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THE ECONOMIC IMPACT OF THE DOWNTOWN "CONVADIUM" PROPOSAL

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EXECUTIVE SUMMARY

- The economic impact of the San Diego Chargers' downtown "convadium" project comes in three areas: The impact of the construction of the project, the impact of the Chargers' operations in San Diego, and impact of additional conventions and meetings through the use of the convadium as an expansion of the Convention Center. The first of those impacts is a temporary impact that will last only through the construction of the convadium, while the latter two represent the permanent impacts of the project. The employment impact during the construction phase is projected to be 15,000 jobs, while the permanent increase in employment is more than 6,400 jobs annually. Each phase will also impact total output, labor income, and value-added as detailed below.
- The estimated cost for the convadium project is \$1.8 billion. Of that, \$200 million is for land acquisition, \$250 million is for support activities such as professional fees, finance, insurance, marketing, etc., and \$1.35 billion is for the actual construction itself. Using the RIMS II economic multipliers calculated by the Bureau of Economic Analysis, the estimated total employment impact for the construction of the convadium is 15,000 jobs, of which roughly 12,400 are direct and 2,600 are indirect and induced. The vast majority of those jobs will be in the construction sector. The construction of the convadium will increase regional output by a total of \$2.1 billion, increase labor income by more than \$800 million, and will have a value-added impact of \$1.2 billion.
- The direct expenditures associated with the Chargers' operations in San Diego is \$104 million. This includes expenditures by the team, by the City of San Diego related to the stadium, and by visiting media and NFL officials and staff. Applying the RIMS II multipliers yields an employment impact of more than 1,600 jobs, of which 1,400 are direct and 200 are indirect and induced. The regional impact of the Chargers' operations is \$126 million for output, \$67 million for labor income, and \$96 million for value-added. This economic impact is likely underestimated due to lack of data on expenditures by visiting fans of the opposing teams and on expenditures by Chargers' players in the local community.
- A detailed analysis of the impact of an expansion in the Convention Center was done by the firm Hunden Strategic Partners (HSP). The estimated impact of the campus option was nearly \$200 million in direct expenditures and more than 4,800 new jobs, of which approximately 2,800 are direct and 2,000 are indirect and induced. HSP also calculated the impact on earnings. Applying the RIMS II multipliers to the direct expenditure figures produced estimates for output and value-added. The regional impact of the Convention Center expansion portion of the convadium is \$272 million for output, \$110 million for labor income, and \$150 million for value-added.
- The total permanent effect of the convadium is the combination of the impact of the Chargers' operations in San Diego and the impact of the Convention Center expansion. The employment impact is an increase of more than 6,400 jobs, of which more than 4,200 are direct and 2,200 are indirect and induced. The combined direct expenditures of more than \$300 million will have a total estimated impact of nearly \$400 million on regional output, \$176 million on labor income, and \$246 million on value added.

I. INTRODUCTION



2017 will mark the 50th anniversary of the opening of Qualcomm Stadium. Originally known as San Diego Stadium and then San Diego-Jack Murphy Stadium, the facility has been the home of the San Diego Chargers since its opening. As newer stadiums have been built for teams throughout the National Football League (NFL), the Chargers have investigated numerous options to improve their stadium situation, including the possibility of a shared stadium with the Oakland Raiders in the city of Carson.

A citizen's initiative measure on the ballot for the City of San Diego this November proposes to finance and build a City-owned downtown professional football stadium and convention center ("convadium") project, in downtown San Diego, east of Petco Park. A conceptual design of the facility calls for a stadium with approximately 61,500 seats for football, expandable to 72,000 seats to host the Super Bowl. As a multi-use facility, it is also designed to host events like international soccer, collegiate basketball championships, extreme sports competitions, concerts and political conventions. The facility will also include 385,000 square feet of leasable space, including a 130,000 square feet exhibit hall, as well as meeting and ballroom space.

In addition to the sports and convention uses, the design of the project includes ground-level retail, a museum and an incubator for start-up businesses.

The estimated total cost of the convadium project is \$1.8 billion. The financing plan calls for the Chargers to contribute \$350 million towards the project and the NFL another \$300 million. The remaining \$1.15 billion will be covered by bonds which will be repaid by the 4 percent increase in the transit occupancy tax (TOT). That increase in the TOT and its use in financing the stadium is the subject of the citizens initiative.

The authors of this study were commissioned by the San Diego Chargers to independently analyze the economic impacts of the convadium and, in particular, the impact of the facility's construction and operation on jobs, and the regional economy. It should be noted that this study excludes expenditures on ancillary capital infrastructure (e.g. road improvements); MTS bus yard relocation; environmental remediation; and trolley enhancements.

II. METHODOLOGY

The methodology to determine the economic impact of projects is well established. Central to the methodology is the division of expenditures into two categories: direct and induced. Direct expenditures represent money that is injected into an economy from an outside source. As that money is spent to hire workers and to buy materials, it is in turn re-spent by the recipients to purchase other goods and services. This subsequent re-spending is the induced effect of the original expenditure.

The two types of expenditures are connected through the calculation of economic multipliers. These multipliers can be applied to initial direct expenditures to determine the total impact of those expenditures. Using sophisticated input-output models that incorporate the relationships between different sectors of the economy, the impact on those different sectors can be determined.

This study uses the Regional Input-Output Modeling System or RIMS II multipliers calculated by the U.S. Department of Commerce's Bureau of Economic Analysis (BEA). The BEA calculates the multipliers for different regions of the country, including San Diego. The multipliers will be used to determine the impact of the direct expenditures of the different aspects on the convadium project on output (which translates into revenue for businesses), labor income, value added, and employment. The input-output relationships allow these multipliers to be calculated for detailed sectors of the economy.

The convadium will generate economic activity in three areas. First, there is the construction of the facility itself. That will entail the hiring of construction workers, the purchase of materials, and soft costs in areas such as insurance, marketing, and management. These expenditures represent one-time expenditures that will have an impact only through the period of construction. Once the facility is completed, two more permanent streams of economic activity will occur connected to the two uses of the facility. They are the use of facility as a stadium and its use as an expansion of the Convention Center. These impacts are recurring and will continue as long as the facility is in operation.

What follows is an analysis of each of these areas of economic impact.

III. IMPACT OF STADIUM CONSTRUCTION

The impact of the expenditures for the construction of the stadium depends on how much of it is money that would not normally be spent in the region. The \$300 million contributed by the NFL falls into this category. If the Chargers were not previously planning on spending their \$350 million share in the region, that too would be an impact that would not otherwise occur. That leaves the \$1.15 billion that would be financed by the increase in the TOT. If this is paid primarily by visitors to the region, this amount will also represent direct expenditures into the local economy from the outside and would have a multiplied effect.

Of the total cost of the project, \$200 million is the estimated cost of land acquisition. There are no multipliers associated with expenditures for land acquisition. Most of the land is owned by public entities, so these expenditures would result in money flowing into those public entities. It is uncertain what would happen to those funds. Therefore, this amount will not be included in the analysis. The implication is that the impact could be higher if the money received by the public entities is put back into the economy.

Of the remaining \$1.6 billion, \$250 million are for soft costs, which include expenditures for professional fees, insurance, financing, and marketing/sales. The other \$1.35 billion considered hard costs and include expenditures for workers and materials. RIMS II does not have a sector for stadium or convention center construction. Instead, this study applies the

multipliers for the category “Nonresidential Structures” to the hard costs. For the soft costs, the average for categories involving finance, insurance, architectural and engineering services, and marketing were used. The multipliers used are given in Table 1:

Table 1
RIMS II Multipliers for Convadium Construction

	Output	Earnings	Value Added	Employment
Soft Costs	1.5251	0.513	0.8075	9.0824 per million
Hard Costs	1.2499	0.516	0.7332	9.4373 per million

Applying these multipliers to the hard and soft costs mentioned above yields the following one-time impact:

- 15,000 jobs created, most (11,000+) in construction
- Over \$900 million in earnings
- Total output of \$2 billion+
- Value-added of almost \$1.2 billion

For more details, including the impact on different sectors of the local economy, please refer to Appendix 1. In addition to construction, other areas experiencing strong job growth include professional, scientific, and technical services (almost 1,200 jobs) and finance and insurance (almost 900 jobs). It should be noted that the impact may be underestimated depending on whether or not the money spent on land acquisition remains in the region.



IV. IMPACT OF THE CHARGERS' OPERATION IN SAN DIEGO

The argument against sporting events having a significant economic impact rests with the distinction between direct and induced spending. The money spent by local fans on tickets, parking, and concessions are induced expenditures, the result of money being earned elsewhere. If the money was not spent on these items, it would be spent elsewhere in the local economy, such as at restaurants or at retailers or at an attraction like the San Diego Zoo. So when examining the impact of the Chargers' operations in San Diego, it would be inappropriate to look at the team's revenue from the items mentioned above.

Instead, it would more appropriate to look at the team's expenditures in the local community. This would be for non-player personnel and goods and services bought in the San Diego region. If the only thing that financed the Chargers' operations were ticket and concession sales, then these expenditures too could be considered induced spending. But the key factor here is the revenue that goes to each team from the national television deal. That is money that is coming from outside the region and it makes the team's local expenditures direct expenditures which will have a multiplied effect. If the team moved out of San Diego, that television money would no longer be available to finance the Chargers' expenditures in region.

So how much money do the Chargers spend in San Diego? According to the September 2015 valuation of the franchise by Forbes, the team had an operating

income of \$64.8 million in 2014.¹ This is the result of \$304 million in revenue and \$155 in player expenses, which results in other expenditures of \$84.2 million dollars. Some of the expenditure is for travel expenses; a study by the Los Angeles Economic Development Corporation (LAEDC) estimated that NFL teams spent approximately \$1.5 million a year on travel costs.² While that would reduce the amount the Chargers spend in San Diego, it would represent the amount that visiting teams spend when coming to San Diego. The LAEDC study also estimated expenditures by visiting media and NFL officials. The total spending of visiting teams, media, and officials was estimated to be \$1.8 million, with \$1.2 million spent on accommodations and the other \$0.6 million spent on food and beverages.

An additional expenditure generated by the convadium would be the amount spent to operate and maintain the facility. The FY 2016 budget for Qualcomm Stadium is \$19.3 million.³ This will be the assumed budget for the convadium. For this to be considered a direct expenditure, the city would have to bring in enough money from rent and other sources to cover that cost. That has not been the case in recent years with regards to the Chargers at Qualcomm Stadium.

Adding all of the amounts mentioned above yields direct expenditures of approximately \$104 million. The RIMS II multipliers used are for the sectors "Spectator Sports," "Accommodations," and "Other Food and Drinking Places":

Table 2
RIMS II Multipliers for Chargers' Operations in San Diego

	Output	Earnings	Value Added	Employment
Spectator Sports	1.2097	0.647	0.9279	15.7466 per million
Accommodations	1.3289	0.376	0.8317	10.5934 per million
Other Food and Drinking Places	1.4187	0.301	0.6047	10.7666 per million

¹ Retrieved from <http://www.forbes.com/teams/san-diego-chargers/>

² Cooper, C., Sedgwick, S., Mitra, S. (2015) *The NFL Los Angeles Stadium in Carson: An Economic Impact Analysis*. Los Angeles: Institute for Applied Economics, p. 9.

³ Retrieved from <https://www.sandiego.gov/sites/default/files/legacy/fm/annual/pdf/fy16/vol2/v2qualcomm.pdf>

Applying these multipliers yields the following impacts:

- 1,600+ jobs created
- Almost \$67 million a year in labor income
- A \$126 million increase in total output
- Value-added of \$96 million

For more details, including the impact on different sectors of the local economy, please refer to Appendix 2. The biggest impact is in the sector Arts, Entertainment, and Recreation. These impacts are recurring and will last as long as the convadium houses an NFL team.

As was the case with the impact of stadium construction, these numbers may underestimate the actual impact of the Chargers' operations. For one thing, player salaries are not included. As mentioned previous, player expenses in 2014 were \$155 million, which would have a significant impact if it was all spent or invested in San Diego. It is uncertain though how much of that money is spent in San Diego. Some players live locally and are heavily involved in the local community, including doing considerable charitable work. Others live in San Diego only during football season and return to a permanent residence once the season concludes. The LAEDC study tried to estimate the impact of player salaries, but the approach used was arbitrary and had no real justification.

The other area where the annual impact is underestimated is the impact of visiting fans. San Diego is already a desirable tourist destination under normal circumstances. But with football being played in the fall and winter, fans from cities with cold climates find an away game in San Diego to be a particularly attractive event. There are typically many fans supporting the visiting team at Chargers' games. To the extent that visiting fans fly in from distant locations, there will be a boost to the local tourism economy, with hotels, restaurants, and bars benefitting in particular. But fans could also be local residents or could be coming down from Los Angeles on a day trip. Each of those would have a different economic impact. In its analysis of the project, Hunden Strategic Partners produced an estimate of the overnight and day-trip visitors that would come to San Diego for the games.⁴ They incorporated that number into their estimate of the economic impact of

the facility, including the number of jobs created. That data will be used in the next section of this report and not included here.

One final impact associated with the presence of the NFL in San Diego is the possibility that future Super Bowl games will be played in the new facility. Three Super Bowls (1988, 1998, and 2003) have been played in San Diego, all at Qualcomm Stadium. The game is considered one of the premiere sporting events in terms of economic impact, with most of the visitors coming from out of town and activities spread over a one week period. While there is no longer a Super Bowl "rotation," the positive experiences generated during the previous times that the city hosted the game make it likely that San Diego will be selected as a host site at some point in the future. NFL Commissioner Roger Goodell said as much at a rally supporting signature gathering for Proposition C: "I'm confident that if they can get a stadium built here, the owners will want to support it with a Super Bowl."⁵ The economic impact would be a one-time impact in the year in which the game is played.



⁴ Hunden Strategic Partners. (2016) *San Diego Convention Center and Stadium Project Meetings Market and Impact Analysis*.

⁵ Eric D. Williams. (April 23, 2016) "Roger Goodell 'confident' owners would back new Chargers stadium" Retrieved from http://www.espn.com/nfl/story/_/id/15311588/roger-goodell-attends-san-diego-chargers-rally-support-new-stadium-plan

V. IMPACT OF THE CONVENTION CENTER EXPANSION

The other important part of project is the expansion of the convention center. As mentioned above, Hunden Strategic Partners (HSP) conducted a market research study to determine the number and type of events the new facility would attract to San Diego. Their methodology included interviews with meeting planners and analysis of similar situations, and yielded an estimate of approximately \$200 in direct expenditures, \$110 million in earnings, and more than 4,800 jobs created by the 10th year of operation. HSP further broke down the expenditures by specific sectors of the economy, which allowed estimates for output and value added to be calculated with the RIMS II multipliers:

Table 3
Increase in Output and Value-Added

Sector	Incremental Direct Spending (Millions)	Output Multiplier	Increase in Output (Millions)	Value-Added Multiplier	Increase in Value-Added (Millions)
Food and Beverage	\$62.2	1.4187	\$88.2	0.6047	\$37.6
Lodging	\$91.8	1.3289	\$122.0	0.8317	\$76.4
Retail	\$23.2	1.3654	\$31.7	0.8635	\$20.1
Transportation	\$14.2	1.3694	\$19.5	0.6707	\$9.6
Other	\$8.0	1.3598	\$10.9	0.8466	\$6.8
Total	\$199.5		\$272.3		\$150.3

Combining this with the

- 4,800+ jobs created
- Approximately \$110 million a year in labor income
- An increase in total output of more than \$272 million
- Value-added of \$150 million

As is the case with the Chargers’ operations in San Diego, these impacts are recurring and will continue as long as the convadium is hosting conventions and meetings.

One big issue with the proposed project is how attractive it would be as a location for meetings, given its location detached from the Convention Center. That issue was addressed in the summer of 2015 by the organization Conventions, Sports & Leisure International (CSL), which conducted a market demand analysis for convention and meeting facilities in San Diego and presented the results to the San Diego Convention Center Corporation. Using focus groups of event planners and surveys of former and potential future users of the Convention Center, the company examined two possible options: An expansion of the existing site (“Contiguous” option) and a new site several blocks from the current facility (“Campus” option). CSL found that Campus option would not be attractive for large conventions as the several block separation would be undesirable. But small to medium sized conventions could be attracted to a Campus location, given the high levels of occupancy of the Convention Center and the popularity of San Diego as a convention and meeting destination. The CSL analysis was for a much smaller facility of 225,000 square feet, so the economic impact results are not comparable.

⁶ Conventions, Sports and Leisure International. (2015) *Market Demand and Economic Impact Analysis for Potential San Diego Convention Center Expansion*.

VI. TOTAL PERMANENT IMPACT



Combining the two recurring impacts yields the following for the annual impact on the San Diego economy:

- 6,400+ jobs created
- \$176 million in increased earnings
- A nearly \$400 million increase in total output
- Value-added impact of \$246 million

These annual impacts would be higher if player spending in the region was factored in.



Table 4
Total Recurring Impact of the Convadium Project

Permanent Impact of the Convadium Project	
Direct Expenditures	\$303,451,000
Total Economic Impact:	
Output	\$398,391,000
Employment	6,459
Direct	4,216
Indirect and Induced	2,243
Earnings	\$176,487,000
Value Added	\$246,539,000

APPENDIX 1

Economic Impact of Convadium Construction

Direct Expenditures (\$ millions):	\$	1,600.000
Total Economic Impact:		
Output (\$ millions)	\$	2,068.320
Employment (jobs)		15,011
<i>Direct</i>		12,467
<i>Indirect and Induced</i>		2,544
Labor Income (\$ millions)	\$	928.440
Value-Added (\$ millions)	\$	1,191.680

Distributions of Impacts of Convadium Construction by Industry Sector

	Jobs	Labor Income (\$ millions)	Output (\$ millions)
Agriculture	7	\$0.280	\$1.270
Utilities	6	\$0.650	\$4.530
Construction	11,017	\$606.760	\$1,352.590
Manufacturing	564	\$29.000	\$144.810
Wholesale Trade	210	\$14.430	\$48.080
Retail Trade	212	\$6.140	\$18.330
Transportation and Warehousing	92	\$4.340	\$12.690
Information	52	\$3.890	\$18.760
Finance and Insurance	888	\$51.970	\$176.390
Real Estate, Rental, and Leasing	202	\$7.380	\$43.650
Professional, Scientific, and Technical Services	1,186	\$77.130	\$191.390
Management of Companies and Enterprises	63	\$6.540	\$16.030
Administrative and Waste Management Services	324	\$10.330	\$23.340
Educational Services	4	\$0.190	\$0.250
Health Care and Social Assistance	7	\$0.300	\$0.710
Arts, Entertainment, and Recreation	25	\$0.620	\$1.730
Accommodation	26	\$0.820	\$3.000
Food Services and Drinking Places	83	\$1.590	\$4.860
Other Services	50	\$2.330	\$5.910
Total	15,018	\$824.690	\$2,068.320

APPENDIX 2

Economic Impact of Chargers Stadium Operations

Direct Expenditures (\$ millions):	\$	104.000
Total Economic Impact:		
Output (\$ millions)	\$	126.057
Employment (jobs)		1,628
<i>Direct</i>		1,432
<i>Indirect and Induced</i>		196
Labor Income (\$ millions)	\$	66.747
Value-Added (\$ millions)	\$	96.200

Distributions of Impacts of Chargers Stadium Operations by Industry Sector

	Jobs	Labor Income (\$ millions)	Output (\$ millions)
Agriculture	0	\$0.011	\$0.032
Utilities*	0	\$0.034	\$0.277
Construction	1	\$0.065	\$0.217
Manufacturing	5	\$0.217	\$1.243
Wholesale Trade	2	\$0.155	\$0.510
Retail Trade	2	\$0.079	\$0.216
Transportation and Warehousing*	4	\$0.212	\$0.580
Information	3	\$0.235	\$0.985
Finance and Insurance	6	\$0.404	\$1.472
Real Estate, Rental, and Leasing	11	\$0.333	\$2.126
Professional, Scientific, and Technical Services	16	\$1.190	\$2.667
Management of Companies and Enterprises	3	\$0.359	\$0.876
Administrative and Waste Management Services	17	\$0.544	\$1.334
Educational Services	3	\$0.113	\$0.267
Health Care and Social Assistance	0	\$0.021	\$0.041
Arts, Entertainment, and Recreation	1,530	\$62.069	\$110.560
Accommodation	11	\$0.352	\$1.299
Food Services and Drinking Places	8	\$0.163	\$0.764
Other Services*	4	\$0.191	\$0.591
Total	1,628	\$66.747	\$126.057

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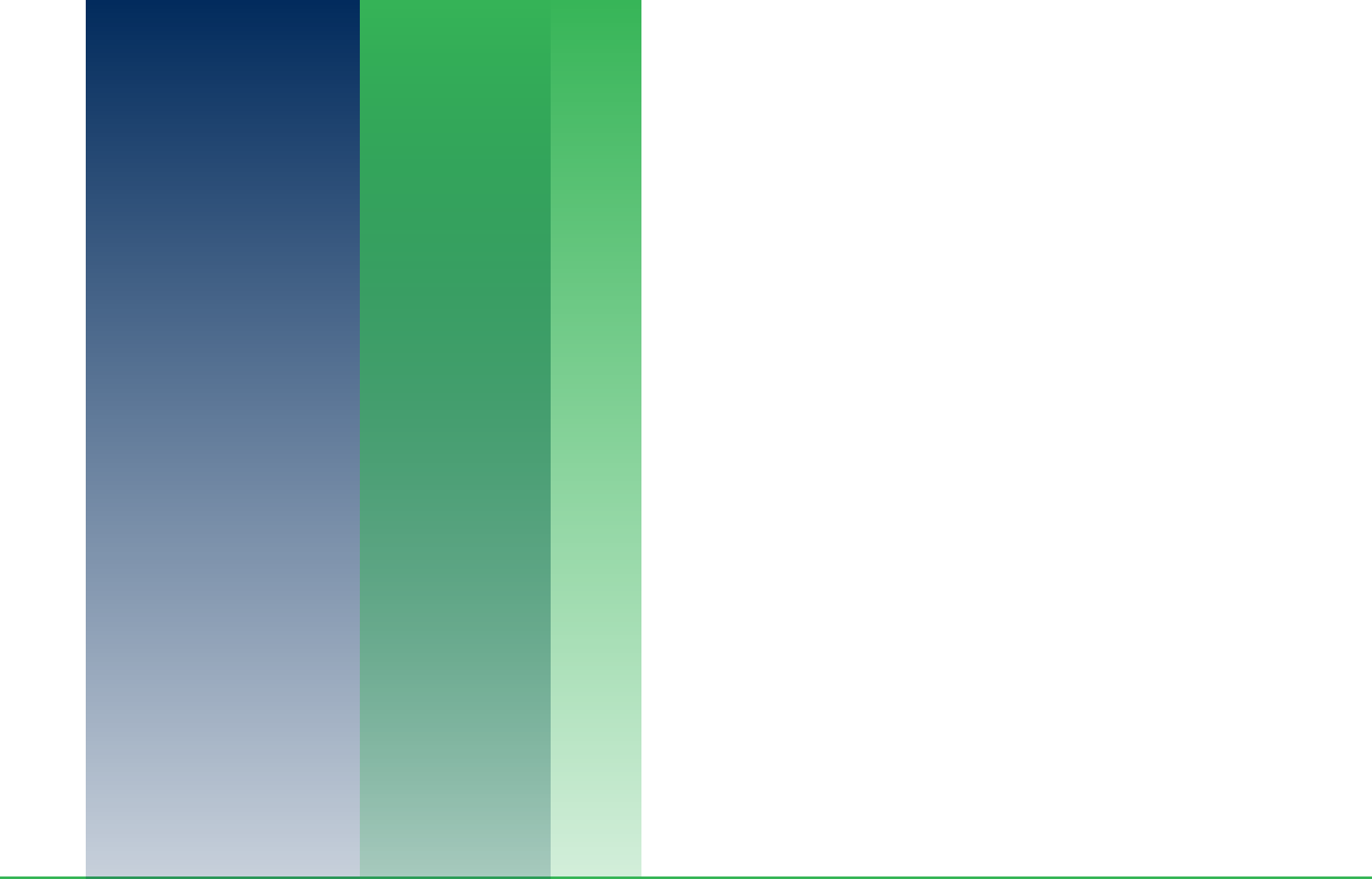
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