OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: September 3, 2010 **IBA Report Number:** 10-67

Rules Committee Agenda Date: September 8, 2010

Item Number: 3

Response to Grand Jury Report Titled "Qualcomm Stadium"

On May 19, 2010 the San Diego County Grand Jury filed a report titled "Qualcomm Stadium." The Grand Jury report reviews the history of the stadium's construction and renovation, highlights current operational funding issues, and considers a number of implications for the potential construction of a new football stadium.

The Grand Jury report included 11 findings and three recommendations. Both the Mayor and the City Council are required to respond to each of the findings and recommendations. Due to Legislative Recess, the Council President requested an extension of the August 19 due date for the Council's response, which was granted by the Presiding Judge of the Superior Court. The Council's response to the Grand Jury report is now due by October 1, 2010.

The IBA has obtained a copy of the Mayor's draft responses to each of the findings and recommendations. For each item, the Council may join the Mayor's response, respond with a modification of the Mayor's response, or respond independently. In responding to each Grand Jury finding, the City is required to either 1) agree with the finding or 2) disagree wholly or partially with the finding. Responses to Grand Jury recommendations must indicate that the recommendation 1) has been implemented; 2) has not yet been implemented, but will be in the future; 3) requires further analysis; or 4) will not be implemented because it is not warranted or is not reasonable. Explanations for responses are requested when applicable.

As illustrated in the following table, the IBA recommends that the Council join the Mayor's response to eight of the findings and all three of the recommendations, and respond independently to three of the findings.

Findings:	1, 2, 4, 6, 7, 8, 9, 11	***Join the Mayor's Response***
Recommendations:	10-44, 10-45, 10-46	
Findings:	3, 5, 10	***Respond Independently of the Mayor***

It should be noted that at the time this report was released, the Mayor's responses were still in draft form. Should any further changes be made to the Mayor's responses, the proposed Council responses will be reevaluated and amended accordingly. The proposed responses to Findings #5 and #10 are based on independent research conducted by the IBA.

[SIGNED]

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[SIGNED]

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Attachment

Proposed City Council Response to Findings and Recommendations in San Diego Grand Jury Report Titled "Qualcomm Stadium"

GRAND JURY FINDINGS

Finding #01: Qualcomm Stadium has a seating capacity of about 70,500 and a remaining obligation of about $52 million on the 1997 Renovation Bonds.

Mayor's Response: Agree.

IBA Recommendation: Join the Mayor's Response

Finding #02: Regular net rent received by the City from the Chargers after deducting the ADA payments and rent credits, is less than $1 million per season.

Mayor's Response: Agree. The stadium averages approximately $700,000 in rent from the Chargers per season.

IBA Recommendation: Join the Mayor's Response

Finding #03: The City's direct operating losses on Qualcomm Stadium after crediting net rents paid by the Chargers, and excluding efforts by the City to mitigate the shortfall with other events, are at least $17.1 million for FY 2010.

Mayor's Response: Agree.

IBA Recommendation: Do not join the Mayor's response, and respond independently with the following:

> **Partially Disagree.** In FY 2010, total operating expenditures for Qualcomm Stadium were budgeted at $18.1 million. This total includes expenditures associated with events other than Charger games, including San Diego State University Aztec football games and other special events. The FY 2010 budget also includes approximately $3.8 million in revenue from these non-Charger events. It is inappropriate to characterize the Stadium's operating deficit by including the expenses for these events but excluding the associated revenue.
>
> Stadium operations are subsidized by Transient Occupancy Tax (TOT) revenue, which is transferred from the Special Promotional Programs budget. The FY 2010 budget includes approximately $11.2 million in TOT revenue to support Stadium Operations. This more accurately reflects Qualcomm Stadium's operating deficit. It should be noted that the Stadium's budget operating expenditures for FY 2010 include approximately $5.8 million in debt service on

the Stadium Renovation Bonds. Excluding this debt service expense, the direct operating deficit in FY 2010 was approximately $6.1 million.

Finding #04: The City partially reduces the deficit with other events and subsidizes the balance with City Transient Occupancy Tax (TOT) revenues of $11.8 million in 2010.

Mayor's Response: Agree.

<u>IBA Recommendation:</u> Join the Mayor's Response

Finding #05: The Tampa Bay Buccaneers pay the Tampa Sports Authority fixed rent of $3.5 million per season, a minimum of $3.5 million on account of premiums from the sale of Club Seats and a ticket surcharge of $2.50 per ticket, all with no rent credits, for a total of at least $8.1 million.

Mayor's Response: Partially disagree. While the City does not dispute the accuracy of the Grand Jury's research, it cannot confirm this information.

<u>IBA Recommendation:</u> Do not join the Mayor's response, and respond independently with the following:

> **Disagree.** According to the Tampa Sports Authority (TSA), the Tampa Bay Buccaneers pay fixed rent of $3.5 million annually for use of Raymond James Stadium, use of the practice area and compensation for development rights. In addition, a surcharge of 8% (capped at $2.50) is placed on tickets for all stadium events. Surcharge revenues are paid to the TSA up to a maximum of $1.93 million per year. The Tampa Bay Buccaneers do not make any additional payments to the TSA from the sale of club seats. As a result, total payments to the TSA are $5.43 million annually, not $8.1 million as stated in the Grand Jury finding. Furthermore, per terms of the Stadium Agreement, the TSA is required to pay the Tampa Bay Buccaneers the first $2 million in net revenue from all non-NFL events hosted or produced by the TSA. All net revenues in excess of $2 million are split 50%-50% between the TSA and the Buccaneers. These payments from the TSA to the Buccaneers partially offset the $5.43 million in rent and surcharge revenues received by the TSA.

Finding #06: San Diego taxpayers oppose the use of public monies for the construction of a new Charger stadium.

Mayor's Response: Partially disagree. This statement may or may not be true. The City cannot contradict or affirm this statement without empirical data. In the absence of specific research, this claim is not verifiable.

<u>IBA Recommendation:</u> Join the Mayor's Response.

Finding #07: The Chargers are proposing to invest about $200 million to build a 62,000 seat stadium at a cost of $800 million, with the balance of about $600 million to come from tax increment bonds to be paid from property, sales and Transient Occupancy Taxes.

Mayor's Response: Partially disagree. The City has not received nor offered to the Chargers any such proposal.

IBA Recommendation: Join the Mayor's Response.

Finding #08: The $800 million estimate may be significantly increased by the addition of a retractable roof.

Mayor's Response: Partially disagree. The City cannot estimate the potential cost impacts of the inclusion of a retractable roof.

IBA Recommendation: Join the Mayor's Response.

Finding #09: The $52 million balance due on the 1997 stadium Renovation Bonds must be dealt with if a new Chargers stadium is built.

Mayor's Response: Partially disagree. It is unclear what is meant by "must be dealt with." However, the City agrees that retirement of the remaining bonds must be discussed in any negotiation of a new stadium plan when and if negotiations for a new stadium proceed.

IBA Recommendation: Join the Mayor's Response

Finding #10: There is almost no evidence that professional sports franchises and facilities have a positive impact on real per capita income or employment, and may have a negative effect.

Mayor's Response: Disagree. Each large scale event employs 600-800 part time employees for Food and Beverage service and security alone. Another 1200 are employed part time as ushers, and security personnel, etc., for a total of approximately 2000 part time jobs. Sales tax is generated from the sale of food, drink and merchandise. Academic studies have shown the economic costs and benefits of professional sports teams and facilities and this finding does not acknowledge research and opinions representing contrary viewpoints.

IBA Recommendation: Do not join the Mayor's response, and respond with the following:

Partially Disagree. A substantial body of academic research suggests that professional sports teams and facilities have little or no tangible economic benefit to the local economy, and may in fact even have a negative impact.[1] Other research, primarily non-academic economic impact studies, has shown substantial tangible economic benefits in terms of job creation, income growth and increased tax revenues. However, such economic impact studies have been criticized by economists on a number of theoretical and methodological grounds.[2]

Aside from tangible economic benefits, an emerging field of academic research is examining potential *intangible* benefits that may result from hosting a professional sports team, such as quality of life, civic pride, regional identity and community image. While such intangible benefits are difficult to quantify, existing research does suggest that professional sport teams do provide potentially significant non-monetary benefits.[3]

Finding #11: If public financing is the source of funding for a new Charger stadium, the City should demand a lease with terms that will protect the City such as a long-term lease with fixed rents and no credits, no risk of cost overruns, and City use of the stadium for public events.
Mayor's Response: Partially disagree. The City agrees protections for the taxpayer will be pursued in any negotiation with the Chargers for a new stadium, when and if negotiations for a new stadium proceed.

<u>IBA Recommendation:</u> Join the Mayor's Response

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[1] For a summary of relevant literature, see Coates, Dennis and Brad Humphreys. 2008. Do Economists Reach a Conclusion on Subsidies for Sports Franchises, Stadiums, and Mega-Events? *Econ Journal Watch*, 5(3): 294-315;
[2] Siegfried, J. and A. Zimbalist. 2000. The Economics of Sports Facilities and Their Communities. *Journal of Economic Perspectives*, 14(3): 95-114; Crompton, J.L. 1995. Economic Impact Analysis of Sports Facilities and Events: Eleven Sources of Misapplication. *Journal of Sports Management*, 9(1): 14-35.
[3] Feng, Xia and B.R. Humphreys. 2008. Assessing the Economic Impact of Sports Facilities on Residential Property Values: A Spatial Hedonic Approach, *North American Association of Sports Economists Working Paper*, 08(12); Carlino, G.A. and N.E. Coulson. 2004. Compensating Differentials and the Social Benefits of the NFL. *Journal of Urban Economics*, 56(1): 25-50; Johnson, B.K., P.A. Groothuis and J.C. Whitehead. 2001. The Value of Public Goods Generated by a Major League Sports Team: The CVM Approach. *Journal of Sports Economics*, 2(1): 6-21.

GRAND JURY RECOMMENDATIONS

10-44: **Study independent economic analyses of a proposed new stadium so as to accurately project per capita income and employment data for the construction and operation of a new downtown Chargers stadium.**

Mayor's Response: This recommendation requires further analysis. Any study of economic impacts of a proposed stadium will require a proposal to be defined to a level of specificity that does not exist at this time.

IBA Recommendation: **Join the Mayor's Response.**

10-45: **If a new downtown stadium for the Chargers is to be built, negotiate a favorable resolution of the $52 million balance remaining on the 1997 stadium renovation bonds.**

Mayor's Response: This recommendation requires further analysis. The City agrees that retirement of the remaining bonds must be discussed in any negotiation of a new stadium plan when and if negotiations for a new stadium proceed.

IBA Recommendation: **Join the Mayor's Response.**

10-46: **If public financing is to be employed for the construction of a new downtown stadium for the Chargers, demand a lease with terms that will protect the City such as a long-term lease with fixed rent sufficient to cover any public indebtedness incurred by the City or the City of San Diego Redevelopment Agency, with no credits, no risk of cost overruns and controls of the use of the stadium for other City and City contracted events.**

Mayor's Response: This recommendation requires further analysis. The City agrees protections for the taxpayer will be pursued in any negotiation with the Chargers for a new stadium, when negotiations for a new stadium proceed.

IBA Recommendation: **Join the Mayor's Response.**