EXECUTIVE SUMMARY

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: January 31, 2012 **IBA Report Number:** 12-07

Rules Committee Docket Date: February 1, 2012

Item Number: 4

Preliminary Review of the Proposal to Increase Special Event Use of Petco Park

In February 2000, a Joint Use and Management Agreement (JUMA) was entered into by the City and the Padres to establish the terms of the City's and the Padres' joint use of the Ballpark Property. The Padres are proposing several adjustments to the current JUMA that they believe provide motivation for the Padres' management team to be more aggressive in the marketing of the Ballpark Property.

In general, there are several benefits to the City associated with the Padres' proposal. However there are items that warrant further discussion with the Padres.

Benefits to the City	Concessions
Guaranteed Minimum Payment with CPI inflator	Guaranteed Minimum Payment initially is projected to be lower than historical average annual payment
Potential for increased economic development activity surrounding the Ballpark	City would not realize full upside of increased activity in special event revenue
City does not have capacity to undertake management of events	70/30 split is based on ownership split, a more beneficial split for the City could be considered
Increase to Capital Improvements	Increased competition could impact events at Qualcomm Stadium, potential of negative impact to TOT funded activities
Simplicity of year-round season	Proposed revenue offset for special event related capital projects will reduce revenue to the City

The proposal from the Padres marks a desire to increase the special events at the Ballpark and a commitment to continue to improve the Ballpark Property to ensure it remains a first class ballpark. However, several issues require further discussion and consideration.

- The City could discuss alternative splits to the proposed 70/30 year-round revenue allocation that are more in the City's favor.
- The City could consider establishing provisions for a trigger that would change the revenue allocations based on certain future revenue thresholds.
- The City could discuss revisiting the amount of the minimum guaranteed annual payment at a future date.
- The City could discuss further the proposed revenue offset, including the inclusion of a cap on total dollars and/or number of years as the offset could reduce revenues.
- The Padres' increased effort to attract more events at the Ballpark Property could increase competition at local venues, including Qualcomm Stadium. The net effect of this could be an increase in City TOT funds being required for Qualcomm.
- The IBA requests the City Attorney's Office to confirm that there are no legal considerations regarding the proposed amendments.

THE CITY OF SAN DIEGO

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OVERVIEW

In July 1998, the City and the Padres jointly presented the essential terms of an agreement to be submitted to the voters regarding the new ballpark. Additionally, this original agreement was to allow the City to enter into any additional agreements or amendments necessary to facilitate the intents of the original agreement provided that the City Council judge the additional agreements to be in the best interest of the City and do not materially: 1) decrease the rights or increase the obligations of the City; 2) increase the financial commitments of the City; or 3) decrease revenue to the City. In November 1998, the voters approved the original agreement, a Memorandum of Understanding (MOU) between the City, the Centre City Development Corporation, the Redevelopment Agency of the City of San Diego, and the Padres.

Joint Use and Management Agreement (JUMA)

In February 2000, a Joint Use and Management Agreement was entered into by the City and the Padres to establish the terms of the City's and the Padres' joint use of the Ballpark Property. While the JUMA describes multiple aspects of the joint use of the Ballpark Property, several key components of the agreement include:

- Defining the periods or "seasons" for primary usage by the City and Padres;
- Defining the categories of events to be held at the Ballpark and the ability to opt out of certain events;
- Establishing an incremental net revenue/expense percentage split for special events, based upon the category and season in which the event occurs; and

- Engaging the Padres as the sole and exclusive on-site manager of the Ballpark Property.

The JUMA provides the Padres the right to use and occupy the Ballpark Property for up to 125 days per calendar year ("Padres Season"), and provides the City the right to use and occupy the ballpark property for 240 days ("City Season") for several types of events. The Padres Season begins on March 1 of each calendar year through the end of the Major League Baseball Season and the City Season is from the end of the Major League Baseball Season until February 28th or 29th of the following year.

The JUMA describes four categories of events: Padres Games, Co-Owner Events, Small Events, and Significant Events. Padres Games (baseball) have priority over any other event, Co-Owner Events are events sponsored by a specific party (City or Padres), Small Events are events where only a small portion of the Ballpark Property is used, and Significant Events are those events that do not fall into any other category. An example of a Small Event would be high school prom, while a Significant Event would be a large concert. Both parties can be involved in Small and Significant Events.

The incremental net revenue/expense percentage split for special events is based upon the type of event that occurs and when the event takes place, with the exception of Padres Games.

- The Padres are allocated all revenues and expenses for Padres Games.
- For Co-Owner Events, the party sponsoring the event is allocated the revenue and expenses.
- For Small and Significant Events, the net incremental revenue/expenses are split 70% to one party and 30% to the other party, depending upon which season the event occurs. For events during the Padres season, the Padres are allocated 70% of the net incremental revenues/expenses and the City receives a 30% allocation of the revenues/expenses. For events during the City Season, the Padres are allocated 30% of the net incremental revenues/expenses and the City is allocated 70% of the revenues/expenses.
- For Significant Events, the City is responsible for its share of revenue and losses. However, the City has the ability to opt out of events prior to the event occurring. Should the City opt out of an event, the Padres would be solely responsible for the revenues and expenses of the event. The City has opted out of events in the past. An example of this occurred in 2010 when the City opted out of the Western Metal Building concert series. The event was a non-profitable event for the Padres.
- For Small Events, the City is protected against net incremental losses as the Padres bear any losses.

Additionally, the JUMA established the Padres as the sole and exclusive on-site manager of the Ballpark Property. The Padres' management team has the responsibility of marketing the Ballpark Property for various events, maintaining a master calendar for all events scheduled at the Ballpark Property, and providing regular updates to the City as to the planned events.

Original Revenue/Expense Allocation and Historical Revenues
Currently, the City and the Padres are following all the aspects of the JUMA. The ownership of the Ballpark Property is established as 70 percent City owned, based upon initial capital investment, and 30 percent Padres owned. Under the current JUMA, this same allocation is applied to the City Season for special event revenues as the City is established as having the right to use and occupy the Ballpark Property, while the City receives 30 percent of the special events revenue as the Padres have the right to use and occupy the Ballpark Property during the Padres' Season.

For context, the table below illustrates a five year history of the net revenues from special events. The special events during the City Season from 2007 to 2010 include concerts and outside sporting events such as soccer matches and rugby tournaments. During 2009, a major concert event (Madonna) occurred during the City Season. The five year historical average of net revenues earned from special events for the City is approximately $654,000, while the Padres have earned approximately $487,000. However, the average of net revenues from the special events for the City for 2010 and 2011 is approximately $240,000 while the Padres have earned approximately $433,000. These figures are for net special event revenues earned over the entire year, which would include both the Padres' and City Seasons.

HISTORICAL NET REVENUES*

Year	Organization	Padres Season	City Season	Total
2007	**City**	**$37,509**	**$701,771**	**$739,280**
	Padres	$86,471	$299,869	$386,340
2008	**City**	**$110,467**	**$606,783**	**$717,250**
	Padres	$234,745	$260,050	$494,795
2009	**City**	**$46,420**	**$1,289,886**	**$1,336,306**
	Padres	$108,314	$578,420	$686,734
2010	**City**	**$99,368**	**($4,456)**	**$94,912**
	Padres	$242,256	($1,337)	$240,919
2011	**City**	**$162,000**	**$218,643**	**$380,643**
	Padres	$530,401	$93,704	$624,105
Average 2007 - 2011	**City**	**$83,689**	**$555,477**	**$653,678**
	Padres	$215,095	$241,669	$486,579
Average 2010&2011	**City**	**$130,684**	**$107,094**	**$237,778**
	Padres	$386,329	$46,184	$432,512

*Information provided by the San Diego Padres organization.

The Padres have stated that the net special event revenue figures for the Padres do not take into consideration certain overhead charges that cannot be applied to these revenues. The historical figures above are prior to the application of overhead charges to the Padres' share. These overhead charges, such as on-going public relations and sponsorship expenses, are expenses that the Padres solely bear and are not included in any other type of joint use charges. The result is that the specific overhead charges have been reducing the actual amount of revenues being generated to the Padres. These overhead charges vary from year to year based upon the number and types of events undertaken by the Padres' management team.

The IBA compared the historical figures provided by the Padres with the figures that were available in the City's accounting systems (SAP and Simpler). Though some differences were discovered, the discrepancies did not appear to be material. In discussing this issue with the Padres' financial group, several issues could contribute to the differences, including a difference in fiscal years for the City (July – June) and the Padres (October – September), the timing of payments to the City (after specific events or at the end of a "season"), and reconciliation of year end special events revenue. From our calculations for 2005 to 2011, the average annual difference is approximately $37,000. As the discrepancies were not material, the IBA considered the figures provided by the Padres for this report.

FISCAL/POLICY DISCUSSION

Padres Proposal

The Padres wish to continue to serve as the manager for the Ballpark Property, however, they are proposing several adjustments to the current JUMA that they believe provide motivation for the Padres' management team to be more aggressive in the marketing of the Ballpark Property, especially during the City's Season. From the Padres' perspective, the proposed adjustments not only incentivize the Padres to pursue additional special events, the adjustments are intended to provide a commitment from the Padres to pursue improvements in the Ballpark Property, beyond the general maintenance of the Ballpark Property. The Padres are proposing to:

1. Increase the contributions by the Padres to the Ballpark Capital Expenditure Reserve Fund from $250,000 to $1,000,000. This would allow the Padres to pursue additional facility/equipment improvements.
2. Streamline the approval process for usage of the Ballpark Capital Expenditure Fund by setting specific criteria that would require City consent.
3. Eliminate the division of the year and revenues/expense allocation by Padres Season and City Season to create only one year-round season.
4. Adjust the revenue/expense allocation to 70% to the Padres and 30% to the City for the year-round season. The adjustment to the allocation is supported by a guaranteed minimum annual payment of $300,000 from the Padres to the City. The minimum annual payment would be increased annually by the Consumer Price Index rate.

5. Establish a special event net revenue offset for special event related capital expenditures. Expenditures for capital items/projects that were related to special events would be used to reduce the amount of net special revenues. This offset concept could have a cap on total dollars and/or number of years. This would in no way reduce the guaranteed minimum annual payment.

The Padres contend that, without these adjustments, they have no financial incentive to pursue events for the City Season as described by the current JUMA. If the Padres were able to receive these adjustments, they anticipate being able to aggressively market the Ballpark Property and increase the number of events annually. These additional events could include additional sporting events such as soccer games, concerts, and other seasonal or civic events.

The Padres have provided an estimate as to the special event net revenues that could be generated from these additional events from Fiscal Year 2012 through 2015, with the proposed adjustments to the revenue/expense allocation. The table below illustrates the estimated impact to the annual net special events revenue to each party, based upon the Padres' estimate of increased events held at the Ballpark Property, and the adjusted revenue/expense allocations. Note that the projected City share of the net special events revenue is prior to any capital expenditure offset that is part of the new proposal.

PROPOSED ADJUSTMENT			
YEAR	ORGANIZATION	ALLOCATION	TOTAL
2012	**CITY**	**30%**	**$187,500***
	PADRES	70%	$437,500
	TOTAL		$625,000
2013	**CITY**	**30%**	**$315,000**
	PADRES	70%	$735,000
	TOTAL		$1,050,000
2014	**CITY**	**30%**	**$480,000**
	PADRES	70%	$1,120,000
	TOTAL		$1,600,000
2015	**CITY**	**30%**	**$637,500**
	PADRES	70%	$1,487,500
	TOTAL		$2,125,000

*City share would be $300,000 per the guaranteed minimum.

The Padres proposed adjusted revenue allocation is based upon reviewing the historical special events revenues from 2005 through 2011, excluding the highest and the lowest special event revenue years. The highest special event revenue year was 2009 with $2 million and 2010 was the lowest year with $336,000 total special event revenue. From this calculation, the average annual special event revenue is approximately $1 million.

The Padres applied the 30 percent allocation that is being used in the current JUMA for their new proposal and determined a minimum annual payment of $300,000.

If the proposed adjustments are not made, the Padres anticipate the revenue to remain the same or fall below the revenue amounts for 2010 and 2011 ($240,000 or less annually) as they would not anticipate pursuing events above the current activity level.

Considerations

In reviewing the Padres' proposal, there are several items that warrant further discussion.

Estimates of Future Special Events Revenues

The Padres have stated that a driving factor in the consideration of adjusting the special event net revenue/expense allocations is due to overhead charges that are currently not eligible to be charged against the net revenue of special events. In the Mayor's staff report for the proposed changes to the revenue/expense allocations, the Padres provided estimates for the net special event revenues and overhead charges that are anticipated for two scenarios:

1) The current allocations with the current activity/event levels; and
2) The proposed allocations with increased activity/event levels.

The table below (Scenario 1) shows that the Padres are not generating positive cash flows from the special events with the current allocations when considering the overhead charges. However, with the proposed allocations (Scenario 2), the Padres would generate a positive cash flow, even after applying the overhead charges, and their revenues would exceed the City's share beginning in Fiscal Year 2014.

Scenario 1:
CURRENT ALLOCATIONS and CURRENT ACTIVITY/EVENT LEVELS

		2012	2013	2014	2015
Overall	Net Revenue	$500,000	$402,000	$427,000	$452,000
	City Share	**$230,000**	**$151,400**	**$158,900**	**$166,400**
	Padres Share	$270,000	$250,600	$268,100	$285,600
Padres Overhead	Total Overhead	$316,350	$120,250	$125,400	$130,550
	Padres Net take	**($40,000)**	**($99,200)**	**($109,200)**	**($119,200)**
	Net take as % of Total Net Revenue				
	City	**46%**	**38%**	**37%**	**37%**
	Padres	-8%	-25%	-26%	-26%

Scenario 2:
PROPOSED ALLOCATIONS and INCREASED ACTIVITY/EVENT LEVELS

		2012	2013	2014	2015
Overall	Net Revenue	$625,000	$1,050,000	$1,600,000	$2,125,000
	City Share	**$187,500***	**$315,000**	**$480,000**	**$637,500**
	Padres Share	$437,500	$735,000	$1,120,000	$1,487,500
	*City Share would be $300,000 per the guaranteed annual payment.				
Padres Overhead	Total Overhead	$316,350	$422,125	$527,900	$633,675
	Padres Net take	**$121,150**	**$312,875**	**$592,100**	**$853,825**
	Net take as % of Total Net Revenue				
	City	**30%**	**30%**	**30%**	**30%**
	Padres	19%	30%	37%	40%

It should be noted that these are estimates provided by the Padres related to special event revenue only. Other types of revenue that could be generated from additional activities at or around the Ballpark Property, such as sales tax in the surrounding area or additional Transient Occupancy Tax due to increased hotel stays have not been estimated. Additionally, the estimated City Share does not reflect any net revenue offset related to capital expenditures. The net revenue offset could reduce the City Share from the estimates above.

The inclusion of the proposed special event revenue offset for related capital expenditures creates difficulties in reasonably estimating the revenues that the City may receive for special events (beyond the $300,000 minimum guaranteed payment) even with an increased number of special events. A forecasted plan for capital expenditures, specifically special event related capital expenditures, would assist in the development of reasonable revenue sharing estimates. If the concept of a revenue offset is considered, the City could consider setting a cap on total dollars or defining a limited time period (e.g. five years) that the offset would be in effect. It should also be clarified that the offset is intended to be applied only in the year the capital expenditures occur, without the ability to carry over or apply expenditure offsets to future years.

Based on the proposed amendments to the JUMA, it is estimated that the City could receive less special event revenue on an annual basis than the five year historical average in the early years following the adjustments. The five year historical average for special event revenue is approximately $654,000, while based on the Padres' projections, the annual City share of the special event revenues would be less than that until Fiscal Year 2015. However, the special events revenues received by the City the last two years (approximately $240,000) have been below the proposed minimum annual guaranteed payment of $300,000. These years were likely impacted by the slow economy. Based on the Mayor's staff report, special event revenues from October 2010 to September 2011, under the current agreement, have generated approximately $380,000 for the City.

Ballpark Capital Expenditures
The Padres have stated that they would be more aggressive in seeking out additional events for the Ballpark Property if the proposed amendments are made to the JUMA. The Padres' proposal to increase the Ballpark Capital Expenditure Reserve (the Reserve) from $250,000 to $1,000,000 on average per year appears to support the Padres' efforts to maintain the Ballpark Property as a state of the art facility. These capital improvements are not solely to increase special event revenue. In the aggregate, the proposed change dedicates $14 million over the remainder of the lease term to capital enhancements, such as the purchase of a stage for concert events. The funding for this reserve comes from the Padres and represents additional investment from their organization.

To facilitate the undertaking of these improvements, the Padres are proposing to maintain the current approval process for planned capital improvements. Currently, the Padres forward a list of planned capital improvements to the City. If the project(s) are funded through the Reserve or by the Padres, they do not materially change the structure or purpose of the Ballpark, and there are no other objections, the projects are considered approved and the Padres would move forward. The Padres are proposing to maintain the current streamlined approval process as it allows flexibility, regardless of the project(s') anticipated cost. Since there may be significantly more capital projects undertaken, the City Council might consider requesting an annual report on the related ballpark improvements.

Increased Competition
Another item to consider is that the Padres efforts to increase events at the Ballpark Property could compete with other local venues, including Qualcomm Stadium. In considering the venues that might be impacted, one would need to consider the types of additional events that the Padres would pursue and the capacity of each venue. The Ballpark Property has the capacity for approximately 42,500 seats and has hosted events such as concerts, soccer matches, rugby tournaments, and similar events. Per the JUMA, the Ballpark Property is not allowed to hold football games. It should be noted that the Ballpark Property does not have an extremely large parking facility, and is not anticipated to provide competition for parking lot events. It is anticipated that the Padres will attempt to increase the number of large (up to 40,000 attendees) and medium (7,500 – 15,000 attendees) sized concerts, the number of sporting events, and possibly explore seasonal events.

As a result of the additional events at the Ballpark Property, Qualcomm Stadium may face some competition for certain events. Below is a brief description of the capacity of Qualcomm Stadium and the types of events scheduled at this facility:

Facility	Description	Capacity	Events similar to Ballpark Property
Qualcomm Stadium	Multi-purpose outdoor stadium in Mission Valley	71,500	Large concerts, soccer, rugby

Qualcomm Stadium has not held a large concert since 2009. Qualcomm does schedule various sports outside of football games, including international soccer matches. The

increased competition may have an impact to the scheduling of events at Qualcomm if organizations prefer a newer facility or the downtown location of the Ballpark Property. A further consideration is that $8.6 million is budgeted in Transient Occupancy Tax (TOT) for operating expenses at Qualcomm Stadium. A reduction in revenue from special events at Qualcomm Stadium could result in a required increase in TOT funds to offset the special event revenue loss. This could result in a reduction of available TOT fund for other eligible activities.

Other City/Ballpark Agreements
For background, we reviewed the terms of other agencies' usage/management agreements. The ballparks in Arizona and Tampa Bay were selected due to similar weather and size, which could affect the types and number of events held at the respective ballparks.

a) The Arizona Diamondbacks play at Chase Field (capacity 49,000) and the stadium is owned by the Maricopa County Stadium District (the District). The District engaged a professional management firm to manage the events held at Chase Field. The types of events held there are baseball games, concerts, soccer games, super cross events, and tradeshows. The District has a revenue agreement of a guaranteed annual payment of $650,000 with additional revenue if receipts exceed certain thresholds. The District stated that the excess receipts thresholds have never been met.

b) The Tampa Bay Rays (the Rays) play at Tropicana Field (capacity 45,000) and the stadium is owned by the City of St. Petersburg. The Rays management team manages events held at Tropicana Field. Events held there include baseball games, football games, concerts, basketball games, and tradeshows. The City of St. Petersburg receives $0.67 per attendee for all events, including baseball games. In considering just baseball games for events, the Rays baseball attendance in 2011 was approximately 1.5 million. This would translate into just over a $1 million payment to the City of St. Petersburg, not including any other events.

Options for a Fair Sharing Agreement
If the Padres are successful in increasing the number of special events, revisiting the structure or the proposed revenue split now or at a future date could be considered to maintain a reasonable sharing agreement. The currently proposed 70/30 revenue allocation is a methodology the Padres have developed based upon an allocation within the current JUMA. The City could consider an alternative revenue split to the proposed 70/30 to achieve a greater balance of revenue sharing. As shown in the table on page 7, with the proposed adjustments and increased activity, the Padres revenue share is anticipated to exceed the City's share by 2014.

Another option is establishing certain revenue thresholds which would trigger an allocation adjustment for revenues between the parties similar to the Diamondbacks' agreement. For example, for revenues that exceed a $2 million threshold, there could be a

separate or secondary allocation (e.g. 50% City / 50% Padres). This example is solely to introduce the concept of a trigger into the discussion and is not a specific recommendations.

Additionally, the City could discuss including a term in the agreement calling for a review of the guaranteed payment amount at a future date. This would provide the City an opportunity for a higher annual minimum payment in the future, in the event of significant increases. Based on the Padres' projections, increasing the City's minimum payment would not impact the Padres total net revenues.

In general, as discussed, there are several benefits to the City from the Padres' proposal. However, there are also several issues that the City should discuss further with the Padres.

Benefits to the City	**Concessions**
Guaranteed Minimum Payment with CPI inflator	Guaranteed Minimum Payment initially is projected to be lower than historical average annual payment
Potential for increased economic development activity surrounding the Ballpark	City would not realize full upside of increased activity in special event revenue
City does not have capacity to undertake management of events	70/30 split is based upon ownership split, a more beneficial split for the City for special events could be considered
Increase to Capital Improvements	Increased competition could impact events at Qualcomm Stadium, potential of negative impact to TOT funded activities
Simplicity of year-round season	Proposed revenue offset for special event related capital projects will reduce revenue to the City and should be capped through dollars and/or years

CONCLUSION

The proposal from the Padres marks a desire to increase the special events at the Ballpark and a commitment to continue to improve the Ballpark Property to ensure it remains a first class ballpark. However, several issues require further discussion and consideration.

- The City should further discuss with the Padres alternatives to the proposed 70/30 year-round revenue allocation. In establishing the proposed revenue allocation, the Padres used an allocation determined by the current JUMA (70/30), but alternative allocations of potentially greater benefit to the City could be considered.

- Alternatively, the City should consider establishing provisions for a trigger that would change the revenue allocations in the future based on certain revenue thresholds. Revenues above a certain amount would trigger an adjustment to the revenue allocation to maintain a fair revenue sharing agreement.

- The City should discuss revisiting the amount of the minimum guaranteed annual payment amount at a future date. Should the Padres be successful in establishing an increased amount of special events, an upward adjustment to the minimum guaranteed annual payment should not have an impact to the Padres revenue.

- The City should discuss further the proposed revenue offset, including a cap on total dollars and/or a limited number of years. While the planned expenditures are anticipated to assist in attracting special events, the offset could also reduce the City's revenues.

- The increased effort to attract more events at the Ballpark Property could increase competition for some local venues, including Qualcomm and this should be considered. The net effect of this could be an increase in City TOT funds being required for Qualcomm.

- Finally, the IBA requests the City Attorney's Office to confirm that there are no legal considerations regarding the proposed amendments as they relate to the current MOU and JUMA. The IBA had raised a question related to a specific term within the MOU that disallows amendments that could decrease the revenue to the City. The Mayor's Office has indicated that this issue has been clarified. The IBA would request that the City's Attorney's Office confirm the resolution of this issue.

Chris Ojeda
Fiscal & Policy Analyst

APPROVED: Andrea Tevlin
Independent Budget Analyst