



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 18, 2012

IBA Report Number: 12-20

City Council Docket Date: May 21, 2012

Item Number: 151

Review of Resolution to Amend the JUMA with the Padres to Increase Special Event Use of Petco Park

OVERVIEW

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 new Ballpark Property (commonly referred to as Petco Park). The JUMA describes multiple aspects of the joint use of the Ballpark Property, including:

- Defining the periods or “seasons” for primary usage by the City and Padres;
- Establishing an incremental net revenue/expense percentage split for special events, based upon the type/category of event and the season in which the event occurs; and
- Engaging the Padres as the sole and exclusive on-site manager of the Ballpark Property.

While adhering to all the conditions of the JUMA since entering into the agreement, the Padres have expressed a desire to amend the JUMA to provide increased incentive for the Padres to market the Ballpark Property for special events, specifically during the baseball off-season.

At the February 1, 2012 meeting of the Rules, Open Government and Intergovernmental Relations Committee (“Rules Committee”), the Office of the Mayor and the Office of Economic Growth Services presented Report 12-010 which proposed several adjustments to the current JUMA that, from the Padres’ perspective, provided incentives for the Padres management team to pursue additional special events and provided a commitment from the Padres to pursue improvements to the Ballpark Property, beyond the required general maintenance. The proposed adjustments included raising the Padres’ requirement of contributing \$250,000 on an annual basis in funding to the Ballpark Capital

Expenditure Reserve Fund (“BCER Fund”) to \$1.0 million annually, streamlining the process to expend funds from the BCER Fund, eliminating the established “seasons” to create one year-round season with one specific revenue/expense allocation, and establishing the revenue/expense allocation to be 70% to the Padres and 30% to the City for the year-round season, supported by a guaranteed minimum annual payment of \$300,000 from the Padres to the City which would be increased annually by the Consumer Price Index.

For the February 1, 2012 Rules Committee meeting, in review of the information provided by the Office of the Mayor and the Padres, the Office of the IBA presented IBA Report 12-07. The IBA provided a summary of the proposed amendments and outlined several issues that the City should discuss further with the Padres. These issues included:

- Discussing alternative splits to the proposed 70/30 year-round revenue allocation;
- Considering establishing a provision for a trigger that would change the revenue allocations based on certain future revenue thresholds;
- Discussions to include a provision to revisit the amount of the minimum guaranteed annual payment at a future date;
- Discussing further the proposed revenue offset (credit), including the inclusion of a cap on total dollars and/or number of years; and
- Considering the potential impact, if any, to events held at Qualcomm Stadium.

In response to the discussion of the Committee members and the recommendations of the IBA, the Office of the Mayor and the Padres held subsequent meetings to further discuss the proposed amendments to the JUMA.

From the subsequent discussions between the Office of the Mayor and the Padres, the proposed amendments to the JUMA are being presented to the City Council on May 21, 2012 and described in the Report to the City Council No.12-064 (“Report 12-064”). Report 12-064 describes the proposed changes to the JUMA and details the results of the further discussions of the comments/issues raised at the February 1, 2012 Rules Committee meeting, including those from the IBA.

Additionally, the Office of the City Attorney issued a memorandum on May 2, 2012 discussing the proposed amendments to the JUMA and the Memorandum of Understanding (MOU) between the City and the Padres. The memorandum from the Office of the City Attorney highlighted specific criteria that the proposed amendments to the JUMA would need to meet, with the primary determination from the City Council that the proposed amendments would be in the best interest of the City.

FISCAL/POLICY DISCUSSION

Summary of IBA recommendations from IBA Report 12-07

In IBA Report 12-07, the IBA made several recommendations for topics that the City could consider discussing further with the Padres to ensure that the City is securing the best possible agreement for the City. A summary of the topics and the results of the discussions are as follows:

Discuss alternative splits to the proposed 70/30 year-round revenue/expense allocation

The initial proposed revenue/expense allocation from the Padres was 70% to the Padres and 30% to the City for the new year-round season. From the information provided in Report 12-064, several scenarios were discussed as to reducing the City percentage and increasing the Padres percentage, and increasing the City percentage while reducing the Padres percentage. Based on information provided from the Mayor's Office, as neither party was willing to accept a lower allocation than the original proposal, both parties agreed to maintain the initially proposed amended allocation of 70% to the Padres and 30% to the City.

Establish a trigger that would change the revenue allocations based on certain future revenue thresholds

The IBA had recommended further discussing establishing a certain revenue threshold that would "trigger" a change in the revenue allocation to assist in maintaining a balance of net revenue to both parties. Upon further discussion between the City and the Padres, there is concern that by setting a certain revenue threshold that would trigger a change in the revenue allocations, it would serve as a disincentive to the Padres from pursuing multiple events and lend itself to the Padres only pursuing the most financially beneficial events in order to generate revenue up to the established revenue threshold. As additional events would not only generate additional revenue to the City from the established revenue sharing allocation, but also generate additional business in the surrounding area of the Ballpark Property, including possibly additional hotel stays, the "trigger" concept was not included in the proposed amendments.

Revisit the amount of the minimum guaranteed annual payment at a future date

The IBA suggested that at a future date, based upon past performance, the City and the Padres revisit the minimum guaranteed annual payment to ensure that the amount remained an appropriate minimum payment. As presented in Report 12-064, the proposed minimum guaranteed annual payment is going to remain the same as presented at the February 1, 2012 Rules Committee meeting: \$300,000 annually with an annual Consumer Price Index (CPI) adjustment.

Discuss the proposed revenue offset (capital expenditure credit), including a cap on total dollars and/or number of years the offset (credit) could reduce revenues

The initial Padres proposal was to establish a Special Event Capital Expenditure ("SECE") credit for capital improvements directly related to special events. The proposal was for 100% of any capital expenditures by the Padres related to special events would serve as a revenue offset (credit) for any revenues due to the City in excess of the minimum guaranteed annual payment. The current proposal continues the concept of a SECE credit, but only allows for 30% of the SECEs to be used as revenue offset and it provides a provision for the City to review the proposed capital projects to deem them as special events related, thereby enabling the partial credit by the Padres. Additionally, the current proposal requires the credit to be equally appropriated across the depreciable life of the capital project, reducing the immediate impact of credits for special event related

capital projects on revenues due to the City above the minimum guaranteed annual payment.

Consider the potential impact, if any, to events held at Qualcomm Stadium

As the proposed amendments to the JUMA are to facilitate increased events at the Ballpark Property, the IBA suggested the consideration of whether the increased marketing of the Ballpark Property might detract organizations or events from Qualcomm Stadium. Report 12-064 describes the Ballpark Property and Qualcomm Stadium as two distinctly different venues with identifiably different surroundings. According to Report 12-064, the vast difference in seating capacity, surface parking area, and proximity to surrounding retail businesses, does not support the concept that an increased number of events at the Ballpark Property will decrease the number of events at Qualcomm.

Additional considerations

Capital Expenditure Reserve

In addition to considering the topics raised by the IBA, the Padres and the Mayor's Staff have slightly modified the topic of increasing the BCER Fund. The previous proposal was to increase the amount the Padres were contractually obligated to contribute to the BCER Fund from \$250,000 to \$1,000,000 on an average annual basis for the remainder of the term of the agreement. The current proposed amendment changes the Padres' requirement to expend \$1,000,000 on an average basis on capital expenditures for the remainder of the term of the agreement, while maintaining a BCER Fund balance of \$500,000. The change from contributing to the BCER Fund for future capital expenditures to committing to actual expenditures supports the Padres' commitment to continue to maintain the Ballpark Property as a first class facility.

SECE Credit

The SECE Credit serves as an incentive for the Padres to invest in capital projects related to special events. It allows the City to share in part of the expenditures for projects related to special events and allows the Padres to develop the needed infrastructure to expand the range of special events the Padres would be able to pursue. The potential impact of this credit has not been illustrated in the projected revenues from the Padres.

Based upon the following assumptions, the potential impact to the City could be an incremental increase in the revenue offset of \$30,000 annually, resulting in a total revenue offset of \$300,000 by 2022.

- 100% of capital expenditures related to special events
- \$1 million in annual capital expenditures
 - 30% or \$300,000 eligible for credit/revenue offset to the City
- Useful life expectancy of all capital projects assumed to be 10 years
- Every \$1 million in annual capital expenditures would generate an expense credit of \$30,000 annually for 10 years (the table below provides a short snapshot of the potentially earned capital credits)

Earned Capital Credit*

	Total Capital Expenditures	Credit Eligible Amount	FY				
			FY13**	FY14**	FY15**	FY16**	FY17**
FY13	\$1,000,000	\$300,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
FY14	\$1,000,000	\$300,000		\$30,000	\$30,000	\$30,000	\$30,000
FY15	\$1,000,000	\$300,000			\$30,000	\$30,000	\$30,000
FY16	\$1,000,000	\$300,000				\$30,000	\$30,000
FY17	\$1,000,000	\$300,000					\$30,000
			\$30,000	\$60,000	\$90,000	\$120,000	\$150,000

*Assumes \$1.0 million annual capital expenditure with 30% eligible for expenditure credit.

** Assumes 10 year life expectancy for all capital expenditures related to special events and capital credit applied evenly over project life.

In order to manage expectations, development of a five-year capital plan would better allow for the evaluation of the potential impact to revenues due to the City. From the Padres’ future revenue projections, the increase in special event revenue outpaces the increase in special event capital credits. However, it should be noted that in the short-term, until reoccurring events are booked at the Ballpark Property, the excess revenue generated from the increase in special events may not exceed the capital expenditure credits, resulting in the City only receiving the guaranteed annual minimum payment of \$300,000. As the number of events and the revenue generated from these additional events increases, the payment to the City should exceed the guaranteed annual minimum payment.

An additional item to consider is that if all the capital expenditures are special event related every year for the rest of the agreement, the Padres would stand to lose approximately \$1.4 million in expired credits by the end of the term of the agreement.

Memorandum from the Office of the City Attorney

In the IBA Report 12-07, the IBA requested that the City Attorney’s Office confirm that there are no legal considerations regarding the proposed amendments as they relate to the MOU or JUMA. The information provided from the City Attorney’s Office indicates that as long as the amendment is not contrary to acts specifically directed in the MOU, the City Council can approve the amendments provided they meet specific criteria, namely that the amendments are 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. The City Attorney’s Office recommends that staff provide information as needed to the City Council to assist in the evaluation of the potential effects of the proposed amendments.

CONCLUSION

During the preliminary review of the proposed amendments to the JUMA at the February 1, 2012 Rules Committee meeting, the Committee members and the IBA presented several issues that the City and the Padres should further discuss to ensure the City

negotiate the best possible agreement for the City. Report 12-064 presented by the Mayor's Office outlines the results of the additional discussions between the City and the Padres.

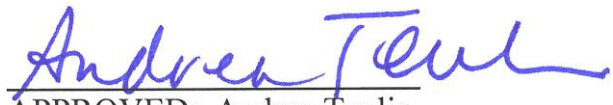
The proposed amendments to the JUMA do provide several benefits to the City:

- The amendment to change from a commitment from the Padres to annually contribute \$250,000 to the BCER Fund to a commitment to expend \$1.0 million annually and maintain a \$500,000 balance in this fund will provide the means to continue to maintain the Ballpark Property as a first-class facility and avoid the deferred maintain issue that has occurred with some other City assets.
- The amendment to streamline the capital improvement approval process continues to require the City to review and approve all material capital projects and provides the City the ability to review and approve specific projects as special event projects, therefore making them eligible for the capital expenditure credit.
- The guaranteed minimum annual payment of \$300,000 provides financial security that special event revenues will not fall below this threshold and additionally includes an annual adjustment equal to the Consumer Price Index for the remaining term of the agreement.
- The amendments will incentivize the Padres to more actively manage the Ballpark Property, allowing for increased activities within the Ballpark Property without the City needing to hire/contract specialty personnel/staff.
- As the amendments are anticipated to increase events within the Ballpark Property, the increased number of events is anticipated to create additional activity in the areas surrounding the Ballpark Property, providing additional business to local businesses.

While the proposed amendments are anticipated to provide benefits to the City, the City Council, per the memorandum provided by the City Attorney's Office, should evaluate and affirm this for each proposed amendment to support Council's approval of the JUMA amendments. The City Attorney's Office has provided a matrix to assist with this process.



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