



February 21, 2012

The Honorable Edwin Lee
Mayor, City & County of San Francisco
City Hall, Room 200
One Dr. Carlton B. Goodlett Way
San Francisco, CA 94102

Dear Mayor Lee,

I am writing on behalf of a number of representatives of the arts and entertainment community to request a meeting with you. We have some ideas as to how to improve the current plan to implement the America's Cup in San Francisco in 2013 so that it maximizes the event's economic impact potential and becomes more of a meaningful and rich experience for San Franciscans across the socio-political spectrum. We would like to talk to you about our plan prior to the vote by the Board of Supervisors on whether or not to go ahead with the America's Cup deal. The vote is currently expected on the 28th of this month.

Quite appropriately, the Supervisors' primary focus is on the long term ramifications of the leasing of public property as spelled out in the Disposition and Development Agreement between Oracle Racing and the Port Authority. However, there are other important details in the America's Cup deal that the city needs to give serious consideration before signing off on them. It is some of these details that are the subject of this letter and we are asking that you insert the power of your office into the negotiations as a means to help modify the deal for the benefit of all parties concerned.

There has been a great deal of speculation recently around the extent of the economic benefits to the City during the America's Cup races in 2013. The official forecast remains fixed at \$1.4 billion in total impact with over 8,000 jobs created despite the fluctuations in the projected number of attendees and participating teams.

Leaving the Port lease deal aside for a moment, San Francisco's primary interest in the America's Cup lies in the numbers of people that will travel to the City next year and the amount of time they will remain here as our guests. The assumption being the longer they stay the more they will spend in the local economy and the more San Franciscans that will be gainfully employed, etc.

One of the problem as we see it stems from the fact that it is the America's Cup organizers that, in addition to being responsible for staging the boat races, are also in charge of delivering the onshore entertainment program. We are concerned about this for several reasons. Most fundamentally, generating visitor spending in the City during the America's Cup is in the financial interest of San Francisco. It is not really in the financial interests of Oracle Racing or either of the two entities that it created to administer the event (the America's Cup Event Authority (ACEA) or the America's Cup Race Management (ACRM)). Therefore, it follows that San Francisco should control those aspects of the event that are in its own economic interests, and not allow them to be governed by entities whose business plan does not place equal emphasis on the same.

If we think about the America's Cup business plan it seems they have two primary sources of income. As referenced above, there are the long-term real estate options on the Port. Then, as Oracle's Stephen Barclay alluded to at the Budget Committee hearing on Wednesday February 15, there are the global television rights for the America's Cup races and the associated corporate sponsorships. The latter being Oracle's primary source of direct revenue from the events held in San Francisco in 2013.

In light of this, please consider the following:

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To implement its 34th edition, Larry Ellison has summoned some of the finest minds that reinvented European football to undertake something similar with the America's Cup. To put it another way, Mr. Ellison has hired the people that took an industry in crisis in the 1990's (association football) and turned it into the multi-billion dollar flourishing global business it is today.

In 1990 football was dying. The game was going broke and the model that had worked well for nearly a century was clearly a long way past its shelf life. At the time television channels were not allowed into the grounds to broadcast the games live as the leagues were afraid of further eroding the already diminished stadium attendances. In addition, all the games started at the same time on Saturday.

However, the early 1990's also saw the advent of satellite television. A group of business people figured out that by using this increasingly available new technology there could be an instant global audience for football where there had previously only been a national or regional one. They also figured that if all the starting times of the games were staggered across the weekend then the spectacle of live televised football for a global audience could drag out across a marathon three-day time span every week. The rewards were astounding. Major corporations had a devoted and captivated global audience in the hundreds of millions to whom they could market their wares. They paid very well for access and the amount of money pumped into the top professional leagues changed the nature of the game forever.

Much has been made of the notion that the 34th America's Cup, raced on San Francisco Bay, will be the first time the event has been created for a land-based audience. On its face this statement can be held up as true. However, based on the business plan, it is not the primary reason that Oracle wants to hold the America's Cup here (again, leaving the Port deal aside for a moment). Oracle wants to hold the races on San Francisco Bay because this is the first America's Cup that is being staged for a global television audience and the commensurate financial benefits that come with it.

In addition to the extremely wealthy entities who will be feted by the respective teams aboard their armadas of super yachts next year, Oracle needs enough land based spectators to create an atmosphere and a dynamic backdrop for a camera shoot, the same as they need a montage of the Golden Gate Bridge, Alcatraz and Treasure Island. These elements become stock footage in a video editor's tool box of visual aids to augment the shots America's Cup TV will get from the multiple camera angles they will have trained on every boat. In this regard, Oracle views San Francisco more as a Hollywood film lot; a scenic panorama for a live global television broadcast starring Larry Ellison.

What this means is that the number of people who actually attend the America's Cup in San Francisco is not the main focus of the Oracle business plan. They are undoubtedly part of the equation, but all they really need is a crowd big enough to look good on television. True, Oracle will be selling memorabilia and taking a cut from merchants that are set up in the village, but the money generated from this on-site activity will represent a small fraction of the income they plan to derive from global television rights and corporate sponsorships. Further, concessions will be sold to the thousands of devoted fans of sailing who will undoubtedly attend America's Cup regardless of any augmented entertainment program.

The point is that the interests of the City of San Francisco and Oracle are divergent when it comes to the importance of creating a positive impact in the local economy. In the grand scheme of things Oracle does not gain much from it, whereas for the majority of San Franciscans it is the primary reason for their being willing to go through the aggravation of hosting the America's Cup.

This would be an issue and a cause for concern even if everything was going according to plan. What makes it even more serious is that the Oracle business model is not as sound as everyone once imagined it was. The problem with Oracle's equation for America's Cup Global Television is that sailing is not football. Football is a

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global phenomenon loved by the masses: a dependable market of hundreds of millions of people worldwide. Its brand value is indisputable. Yacht racing on the other hand, despite Mr. Ellison's laudable efforts to popularize the sport, remains the purview of a privileged few and, as Oracle is now finding out, not as easy to sell to major corporations (I heard they were asking potential corporate sponsors for \$20 million per market segment).

As evidenced by their experiences in San Diego, Plymouth and Portugal, neither the live crowds nor the television viewers are showing up or switching on in the numbers anticipated and, as a result, neither are the sponsorship dollars. This is why Mr. Ellison fired Craig Thompson the CEO of ACEA in December. He also took away ACEA's responsibility for events—and (one imagines) their authority. The sole function of ACEA, as reported in the San Francisco Business Times, is now fundraising. The associated cultural and entertainment program that ACEA once assured us it would create, is now the responsibility of ACRM, who had hitherto only been focused on, as their title implies, the boat race itself.

What this suggests is that Oracle Racing and its subsidiaries are in the middle of an organizational crisis because their business plan is not working as they imagined it would. Their corporate arm has to double down and focus exclusively on the tough job of raising the large sums of money they originally thought it would be much easier to realize, whilst the people who thought they had been hired to oversee the boats now also find themselves on the entertainment committee.

There are a few other bullet points to consider as well:

- First, most significantly, now that Oracle and its subsidiaries have realized that they have overstated the value of their brand, they are going to have to reduce their costs. This means they will start cutting those parts of their program that are not essential to their main business plan (and their bottom line is about television rights, corporate sponsorships and real estate deals and the required luxury item is a very expensive boat). Therefore, we think that among the first things to be seriously curtailed will be the entertainment program, which is the one thing with the potential to attract an audience of visitors beyond hard-core sailing enthusiasts.
- Second, despite their promises of creating a worthy series of arts and entertainment events, the America's Cup has no real history of planning and executing a comprehensive cultural/entertainment program. Their idea of entertainment in the past was to put up a stage near the boats and have the band play blues music. Not that there is anything wrong with the blues, but as a stand alone concept this cannot pass for a cultural program in San Francisco.
- Third, as referred above, this is the first time that there has been an America's Cup that includes an assumption for a large land-based audience, and as the reports from San Diego seem to be bearing out, we really cannot take the projected attendance figures of up to nearly 300,000 a day for granted. We have to do something comprehensive and proactive to help ensure these numbers.
- Fourth, there is only one hour of yacht racing a day in the afternoon. Even if we actually succeed in getting a large crowd for the America's Cup, how are we going to keep them here after the race is concluded? Especially considering that the anticipated audience (presumably including the 2,000 Thurston Howells OEWD staff observed in San Diego), are all wealthy enough to fly to Las Vegas and be on The Strip within three hours of the racing being over on The Bay.
- Finally, Oracle has claimed that the America's Cup is the third largest sporting event in the world. If we were preparing to host either of the first two largest sporting events in the world, an arts festival would be mandatory. A city cannot even bid to host the Olympics unless it also has a plan for a comprehensive cultural program. It is not that the International Olympic Committee is necessarily any

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more altruistic than Oracle, it's just they understand from experience that having a festival to complement their sports program increases the numbers of spectators that will attend and keeps them in town longer, thus increasing the value of the corporate sponsorships and the overall economic impact.

As I have oft repeated to city staff and anyone else who will listen, when we asked the people who organized the Cultural Olympiad for the Winter Olympics in Vancouver in 2010 they said, "If you counted every seat in every venue for every event at the winter games you had one million seats. A total of 5.2 million people came to Vancouver for the Olympics. What do you think the other 4.2 million did?" The answer is that four times as many people experienced the Vancouver Olympics through the arts than from watching live sports.

So where does all of this leave San Francisco? We cannot necessarily fault the America's Cup when it comes to economic impact projections. It was your predecessor Gavin Newsom, not Larry Ellison, that wrote to Board of Supervisors President David Chiu in 2010 promising \$1.4 billion and more than 8,000 jobs; projections that have not been re-assessed since. Given all of the variables and uncertainties listed above, how are we going to guarantee getting anything close to those types of numbers to be able to say that hosting the America's Cup was worth the trouble and delivered on Mayor Newsom's promise?

Quite simply, we have to take control of those functions that determine the success of our own interests. America's Cup visitors and visitor spending are far more in San Francisco's interest than Oracle's. Therefore, we should not put ourselves in the position of having to rely on Oracle to deliver on something that is not part of its core business plan. Especially when we can see they are in trouble and no-one will fault them for cutting back on non-essential programs in an effort to balance their books.

Neither can we be complacent nor pretend that this is not a serious issue that does not need to be addressed immediately. We must show leadership and take responsibility for creating the sort of cultural program that utilizes the city's not inconsiderable existing cultural assets and infrastructure in such a way that stands the best chance of attracting far more visitors to San Francisco during the America's Cup than just a hardcore sailing crowd, no matter how wealthy the sailing crowd might be.

To that end, let's find out what either ACEA or ACRM (whichever is managing events now) has left in its budget for entertainment (my understanding is they at least have a main-stage being sponsored by BMW) and write into the agreement that utilizing those allotted America's Cup funds for entertainment alongside municipal support and other government and private resources, we (the City/the San Francisco arts community) will take on the responsibility of creating the cultural program to better serve the interests of all parties concerned. I think once they get over the initial shock they will actually see the wisdom of the idea. They are under the gun to raise money to maintain the core of their program; they do not need to be burdened with delivering on what is clearly not a priority for them.

Further, there are still many people in the City that are either ambivalent about or completely opposed to the America's Cup, which is why it is our responsibility and in our own interests to turn this event into the best opportunity for San Francisco that it can be. We need to win local opponents over. In order to do this, we must utilize this occasion in as many ways as we can to enrich the lives and experiences of all the people that live here, to help stimulate our economy, to try to get back to full employment and to demonstrate to an international audience that San Francisco remains one of the greatest and most unique cities in the world.

As such, we must stage a complementary festival that is worthy of San Francisco and that simultaneously caters to visitors and our own people. We must create a program that reaches out to and represents as many segments of our own population as possible. If we are successful many more of our own community members will identify

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with the America's Cup, not by watching a boat race, but through experiencing art, attending a music concert, a dance or theatre performance, a circus, an opera or a gallery opening. We can have the America's Cup come to the neighborhoods (as was the wish of the 11 District Supervisors who originally voted to host it) and spread the economic impact and interest throughout the city, just as they did in Vancouver.

And for visitors, when people get here we want them to see San Francisco at its best; a magical place that can blow minds and leave lifelong impressions, as we all know very well that it can. But we cannot take this for granted; showing this City at its best takes serious thought and consideration. Cultural programs don't just spontaneously coalesce at the last minute; they take a great deal of work and planning. They also need sufficient time and we are quickly running out of it.

Further, the America's Cup itself needs to be truly infused with the spirit of San Francisco. This is not Valencia, Newport or Auckland, although some ACEA staff members behave as if they think it is. This is San Francisco and what is perhaps sufficient for those other cities (lovely places though I am sure they are) will not do for us. If the America's Cup wants to grow and emulate the Olympics we can help take them there, but they are going to have to raise their game. If instead they want to be on par with the X Games, I'm sure one of the above referenced towns can still accommodate them.

The deal also needs to begin with a shift in attitude. Thus far Oracle has regarded San Francisco as a television studio or backdrop for its activities; they have not connected with us as real partners. No matter how much the America's Cup people covet the value of their brand, it is nothing compared to the San Francisco brand. San Francisco is one of the most proven and powerful brands in the world. This begs the suggestion that the smartest way for the America's Cup to increase its own brand value is to link it organically to ours and truly work in partnership with the City. The myriad additional opportunities for media impressions, logo placement and name recognition afforded through working with the multiple entities that comprise San Francisco's arts industry is the vehicle through which they can perhaps best achieve a legitimate increase in sponsorship value. I still don't think they will get to the \$20 million-per mark in 2013; it is already too late for that. But if Larry Ellison successfully defends the America's Cup and they stay in San Francisco, we might manage it in 2017 if we work together as partners.

In closing, I would like to reiterate, we have a plan for how to make such a cultural program work for everyone's benefit in 2013. We would like to share our ideas with you so you can influence the language currently in the legislation and change the deal before the Supervisors vote on it on February 28th. We hope you can accommodate us.

Sincerely

A handwritten signature in blue ink, appearing to read "Andrew Wood". The signature is stylized and fluid.

Andrew Wood
Executive Director
San Francisco International Arts Festival

C.c. San Francisco Board of Supervisors
City of San Francisco America's Cup Executive Committee