

State of California

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MEMORANDUM

Date: April 20, 2009

To: Board of Directors
California Exposition & State Fair

Via: Norbert J. Bartosik, General Manager/CEO
California Exposition & State Fair

From: Brian A. May, Deputy General Manager
California Exposition & State Fair

Subject: Summary Peer Review of ERA Project Report

In your Board packet you have ERA's "Fairgrounds Market Demand Evaluation with Arena and Redevelopment Program at Cal Expo".

Staff will summarize ERA's Report prior to Architect Charlie Smith's presentation.

The Summary Peer Review by Gruen Gruen & Associates of the ERA Report is included for your review.

**Summary Peer Review of ERA Project Report
Fairgrounds Market Demand Evaluation with
Arena and Redevelopment Program at Cal Expo**

**Gruen Gruen+ Associates
April 15, 2009**

Scope of Report

The ERA Fairground Market Demand Report (FMDR) reviewed herein assumed the redevelopment of the present Cal Expo property to include an NBA arena, new fairground facilities and a new “urban village” of housing, office, hotel, retail and entertainment uses. The new fairground facility was to serve as “a year-round exhibit and special event venue.” The report identified long-term growth opportunities for the new fairground operations in facilities that would adjoin the new arena. The focus of the ERA report was on a “forecast of projected future levels of demand for the anticipated redeveloped fairgrounds, both for the annual state fair and non-fair events.”

This peer review will consider the implications of this forecast and the information upon which it was based on the future viability of Cal Expo. We will comment first on apparent inconsistencies between the market insights provided in this report with the demand inputs used for the earlier ERA financial analysis of the proposed mixed use urban village.

Inconsistencies with Market Assumptions of Urban Village Financial Analysis

In considering the advantages the fairground has in going after additional meeting and exhibit business once the new facilities are in place, the FMDR pointed out that average daily rates of hotels in the Point West Arden Arcade area where Cal Expo is located are less expensive than hotel rooms located downtown. While correct, that assessment appears inconsistent with the assumption in the analysis ERA presented to estimate obtainable land rents from the hotels in the Urban Village, which were assumed to obtain average daily room rents of \$225 and \$250.

The demographic make up of the primary and secondary market described in the FMDR also seems at odds with the assumptions in the prior financial analysis that relatively expensive high-end housing could make up a significant part of the residential portions of the proposed Urban Village (p. 8).

Conflicts between Parking and Open Space Requirements when Major Events are taking place at both the Fairgrounds and the Arena

In the absence of pre-development reciprocal easement and events use agreements that preclude the simultaneous scheduling of basketball and other events at the arena during major fair events, parking and open space are likely to be under the capacity needed by patrons of both facilities. The FMDR (pp. 12 and 21) estimates of patron parking needs



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suggests that this conflict is likely to be particularly severe after year 10, when the number of available parking spaces will be significantly reduced as the proposed redevelopment program proceeds. The FMDR suggests that the overload of parking capacity during days of peak visitation at both facilities makes it “imperative that improvements are made to public transportation and access to the site. This includes extended bus and shuttle service to and from the site.” None of the reports we have seen suggest either a financing source or plan for the provision of public transit or other transportation alternatives capable of substituting for the unmet parking demand of visitors.

Shortage of Open Space needed for Fairground Operations

Based on Cal Expo data for 2007, the FMDR points out that, “Approximately 50 percent of the major public events that year utilized a combination of both indoor and outdoor space. In general, it is the larger annual non-fair events such as consumer shows and fairs and festivals that require a combination of indoor and outdoor space.” (p. 31) Approximately 11 acres of open space are required, exclusive of parking needs. We have not analyzed the amount of open space that will be available after the build out of all proposed redevelopment. In 2008, according to Cal Expo records, there were ten weekends during which Cal Expo hosted two events, each of which used a combination of indoor and outdoor spaces. It appears that under the NBA proposed plan, there will be insufficient outdoor space to permit multiple large users within the same time frame. Cal Expo will, therefore, be unable to book multiple larger size outdoor space-using events as they have in past years. Thus, the NBA proposed reduction in outdoor space is likely to result in a loss of some revenues currently being earned by Cal Expo.

Danger that Expansions in Cal Expo Activities will represent a Down Trading in Earning Margins

The FMDR report indicates that the presence of the new NBA arena and the Urban Village will benefit the Cal Expo’s ability to increase its events and attendance. In its report, ERA identifies growth opportunities in “several niche activities the current venue is not well able to host with its existing facilities.” (p. 81) Targeted activities include corporate and government related meetings, training sessions and conferences, as well as local and regional conventions and conferences. Significant growth opportunities are also seen for smaller social events from the surrounding drive-up market (SMERF). Our concern is that many of the suggested targets of opportunities represent relatively small groups which, based on historical experience, provide the Fairgrounds with little net earnings after the costs of serving them are deducted from total obtainable revenue. The likely profit margin difference between activities such as the racetrack, that Cal Expo would have to give up, and the net earnings likely to result from an increase in the smaller activities targeted for expansion, raise concern that by accepting the NBA plan Cal Expo may be significantly trading down in earning opportunities.

