THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: September 15, 2010 REPORT NO:

ATTENTION: Land Use and Housing Chairman and Committee Members

SUBJECT: San Diego Sports Arena Operating Sublease

REFERENCE:

REQUESTED ACTION:

A. Approve a resolution authorizing an amendment to the San Diego Sports Arena Operating Sublease Agreement extending the lease term from May 7, 2017 to May 31, 2020 and authorizing an Agreement Affecting Surviving Provisions of Second Restated MOU.
B. Approve a resolution consenting to the sale of the naming rights for the San Diego Sports Arena to San Pasqual Casino Development Group, Inc., a wholly-owned entity of the San Pasqual Band of Mission Indians, doing business as "Valley View Casino and Hotel," and consenting to the identification signage of the San Diego Sports Arena as the "Valley View Casino Center".

STAFF RECOMMENDATION:
Adopt the Resolutions.

BACKGROUND:
The San Diego Sports Arena opened in 1966. Arena Group 2000 acquired its interest in the arena operating agreement in 1992. The current operator of the San Diego Sports Arena, AEG Management SD, LLC (AMSD) acquired its interest in the Sports Arena in September 2008. AMSD is controlled by Arena Group 2000 and Anschutz Entertainment Group, Inc. (AEG). AEG controls major sport franchises including the Los Angeles Lakers and the Los Angeles Galaxy, and owns the Staples Center in Los Angeles. In the past two years AMSD has spent an additional $3.5Million in capital improvements on the Sports Arena including a new arena club and new lower level seating. Under the terms of the existing Operating Sublease agreement, the City receives percentage rent revenue from parking income, Kobey's Swap Meet and incidental uses such as telecommunication subleases but not for activities inside the arena such as ticket sales and concessions. Revenue in recent years has averaged $389,000 in 2008 and $405,000 in 2009 and is expected to increase approximately 15% to $465,750 in 2010. The operating agreement currently expires on May 7, 2017.

In 2002 the Operating Sublease was amended to revise the premises to delete the Sports Arena Retail Pad Ground Lease area which consists of Chili's, ARCO and Chick-Fil-A. A new thirty (30) year ground lease was entered into between the City and AMSD for the Retail Pad Ground Lease area which expires April 30, 2032. Revenue in recent years has averaged $100,300 in 2008

and $108,300 in 2009. The 2002 amendment also clarified disputes regarding Naming Rights and provided that the City would receive 10% of naming rights revenues, subject only to the City's consent to: (a) the person or entity acquiring the naming rights; and (b) the identification signage.

AMSD also leases Sports Arena Square (previously occupied by Black Angus) which is currently on a month-to-month holdover. Revenues in recent years have averaged $469,000 in 2008 and $327,757 in 2009.

The proposed Fifth Amendment to the Operating Sublease for the Sports Arena includes the parking lot and Kobey's Swap Meet would extend the lease term an additional three (3) years from May 07, 2017 to May 31, 2020 and would not obligate itself with respect to any of the other properties operated by AMSD.

AMSD and the City are also parties to a memorandum of understanding (MOU) which anticipated the development of a new sports arena and expired on March 28, 1997, but with surviving provisions. As partial consideration for the Operating Sublease amendment, certain surviving provisions of the MOU regarding a forced sale or purchase of AMSD's leasehold interest to or by the City will expire on May 7, 2017.

The Operating Sublease gave AMSD the right to sell the naming rights to the San Diego Sports Arena, subject only to the City's consent to: (a) the person or entity acquiring the naming rights; and (b) the identification signage. AMSD has entered into a Naming Rights Agreement with San Pasqual Casino Development Group, Inc., a wholly-owned entity of the San Pasqual Band of Mission Indians, doing business as "Valley View Casino and Hotel," to change the name of the San Diego Sports Arena to "Valley View Casino Center." The Naming Rights Agreement is for a five (5) year term. Pursuant to the Operating Sublease, the City will receive approximately $30,000 per year (i.e., 10% of AMSD's gross receipts for the naming rights), plus annual escalations for five years. The Naming Rights Agreement also requires AMSD to make improvements to the parking lot (paving lighting and landscaping) which are estimated to cost $300,000 to $400,000.

SUMMARY:

The current operator of the San Diego Sports Arena, AEG Management SD, LLC (AMSD), has three agreements with the City for the Sports Arena and surrounding properties which include the Operating Sublease (Sports Arena, parking lot and Kobey's Swap Meet), the Sports Arena Retail Pad Ground Lease (Chili's, ARCO, Chick-Fil-A) and the Crake Parcel Lease (Sports Arena Square). AMSD and the City are also parties to a memorandum of understanding (MOU) which anticipated the development of a new sports arena and expired on March 28, 1997, but with surviving provisions.

The current Operating Sublease expires May 7, 2017. AMSD is requesting a three-year extension of its lease term to further discussions with major sports teams, entertainment promoters, and for naming rights. The proposed Fifth Amendment to Operating Sublease Agreement would extend the lease term an additional three (3) years from May 7, 2017 to

May 31, 2020. As partial consideration for the Operating Sublease amendment, certain surviving provisions of the MOU regarding a forced sale or purchase of AMSD's leasehold interest to or by the City will expire on May 7, 2017.

The Operating Sublease gave AMSD the right to sell the naming rights to the San Diego Sports Arena, subject only to the City's consent to: (a) the person or entity acquiring the naming rights; and (b) the identification signage. AMSD has entered into a Naming Rights Agreement with San Pasqual Casino Development Group, Inc., a wholly-owned entity of the San Pasqual Band of Mission Indians, doing business as "Valley View Casino and Hotel," to change the name of the San Diego Sports Arena to "Valley View Casino Center." Pursuant to the Operating Sublease, the City will receive approximately $30,000 per year (i.e., 10% of AMSD's gross receipts for the naming rights), plus annual escalations for five years.

FISCAL CONSIDERATIONS:
The City would receive in excess of $1,000,000 in rent from the Sports Arena for the three (3) year lease extension. The Naming Rights Agreement would generate approximately $156,950 over the next five (5) years to the City.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
The proposed lease amendment and name change will have minimal or no impact to the community.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:
The City of San Diego will benefit from the proposed improvements to the Sports Arena.

James F. Barwick, Director
Real Estate Assets Department