Floor Shows	10	1,000	10,000
Community & Banquets/Meetings	25	100	2,500
SPORTS/RECREATION USES:			
Hourly Rentals by Leagues/Teams	280	300	84,000
TOTAL - OVERALL:	360	615	221,500
TOTAL - TENANT & MARKET EVENTS ONLY:	80	1,719	137,500

As shown above, it is estimated that a new permanent arena in Santa Cruz could host approximately 80 tenant and market-driven events each year, while utilizing the remainder of its schedule for daily sports and recreation uses (primarily hourly and daily rentals for leagues and teams). Most large, multi-purpose arenas with permanent (non-retractable) seating require more than 100 quality tenant and market driven events to be operationally self-sufficient. As a result, based upon market demand for approximately 80 of these events (of which approximately 25 are expected to be small community/banquet events), Victus Advisors believes it would be necessary for the daily amateur sports/recreational use to support the on-going operations of the proposed permanent arena in Santa Cruz. Overall, it is estimated that the recommended arena program could be used nearly 360 days per year for a mixture of both local-use events and regional/national events that could attract significant economic impact to the community, especially during the fall and winter months when: a) Santa Cruz does not typically attract significant beach visitation, and b) indoor sports center uses are in-season, such as indoor basketball, volleyball, gymnastics, wrestling, etc.



IV. PRELIMINARY SITE ASSESSMENT



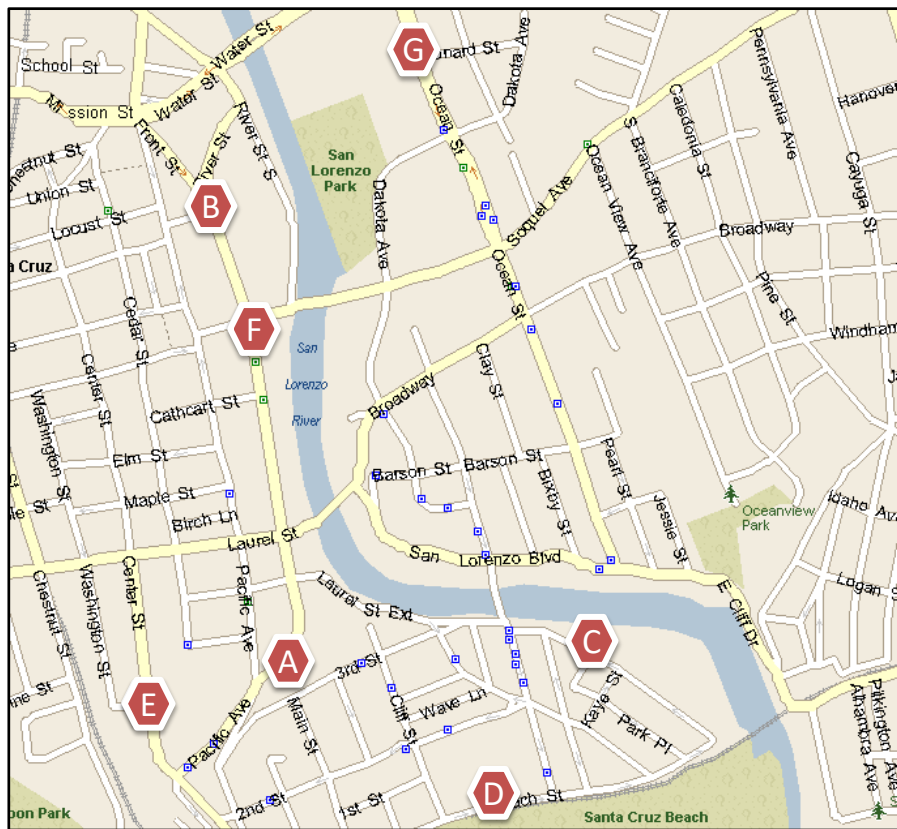
IV. PRELIMINARY SITE ASSESSMENT

Victus Advisors contracted with HKG Sports to provide a preliminary site assessment for the potential location within Santa Cruz for a new permanent arena.

Based upon discussions with City staff, input from the Santa Cruz Warriors, meetings and interviews with a wide variety other local stakeholders, and other public input gathered by City staff and key stakeholders regarding public interest in potential sites, Victus Advisors and HKG have identified seven (7) sites for potential analysis.

Victus Advisors and HKG toured the various potential sites, researched the ownership and other such factors for each site, and met with City staff, local developers, and other potential project stakeholders, which includes the following sites:

MAP OF POTENTIAL SITES



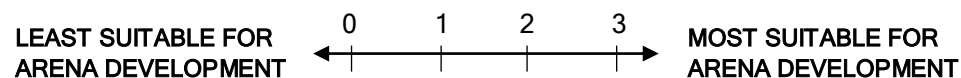
Source: Microsoft MapPoint

Site	Address
A	140 Front St.
B	740 Front St.
C	300 Third St.
D	503 Beach St.
E	119 Center St.
F	600 Front St.
G	701 Ocean St.

IV. PRELIMINARY SITE ASSESSMENT

Based upon their research findings, as well as their extensive experience analyzing and selecting sites for sports development projects in the State of California, Victus Advisors and HKG developed the site scoring matrix that is presented on the following page.

Each property was rated relative to the others according to several key development criteria, and each criteria was assigned a score on a scale from 0 to 3. As shown below, a score of 0 represents criteria where that site is least suitable for development of a permanent arena, whereas a score of 3 represents criteria where that site is most suitable for development of a permanent arena.



Each potential site in Santa Cruz was assessed and scored based upon the following general factors:

1. **Site Specifics:** Do the site characteristics meet the requirements for the facility? All site specific characteristic must be analyzed to make the site viable for the facility (i.e. parcel size, site dimension, utilities, environment, design factors).
2. **Site Development:** Identifying acquisition cost, demolition cost and any on-site and off-site cost that might impact the development of the facility.
3. **Traffic and Parking:** Analyzing each site as it relates to parking, access and traffic impacts to downtown and the beach area. All sites must provide enough parking within a general vicinity for general parking, premium customers, etc.
4. **Economic Impact:** Analyzing each site to understand the greatest potential for economic development impact to the downtown Santa Cruz area and/or promote connectivity between the beach and downtown.
5. **Timing:** Understanding any potential delays including potential environmental, legal or entitlements delays. Also to include any issues related to the Warriors options for facility use during construction period.

The specific criteria that were considered and scored included:

- Site size and configuration;
- Site accommodation of building programming;
- Environmental considerations;
- Potential acquisition costs;
- Demolition and relocation costs;
- On and off-site costs;

IV. PRELIMINARY SITE ASSESSMENT

- Access (vehicular and pedestrian);
- On-site parking;
- Traffic impact to downtown and beach areas;
- Potential impact to downtown and/or connectivity between the beach and downtown;
- Presence of other commercial development;
- Adjacent property development opportunities;
- Potential significant delays (environmental, legal, etc.); and,
- Impact on the Warriors season.

The overall score for each site was based upon the cumulative scores awarded for each key criteria. HKG's site scoring matrix is presented in full on the following page.

IV. PRELIMINARY SITE ASSESSMENT

<div>HKG</div> <div>SPORTS</div>		Site A 140 Front Street (Existing Site)	Site B 740 Front Street (Barry Swenson Builder)	Site C 300 Third Street (Seaside Company)	Site D 503 Beach Street (Seaside Company)	Site E 119 Center Street (Depot Park)	Site F 600 Front Street (Friend, Friend and Friend)	Site G 701 Ocean Street (County Building)
CRITERIA								
Site Specifics								
	6	2	7	7	8	8	8	
Site size and configuration	2	0	3	3	3	3	3	
Site can accommodate building programming	2	0	3	3	3	3	3	
Environmental consideration	2	2	1	1	1	2	2	
Site Development & Acquisition								
Potential Acquisition Costs	1	1	0	0	3	0	0	
Demolition and relocation costs	1	1	2	3	1	0	0	
On and off site costs	1	2	2	2	2	2	2	
Traffic and Parking								
Access (Vehicular & Pedestrian)	2	2	1	1	2	3	3	
On-site parking	1	1	3	2	2	3	3	
Traffic impact to downtown and the beach area	3	2	0	0	1	2	3	
Economic Impact								
Potential impact to downtown and/or connectivity between the beach and downtown	3	1	1	1	3	1	0	
Presence of commercial development (hotel, retail, restaurants, etc.)	3	3	2	2	2	3	1	
Adjacent property development opportunities	3	1	1	1	2	1	1	
Timing Factors								
Potential Significant Delays (environmental, legal, etc.)	3	1	1	1	2	1	1	
Impact on the Warriors Season	0	1	1	1	2	1	1	
SCORE	27	18	21	21	30	25	23	

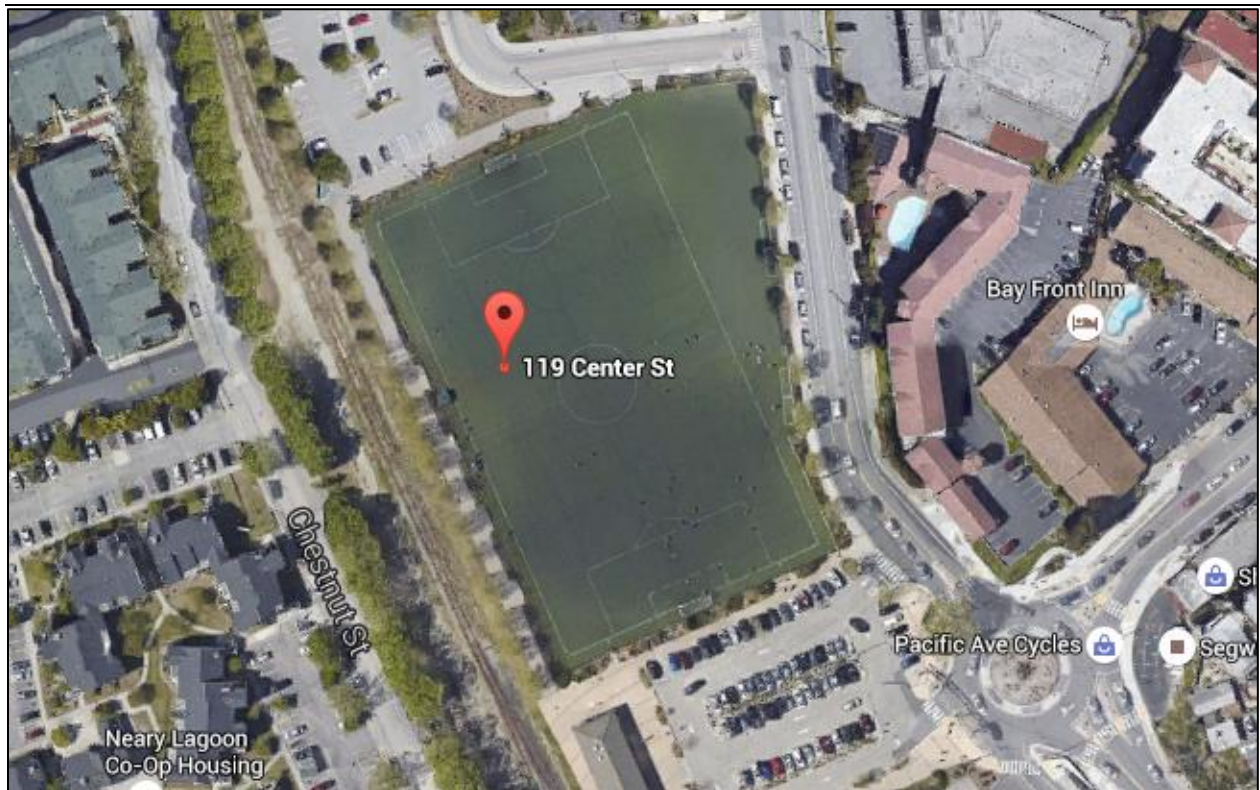
Scoring: Each property is to be rated against the other. Assign a score of 3 (Highest), 2, 1, 0 (Lowest) for each criteria. A high score should be assigned to the most suitable project and a low score assigned to the least suitable

The table below summarizes the scoring matrix presented on the previous page.

SITE SCORING SUMMARY			
	<u>Rank</u>	<u>Site</u>	<u>Score</u>
Top 3 Sites	1	Depot Park (119 Center Street)	30
	2	Existing Arena Site (140 Front Street)	27
	3	Friend, Friend & Friend (600 Front Street)	25
	4	County Building (701 Ocean Street)	23
	5	Seaside Company (503 Beach Street)	21
	6	Seaside Company (300 Third Street)	21
	7	Barry Swenson Builder (740 Front Street)	18

The three highest scored sites were Depot Park, the Existing Arena Site, and Friend, Friend & Friend. The top three sites are described in additional detail on the subsequent pages.

DEPOT PARK - RANK: 1 - SCORE: 30



Source: Google Earth

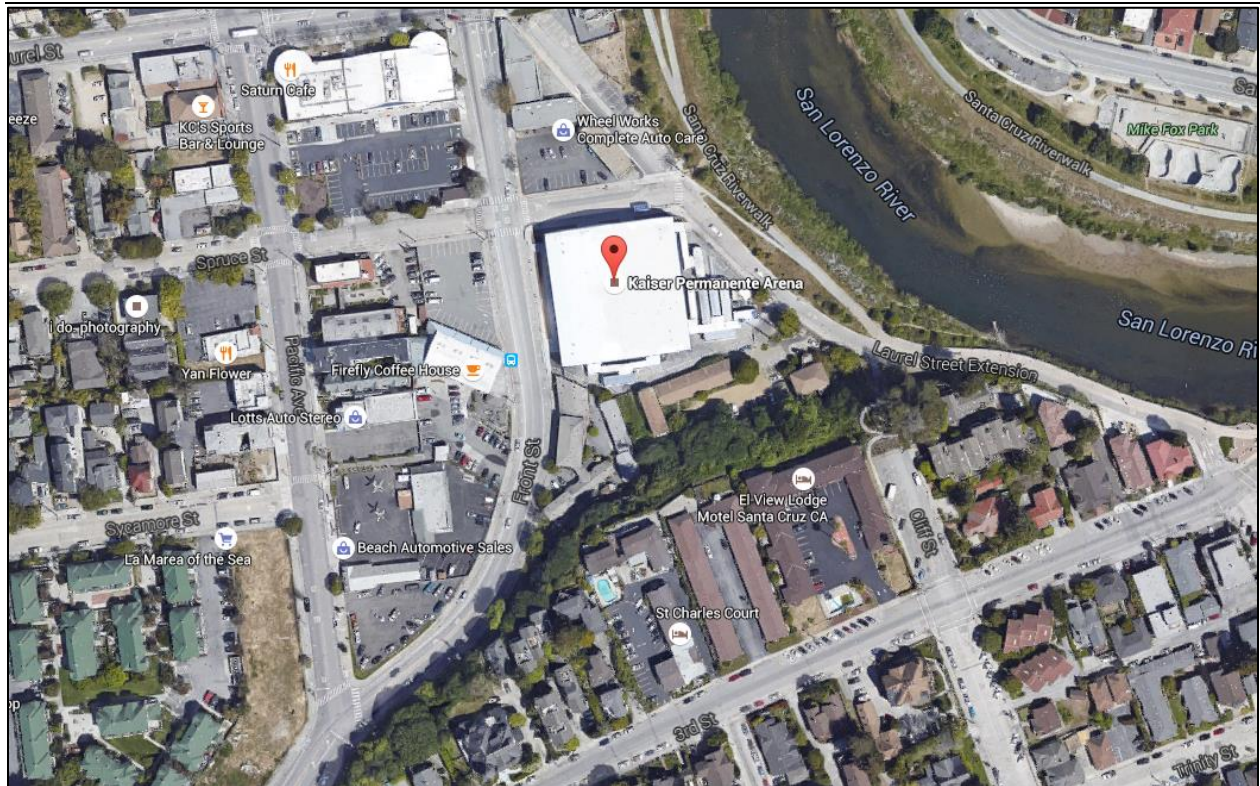
POSITIVES

The Depot Park site is ideally sized and shaped to accommodate a large, rectangular building. Also, the Depot Park site is already owned by the City and utilized for sports (soccer, skate park). Furthermore, a City-controlled parking lot is already adjacent to the site, and a larger City-controlled parking structure could potentially be built to the north of the site. Finally, from an economic development standpoint, the site could spur connective development between the Beach and Downtown.

NEGATIVES

A plan would have to be put in place to relocate or replace the existing soccer field on the Depot Park site. The site is also located at/near a frequent access point for summer beach traffic, so new traffic patterns and flows would have to be considered by City planners.

EXISTING ARENA SITE - RANK: 2 - SCORE: 27



Source: Google Earth

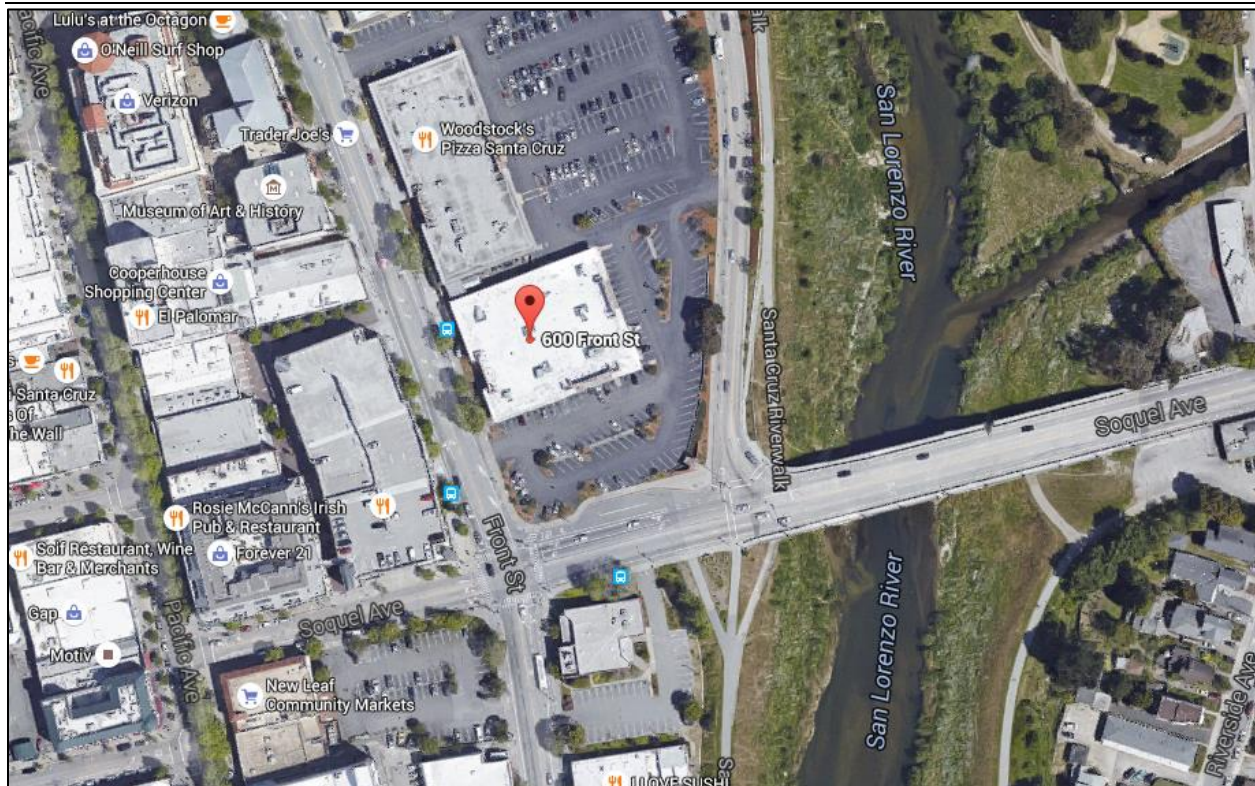
POSITIVES

The Existing Arena Site is already accommodating arena usage and there is familiarity with the location among arena clientele. The potential impact to downtown Santa Cruz has already begun to a small extent within the surrounding blocks, with connectivity being encouraged between the beach and downtown, and adjacent/nearby property development opportunities.

NEGATIVES

The current site is owned by Seaside Company, and a new/larger venue would likely require acquisition of adjacent properties as well. In addition, parking is an issue, as both potential arena users and current arena attendees complained about the limited parking options adjacent to the site. Finally, if the arena was torn down to develop a new arena on-site, Warrior's home games would be displaced during the construction period, which would cause significant operational difficulty for the franchise.

FRIEND, FRIEND & FRIEND - RANK: 3 - SCORE: 25



Source: Google Earth

POSITIVES

The site size and configuration is ideal for an arena structure, and there is convenient pedestrian access and parking locations for vehicles. The site's location adjacent to existing commercial development would also be complementary to an arena usage on the site.

NEGATIVES

From a site development and acquisition standpoint, the site is currently occupied by a Trader Joe's, and therefore the costs of both site acquisition and Trader Joe's relocation would be prohibitive. The site is not currently for sale, however it can be reasonably expected that the purchase of the site, buy-out of Trader Joe's lease, and other relocation considerations could be expected to more than exceed the construction costs of the potential arena itself. As such, these acquisition costs would most likely make the project financially *not feasible on that site* without significant investment by the City to control the site and to purchase any remaining value on the retail leases. The legal issues related to the current ownership and use of the site would also be likely to recreate significant project delays. Finally, an additional negative could include that the existing and adjacent parcel are already developed for commercial use, thus limiting the potential of the arena to serve as an economic development tool.

ADDITIONAL NOTES ON SITES RANKED 4-7

Rank 4: County Building (701 Ocean Street) - This site scored well in site specifics, traffic and parking, as the property has the necessary size and shape to accommodate an arena program and the location on the east side of the San Lorenzo River would allow for relatively easy traffic flow and parking, even in the summer months. However, the site has two major concerns: 1) The building is currently owned and operated by the County, and not only would the City have to acquire the building from the County, but the County would also have to relocate their staff currently working out of this building; 2) The location on the east side of the River is disconnected from both downtown and the beach area, lacks surrounding commercial development, and is not likely to drive significant economic growth.

Ranks 5 & 6: Seaside Company (503 Beach Street), Seaside Company (300 Third Street) - The two Seaside Company sites in the beach area scored poorly primarily because the Seaside Company currently utilizes those sites as parking lots, and they do not support the concept of losing summer parking capacity in order to develop an arena in the beach area. They also expressed concerns that developing an arena in the beach area could cause significant traffic problems during peak tourism season. Ultimately, HKG and Victus Advisors do not believe either of these beach area sites would be feasible without the full cooperation and support of Seaside Company, and even then, downtown connectivity and economic impact would still be limited.

Rank 7: Barry Swenson Builder (740 Front Street) - Lastly, the Barry Swenson Builder site was rated the lowest among all potential sites, primarily due to issues with the size and configuration of the site. Although the site is ideally located in terms of driving economic development in the downtown core, the site's narrow shape and tight fit in between existing buildings indicates that it would be very difficult to effectively accommodate an arena.

SITE CONCLUSIONS

Based on the site analysis conducted in this section of the report, it is recommended that the two highest rated sites, Depot Park and the Existing Arena Site, are explored in further detail in Section V by DLR Group architects. The remaining sites have been eliminated due to the reasons detailed above, including potential acquisition and/or relocation costs, location relative to downtown and/or the beach area, and/or site size and configuration.

In Section V, DLR developed arena test fits for the two preferred sites. For each site, DLR identified several potential concepts, orientations and layouts, and each site concept includes a list of additional pros and cons to each site, as noted by the architects.



V. SITE ANALYSIS & TEST FIT



INTRODUCTION

The project team was tasked with providing a preliminary site assessment for the potential location within Santa Cruz for a new permanent arena.

Based upon discussions with City staff, input from the Santa Cruz Warriors, meetings and interviews with a wide variety of other local stakeholders, and other public input gathered by City staff and key stakeholders regarding public interest in potential sites, the project team identified seven sites for potential analysis.

The project team toured the various potential sites, researched the ownership and other such factors for each site, and met with City staff, local developers, and other potential project stakeholders.

Based on the site analysis conducted in Section IV of this report, DLR Group analyzed the two highest rated sites, Depot Park and the Existing Arena Site, regarding their potential to accommodate the recommended arena program(s).

DLR has developed test fits for the two sites. For each site, DLR identified several potential concepts, orientations and layouts, and each site concept includes a list of additional pros and cons.

The analysis provided by DLR is provided in the subsequent pages of this section.

EXISTING SITE

FRONT AND SPRUCE



EXISTING SITE | TEST FIT **OPTION 1**
TOURNAMENT / PRACTICE CONFIGURATION



V. SITE ANALYSIS & TEST FIT
 EXISTING SITE | TEST FIT **OPTION 1**
 WARRIORS GAME CONFIGURATION



PROS

- Compact, efficient footprint reserves much of the site for public plaza or complementary development
- Main Entry Lobby facing downtown Santa Cruz
- New roadway reconnects Laurel Street Extension with Front Street south of arena
- Generous back-of-house service yard would make arena more attractive to concerts and conventions

SEATING CAPACITY: 3,500+

2,650 at sidecourt retractables
 750 at endcourt retractables

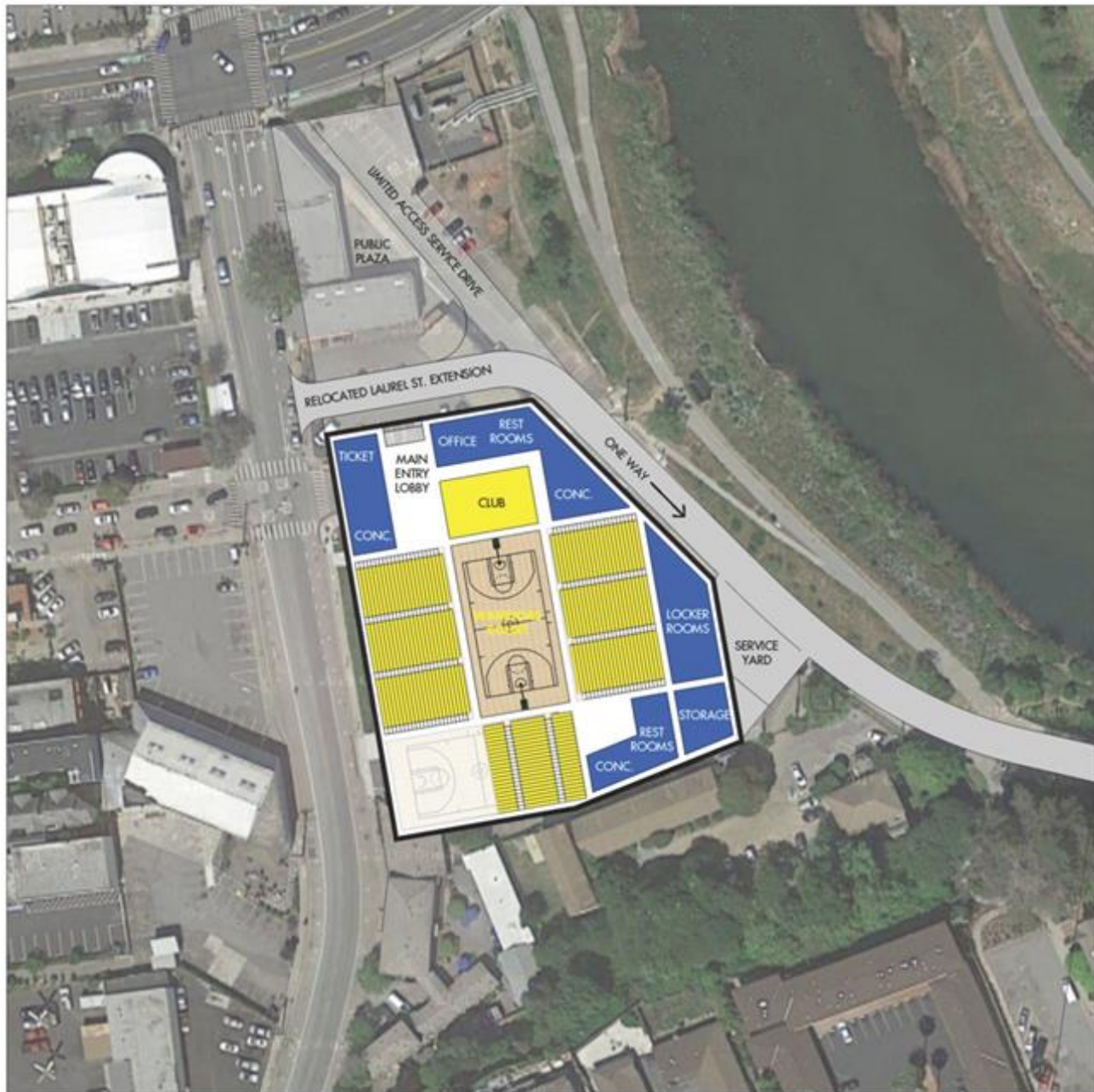
CONS

- Triangular site presents challenges
- Requires realignment of Laurel Street Extension and related expense of utilities relocation
- New roadway may require acquisition / demolition of adjacent properties
- Minimal opportunities for onsite parking
- Public plaza would be an optional component as access and realignment of the Laurel Street Extension would be required for public safety considerations
- Service for pump station must be maintained; Limited access service drive recommended

EXISTING SITE | TEST FIT **OPTION 2**
TOURNAMENT / PRACTICE CONFIGURATION



EXISTING SITE | TEST FIT OPTION 2 WARRIORS GAME CONFIGURATION



PROS

- Compact, efficient footprint reserves much of the site for public plaza or complementary development
- Main Entry Lobby facing downtown Santa Cruz
- New roadway reconnects Laurel Street Extension with Front Street north of arena
- Large Club area can also be utilized for concerts

SEATING CAPACITY: 3,500+

2,650 at sidecourt retractables
750 at endcourt retractables
100-150 at court side

CONS

- Triangular site presents challenges
- Requires realignment of Laurel Street Extension and related expense of utilities relocation
- Arena may require acquisition / demolition of adjacent properties
- Minimal opportunities for onsite parking
- Public plaza would be an optional component as access and realignment of the Laurel Street Extension would be required for public safety considerations
- Service for pump station must be maintained; Limited access service drive recommended

DEPOT PARK SITE
CENTER AND PACIFIC



DEPOT PARK SITE | TEST FIT **OPTION 1**
TOURNAMENT / PRACTICE CONFIGURATION



DEPOT PARK SITE | TEST FIT OPTION 1

WARRIORS GAME CONFIGURATION



PROS

- Good site utilization
- Main Entry Lobby facing Depot Park parking, roundabout, and distant boardwalk / beach
- Secondary Entry with access to parking at north
- Site accommodates up to 2 indoor soccer fields or up to 2 recreational ice sheets (with additional required mechanical and storage components)
- Capable of accommodating simultaneous events

SEATING CAPACITY: 3,500+

2,650 at sidecourt retractables

750 at endcourt retractables

100-150 at courtside

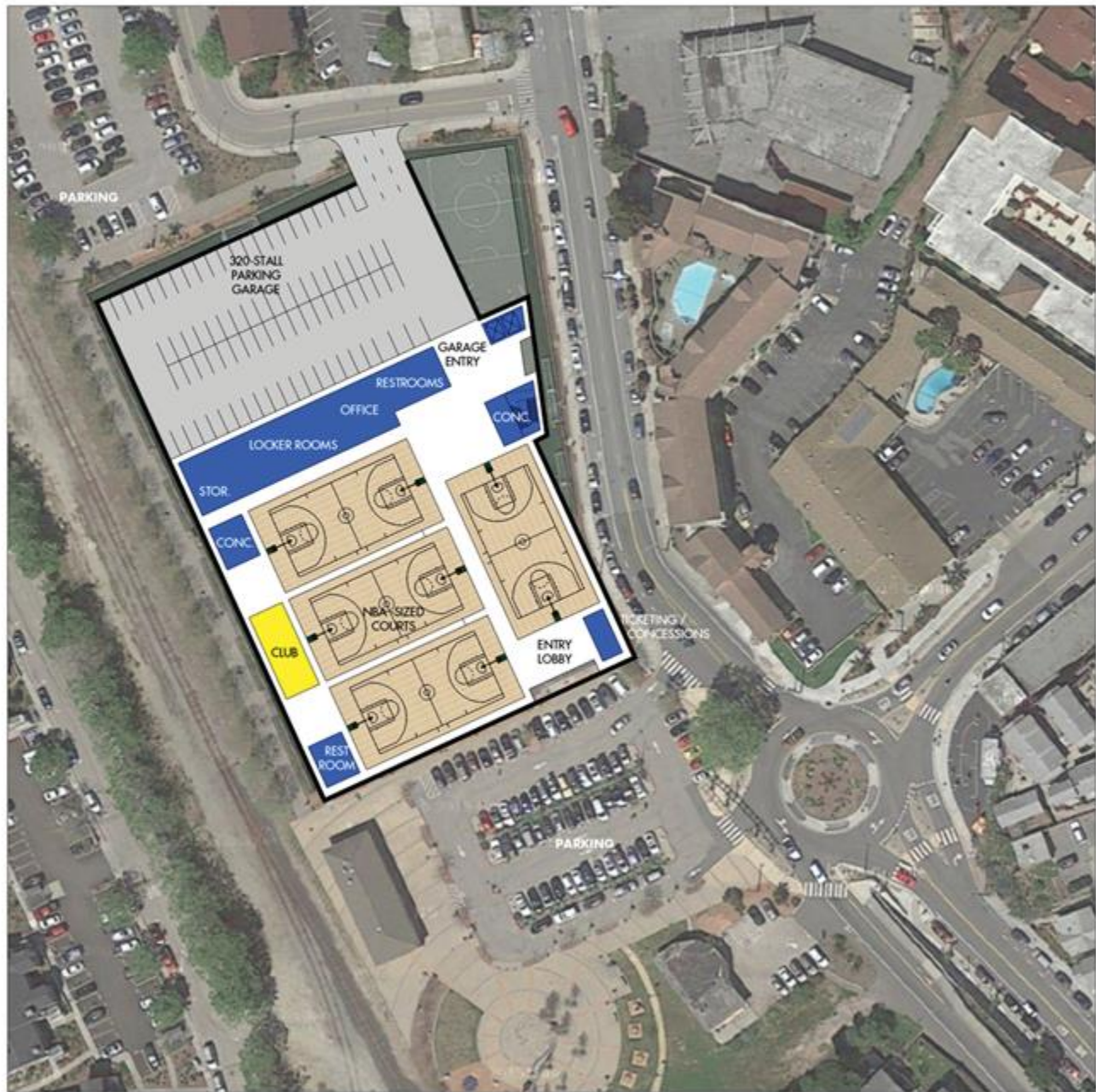
SANTA CRUZ ARENA

CONS

- Loss of full-size, outdoor soccer field
- May introduce parking challenges
- Would likely require traffic study of roundabout and potential roadway modifications

DEPOT PARK SITE | TEST FIT OPTION 2

TOURNAMENT / PRACTICE CONFIGURATION



DEPOT PARK SITE | TEST FIT OPTION 2

WARRIORS GAME CONFIGURATION



PROS

- Good site utilization
- Main Entry Lobby facing Depot Park parking, roundabout, and distant boardwalk / beach
- Attached 4-level parking garage accommodates 320+ vehicles, lessens impact on neighboring properties and may spur adjacent development
- Site accommodates 1 full-size soccer field

SEATING CAPACITY: 3,500+

2,650 at sidecourt retractables
750 at endcourt retractables
100-150 at courtside

CONS

- Upfront cost of larger structure and vertical circulation elements
- Would likely require traffic study of roundabout, garage entry/exit, and potential roadway modifications
- Although plan accommodates full-size soccer field, minimal space is available for player accommodations and/or spectator viewing areas along field perimeter



VI. FINANCIAL PROJECTIONS



INTRODUCTION

The purpose of this section is to present estimated operating revenues and expenses for a proposed permanent arena in Santa Cruz. The assumptions used in this analysis are based on the test fit concepts provided by DLR, results of the market analysis, industry trends, knowledge of the marketplace and financial results from comparable facilities.

Please note: this analysis is designed to assist project stakeholders in estimating the potential financial attributes of the proposed facility in Santa Cruz, based on current market conditions and a preliminary set of assumptions. The assumptions summarize herein are not all inclusive, but rather those deemed to be significant. There will be differences between estimated and actual results, and those differences may be material.

Key assumptions used to estimate the potential financial operations of the proposed permanent arena in Santa Cruz include, but are not limited to the following:

- The arena will contain between 3,000 and 4,000 seats via retractable seating rows and temporary floor seating for Santa Cruz Warriors games and other large sports events.
- The arena will not have permanent luxury suites or club seats.
- The Santa Cruz Warriors will be the primary sports tenant and have game day operational control (including responsibility for game day revenues such as ticket sales, food/beverage, merchandise, game day signage; as well as game day expenses) for approximately 25 game days per year. As such, Warriors game day revenues and expenses have not been included in the financial projections shown on the next page.
- The arena would be developed as a quality, state-of-the-art sports center and would accommodate the needs of various types of event users (as described in this report).
- No assumption has been made for parking revenues/expenses, as the Existing Arena Site does not feature on-site parking, and it is currently unclear whether new on-site parking controlled by the City would also be a component of an arena developed on the Depot Park site.
- The arena will be owned by the public sector and exempt from property taxes.
- Professional, competent and experienced facility management personnel will manage the facility (either via public, private, or hybrid operator). For purposes of this financial analysis, we have assumed a third-party operator.
- There will be no significant or material changes in the supply or quality of existing venues in the marketplace.

VI. FINANCIAL PROJECTIONS

The presentation of financial operating results is divided into the following components:

- Financial Summary;
- Operating Revenues; and,
- Operating Expenses.

It should also be noted that all revenue and expense estimates presented herein are presented in 2016 dollars in a stabilized year of operations.

FINANCIAL SUMMARY

The below exhibit presents the operating revenues and expenses estimated to be generated by the proposed permanent arena in Santa Cruz in a stabilized year of operations. We have estimated both a 4-court Base Model (as represented by DLR in Section V) as well as the incremental revenues/expenses that could be generated by the addition of a 2-field Indoor component (also found in Section V). These projections are not intended to be a “best case” scenario, but rather a reasonable estimate of attainable financial operations.

SANTA CRUZ ARENA FINANCIAL PROJECTIONS

	Base Model (4 Courts)	Increment from Indoor Fields (2)	Combined Total (Courts + Indoor)
OPERATING REVENUES:			
Arena Rent & Expense Reimbursement	\$828,000	\$0	\$828,000
Court/Field Rentals & League Fees	490,000	536,000	1,026,000
Concessions & Retail (net)*	221,000	41,905	262,905
Box Office Fees & Rebates	206,000	0	206,000
Naming, Sponsorship & Advertising*	500,000	100,000	600,000
TOTAL - REVENUE:	\$2,245,000	\$677,905	\$2,922,905
OPERATING EXPENSES:			
Salaries, Wages & Benefits	\$890,000	\$250,000	\$1,140,000
Utilities	310,000	170,000	480,000
General & Administrative Expenses	320,000	80,000	400,000
Other Overhead Expenses	260,000	65,000	325,000
Management Fees	150,000	30,000	180,000
TOTAL - EXPENSES:	\$1,930,000	\$595,000	\$2,525,000
NET OPERATING INCOME:	\$315,000	\$82,905	\$397,905

*Note: *Assumes Warriors would keep their game day revenue streams*

It is estimated that the proposed permanent arena in Santa Cruz could generate \$2.2 million (Base Model) or \$2.9 million (Base Model + Indoor Fields) in revenues and incur \$1.9 million (Base Model) or \$2.5 million (Base Model + Indoor Fields) in annual expenses, resulting in annual income from operations of approximately \$315,000 (Base Model) or \$397,905 (Base Model + Indoor Fields) in a stabilized year of operations.

OPERATING REVENUES

Revenue generated by the proposed permanent arena in Santa Cruz is expected to consist primarily of rent, reimbursable event expenses, field/court rentals, league fees, concessions, retail (novelties), convenience charge rebates, and naming rights and sponsorships. A brief description of each revenue source is provided below.

ARENA RENT & EXPENSE REIMBURSEMENTS (TICKETED EVENTS)

Facility rent for ticketed events is typically the largest revenue source for a multi-purpose venue. Facility rental agreements will incorporate either a flat rental rate or a percentage of gate receipts generated by the event, subject to negotiations with each event organizer. Based upon Victus' Demand Projections & Program Recommendations (found in Section III) the proposed arena in Santa Cruz is projected to generate \$828,000 in arena rental revenue from ticketed events in a stabilized year of operations. The below exhibit summarizes the rental rates per event and are based upon comparable rental rates at arena venues in California and the western United States.

ASSUMED ARENA RENTAL RATES

<u>Event</u>	<u>Rental Rate Per Event/Day</u>
Santa Cruz Warriors	\$15,000
Non-Tenant Sports Events	\$10,000
Flat Floor Shows	\$7,500
Community & Banquets/Meetings	\$5,000

Note: Sorted by Rental Rate Per Event/Day in descending order

In addition, arenas are typically reimbursed for event day costs incurred during ticketed events. Event day costs include expenses associated with ticket receivers, ushers, security, event turnover crews, materials, supplies, and other pertinent expenses. We have assumed that the Warriors would be responsible for their own event day revenues and expenses, however other ticketed events would reimburse the arena for their event costs (at the cost incurred).

Please note, the arena rental rates and projected arena rent revenue figures are only for rental of the facility for ticketed arena uses such as D-League basketball games, other ticketed sports events, flat floor shows, and other community events. As such, this revenue category does not include community athletics and recreational sports which are described in the Field/Court Rental category below.

FIELD/COURT RENTALS & LEAGUE FEES

Victus Advisors has recommended that the proposed permanent arena in Santa Cruz be geared towards community athletics and recreational sports uses on non-Warriors game days. We have assumed that the majority of rental rates would be by the hour and comparable with similar markets in California:

- **FIELD/COURT RENTALS:** We have assumed that the average rental rate for indoor fields would be \$100 per hour. By comparison, Soccer Central Indoor Sports in Watsonville currently offers indoor field rentals ranging from \$75 to \$120 per hour (depending on user type). We have also assumed that rental rates for basketball/volleyball courts would average \$50 per hour. According to Santa Cruz Parks & Recreation, the primary gymnasium currently available for rental in their inventory is a small gymnasium at Pacific Collegiate School, which is rentable for \$26 to \$31 per hour when not being utilized by the school. It is expected that the courts at the proposed arena would command higher rental rates as they would be better quality, provide greater support services and amenities, provide access to user groups at more convenient times, and accommodate a wider variety of users than a school gymnasium.
- **LEAGUE FEES:** In addition to field and court rentals, most amateur sports centers generate significant revenue streams by developing their own leagues and collecting league-related fees (typically charged by team and/or player). It has been estimated that youth and adult basketball, volleyball, soccer, and flag football leagues could be offered for a variety of skill levels. Various leagues could be offered year-round, with the exception of Warriors game days and select other special events.

Our conversation with Santa Cruz Parks and Recreation revealed that there is a significant untapped demand for basketball and volleyball leagues in particular. Parks and Recreation had to eliminate their popular Sunday basketball leagues because of the lack of available court space. Additionally, Parks and Recreation has not been able to offer volleyball leagues, despite growing demand, due to the lack of court space.

It has been assumed that basketball/volleyball could accommodate upwards of 35 leagues each year of various age groups, and indoor fields could accommodate an additional 40 leagues. We have assumed approximately 12 teams per league, with an average per-team fee of \$500. By comparison, Soccer Central Indoor Sports in Watsonville has indoor soccer leagues year-round with per-team fees averaging about \$600. According to Santa Cruz Parks and Recreation, basketball league per-team fees average approximately \$450.

CONCESSIONS & NOVELTIES/EQUIPMENT SALES

Concessions revenue consists of sales of various food and beverage items at concession stands throughout the facility. Revenue assumptions are based on estimated usage and attendance (not including Warriors games, where they have been assumed to control revenues/expenses on game days). Based on industry trends, the profit margin on concession operations is generally in the range of 35 to 40 percent of gross sales, with the remaining percentage being allocated to the vendor to cover the cost of labor and products and to provide a profit. In most arenas, the venue retains all, or a very significant portion, of the net concessions revenue after sharing agreements with the concessionaire. The per capita spending assumption we have utilized for food and beverage (except on Warriors game days) ranges between \$2.00 and \$6.00, which is comparable with similar venues in California and the western United States.

Retail and novelty sales consist of clothing, equipment, souvenirs, programs and other miscellaneous items sold during events at the proposed permanent arena in Santa Cruz. We have assumed that the Warriors would retain all of their game day merchandise sales, and that the arena would operate a small retail store for sale of sports-related equipment and apparel.

BOX OFFICE FEES & TICKET REBATES

Arenas and other such sports/entertainment venues often utilize a third-party ticket seller (such as Ticketmaster, Ticketfly, Tickets.com, etc.) to handle non-box office ticket sales for their events. Ticket sellers generally collect a convenience charge on each ticket sold, a portion of which can be rebated to the arena. For this analysis, we have assumed that convenience charges would be levied on Warriors tickets (\$8.00 per ticket sold), non-tenant sports events (\$6.00), and any other ticketed events (\$4.00), with 30% of collected fees being rebated to the arena. These assumptions are in line with comparable facilities in California and the western states.

Alternatively, if the majority of ticket sales are handled through the arena's box office, many arenas will charge additional box office transaction fees (or facility fees) per ticket. Fees can commonly range from \$1.00 to \$5.00 per ticket sold, depending on the arena. However, for purposes of this study, we have assumed the majority of ticket sales would be handled by a third-party seller, and thus we have only shown convenience charge rebates as the primary source of ticket fee revenue.

NAMING RIGHTS & SPONSORSHIPS

Facility naming rights, sponsorships and advertising are important sources of arena revenue, especially when they are publicly owned. Most multi-use arenas and sports facilities have a single naming rights partner for the overall building, which is typically the highest-priced sponsorship in the venue, as well as multiple additional sponsors and advertisers who support the venue via interior signage and in-venue activation:

- **Naming Rights Partner:** The below exhibit summarizes the lead naming rights agreement for comparable facilities and D-League venues with publicly available naming rights terms. Please note, naming rights for Kaiser Permanente Arena have not been included, as the Warriors have not publicly disclosed the terms with their naming rights partner, Kaiser Permanente.

NAMING RIGHTS OVERVIEW FOR COMPARABLE & D-LEAGUE VENUES

Arena/Event Center	City, State	Buyer	Industry	MSA Population	Total Price (million)	Term (years)	Average Annual Cost
Wells Fargo Arena	Des Moines, IA	Wells Fargo	Bank/Finance	611,549	\$11.5	20	\$575,000
Huntington Center	Toledo, OH	Huntington Bank	Bank/Finance	607,192	\$2.5	6	\$416,667
Rabobank Arena	Bakersfield, CA	Rabobank	Bank/Finance	874,859	\$3.5	10	\$350,000
Erie Insurance Arena	Erie, PA	Erie Insurance	Insurance	278,443	\$3.0	10	\$300,000
Santander Arena	Reading, PA	Santander Bank	Bank/Finance	414,347	\$9.0	30	\$300,000
CenturyLink Arena	Boise, ID	CenturyLink	Communications	664,422	\$4.0	15	\$266,667
Covelli Centre	Youngstown, OH	Covelli Enterprises	Restaurant	550,695	\$0.6	3	\$200,000
Budweiser Events Center	Loveland, CO	Anheuser-Busch	Beverage	323,793	\$1.5	20	\$75,000
Average				540,663	\$4.5	14	\$310,417
Median				578,944	\$3.3	13	\$300,000

Note: Sorted by Average Annual Cost, in descending order

Source: Victus Research

As shown above, the comparable naming rights agreements that we analyzed have an average annual value of approximately \$310,000 per year, for an average term of approximately 14 years, with an average total contract value of \$4.5 million. However, it should also be noted that the average market size for these facilities is more than 540,000 people, versus the Santa Cruz market with approximately 275,000 people. Based upon this analysis of comparable agreements, we have assumed that a new permanent arena in Santa Cruz could generate approximately \$250,000 per year for corporate naming rights over the course of a 10 year term (\$2.5 million total).

- Other Sponsorships & Advertising:** In addition to a naming rights partner, arenas also generate sponsorship and advertising revenues that are derived from the sale of signage related to scoreboards, scorer's table, concourse, interior and exterior fascia, court-side, dasher boards, outdoor marquee displays and promotions. Ultimately, the rates the proposed Santa Cruz venue is able to charge for sponsorships and advertising will rely on several factors including the total estimated number of events and total attendance, the number of televised events at the arena, and the amount of tie-ins such as program advertising and public address announcements that are included with advertising packages. We have assumed that a new permanent arena could generate approximately \$250,000 in additional sponsorship and advertising revenue, in addition to their major naming rights partnership. Furthermore, if indoor fields were added to the building program, we have estimated that the incremental usage of the facility could drive another \$100,000 in sponsorship and advertising revenue.

Please note, it is assumed that sponsorship and advertising revenue controlled by the arena would include naming rights, founding partnerships, and other permanent building signage such as the scoreboard signage, fascia signage, and concourse signage. We have assumed that game day sponsorships, including digital advertisement and other non-permanent sponsorship and advertising, would be allocated to the Santa Cruz Warriors.

OPERATING EXPENSES

Operating expenses expected to be generated by the operations of the proposed permanent arena in Santa Cruz include salaries, wages, and benefits, utilities, other operating expenses, and management fees. A brief description of each major source of expense is provided below.

SALARIES, WAGES & BENEFITS

Salary and wage estimates are based on typical staffing levels for comparable facilities, industry average salaries and wages (adjusted for California cost of living), and local socioeconomic characteristics. Estimated salaries and wages are assumed to account for full- and part-time operating staff for which expenses are not directly reimbursed by facility users. It is assumed that functions such as food, beverages, and catering would be outsourced to a third-party experience in food service operations (found in Section VIII). Victus' projection of \$890,000 is consistent with comparable venues in California and the Western United States. Overall, we have assumed 11 full-time employees, including a General Manager, Finance Director, HR Manager, Sales and Marketing/Communications Managers, Box Office Manager, Operations Manager, and other administrative support and technical staff, as well as part-time labor.

UTILITIES

Utilities often represent one of the largest expenses incurred by facility operators. Cost estimates for utilities include use of electricity, gas, water, and steam. Estimates also account for potential square footage differences within the two concepts. The assumed rate is \$5 per square foot which is consistent with comparable venues in California.

OTHER EXPENSES

Other expenses expected to be incurred by the arena include general and administrative expenses, repairs and maintenance, materials and supplies, advertising, insurance and other such expenses. The projection of \$580,000 for these expenses is comparable to similar venues that are community sports-oriented in California and the western United States.

MANAGEMENT FEES

In order to maximize revenue-generating potential in the proposed permanent arena in Santa Cruz, it is possible that an experienced third-party facility management would operate the arena. Based on management fees at comparable venues, it is estimated that facility management fees in the Base Model would be approximately \$150,000 in a stabilized year of operations.

FINANCIAL COMPARISON

In order to provide context for our financial projections, Victus Advisors attempted to gather financial information for the comparable venues listed in Section II-B of this report. The revenue and expense data shown below represents annual operating data from a recent year and has been anonymized. Please note, excluded arenas include those operated in conjunction with other public venues, as well as venues for which we were unable to obtain recent financial data.

COMPARABLE ARENA FINANCIAL OPERATIONS

	Arena A	Arena B	Arena C	Arena D	Arena E	Santa Cruz Base Model	Arena F	Arena G
Operating Revenue:								
Rent (net of Event Costs/Reimb.)	\$127,555	\$388,524	\$632,977	\$239,462	\$1,395,195	\$1,318,000	\$533,744	\$547,874
F&B and Merchandise (net)	602,099	664,364	359,629	632,683	673,322	221,000	689,132	832,367
Premium Seating	149,808	1,237,467	266,782	582,550	583,416	-	1,338,174	862,663
Advertising/Sponsorship	159,000	705,819	696,582	555,000	1,022,449	500,000	760,564	658,987
Parking	-	196,670	-	57,172	-	-	-	489,289
Facility Fees & Ticket Rebates	530,321	349,696	426,640	666,255	558,500	206,000	435,795	679,430
Total Operating Revenue:	\$1,568,783	\$3,542,540	\$2,382,610	\$2,733,122	\$4,232,882	\$2,245,000	\$3,757,409	\$4,070,610
Operating Expenses:								
Salaries, Benefits & Wages	\$1,474,413	\$1,733,887	\$1,150,441	\$945,723	\$2,530,606	\$890,000	\$1,791,143	\$1,524,504
Utilities	811,000	778,857	998,099	703,400	892,921	310,000	691,741	829,912
G&A, Repairs, Supplies & Other	865,250	1,194,807	149,808	775,575	505,099	580,000	770,921	805,902
Management Fees	145,000	267,980	-	164,604	-	150,000	148,679	236,290
Total Operating Expenses:	\$3,295,663	\$3,975,531	\$2,298,348	\$2,589,302	\$3,928,626	\$1,930,000	\$3,402,484	\$3,396,608
Operating Income (Loss):	(\$1,726,880)	(\$432,991)	\$84,262	\$143,820	\$304,256	\$315,000	\$354,925	\$674,002
<i>Operating Margin:</i>	<i>-110%</i>	<i>-12%</i>	<i>4%</i>	<i>5%</i>	<i>7%</i>	<i>14%</i>	<i>9%</i>	<i>17%</i>

Note: Sorted from left to right by operating income/loss, in ascending order.

The majority of the comparable arenas shown above are much larger arenas (as described in section II-B) that host more ticketed entertainment events than the proposed model for a new arena in Santa Cruz. As a result, these facilities generate significantly higher event-related revenues such as food/beverage, premium seating, and ticketing fees. However, due to the size and scale of their facilities, they also generate significantly higher salaries/wages and utilities.

Alternatively, the proposed Santa Cruz arena model is more dependent on rental revenue than event ticket and attendance-driven revenues, in large part due to court rental fees and league/program registration fees associated with community athletics and recreational sports. Ultimately, we have estimated that the proposed arena's lower operating costs due to the smaller scale of the building, combined with the rental and league fee revenues generated by the community sports/recreation uses, would enable the proposed Santa Cruz arena to generate a higher annual operating margin than most larger-scale, sports and entertainment arenas.

Based on our financial projections and analysis of comparable venue financials, it is expected that the annual operations of the proposed arena in Santa Cruz are not likely to provide a significant return on capital. That said, the proposed arena's operations should be considered a success if it consistently generates positive annual operating margins while providing increased community recreation access and driving long-term economic impact (as described in Section IX).



VII. FUNDING ANALYSIS



INTRODUCTION

The purpose of this section is to analyze and provide an overview of the various debt vehicles and revenue sources that could potentially be utilized to fund construction and development costs for a permanent facility in Santa Cruz. This analysis is based upon a review of comparable venues across the country, as well as unique financing vehicles that may be available within the State of California. The vast majority of comparable event centers that Victus reviewed were owned by the public sector and developed via municipal capital project funding (general obligation bonds, revenue bonds, tax increment financing, general funds, etc.)

The analysis in this section is organized into four primary sections, with debt-related financing vehicles presented at the beginning, followed by a summary of California financing districts, various revenues streams that are often used to pay event center debt service, and lastly a funding summary of comparable venues.

- Types of Debt Issue
 - General Obligation Bonds
 - Revenue Bonds
 - Certificates of Participation
- Financing Districts (unique to the State of California)
 - AB 2 Community Revitalization & Investment
 - Community Facilities Districts
 - Enhanced Infrastructure Financings Districts
- Potential Revenue Sources
 - Government Funds
 - i. General Funds
 - ii. Grants
 - Taxes
 - i. Ad Valorem Taxes
 - ii. Sales Tax
 - iii. Excise Taxes
 - iv. Visitor Taxes
 - Arena-Related Revenue
 - i. Parking Surcharges
 - ii. Ticket Surcharges
 - iii. Contractually Obligated Revenue Streams
- Comparable Venues

TYPES OF DEBT ISSUE

GENERAL OBLIGATION BONDS

The City of Santa Cruz could use the full faith and credit of the City to issue General Obligation (GO) bonds for all or part of the arena. GO bonds are secured by the issuing government entity's pledge to use all legally available resources, including tax revenues, to pay debt service. The primary advantage of GO bonds is that they typically carry a lower interest rate, assuming the issuing government entity carries a strong credit rating. Generally speaking, the better the issuer's credit rating, the lower the interest rate. The primary disadvantage associated with GO bond financing is that the GO indebtedness can reduce the available bonding capacity for other capital projects that a City may be planning. However, City representatives have indicated to Victus Advisors that Santa Cruz currently has significant available bonding capacity, and that any decision regarding the use of GO bonds to support development of a permanent arena would likely be determined by community support rather than availability of debt capacity.

REVENUE BONDS

Revenue Bonds are payable solely from the revenues of the project that is being financed. Since debt service is tied to the success of the project, revenue bonds are considered to have a much higher risk of default than GO bonds and thus carry a higher interest rate. Revenue bonds are typically a funding option for event facility development projects where the net incremental income from the project is conservatively estimated to exceed annual debt service requirements. Investment banks that would issue the debt typically require an independent market analysis that shows net income streams from the project could be conservatively estimated to cover debt service, thus lowering the risk of default and making the bonds more marketable to investors.

As shown in the below exhibit, depending on the interest rate and debt coverage ratio, it is generally estimated that for every \$1 million of project income that is applicable to debt service, 30-year revenue bonds could fund anywhere from \$7 million to \$14 million in project costs.

FUNDING CAPACITY PER \$1 MILLION OF AVAILABLE PROJECT INCOME

Interest Rate	Bond Term (Yr)	Debt Coverage Ratio:			
		1.25x	1.5x	1.75x	2.0x
4%	30	\$13,833,627	\$11,528,022	\$9,881,162	\$8,646,017
5%	30	\$12,297,961	\$10,248,301	\$8,784,258	\$7,686,226
6%	30	\$11,011,865	\$9,176,554	\$7,865,618	\$6,882,416

One advantage to revenue bonds is that they are project specific and thus do not diminish the City's bonding capacity for General Obligation bonds. One disadvantage to revenue bonds is they typically carry a higher interest rate than GO bonds, and due to debt service reserve requirements and credit enhancements, the bonds are usually larger with higher payment terms.

CERTIFICATES OF PARTICIPATION

Another option for financing to be considered are Certificates of Participation (COP). COPs are financial instruments whereby investors purchase shares of the lease revenues rather than a fixed bond payment being secured by those revenues. COPs typically do not require the government entity to repay the certificate holders beyond the annual appropriations, and thus do not typically require voter approval.

Although COPs can offer greater flexibility for the issuer, the marketability of COPs depends on investors' perceptions of the risk and reliability associated with the dedicated lease revenues. As a result, COPs usually have a higher interest rate than traditional GO bonds, and in some cases, in order to reduce investor risk a public sector entity issuing COPs has had to provide a commitment to back the COPs in the case of project default. It should also be noted that COPs can prove to be more administratively complicated for the issuer, as they typically rely on a trustee for handling payments and distributing payments to certificate holders.

FINANCING DISTRICTS

Financing districts are a public financing sources that subsidize construction projects. Districts can be tied to tax increment revenues and other voter approved special taxes, etc. TIF districts can provide incentives for developers and private investment. It also can increase property values, create jobs, and spur additional economic activity in the area. Districts have also been shown to cause gentrification in certain communities. The three most common types of financing districts in California are AB 2 Community Revitalization & Investment Authorities, Community Facilities Districts, and Enhanced Infrastructure Financing Districts.

AB 2 COMMUNITY REVITALIZATION & INVESTMENT

AB 2 Community Revitalization & Investment Authorities (CRIA) are a form of tax increment financing in the State of California. A CRIA is intended to use tax increment revenue to improve infrastructure, assist business, and support affordable housing in disadvantaged communities.

COMMUNITY FACILITIES DISTRICT

A Community Facilities District (CFD), otherwise known as a Mello-Roos Community Facilities District, allows for the financing of public improvements and services through the levy of voter approved special taxes. The ability to form a CFD was established with the adoption of the Mello-Roos Community Facilities Act of 1982.

ENHANCED INFRASTRUCTURE FINANCING DISTRICTS

Enhanced Infrastructure Financing Districts (EIFD) were authorized with the adoption of SB 628 (Beall) and AB 313 and were intended to fill the hole that was left by the dissolution of redevelopment agencies in California.

POTENTIAL REVENUE SOURCES

GOVERNMENT FUNDS - GENERAL

The City of Santa Cruz could choose to support the proposed arena project with general funds from the City's budget. Allocation of general funds typically requires available funds (or an unexpected revenue windfall) that is free and clear of any other municipal obligation.

In most cases where general funds have been used to develop comparable arenas, general funds have not been used to pay for the entire capital project, but rather used to pay a portion of development costs and thus reduce the amount of debt that needs to be issued.

GOVERNMENT FUNDS - GRANTS

Although community enrichment grants and environmental grants could theoretically be used to offset a small portion of the development costs associated with a large capital project such as the proposed arena, it is difficult at this time to know what government grants (if any) might be available to be used for project funding. The possibility of qualifying or winning a grant should be kept in mind as the project is developed, as grant programs are not likely to award grants at this early stage of planning. It should also be noted that identifying and securing grants would likely require an experienced grant-writing professional to search for available grants and apply for appropriate grants (if any).

An example of a recent grant would be a grant from the U.S Economic Development Administration (EDA), which is a bureau within the U.S. Department of Commerce. During February 8th - 12th of 2016, the EDA provided a grant to the City of Lake Worth and the Palm Beach County Board of County Commissioners, Florida, to fund critical infrastructure improvements to support development of a 375-acres commerce park in Lake Worth. Approximately \$1.4 million was granted to supplement approximately \$5.4 million in municipal funds dedicated to the project and leverage \$19.3 million in private investment. The improvements will support expansion of existing manufacturing businesses and will help strengthen and enhance diversification of the region's manufacturing cluster.

TAXES - AD VALOREM

Ad Valorem taxes are taxes based on the value of property. These specials taxes are collected on the property tax bill and spent on specific infrastructure projects. The special property tax rate repays bonds that were issued to build the infrastructure.

TAXES - SALES

The City could consider a ballot measure to increase the local sales tax to be a dedicated revenue stream to pay the debt service on any type of bonds. A local sales tax measure typically can be approved with a simple majority vote. This increase would be in addition to existing sales tax currently collected within the City.

VII. FUNDING ANALYSIS

Currently, the City of Santa Cruz has an 8.75% tax rate. This is consistent for the other cities in Santa Cruz County, with just Watsonville having a slightly larger rate at 9%. The rate is also consistent with the City/County of San Francisco.

Pursuing a sales tax increase would be dependent on the City's assessment of voter interest in increasing sales taxes for an arena project, as well as the City's appetite for moving forward with such a ballot initiative. However, as shown in the below exhibit, a sales tax increase could generate sufficient funds for an arena.

SALES TAX SCENARIOS

	Current City of Santa Cruz Sales Tax Collection	Scenario 1 0.5% Increase	Scenario 2 1% Increase
Total Taxable Sales*	\$189,397,337	\$189,397,337	\$189,397,337
Sales Tax Rate	8.75%	9.25%	9.75%
Sales Tax Collections	\$16,572,267	\$17,519,254	\$18,466,240
Annual Incremental Sales Tax Revenues		\$946,987	\$1,893,973
Estimated Funding Potential		\$12,340,000	\$24,681,000

Note: Assumes 30-year bonds, 1.25x coverage ratio, 4.5% interest

*Source: * 2015 Comprehensive Annual Financial Report*

TAXES - EXCISE

Excise Taxes are traditionally taxes on products that are considered undesirable or harmful. The most common excise taxes are on tobacco or alcohol, although recent excise taxes have been proposed on sugary drinks and junk foods. Excise taxes would be levied in addition to sales taxes. Currently in California, the State-levied excise tax on tobacco is \$0.87 per pack.

The City of Santa Cruz currently does not have local excise taxes, however, if local excise taxes were established it could bring significant revenue into local jurisdictions. In many areas across the country, the tobacco excise tax is comprised of State, County and City taxes. For example, in Chicago, the City (\$1.18), Cook County (\$3.00) and Illinois (\$1.98) generate a combined total excise tax on Tobacco of \$6.16 per pack. Whereas, the State of California currently has some of the lowest excise taxes on cigarettes, liquor, wine and beer per capita. In 2014, California collected \$751,496,000 in tobacco excise tax.

TAXES - VISITOR

Currently the City of Santa Cruz maintains an 11% Transient Occupancy Tax (TOT) on rent charged by the operator of a hotel/motel. In order to utilize this revenue stream for an arena, either current revenue could be shifted to debt service payments for a new arena, or the city would need to initiate another ballot measure to increase the TOT to raise additional revenue to fund the new arena. Other cities in Santa Cruz County have the TOT rate as Santa Cruz, therefore it is possible that the City of Santa Cruz could harm its ability to attract regional/national events to the City if it continues to raise the TOT rate above its competitors.

VII. FUNDING ANALYSIS

That said, according to the analysis shown in the below exhibit, it is estimated that an additional increase to the TOT could generate approximately \$4.9 million to \$9.8 million of project funding.

TRANSIENT OCCUPANCY TAX SCENARIOS

	Current City of Santa Cruz TOT Collection	Scenario 1 0.5% Increase	Scenario 2 1% Increase
Total Taxable Sales*	\$75,048,900	\$75,048,900	\$75,048,900
TOT Rate	11%	11.5%	12.0%
TOT Collections	\$8,255,379	\$8,630,624	\$9,005,868
Annual Incremental TOT Revenues		\$375,245	\$750,489
Estimated Funding Potential		\$4,890,000	\$9,780,000

Note: Assumes 30-year bonds, 1.25x coverage ratio, 4.5% interest

*Source: * 2015 Comprehensive Annual Financial Report*

ARENA RELATED REVENUE - PARKING SURCHARGES

Since the City is a majority owner of public parking lots in the City of Santa Cruz, there is potential to leverage these parking structures to generate revenue for the arena project via:

- **City-Wide Parking:** If the City of Santa Cruz reviewed downtown parking fees and hours, they could increase revenues by increasing hours of meters, parking lots and parking structures.
- **Project-Specific Parking:** If the arena project includes a new parking garage, a specific surcharge could be applied to all cars parked in that garage. The analysis below estimates the potential project funding that could be generated from a per-car parking surcharge charged for cars parked in a new garage on the arena site (Note 1: this analysis is only based on levels of incremental parking driven in the downtown core by events hosted in the arena) (Note 2: the Existing Arena Site does not have dedicated parking. The Depot Park site could potentially have dedicated parking as shown by DLR in Section V)

ESTIMATED FUNDING POTENTIAL VIA PER CAR SURCHARGE*

Annual Cars Parked	\$1.00	\$2.00	\$3.00	\$4.00	\$5.00
20,000	\$260,620	\$521,240	\$781,870	\$1,042,490	\$1,303,110
30,000	\$390,930	\$781,870	\$1,172,800	\$1,563,730	\$1,954,670
40,000	\$521,240	\$1,042,490	\$1,563,730	\$2,084,980	\$2,606,220
50,000	\$651,560	\$1,303,110	\$1,954,670	\$2,606,220	\$3,257,780
60,000	\$781,870	\$1,563,730	\$2,345,600	\$3,127,470	\$3,909,330

Note 1: Sorted by Annual Cars Parked in ascending order

*Note 2: * Assumes 30-year bonds, 1.25x coverage ratio, 4.5% interest*

ARENA RELATED REVENUE - TICKETING SURCHARGES

In order to generate a revenue stream off of the arena that could be used to pay debt service without negatively impacting the operating revenues of the venue, a ticket surcharge could be levied on each admission ticket purchased for all events held at the arena. Such ticket surcharges levied by the building owner are now standard within the event center industry and commonplace at most of the comparable venues Victus reviewed.

The analysis below estimates the potential project funding that could be generated from a per-attendee ticket surcharge, based upon varying surcharge amounts and numbers of tickets sold per year:

ESTIMATED FUNDING POTENTIAL VIA PER TICKET SURCHARGE*

Annual Tickets Sold	\$1.00	\$2.00	\$3.00	\$4.00	\$5.00
50,000	\$651,560	\$1,303,110	\$1,954,670	\$2,606,220	\$3,257,780
75,000	\$977,330	\$1,954,670	\$2,932,000	\$3,909,330	\$4,886,670
100,000	\$1,303,110	\$2,606,220	\$3,909,330	\$5,212,440	\$6,515,560
125,000	\$1,628,890	\$3,257,780	\$4,886,670	\$6,515,560	\$8,144,440
150,000	\$1,954,670	\$3,909,330	\$5,864,000	\$7,818,670	\$9,773,330

Note 1: Sorted by Annual Tickets Sold in ascending order

*Note 2: * Assumes 30-year bonds, 1.25x coverage ratio, 4.5% interest*

ARENA RELATED REVENUE - CONTRACTUALLY OBLIGATED REVENUE STREAMS

Contractually Obligated Revenue (COR) is arena-related revenue that is typically generated by multi-year contracts on commercial leases, naming rights, and premium seating:

- **Commercial Leases:** If the project includes any commercial store, office and/or restaurant lease space, those spaces can provide lease income to go toward the payment of debt service, and/or cover maintenance and operations expenses.
- **Naming Rights:** Private sector corporations frequently purchase long-term naming rights on large public assembly venues. However, it should be noted that naming rights revenue is typically vital to the successful annual operations of the facility.
- **Premium Seating:** Suites, boxes and club seats can be sold on multi-year leases. Premium seat revenues are usually vital to the successful operations of the facility. However as noted in Section VI, the proposed permanent arena in Santa Cruz will not have permanent luxury suites or club seats located within the seating bowl.

It should be noted that the proposed permanent arena in Santa Cruz is not currently expected to have premium seating amenities (suites, club seats) or ancillary commercial leases.

VII. FUNDING ANALYSIS

COMPARABLE VENUES

Financing vehicles utilized by comparable venues have included General Obligation Bonds, Revenue Bonds, Bank Loans, Private Financing, Developer Fees, General Funds, Government Grants, Sales Tax Revenues, Excise Taxes, Redevelopment Authority Funds, Hotel Tax Revenues, Arena Revenues, and Admissions Surcharges.

FINANCING VEHICLES USED FOR COMPARABLE ARENAS

Arena/Event Center	City, State	Year Open	Cost (\$M)	Fixed Seats	Financing Vehicles Used
Budweiser Events Center	Loveland, CO	2003	\$28.0	5,300	Sales Tax Increase (100%)
Covelli Centre	Youngstown, OH	2005	\$42.0	5,900	Government Grant (62%); Revenue Bonds, Admissions Tax, and Arena Revenues (28%)
First Arena	Elmira, NY	2000	\$16.0	3,784	Government Grants; Hotel Tax Revenues
Hartman Arena	Park City, KS	2008	\$18.0	5,000	Private Financing (100%)
Huntington Center	Toledo, OH	2009	\$105.0	8,000	Hotel Tax Revenues; Arena Revenues
Prescott Valley Event Center	Prescott, AZ	2006	\$36.0	5,100	General Obligation Bonds; Excise Taxes; Arena Revenues
Rabobank Arena	Bakersfield, CA	1998	\$38.0	10,400	General Funds (80%); Redevelopment Authority (20%)
Reno Events Center	Reno, NV	2005	\$65.0	7,000	General Obligation Bonds (100%)
Sanford Pentagon	Sioux Falls, SD	2013	\$19.0	3,250	Private Financing (100%)
Santander Arena	Reading, PA	2001	\$42.5	7,200	Government Grant; Hotel Tax Revenues
Scheels Arena	Fargo, ND	2008	\$25.0	5,000	Bank Loans and Arena Revenues (100%)
Stockton Arena	Stockton, CA	2005	\$68.0	10,500	General Funds; Sales Tax Revenues; Developer Fees

*Note: Sorted by Arena/Event Center in descending order
Source: Victus Research*

As shown above, comparable communities have used a wide variety of public funding sources for arena development, depending on the unique circumstances of each community and each project. It should also be noted that all but two of these arenas (Hartman Arena and Sanford Pentagon, which were both privately financed, owned, and operated) were financed via public debt issuance.

It is also worth noting that the higher-cost facilities above are multi-purpose arenas with diverse programming in ticketed entertainment events, which may not be the case for the proposed arena in Santa Cruz. Based upon the recommended size and programming for the proposed arena, the most comparable facility may be the Sanford Pentagon. Built in 2013 for \$19 million (\$21 million in 2015 dollars), the Sanford Pentagon is principally used for local recreational sports usages and expands for Skyforce basketball games. According to the average cost per seat (explained and summarized in Section IX), a 3,500-seat arena in Santa Cruz, California could be estimated to cost approximately \$30 million. While the Sanford Pentagon and the proposed Santa Cruz arena could be comparable in size and use, California construction costs could be significantly higher.



VIII. OPERATIONS,
MANAGEMENT,
& PARTNERSHIP
RECOMMENDATIONS



INTRODUCTION

The purpose of this section is to present an overview of various options regarding the management and operations of a proposed permanent arena in Santa Cruz. Each potential management structure for the proposed facility has its own unique advantages and disadvantages, which should be considered when making decisions regarding the management of the venue. The following is an overview of each potential facility management structure.

- Public
- Private
- Other (Sports Commission, Non-Profit, Agency/Bureau)
- Comparable Facility Organizational Structures
- Outsourced Services

PUBLIC

Public management of sports and entertainment facilities was commonplace prior to the early 1990's. Facility operational control within a government is typically accomplished either by creating a separate department that is responsible for facility management or by designating responsibility to a department that already exists within the government. In many cases a government will already have other existing public assembly facilities such as arenas, auditoriums or theaters under their control prior to the development of a new facility (as is the case with Santa Cruz and the Civic Auditorium). In these cases, the governmental departments currently overseeing the other public assembly facilities could control the proposed arena as well.

Advantages of public management include owner control, financial support, and sharing of staff and support functions among other factors. Within this structure, the management's primary responsibility is to the city/county/state government and the facility. The ability to combine the purchase of goods and services with other governmental departments provides a distinct advantage in maximizing purchasing power and rate structures. Furthermore, the ability to use governmental employees from other departments can be advantageous. Lastly, assuming day-to-day management of the facility is also handled internally, the need to pay additional fees to a management contractor is not required.

Disadvantages of public management include lack of private sector support, civic service constraints, and changing political policies. The primary disadvantages relate to the additional burden placed on governmental departments and the additional level of bureaucracy sometimes required to facilitate building operating decisions. The decisions made regarding the operation of a facility may be slowed due to the nature of the particular governmental department in terms of requirements for approvals and other regulations and procedures. When competing with other facilities and markets for potential events, this aspect can sometimes hinder a facility's ability to effectively compete. A summary of key advantages and disadvantages to the public sector associated with public management is shown in the below exhibit:

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">• Owner control• Financial support• Coordinating/sharing of staff/support functions• Bulk-price purchasing• No management fees	<ul style="list-style-type: none">• Lack of outside/private sector financial support• Civic service constraints• Contract approval requirements• Changing political policies• Lack of incentives• Limited flexibility• Lack of expertise and access in sports and entertainment industry

Currently Kaiser Permanente Arena is operated by the Santa Cruz Warriors. Based upon Victus Advisors' conversation Santa Cruz Warriors leadership (see Section II), the Warriors are not interested in operating the new arena except for game days. Rather they would prefer that the arena be operated by the City or a third-party. As such, it is possible that if the Civic Auditorium and the proposed permanent arena were operated by jointly (by the City or third-party) operational synergies could be created between the facilities to reduce staffing expenses. Worth noting, however, is that a separate study is being conducted for the Civic Auditorium and Victus Advisors is not aware of recommendations that will be made for that venue.

PRIVATE

Intense and increasing levels of competition among facilities coupled with increased pressure from governmental entities for facilities to break even has forced many governments to consider changes in the fundamental process of managing sports and entertainment venues. As a result, numerous venues across the country have contracted day-to-day operations to a private management company. Currently, private management companies such as Live Nation, SMG, AEG, Spectra (formerly Global Spectrum), and VenuWorks control numerous sports and entertainment venues across the country and worldwide. Additionally, management companies such as American Sports Centers and Sports Facility Management operate facilities that are geared principally to serve local sports and not entertainment such as concerts and shows.

Oftentimes, contract management supplies full facility management services, consulting and project services. Under full or contract management, the facility owner retains all of the rights and privileges of ownership while the contract management firm performs assigned management functions. The owner sets policies while the contract management firm establishes procedures in order to implement the policies. The contract management company is typically an agent of the hiring body (either a government department or an Authority). The firm is often compensated with a flat annual fee plus incentive payments designed to reward the contractor for producing desired results. Incentives could be based on achieving specific revenue goals, attendance, events, room night generation or other targets. Operating contracts usually stipulate that operating budgets must be submitted by the management company to the governing body of the facility for approval. The governing body is responsible for providing the funds necessary to operate the facility.

VIII. OPERATIONS, MANAGEMENT, & PARTNERSHIP RECOMMENDATIONS

Contract management organizations are typically responsible for various key operational and fiscal factors such as policies and directives, organizational structure, leadership, job classifications, competition, scheduling and booking, finance and accounting, and capital repairs. In addition to the day-to-day operations of the venue, a number of contract management firms also offer project services such as pre-opening management services, operational audit services, and marketing support as alternatives to full facility management. A summary of key advantages and disadvantages associated with contract management is shown in the exhibit below:

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">• Greatest operating autonomy• Efficiency incentives• Network of relationships to leverage event bookings• Internal network of knowledge/experience• More independence in negotiations• Greater staffing resources• More objective criteria for accountability• More efficient procurement process• Design and pre-opening services• Less financial risk for owner	<ul style="list-style-type: none">• Potential loss of direct control by owner• Profit motive versus economic impact motive• Facility management fees• Management personnel turnover• Corporate resources spread among several facilities• Misaligned purpose and goals between owner and management firm• Less access to public use

It is possible that project leaders could solicit proposals from private management companies such as VenuWorks, Live Nation, Spectra, SMG, AEG, among others, through an open-bid process and work to acquire the agreement that most benefits the City, its taxpayers and the proposed permanent arena financially. It should be noted, however, that Victus Advisors spoke with regional and national promoters (found in Section II) and the general thought was that Santa Cruz is a secondary market and would not be able to compete with Bay Area venues for top tier talent on a consistent basis. The larger management companies may shy away from operating a facility that could not attract premier events.

OTHER

In some cases, a public owner will outsource the management of a facility to a third-party via a sports commission, a non-profit organization, or an agency or bureau.

SPORTS COMMISSION (PUBLIC, PRIVATE OR HYBRID)

Sports commissions are created to attract local, regional, and international sports events to capture tourism revenue. The commission's priorities typically include, but are not limited to (in order): visitor spending, marketing the region, representing the sports industry in the community, supporting the local sports franchises and venues, and sports advocacy.

VIII. OPERATIONS, MANAGEMENT, & PARTNERSHIP RECOMMENDATIONS

Sports commissions can be public, private or a hybrid. Public sports commissions usually housed within a convention and visitors bureau (CVB) and receive funding through CVB and city budgets, dedicated hotel tax and/or car rental taxes. Private sports commissions are driven through the private sector and are typically sustained through fundraising events, private donations, membership fees, and sponsorships. Hybrid sports commissions have a mix of public and private funding and representation. Each type of sports commission typically has a board of directors.

NON-PROFIT (PRIVATE)

Under this form of management, the organization is typically run under the guidance and supervision of a Board of Directors. Members of the board tend to be local community leaders and stakeholders. This can serve as an advantage because they usually have the community and city's best interests in mind. Alternatively, a lack of diversity on the board, in terms of entertainment and sporting interests, can lean programming to heavily favor certain events and activities that could alienate other community interests.

This structure requires active and continued support both in labor and funding from the community. The organization would need to depend on donations and grants (in most cases donations would be tax deductible) from individuals, companies, and government entities in addition to volunteer labor hours to be sustainable in the short and long-term.

AGENCY OR BUREAU (PUBLIC)

Agencies, bureaus, and authorities are political subdivisions formed by local or state government entities. Relevant examples include special services districts (such as a parks district or an arena district) or a convention and visitors bureau (CVB). Much like a non-profit, agencies or bureaus are typically governed by a Board of Directors with Board members consisting of elected officials and local stakeholders. Although it is independent, an agency or bureau would need a dedicated revenue source. CVBs often rely on tourism taxes, for example. A summary of key advantages and disadvantages associated with sports commission, a non-profit organization, or an agency or bureau management is shown in the exhibit below:

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">• Community's best interest at heart (All)• Aligned vision with City (public sports commission/agency/bureau)• Limited use of public funds to maintain operations (non-profit)	<ul style="list-style-type: none">• Risk alienating groups in community (non-profit)• Lack of diverse interest groups (non-profit)• Would need dedicated revenue source to sustain operations (sports commission/agency/bureau)

VIII. OPERATIONS, MANAGEMENT, & PARTNERSHIP RECOMMENDATIONS

If there is no existing authority or commission in Santa Cruz that would be capable of operating the proposed arena, it would need to be created within a relative short time in preparation. Similarly with a non-profit, funding sources and sustainability would need to be set in place before construction was completed.

COMPARABLE FACILITY ORGANIZATIONAL STRUCTURES

The organizational structures at comparable facilities (detailed in Section II) can provide a framework for project representatives to determine an appropriate organizational structure for the proposed permanent arena. The following exhibit summarizes the ownership and operator composition of comparable facilities:

OWNERSHIP/OPERATOR OVERVIEW OF COMPARABLE FACILITIES

<u>Arena/Event Center</u>	<u>City, State</u>	<u>Ownership</u>	<u>Operator</u>
Budweiser Events Center	Loveland, CO	Public	Private
Covelli Centre	Youngstown, OH	Public	Private
First Arena	Elmira, NY	Private	Private
Hartman Arena	Park City, KS	Private	Private
Huntington Center	Toledo, OH	Public	Private
Kaiser Permanente Arena	Santa Cruz, CA	Public	Private
Prescott Valley Event Center	Prescott, AZ	Public	Private
Rabobank Arena	Bakersfield, CA	Public	Private
Reno Events Center	Reno, NV	Agency/Bureau	Agency/Bureau
Sanford Pentagon	Sioux Falls, SD	Private	Private
Santander Arena	Reading, PA	Agency/Bureau	Private
Scheels Arena	Fargo, ND	Agency/Bureau	Non-Profit
Stockton Arena	Stockton, CA	Public	Private
Percentage Public		54%	0%
Percentage Private		23%	85%
Percentage Agency/Bureau		23%	8%
Percentage Non-Profit		0%	8%

Note: Sorted by Arena/Event Center in descending order

As shown above, of the 13 comparable facilities, 77% are owned by a public entity or public agency/bureau, while three of the 13 comparable facilities or 23% are owned by a private group. Operationally speaking, 11 of 13 comparable facilities or 85% are operated privately. While SMG was the most popular operator, Kaiser Permanente Arena was the only facility that was operated by one of its sports tenants.

VIII. OPERATIONS, MANAGEMENT, & PARTNERSHIP RECOMMENDATIONS

The below exhibit summarizes the ownership and operator composition of D-League facilities:

OWNERSHIP/OPERATOR OVERVIEW OF D-LEAGUE FACILITIES

Arena/Event Center	City, State	Team	Affiliate	Ownership	Operator
Bob Carpenter Center	Newark, DE	Delaware 87ers	76ers	Private	Private
Canton Civic Center	Canton, OH	Canton Charge	Cavaliers	Public	Private
Cedar Park Center	Cedar Park, TX	Austin Spurs	Spurs	Public	Private
CenturyLink Arena	Boise, ID	Idaho Stampede	Jazz	Private	Private
Cox Convention Center	Oklahoma City, OK	Oklahoma City Blue	Thunder	Public	Private
DeltaPlex Arena	Walker, MI	Grand Rapids Drive	Pistons	Private	Private
Dignity Health Event Center	Bakersfield, CA	Bakersfield Jam	Suns	Private	Private
Dr. Pepper Arena	Frisco, TX	Texas Legends	Mavericks	Public	Private
Erie Insurance Arena	Erie, PA	Erie Bayhawks	Magic	Agency/Bureau	Agency/Bureau
Kaiser Permanente Arena	Santa Cruz, CA	Santa Cruz Warriors	Warriors	Public	Private
Memorial Coliseum	Fort Wayne, IN	Fort Wayne Mad Ants	Pacers	Public	Public
Portland Exposition Building	Portland, ME	Maine Red Claws	Celtics	Public	Public
Reno Events Center	Reno, NV	Reno Bighorns	Kings	Agency/Bureau	Agency/Bureau
Sanford Pentagon	Sioux Falls, SD	Sioux Falls Skyforce	Heat	Private	Private
State Farm Arena	Hidalgo, TX	Rio Grande Valley Vipers	Rockets	Public	Public
Toyota Sports Center	El Segundo, CA	Los Angeles D-Fenders	Lakers	Private	Private
Wells Fargo Arena	Des Moines, IA	Iowa Energy	Grizzlies	Public	Private
Westchester County Center	White Plains, NY	Westchester Knicks	Knicks	Public	Public
Percentage Public				56%	22%
Percentage Private				33%	67%
Percentage Agency/Bureau				11%	11%
Percentage Non-Profit				0%	0%

Note: Sorted by Arena/Event Center in descending order

As shown above, 10 out of the 18 D-League facilities or 56% are owned by a public entity, while eight of the 18 D-League facilities or 44% are owned by either a private group or agency/bureau. Operationally speaking, 12 of 18 D-League facilities or 67% are operated privately. It is also worth noting that Dr. Pepper Arena and Cedar Park Center are the only other venues aside from Kaiser Arena that are operated by a sports tenant (Dallas Stars of the NHL and Texas Stars of the AHL, respectively). Lastly, it is worth noting that no other D-League team currently operates the facility where it plays.

Based on a review of comparable arenas, a partial list of potential third-party operating firms could potentially include:

- SMG
- Spectra
- VenuWorks
- AEG

In addition, because this facility would be smaller than a typical multi-use arena, and the majority of daily usage is likely to be associated with sports and recreation, it may be a viable option for a sports center operator to operate the facility on most days, with the Warriors operating the venue only on the team's game days. A partial list of potential sports facility operators could include:

VIII. OPERATIONS, MANAGEMENT, & PARTNERSHIP RECOMMENDATIONS

- American Sports Centers
- Sports Facility Management
- VenuWorks
- Other local or regional private sports center operators

It is not uncommon for a minor league sports tenant, such as the Santa Cruz Warriors, to have a tenant usage agreement that is restricted to game days. These agreements are typically structured so that the team pays per-game rent, is responsible for all game-day expenses, and receives most or all of game-day revenue streams including, but not limited to: net concessions, merchandise, game day sponsorships/advertising, parking revenue (if under arena control), and other major revenue streams (naming rights, premium seating, etc.). An example (albeit the NBA) is the agreement between the Oklahoma City Thunder and the City of Oklahoma (SMG) for use of the Chesapeake Energy Arena on game days only. The Thunder pay per-game rent and reimburse game day expenses. The team also maintains the right to sell naming rights to the facility, as well as receive a share of premium seating sales, among other stipulations.

OUTSOURCED SERVICES

Regardless of whether the facility is operated by the public sector or a third party firm or organization, certain services are often outsourced to a third-party specialist. These services can include:

- Concessions;
- Merchandise;
- Parking;
- Security;
- Naming Rights, Sponsorship & Advertising Sales;
- Ticketing; and,
- Other such services.

Some management companies provide these services in-house, whereas others go outside. In general, companies that provide outsourced services in the sports and entertainment venue industry include, but are not limited to (presented in alphabetical order):

Concessions:

- Aramark
- Centerplate
- Legends Hospitality Management
- Levy Restaurants
- Spectra Food Services & Hospitality Management
- Savor (A SMG subsidiary)
- Sodexo

Merchandise:

- Gameday Merchandising
- Legends Hospitality Management
- Spectra Merchandise Management

Naming Rights, Sponsorship & Advertising Sales:

- Creative Artists Agency (CAA)
- Gemini Sports Group
- Legends Global Sales
- Premier Partnerships
- Superlative Group
- Van Wagner Sports & Entertainment

Parking:

- Central Parking System
- SP Plus Corporation

Security:

- Andy Frain Services
- Contemporary Services Corporation (CSC)
- Landmark

Ticketing:

- Axs.com
- Contemporary Services Corporation (CSC)
- New Era Tickets
- Ticketmaster
- Tickets.com
- Ticketfly

In general, contract management companies negotiate a fee agreement with facility ownership in order to determine revenue allocation. Although there is not a standard fee agreement, the majority include one of the following; (1) a percentage of gross revenue is allocated to the facility; (2) the facility retains an agreed-upon split of net revenues; and/or (3) the facility receives an upfront payment that is guaranteed regardless of total revenue.

CONCLUSION

In summary, Victus Advisors recommends that the proposed permanent arena in Santa Cruz be operated privately by a third-party operator. In this model, a sports center operator (such as American Sports Centers, Sports Facility Management, and VenuWorks, etc.) would operate the facility on most days, with the Warriors operating the venue only on the team's game days. A third-

VIII. OPERATIONS, MANAGEMENT, & PARTNERSHIP RECOMMENDATIONS

party sports center operator would have specialized knowledge and experience, greater staffing resources, and more objective criteria for accountability, among other advantages over potential public operations. In addition, based upon feedback from previous event users of the Civic Auditorium regarding difficulties they associate with the public operation of that facility, we believe that it would be to the City's advantage to engage specialized private sector experts with existing expertise and relationships in the sports facility industry.



IX. ECONOMIC & FISCAL IMPACT ANALYSIS



INTRODUCTION

The purpose of this section is to analyze and estimate the potential economic and fiscal impacts of the proposed permanent arena in Santa Cruz. The following key sources for the assumptions utilized in developing this economic and fiscal impact analysis were:

- **Construction Impacts:** Detailed construction cost estimates have not yet been developed, so Victus Advisors has preliminarily estimated a construction cost of approximately \$30 million for use in the impact model based upon the construction cost per seat of comparable facilities, adjusted to 2015 dollars as shown below.

CONSTRUCTION COST OVERVIEW OF COMPARABLE FACILITIES

Arena/Event Center	City, State	Year Open	2015 Estimated Cost (\$M)	Fixed Seats	2015 Est. Cost per Seat
Huntington Center	Toledo, OH	2009	\$121.03	8,000	\$15,128
Reno Events Center	Reno, NV	2005	\$86.94	7,000	\$12,420
Covelli Centre	Youngstown, OH	2005	\$56.18	5,900	\$9,521
Santander Arena	Reading, PA	2001	\$66.49	7,200	\$9,235
Stockton Arena	Stockton, CA	2005	\$90.95	10,500	\$8,662
Prescott Valley Event Center	Prescott, AZ	2006	\$43.54	5,100	\$8,536
Budweiser Events Center	Loveland, CO	2003	\$43.24	5,300	\$8,158
First Arena	Elmira, NY	2000	\$25.79	3,784	\$6,815
Sanford Pentagon	Sioux Falls, SD	2013	\$21.09	3,250	\$6,489
Rabobank Arena	Bakersfield, CA	1998	\$66.38	10,400	\$6,383
Scheels Arena	Fargo, ND	2008	\$26.40	5,000	\$5,281
Hartman Arena	Park City, KS	2008	\$19.01	5,000	\$3,802
Average		2005	\$55.6	6,370	\$8,369
Median		2005	\$49.9	5,600	\$8,347

Note: Sorted by 2015 Est. Cost per Seat

(1) According to 4th Quarter 2015 Turner Building Cost Index

Sources: Turner Construction Company, American Hockey League, Victus Research

According to the average cost per seat (in 2015 dollars) shown above, a 3,500-seat arena in Santa Cruz, California could be estimated to cost approximately \$30 million.

- **Operational Impacts:** Operational estimates for the proposed permanent arena were developed by Victus Advisors. Impacts of operations include both in-facility and out-of-facility spending.

Victus Advisors' economic/fiscal impact analysis was conducted in five (5) steps:

1. Estimate Gross Direct Spending
2. Identify the Local Economy
3. Estimate the Net Impacts Occurring within the Local Economy
4. Estimate the Multiplier Effect
5. Estimate the Associated City Tax Revenues

1. ESTIMATE GROSS DIRECT SPENDING

The first step in projecting the potential economic and fiscal impacts of a new permanent arena in Santa Cruz is estimating the Gross Direct Spending activity that could occur due to both the one-time construction and on-going operations of the facility. Gross Direct Spending represents all of the direct spending that could be associated with the project, regardless of income source or spending location. The following exhibit illustrates the primary sources of direct spending.

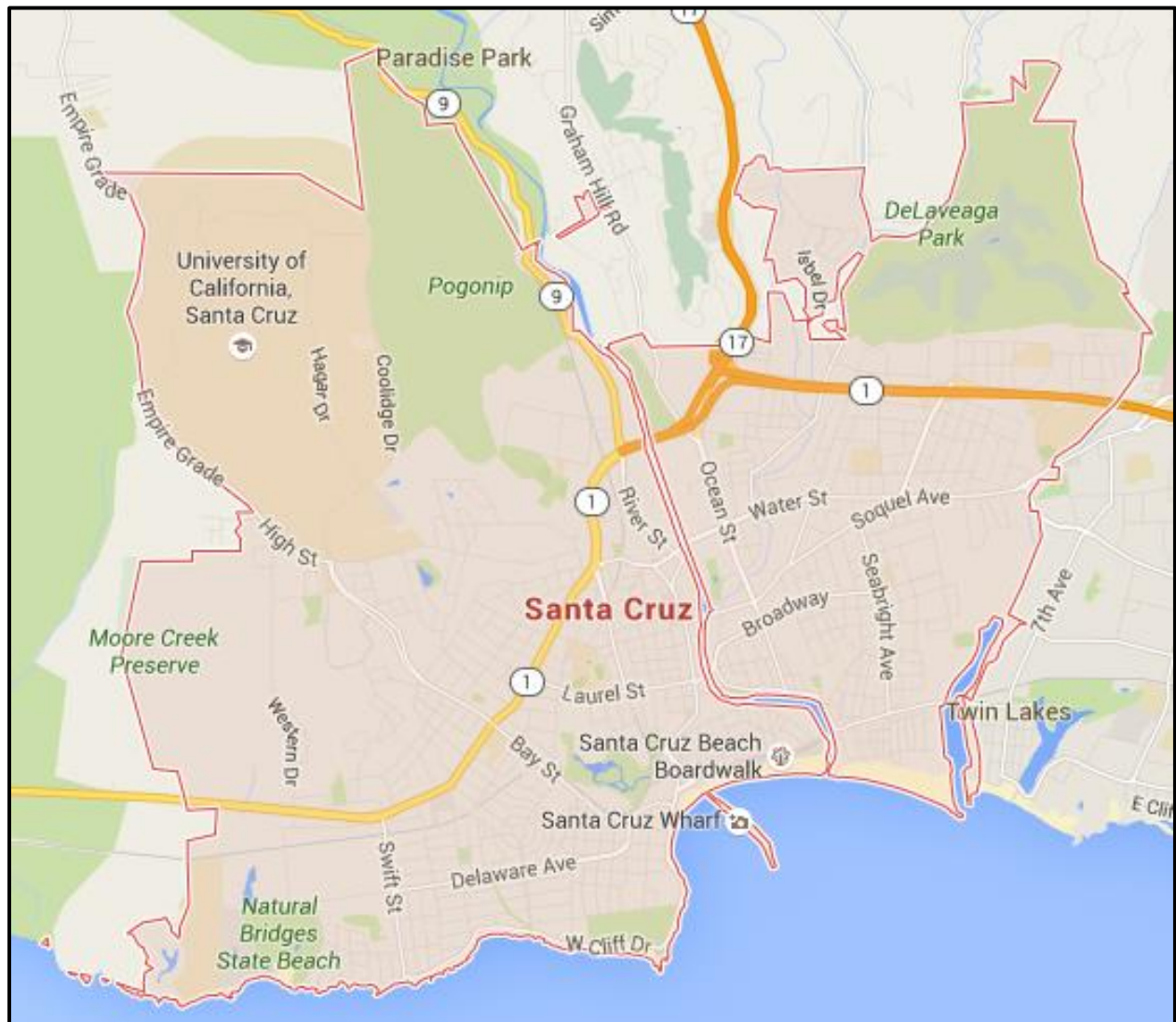
PRIMARY SOURCES OF DIRECT SPENDING FROM NEW ARENA IN SANTA CRUZ

One-Time Construction Expenditures	On-Going Facility Operations	
Supplies & Materials Labor Costs Service Fees	<i>In-Facility Revenues:</i> Ticket Sales Concessions/Catering Sponsorships/Advertising	<i>Visitor Spending:</i> Lodging Restaurants/Bars Entertainment Retail Transportation

2. IDENTIFY THE LOCAL ECONOMY

For purposes of this study, Victus Advisors has been tasked with identifying the potential economic and fiscal impacts on the City of Santa Cruz. Therefore, the local economy studied in this analysis is the physical area solely within the City limits of Santa Cruz (as shown below).

CITY OF SANTA CRUZ



Source: Google Earth

As described on the next page, “Net” Direct Spending only occurs when the spending source originates outside of City limits and occurs within the City’s limits.

3. ESTIMATE THE NET IMPACTS OCCURRING WITHIN THE LOCAL ECONOMY

After estimating the “Gross” economic activity associated with the proposed permanent arena in Santa Cruz, Victus Advisors estimated the portion of Gross Direct Spending that could represent incremental (or “Net”) spending within the City’s economy. Net Direct Spending accounts for the phenomenon of “displacement”.

Displacement is the economic principle that assumes a household (or business) entertainment and recreation budget would be spent within the local economy with or without development of a new sports/recreation venue. For purposes of this study, we have assumed that local entertainment spending would be displaced (i.e. spent elsewhere within the Santa Cruz economy) without the presence of the new permanent arena in Santa Cruz. Therefore Net Impacts will only include the estimated dollars spent within the City limits by non-resident visitors and businesses located outside of Santa Cruz.

4. ESTIMATE THE MULTIPLIER EFFECT 5. ESTIMATE CITY TAX REVENUES

Net Direct Spending that is captured in Santa Cruz is subsequently re-spent, both inside and outside the local economy. The cumulative impact of the re-spending cycles that occur within City limits is called the “Multiplier Effect”.

Initial Direct Spending:

- Construction
 - Labor, Materials, Services, etc.
- Facility Revenues & Visitor Spending
 - Tickets, Concessions, Sponsorships, Lodging, Restaurants, Entertainment, Retail, etc.

Multiplier Effect > Indirect Spending:

- Manufacturing
- Wholesalers (Food & Beverage, Merchandise)
- Shipping/Freight
- Utilities, etc.

Multiplier Effect > Induced Spending:

- Additional spending by businesses, households, government entities, and other economic sectors.

Victus Advisors utilized IMPLAN Multipliers specific to Santa Cruz (shown below) to estimate the following Net Economic Impacts:

- **Total Output** - (direct, indirect & induced spending in Santa Cruz)
- **Employment** - (full-time & part-time jobs in Santa Cruz)
- **Labor Income** - (salaries & wages associated with Santa Cruz jobs)
- **City Tax Revenues** - (associated with the net total output)

IMPLAN MULTIPLIERS FOR THE CITY OF SANTA CRUZ

Industry	Total Output Multiplier	Employment Multiplier	Labor Income Multiplier
Construction - Non Res.	1.43628	9.6661×10^{-6}	0.59431
Transit & Ground Transport.	1.49574	1.8193×10^{-5}	0.58962
Retail Stores	1.53090	2.8259×10^{-5}	0.71982
Commercial Sports & Performing Arts	1.59457	3.5407×10^{-5}	0.35597
Amusement & Recreation	1.53923	2.3785×10^{-5}	0.52214
Hotels & Motels	1.45094	1.5296×10^{-5}	0.47655
Food Services & Drinking Places	1.53840	3.0938×10^{-5}	0.88311

Note 1: Multipliers are specific to the following City of Santa Cruz zip codes: 95060-95065

Note 2: IMPLAN stands for IMpacts for PLANning and is a registered

Source: IMPLAN

Following estimation of the total output, employment and labor income via the IMPLAN model, Victus Advisors also estimated the incremental City tax revenues that could be associated with not just the estimated direct spending, but also the total output.

Finally, our estimated economic and fiscal impacts that could be associated with the development and operations of a new permanent arena facility in Santa Cruz are shown on the following pages. Please note that these estimates are based on the Base Model (not including indoor fields).

ESTIMATED ONE-TIME ECONOMIC IMPACTS OF ARENA CONSTRUCTION

Estimated Project Cost:	\$30,000,000
Estimated Direct Spending within Santa Cruz:	\$7,800,000
<i>Projected Economic Impacts:</i>	
Total Output	\$11,203,000
Employment	75
Labor Income	\$4,635,600

Note: Impacts are presented for the economic area of the City of Santa Cruz in 2016 dollars.

As shown above, spending associated with the construction of a new permanent arena in Santa Cruz could generate one-time economic and fiscal impacts within the City of Santa Cruz, including total economic output of more than \$11.2 million, 75 full- and part-time jobs with associated labor income of more than \$4.6 million.

In addition, as shown below, we estimated that City tax revenues of more nearly \$74,000 could be associated with the estimated taxable portion of total output, assuming that direct construction materials purchases for a public venue would not be taxable.

ESTIMATED ONE-TIME FISCAL IMPACTS OF ARENA CONSTRUCTION

<i>Projected Fiscal Impacts:</i>	
City - Sales Tax (0.5%)	\$5,955
City - Tourist Occupancy Tax (11.0%)	\$67,865

Note: Sales Tax has only been applied to the estimated taxable portion of Total Output, as it has been assumed that construction materials purchases would not be taxable.

The table on the following page shows estimated annual impacts associated with ongoing arena operations.

ESTIMATED NET ANNUAL ECONOMIC IMPACTS OF ONGOING ARENA OPERATIONS

DISPLACEMENT ADJUSTMENT	
Estimated Annual Direct Spending - Gross:	\$21,412,000
Estimated Annual Direct Spending - Net:	\$11,492,285
Net Direct Spending as % of Gross:	54%

PROJECTED ECONOMIC IMPACTS - NET				
	<u>Direct</u>	<u>Indirect</u>	<u>Induced</u>	<u>Total Effects</u>
Total Output	\$11,492,285	\$3,163,076	\$3,081,293	\$17,736,653
Employment (Full- & Part-Time Jobs)	271	32	25	329
Labor Income	\$5,063,136	\$933,663	\$1,035,993	\$7,032,793

Note 1: Impacts are presented for the economic area of the City of Santa Cruz in 2016 dollars

Note 2: "Net New" impacts represent the incremental impacts after adjusting for displacement.

As shown above, a new permanent arena in Santa Cruz could attract frequent and consistent users from outside of the City whose incremental direct spending in the local community would generate on-going economic and fiscal impacts within Santa Cruz. The net annual impacts could include more than \$17.7 million in total economic output, 329 annual jobs (both full- and part-time) and over \$7.0 million in associated wages.

In addition, based upon estimated ticket sales, room nights and taxable retail sales, Victus Advisors has estimated incremental City tax revenues of more than \$410,000 per year could be associated with ongoing arena operations, as shown below. These tax estimates are based on not only the direct spending associated with the in-facility operations of the arena and out-of-facility visitor spending, but also the estimated taxable portion of total output.

ESTIMATED NET ANNUAL FISCAL IMPACTS OF ONGOING ARENA OPERATIONS

<i>Projected Fiscal Impacts - Net:</i>	
City - Admissions Tax (5.0%)	\$295,300
City - Tourist Occupancy Tax (11.0%)	\$74,100
City - Sales Tax (0.5%)	\$41,800

Note: "Net New" impacts represent the incremental impacts after adjusting for displacement.

The table on the following page shows the estimated total impacts over 30 years of arena operations.

**SUMMARY OF ESTIMATED NET IMPACTS OVER 30 YEARS:
ARENA CONSTRUCTION & ON-GOING OPERATIONS**

<u>Net New Impacts</u>	<u>30-Year Cumulative</u>
Direct Spending:	\$554,550,000
Total Output:	\$855,034,000
Employment:	329 (<i>annual</i>)
Labor Income:	\$339,224,000
City Tax Revenue:	\$19,637,000

Assumptions: 3% annual inflation. Construction spending assumed to occur during Year 1.

Together, the one-time construction and on-going operations of a new permanent arena in Santa Cruz could generate long-term, incremental economic and fiscal impacts within the City over the course of the arena's useful life (estimated to be approximately 30 years). As shown above, we have estimated that the on-going operations of the arena could generate cumulative economic and fiscal benefits of more than \$855 million in total economic output, nearly 330 sustainable jobs, approximately \$339 million in labor income, and over \$19.6 million in City tax revenues.

INTANGIBLE BENEFITS

In addition to the quantifiable economic impacts above, it should also be noted that the proposed facility is not just an arena for hosting the Santa Cruz Warriors D-League games, but also a community sports and recreation venue that will allow public use of the facility when it's not being used by the minor-league sports tenant or some other spectator event. As such, not only will this operational model for the proposed Santa Cruz arena address many of the financial concerns that communities face when undertaking public financing of a professional sports arena, but it will also provide a community asset for public use. Therefore, additional intangible benefits for the City of Santa Cruz that could be associated with the proposed venue include, but may not be limited to:

- Improved quality of life and health benefits of increased community access to sports/recreation opportunities.
- More attractive environment for young families, not only due to retention of the Warriors D-League team and other arena events, but also youth sports/recreation opportunities.
- Increased awareness and improved regional reputation of Santa Cruz as a destination during the winter months (outside of the already busy beach season).
- Potential driver of additional economic growth in the downtown core, in conjunction with other private-sector projects.