

ASSOCIATION OF CONCERNED TAXPAYERS

4294 KENDALL STREET
CAN DIEGO, CALIFORNIA 92109

PHONE (858) 273 8600 FAX (858) 273 8115
REACHACT@AOL.COM



ACTION - THE TAXPAYERS'
WATCHDOG

Date: October 14, 2002

J. BRUCE HENDERSON
CHAIRMAN
AND PRESIDENT

ACT

**THE
DIRECT DEMOCRACY
INSTITUTE**

FOUNDED IN 1975

To: Contracts Committee of the Chargers Task Force

Re: Comments and Questions Concerning the Public Investment at Qualcomm Stadium and Financial implications of Chargers delivering a Renegotiation Notice

Following up on my memorandum of October 7, I've been looking at interrelationships among provisions of Sections 8, 9, and 31 of the Chargers Agreement to attempt to assess possible financial impacts on the City should the Chargers deliver a Renegotiation Notice and then eventually leave San Diego under the terms of Section 31.

My comments reflect, once again, tentative conclusions since some of the documents and numbers provided to date lack sufficient transparency to permit precise calculations.

However, some final numbers have been provided. So, we now have a handout showing that the City invested \$92,196,278 in the Qualcomm renovation in 1997. Another handout shows that the City has also incurred expenses under the Section 9 ticket guarantee totaling \$29,805,115 up through the game two weeks ago. These two sums total \$122,001,393.

We have to add to that \$122 Million total the interest payments to date on the \$68 Million in lease revenue bonds; the net operating losses at Qualcomm since 1997; and other infrastructure investments such as the trolley stop designed specifically to handle game-day crowds - all numbers that I can't quantify because I lack sufficient information.

From any perspective and regardless of the final totals, since 1997 there has been a significant diversion of the public's scarce financial resources, all to the benefit of the Chargers - not even counting the extraordinary public investment in the new stadium for the Padres.

ASSOCIATION OF CONCERNED TAXPAYERS

Memorandum to Contracts Committee

October 14, 2002

Page 2 of 4

But, what about the other side of the equation? What in the Chargers Agreement, if anything, has been seen or can be expected to work in the public's favor?

Let's examine several key elements of the contract.

First, there's the "rent" under Section 8; and, second, as representatives of the City are fond of pointing out, there's the provision in Section 31(b)(iii) that requires the Chargers, if the team leaves San Diego prior to 2020, to make a payment of, or otherwise arrange to eventually retire, sixty percent of the "outstanding debts incurred to finance construction of the Improvements."

Sadly, at least in my estimation, even these two provisions do not appear to ultimately benefit the public; for my review of the potential interrelationship of these two provisions suggests that as a practical matter they work together to in such a way as to actually encourage the Chargers to exercise Section 31 and move the team elsewhere.

Clearly, an incentive to move the team is the precise opposite of the goal intended by the City, i.e., to keep the team here through 2020.

Let's start with Section 31 and then turn to the interrelationship with Section 8.

Assuming that the outstanding amount of the "debts incurred to finance construction of the Improvements" would amount to approximately \$68,000,000 at the time Section 31 is exercised in order to leave San Diego, then the required payment by the Chargers would be in the range of \$39,000,000 - obviously no small sum.

Of course, even after such a the payment by the Chargers, the City would remain obligated to a principal balance of approximately \$29,000,000 - itself no small sum, particularly given that the City might well have no substantive financial justification to continue to maintain and operate Qualcomm Stadium.

Parenthetically, for the City that \$29 Million is not the end of the story, since the City would also apparently be out another \$12,000,000 - the cost of constructing the Chargers Practice Facility, etc. What I don't know is whether this impact might be offset by the possibility that the practice facilities could be sold or otherwise utilized in a manner that effectively recoups this \$12 Million investment that was made by the City. Perhaps the City Manager could be requested to consider this question.

There is another factor which might have an indirect financial impact, namely, the \$18,000,000 that Qualcomm Corporation paid for naming rights. If the Chargers leave, will the naming rights have any residual value for the company? While so far as I know, any impact on Qualcomm Corporation will not translate into a direct loss for the City; yet Qualcomm Corporation is an important part of our community. Consequently, any potential harm the company might suffer should not just be disregarded.

ASSOCIATION OF CONCERNED TAXPAYERS

Memorandum to Contracts Committee
October 14, 2002
Page 3 of 4

The City also invested some \$6,000,000 in stadium concession equipment. Will this investment have, as a practical matter, any residual value if Chargers leave Qualcomm? This is another question for the City Manager.

In connection with the concession equipment investment, I have to also ask if there is any potential liability of the City to any concessionaires should the Chargers leave prior to 2020? Again, this is a question for the City Manager.

As I have previously commented, I believe for purposes of negotiation it is important for the City to quantify the financial impacts on the public investment that has been made to date at Qualcomm Stadium in the event that the Chargers were to exercise Section 31 and move the team elsewhere. To quantify those impacts, answers to the above questions, among others, are required.

Returning now to the interrelationship between Section 31 and Section 8, as large an amount as the \$39 Million payment required of the Chargers under Section 31 seems to be, to put this payment into perspective one must balance against it the fact that, by exercising Section 31 in order to terminate the Chargers Agreement, the Chargers will be relieved of the requirement of Section 8 to pay to City rent otherwise due through 2020.

That is, if the Chargers were to leave San Diego at the end of the 2003 season, as far as I can determine, the Chargers would be relieved of potential rent under Section 8 in an amount possibly exceeding \$143,000,000."

It follows, therefore, that one way to look at the interplay of Sections 8 and 31 is that by leaving San Diego at the end of the 2003 season the Chargers will enjoy a *net* financial gain totaling as much as \$104,000,000 (\$143 Million less \$39 Million).

The point is that from the vantage point of the Chargers, this net \$104 Million - albeit a potential liability payable over 17 years - constitutes money the Chargers have the option under Section 31 to devote over a similar period to a new facility in a new community.

Section 8 utilizes a complex set of calculations that to some extent create a sliding cap on annual payments by the Chargers to the City. In 2004 the "cap" is \$7,271,000, and it grows to \$9,984,181 in 2020. The cap for the 2001 season was set at \$6,789,000; although, the City reports estimated payments from the Chargers to the City were somewhat lower - namely, \$6,539,000. Estimated payments from the Chargers to the City for the 2002 season are \$6,900,000, against a cap of \$6,940,000. The cap rises from 1997 (\$5,703,000) to \$9,984,181 in 2020 - a 75% increase which presumably reflects an effort by the City and Chargers in 1997 to project a steady increase in ticket prices and other charges to the public for parking, food, etc. Just what were the marketing and ticket price assumptions underlying Section 8? Are they relevant to an evaluation of the Chargers' current efforts to sell tickets?

ASSOCIATION OF CONCERNED TAXPAYERS

Memorandum to Contracts Committee

October 14, 2002

Page 4 of 4

Naturally, the actual impact of this incentive-to-move depends in substantial part on the terms of any agreement the Chargers might negotiate for the new facility in the community to which the Chargers would move. But, assuming the Chargers are no more than moderately successful in negotiating a new lease in a new city, the \$104 Million the Chargers can avoid in rent payments under the current contract surely constitute a substantial financial incentive to leave San Diego. Coupled with other incentives, it just might prove to be the deciding factor.

I've noticed one more potential fly in the financial ointment. What happens under the ticket guarantee if the Chargers announce, for example, in July of 2003 that the team is leaving San Diego for the Rose Bowl, but that the team will not actually leave until the end of the 2004 season? If that is possible, isn't it likely that the ticket guarantee will generate City liabilities in the range of \$20,000,000 or more for each these seasons?

I raise these issues, not because I am certain of the numbers, but because I believe that our committee should carefully examine these provisions in order to advise the City as to our best estimate of the actual numbers.

Clearly, in negotiating with the Chargers in the event the team has the ability to move to a alternative venue, the City should be aware of the remarkable reverse-incentive created by the Chargers Agreement that allows the Chargers to escape potential payments to the City amounting to \$149 Million. The release of that liability suggests that the required payment of outstanding debt, as substantial as the suns would be, can't necessarily be counted upon to substantively impede a decision by the Chargers to leave San Diego.

We seem to be the only committee of the Task Force likely to inform the City of the full potential for financial loss flowing from a decision of the Chargers to leave prior to 2020 as well as to inform the City of the various reverse-incentives built into the contract that actually encourage the Chargers to leave. Consequently, I suggest we should attempt to identify these factors and to quantify each of them to the best extent possible.

Sincerely,

J. Bruce Henderson