



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: January 25, 2012 REPORT#: 12-010

ATTENTION: Rules, Open Government and Intergovernmental Relations Committee  
February 1, 2012

SUBJECT: Report from the Office of the Mayor – Economic Growth Services  
regarding PROPOSAL TO INCREASE SPECIAL EVENT USE OF  
PETCO PARK FOR EAST VILLAGE REVITALIZATION

REQUESTED ACTION:

1. Recommend the Office of Economic Growth Services and City Attorney draft a  
RESOLUTION TO AMEND THE JOINT USE MANAGEMENT AGREEMENT WITH  
THE PADRES TO INCREASE SPECIAL EVENT USE OF PETCO PARK

EXECUTIVE SUMMARY:

The Office of Economic Growth Services has been approached by local business owners and civic organizations regarding the number of Special Events held at Petco Park in the off-season. Local businesses have conveyed their desire for the City to encourage more, and more regular special events at Petco Park to address the drop in activity in East Village when baseball games are not being played. The current agreement with the Padres, the Joint Use Management Agreement (JUMA), authorizes the Padres to be the sole manager of the ballpark, but provides a disincentive for the organization to hold events in the off-season. This proposal will address the disincentive, encourage capital investment in Petco Park, and address the drop in activity during the off-season.

The City of San Diego and San Diego Padres jointly own Petco Park, identified in legal agreements as the Ballpark Property. The Padres are the managers of the Ballpark Property and book, promote, and manage special events at the ballpark. The City and the Padres are currently in discussions to amend the Joint Use Management Agreement (JUMA) to increase the number of off-season events and create additional activity in the Ballpark District.

The JUMA, between the City of San Diego and the San Diego Padres, approved February 1, 2000, established the terms of the Padres' and City's joint use of the Ballpark Property, other real and personal property, and the terms of the Padres' exclusive management of the Ballpark Property. Included in the JUMA is the agreement by which the City engages the Padres to manage the Ballpark and the Padres accept such engagement from the City, as the sole and exclusive on-site manager of the Ballpark Property throughout the year for the entire term of the

Agreement. This includes terms for the scheduling, revenue sharing, and expense allocation of four categories of events: Major League Baseball Games, Co-Owner's Everyday Events, and Small Events and Significant Events. The Small Events and Significant Events categories have the ability to create activity in and around the ballpark, particularly in the off-season. The Padres have been conducting a pilot program to ascertain whether increased off-season Small Events and Significant Events use of the ballpark is sustainable. The result of this pilot program is a proposal to make focused changes to the JUMA in two areas; the Small Events and Significant Events categories to create an incentive to hold more off-season events, and the contribution to and management of the Capital Expenditure Reserve Fund.

Changes to the Small Events and Significant Event categories, that increase the number of events at the park, can have at least two distinct benefits. First, the civic asset of Petco Park can be used to provide a variety of events to city residents all year long. This is in keeping with the goal of using the ballpark for a public purpose in addition to baseball related activities. Second, area businesses and residents can benefit from increased ballpark activity during the off-season. Use of Petco Park traditionally drops off when baseball games are not being played. This could be replaced by regular off-season special events, but the terms of the JUMA are a financial disincentive. Local resident and business groups have contacted the City to express concerns regarding the viability of businesses in and around the Ballpark District as several operations have closed since the opening of Petco Park. This is attributed to a decided drop off in park activity in the off-season.

Revenues from Small Events and Significant Events are allocated based on a split season schedule: (1) The "City Split Season" (from the day after the end of the Major League Baseball Season of each calendar year to February 28 or 29 of the following year), and (2) the "Padres Split Season" (from March 1 of each calendar year through the end of the Major League Baseball Season of that calendar year). For the "City Split Season" the "Net Incremental Revenue" (where Incremental Ballpark Revenues exceed Incremental Ballpark Expenses) from Small Events and Significant Events for the entire season are allocated 70% to the City, and 30% to the Padres. During this period the "Net Incremental Loss" (where Incremental Ballpark Revenues are less than Incremental Ballpark Expenses) from Significant Events for the entire Season are allocated 70% to the City and 30% to the Padres. During the "Padres Split Season" the percentages are reversed, with the Padres receiving 70% of the "Net Incremental Revenue" from Small Events and Significant Events and being responsible for 70% of the "Net Incremental Loss" from Significant Events. The City receives 30% of the Net Incremental Revenues and is responsible for 30% of the Net Incremental Loss from Significant Events. As the solely authorized Ballpark Manager the Padres book, manage, and promote Small Events and Significant Events. Expenses directly related a specific Small Event or Significant Event factor into the calculation of "Net Incremental Revenue," but there are expenses associated with the event that cannot be reimbursed. According to the Padres, the level of off-season events, that local residents and businesses desire, would require an increase in non-reimbursable overhead (Attachment 1). The current Net Incremental Revenue allocation of 30% to the Padres and 70% to the City in the "City Split Season" is a disincentive to conducting Small Events and Significant Events.

Revenue from general special events in the off-season has been volatile (Attachment 2). Significant Events, such as a major concert or sporting event, have been the major drivers of off-season special event revenue. In 2010, there was a sharp drop-off in off-season special event revenue partly due to the USA Sevens Rugby Competition leaving San Diego. From October 2009 to September 2010 the City share of special event net revenue was \$94,913. Since that time, the Padres have been working to increase both in-season and off-season special event revenue. From October 2010 to September 2011 the City share of net revenue from Small Events and Significant Events was \$380,643. The pilot project of promoting and booking Small Events and Significant Events has been a success. To expand on this success and encourage more events in the off-season, the Net Incremental Revenue formula needs to be changed.

The Padres have approached the City with an offer to make changes to the JUMA that will significantly increase their contribution to the Capital Expenditure Reserve Fund, eliminate the City's financial risk from opting into Significant Events, and implement a sustainable approach to promoting and conducting Small Events and Significant Events all year long. The terms of the proposal are as follows:

1. Increase the contribution by the Padres to the Ballpark Capital Expenditure Reserve Fund from \$250,000 to \$1,000,000 per year for the remainder of the lease term. Contributions over \$1,000,000 per year can be deducted from a successive year payment resulting in a total minimum contribution of \$15,000,000 to the Capital Expenditure Reserve Fund over the remaining term of the lease for an average \$1,000,000 per year.
2. Eliminate the City's Significant Events responsibility to opt-in or opt-out of events and pay "Net Incremental Loss" for Significant Events by creating a new Special Event category to replace Small Events and Significant Events categories.
3. Special Event Net Revenue (where Incremental Ballpark Revenues exceed Incremental Ballpark Expenses) sharing will be allocated 70% to the Padres and 30% to the City with a guaranteed Special Event Net Revenue minimum payment of \$300,000 being paid to the City regardless of the amount of Special Event Net Revenue received in a fiscal year. If the total Special Event Net Revenue exceeds \$1,000,000, the additional revenue will be allocated 70% to the Padres and 30% to the City. The minimum guarantee payment of \$300,000 will increase by the CPI rate contained in the JUMA.
4. Streamline the approval process for Capital Expenditure Reserve Fund expenditure projects by setting criteria that requires City consent for any stadium Capital Expenditure Reserve Fund Projects that would adversely change the essential aesthetic nature of the ballpark, have a materially adverse effect on the structure or systems of the ballpark or change the essential nature of the ballpark and the purpose for which it was intended to be used.
5. Facilitate growth of special events by crediting special event related capital expenditures against Special Event Net Revenue over and above the \$300,000

guaranteed payment. This offset concept could have a cap on total dollars and/or number of years.

FISCAL CONSIDERATIONS:

The Ballpark Capital Expenditure Reserve Fund contribution by the Padres will increase from \$250,000 to \$1 million annually for a total of \$14 million for the remaining term of the existing lease. The City will also receive a minimum payment of \$300,000 annually in Special Event Revenue for a total of \$4.2 million, plus CPI adjustments, which will offset City obligations for the Ballpark contained in the JUMA. If the Special Event Revenue Formula is changed and Capital Expenditure Fund Reserves are increased, the Padres project the total City share of Special Event Net Revenue to increase from \$315,000 in 2012-2013 to \$637,500 in 2014-2015 (Attachment 3).



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Originating Department  
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Event Expenses not Chargeable Against Gross Revenue

Padres Excluded Expenses – Average Estimate for Large Concert, Soccer or Rugby Match

Overhead or other Expense Category	Amount
Sales/Service Salary	\$55,500
Brand/PR/Communications Salary	\$44,250
Operations Salary	\$20,100
Senior Executives Salary	\$19,500
Legal/Finance Salary	\$11,375
Sponsorship Salary	\$9,225
<u>Other Overhead/Expenses</u>	<u>\$41,300</u>
<b>TOTAL</b>	<b>\$201,250</b>



## ATTACHMENT 2

**PETCO PARK NON-BASEBALL EVENT NET REVENUE  
SEVEN YEAR ANALYSIS**

YEAR	EVENT	In-Season		Off Season		Totals
		City 30%	Padres 70%	City 70%	Padres 30%	
<b>2005</b>						
(Oct 04 - Sept 05)	Soccer			\$ 209,385	\$ 89,736	\$ 299,121
	General	\$ 116,974	\$ 272,939	\$ 208,910	\$ 89,533	\$ 688,356
		\$ 116,974	\$ 272,939	\$ 418,295	\$ 179,269	\$ 987,477
						<b>2005 City</b> \$ <b>535,269</b>
						<b>2005 Padres</b> \$ <b>452,208</b>
<b>2006</b>						
(Oct 05 - Sept 06)	Rolling Stones			\$ 583,893	\$ 250,240	\$ 834,133
	General	\$ 13,088	\$ 30,538	\$ 73,422	\$ 31,466	\$ 148,513
		\$ 13,088	\$ 30,538	\$ 657,315	\$ 281,706	\$ 982,647
						<b>2006 City</b> \$ <b>670,402</b>
						<b>2006 Padres</b> \$ <b>312,244</b>
<b>2007</b>						
(Oct 06-Sept 07)	Rugby			\$ 352,718	\$ 151,165	\$ 503,882
	General	\$ 37,059	\$ 86,471	\$ 349,053	\$ 148,704	\$ 621,287
		\$ 37,059	\$ 86,471	\$ 701,771	\$ 299,869	\$ 1,125,169
						<b>2007 City</b> \$ <b>738,829</b>
						<b>2007 Padres</b> \$ <b>386,340</b>
<b>2008</b>						
(Oct 07-Sept 08)	Rugby			\$ 520,444	\$ 223,047	\$ 743,491
	General	\$ 110,467	\$ 234,745	\$ 86,340	\$ 37,003	\$ 468,554
		\$ 110,467	\$ 234,745	\$ 606,783	\$ 260,050	\$ 1,212,045
						<b>2008 City</b> \$ <b>717,250</b>
						<b>2008 Padres</b> \$ <b>494,795</b>
<b>2009</b>						
(Oct 08-Sept 09)	Rugby			\$ 516,900	\$ 221,528	\$ 738,428
	Madonna			\$ 526,808	\$ 225,775	\$ 752,583
	General	\$ 46,420	\$ 108,314	\$ 246,178	\$ 131,116	\$ 532,029
		\$ 46,420	\$ 108,314	\$ 1,289,886	\$ 578,420	\$ 2,023,039
						<b>2009 City</b> \$ <b>1,336,306</b>
						<b>2009 Padres</b> \$ <b>686,734</b>
<b>2010</b>						
(Oct 09-Sept 10)	Soccer	\$ 19,399	\$ 45,264			\$ 64,663
	General	\$ 79,970	\$ 196,992	\$ (4,456)	\$ (1,337)	\$ 271,170
		\$ 99,368	\$ 242,256	\$ (4,456)	\$ (1,337)	\$ 335,832
						<b>2010 City</b> \$ <b>94,913</b>
						<b>2010 Padres</b> \$ <b>240,919</b>
<b>2011</b>						
(Oct 10-Sept 11)	Rescheduled Events*			Actual \$ 141,167	\$ 60,501	\$ 201,668
	General	\$ 162,000	\$ 530,401	\$ 77,476	\$ 33,203	\$ 803,080
		\$ 162,000	\$ 530,401	\$ 218,643	\$ 93,704	\$ 1,004,748
						<b>2011 City</b> \$ <b>380,643</b>
						<b>2011 Padres</b> \$ <b>624,105</b>

\*The Cox and ASA events were scheduled for In-Season, but were moved to October to accommodate potential post-season games

<b>2005-2011 Net Revenue (Excluding High &amp; Low Years)</b>	<b>Total</b>	<b>Average Annual</b>	<b>30% of Average</b>
	\$ 5,312,085	\$ 1,062,417	\$ 318,725

### ATTACHMENT 3

#### Off Season Non-Baseball Event Net Revenue Projection Comparison

<i>If Off Season Net Revenue Split Remains the Same (70% City/30% Padres)</i>					
	2011-2012	2012-2013	2013-2014	2014-2015	Total
<b>Off Season Net Revenue</b>	\$200,000	\$77,000	\$77,000	\$77,000	\$431,000
<b>City Share</b>	\$140,000	\$53,900	\$53,900	\$53,900	\$301,700

<i>If Net Revenue Split Changes to 70% Padres/30% City Year-Round</i>					
	2011-2012	2012-2013	2013-2014	2014-2015	Total
<b>Off Season Net Revenue</b>	\$325,000	\$725,000	\$1,250,000	\$1,750,000	\$4,050,000
<b>City Share</b>	\$97,500	\$217,500	\$375,000	\$525,000	\$1,215,000
<b>Padres Excluded Expenses</b>	\$201,250	\$301,875	\$402,500	\$503,125	\$1,408,750

#### In Season Non-Baseball Event Net Revenue Projection

	2011-2012	2012-2013	2013-2014	2014-2015	Total
<b>In Season Net Revenue</b>	\$300,000	\$325,000	\$350,000	\$375,000	\$1,350,000
<b>City Share</b>	\$90,000	\$97,500	\$105,000	\$112,500	\$405,000
<b>Padres Excluded Expenses</b>	\$115,100	\$120,250	\$125,400	\$130,550	\$491,300

#### Total Non-Baseball Event Net Revenue Projection (Combined In and Off Season Net Revenue)

	2011-2012	2012-2013	2013-2014	2014-2015	Total
<b>Total Net Revenue</b>	\$625,000	\$1,050,000	\$1,600,000	\$2,125,000	\$5,400,000
<b>Total City Share*</b>	\$187,500	\$315,000	\$480,000	\$637,500	\$1,620,000
<b>Padres Excluded Expenses</b>	\$316,350	\$422,125	\$527,900	\$633,675	\$1,900,050

\*Subject at all times to \$300,000 guaranteed payment

*The information above is only a projection and makes certain assumptions regarding future activity that may not occur.*