

Grand Jury

COUNTY OF SAN DIEGO
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James F. Kelly, Jr., Foreman

January 26, 1998

Mayor and Councilmembers
City of San Diego 202 C
Street
San Diego, CA 92101

RE: San Diego County Grand Jury 1997-1998 Report "The Ticket Guarantee" Dear

The San Diego County Grand Jury 1997-1998 herewith provides the referenced report for your review and comments to the Presiding Judge of the Superior Court in compliance with the Penal Code of California §933. This report was based upon an inquiry conducted pursuant to §925a of

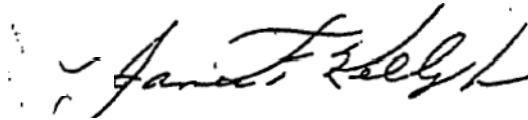
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Mayor and Councilmembers:

the Penal Code.

In accordance with Penal Code §933.05(e), a copy of this report is being provided to affected agencies two working days prior to its public release and after being approved by the Presiding Judge of the Superior Court. Please note that §933.05(e) specifies that **no** officer, agency, department, or governing body of a public agency shall disclose any contents of the report prior to **its public release**. This report will be filed with the County Clerk and released to the *public* on Thursday, January 29, 1998

Sincerely,
SAN DIEGO COUNTY GRAND JURY 1997-1998



JAMES F. KELLY, JR. Foreman

JFK:jml
cc: Michael P. Uberuaga, City Manager

THE TICKET GUARANTEE



A Report by the
San Diego County Grand Jury 1997-1998
January 29, 1998

THE TICKET GUARANTEE

Synopsis: The guaranteed attendance provision of the contract between the City of San Diego and the San Diego Chargers creates a potentially severe financial disadvantage for the city and shifts the balance of advantage toward the Chargers. San Diego City officials have recognized this belatedly and should now publicly urge the Chargers to renegotiate that part of the contract as a sign of community goodwill.

History: On May 30, 1995, the City of San Diego (the City) entered into a contractual agreement with the Chargers Football Company (the Chargers). One element of this contract was the "City Guaranty" (later amended to "Guaranteed Attendance") whereby City officials guaranteed a paid attendance of sixty thousand (60,000) general admission tickets for all Charger home games for ten years beginning in 1997 (excluding that year's two pre-season games).

If attendance failed to reach the 60,000 seat guarantee, the dollar amount of this consideration would be granted to the Chargers as a credit at the end of the football season. At that time, the credit would either be paid directly to the team or deducted from the rental payment the Chargers would owe the City for its use of Qualcomm Stadium. When the ticket guarantee was disclosed to the public, it generated an immediate civic outcry that appeared to catch City officials by surprise.

In an attempt to placate the growing public ire over the 60,000 seat quota, an alliance of San Diego business associations offered to help the City out of its imbroglio by organizing a marketing effort to sell enough tickets to offset the guarantee. The leaders of this business alliance were among the most vocal champions of the City/Charger contract and directed their sales efforts to other business owners who, they hoped, shared their enthusiasm over the Charger contract. City officials embraced the alliance's offer as a way out of the "ticket thicket" and the negative public reaction it provoked.

However, by summer's end it was clear the business alliance would not come close to selling enough tickets to reach the 60,000 seat quota. Once the regular football season began in September 1997, City officials were forced to buy thousands of Charger tickets at taxpayer's expense. The San Diego County Grand Jury notes that **San Diego City Councilmember Valerie Stallings** voted

against the City/Charger contract and Councilmember Byron Wear was elected after its approval in 1995.

Fact : In early Spring 1997, a small group of local business leaders organized a series of meetings to plan an ambitious marketing strategy to sell Charger football tickets. This alliance met on a regular basis. Its strategy included contacting business owners who "seemed likely" to purchase Charger tickets as well as to encourage local businesses to initiate payroll deduction plans through which their employees could make installment payments on Charger season tickets. Taking the lead role in this marketing effort was the San Diego International Sports Council, a private organization whose membership consists of prominent San Diegans dedicated to bringing quality sporting events to San Diego County.

Besides the Sports Council, the following entities sent representatives to the alliance meetings:

The Greater San Diego Chamber of Commerce
San Diego Convention and Visitors Bureau
Economic Development Corporation
City of San Diego
San Diego Chargers

Investigation The Grand Jury examined the City/Charger contract, San Diego City Council records of minutes, attendance data provided by the San Diego Chargers and'. press reports that focused on the ticket guarantee. Interviews were conducted with members of the business alliance, the San Diego City Council, the Deputy City Manager and former City Manager as well as representatives from the San Diego Chargers.

Issue: Before offering to sell the Charger tickets, did the business alliance gauge the support for the City/Charger contract within the business community?

Finding: When making their sales pitch to the business community, alliance members discovered; that many business owners were critical of the City/Charger contract, particularly the ticket guarantee. They also found that a majority of business owners did not view the success and viability of the Chargers as having any relevance to their own company's well-being. This should have provided

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an early indication that the alliance's enthusiastic public support over the "great deal" the City negotiated with the Chargers was not representative of the business community's thinking.

Issue: Were alliance leaders aware of the ticket guarantee provision prior to its public disclosure?

Finding: Even though the ticket guarantee was part of the City/Charger contract since mid-1995, the business alliance, like many San Diegans, was not aware of its import until it became headline news.

Issue: Did the business alliance make any promises to City officials regarding the number of tickets they hoped to sell?

Finding: Members of the business alliance told the Grand Jury that at no time did they provide City officials with a specific figure regarding the number of season tickets they hoped to sell. Rather they made a "best effort" pledge, telling City officials that they would endeavor to sell as many tickets as possible to meet the attendance quota. Despite its inexperience at marketing football tickets, the" alliance managed to sell approximately fifteen hundred season tickets which alleviated some of the guarantee burden on the City.

Issue: Were public funds used to assist the business alliance's marketing efforts?

Finding: According to the International Sports Council, City funds totaling approximately \$65,000 were provided to the Sports Council to assist its marketing effort. Neither the business alliance nor the City asked the Chargers to help defray this cost.

Issue: .Who suggested the ticket guarantee?

Finding: The ticket guarantee originated with City officials as a solution to the Chargers demand for five years free rent at the stadium.

Issue: Did City officials consider the guarantee an inducement to keeping

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the Chargers in San Diego?

Finding: Several City Council members told the Grand Jury that the ticket guarantee was a "deal breaker" for the Chargers and that they "did not want to be part of the Council that lost the team." Even though the City Council was not specifically told that the Chargers were thinking of leaving San Diego, they were acutely aware of the venue shopping that was occurring with other National Football League teams.

Issue: What attendance data did City officials rely on when agreeing to the 60,000 seat quota? What years were attendance figures culled from?

Finding: When agreeing to the 60,000 seat guarantee, City Council members said that they relied on attendance numbers given them by the City Manager who averaged the Chargers attendance over a three-year span which included the 1994 Super Bowl season. City officials who spoke with the Grand Jury acknowledged that these were "fat" years and thus not necessarily an accurate indicator of future game attendance. Rather than determine if attendance meant *paid general admission* attendance (which it did not), City officials' decided they were "willing to risk the revenue" with the 60,000 seat guarantee in order to close the Charger deal..

Finding Several City Council members complained that the media was fomenting the stadium controversy through its failure to focus on the "big ten-year picture." Yet when risking public revenue, the same Council focused on the "three-year picture"- basing the ticket guarantee on attendance from three Charger seasons. Had City officials calculated the paid general admission for *ten* Charger seasons they would have averaged an attendance of 52,150. This number clearly would have been a more realistic one on which to base the guarantee.

Issue: Were City officials aware that the *Gold Club* seats were not included in the 60,000 seat guarantee?

Finding: It allegedly came as a surprise to some Council members that the *Gold Club* seats did not apply to the 60,000 needed to offset the guarantee. This factor

removed seven thousand eight hundred (7,800) seats from the season ticket tally creating a numbers gap that City officials failed to resolve before approving the Charger contract.

Issue: Despite their positive spin on the ticket guarantee, did City officials recognize its risks?

Finding: The Grand Jury discovered that City officials approached prominent members of the San Diego International Sports Council with the request that they recruit other Sports Council members willing to post Letters of Credit totaling \$10 million to "take care of the guarantee." (The Sports Council: members refused.) The City's request occurred in early 1995 - several months before the City/Charger contract was signed. This suggests that top City officials suspected well in advance of approving the Charger contract that the ticket guarantee was fraught with risk.

Issue: Would City officials have benefited from a Super Bowl breather before starting negotiations with the Chargers?

Finding The Grand Jury was told by several City Council members that, in hindsight, they wish the City would have waited longer after the 1995 Super Bowl to negotiate the new Charger contract. Many believed a time lapse would have produced a clearer appreciation of the risks and thus a different contract from the one they ultimately approved. The reason most often given for the early negotiations was the desire to increase stadium capacity in anticipation of the 1998 Super Bowl.

Recommendations:

98/7. San Diego City officials should publicly request that the Chargers' owners step forward and renegotiate the ticket guarantee as a sign of community goodwill.

98/8. If the Chargers elect not to renegotiate the ticket guarantee, beginning immediately, City officials should lease/rent the "City Box" for all events held at Qualcomm Stadium and all lease/rental monies collected should be applied toward any deficit created by the ticket guarantee.

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- 98/9. In subsequent sports contract negotiations, the Mayor should appoint a committee of council members to work closely with the negotiating team in order to keep the full City Council informed.
- 98/10. Those San Diego business leaders who volunteered their time and best efforts to sell football tickets should be recognized and commended for their sense of civic responsibility.

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