

# QUALCOMM STADIUM

## ***INTRODUCTION***

The San Diego Chargers played their first game in San Diego Stadium against the Detroit Lions on August 20, 1967. The stadium, with a seating capacity of about 52,000, was built after the voters authorized a City of San Diego (City) bond issuance for the construction costs. In September 1980, the stadium was named San Diego Jack Murphy Stadium. Renovation in 1980 and 1983 increased seating capacity to about 60,000. In 1997, a \$68 million bond issuance and sale of naming rights of the stadium to Qualcomm funded a major renovation that increased seating capacity almost 20%. A balance of about \$52 million remains due on the bonds that financed this expansion. Although capacity was slightly diminished in 2002 in order to improve access for persons with disabilities, the current seating capacity of Qualcomm Stadium is about 70,500. The stadium occupies about 15 acres off Friars Road in Mission Valley and about 18,000 parking spaces occupy another 122 acres at the site.

Regular rent to be paid by the Chargers is nominally \$2.5 million per season plus 10% of post-season ticket sales. The \$2.5 million is a ceiling; but there is no floor. The Chargers retain all revenues from Skyboxes, advertising and parking, together with regular season revenues from ticket sales and concessions over the \$2.5 million ceiling. The Chargers claim credits and payments averaging about \$1.5 million per season, leaving less than \$1 million net rents per season.

It goes without saying that the stadium was built for the Chargers and it follows that City revenues from Chargers operations at Qualcomm Stadium should at least cover operating expenses. However, the City's direct operating losses on Qualcomm Stadium after crediting net rents paid by the Chargers, and excluding efforts by the City to mitigate the shortfall with other events, are about \$17.1 million for 2010.

By way of comparison, the Tampa Bay Buccaneers pay to the Tampa Sports Authority rent of \$3.5 million fixed rent per season plus a minimum of \$3.5 million on account of premiums from the sale of Club Seats by the Buccaneers, with no rent credits. In addition, the Buccaneers pay a ticket surcharge of up to \$2.50 per ticket. Total rents are at least \$8 million per season, even with less than sellout crowds. The Buccaneers retain all parking revenues from Buccaneer games and events, and retain all advertising and marketing rights for the stadium.

The last reported annual operating income of the Chargers was \$41.6 million for the 2008 season, excluding revenue sharing.<sup>1</sup> San Diego voters appear to be aware that the Chargers franchise is quite profitable and needs no subsidies: 71% percent of respondents to a *IONews* poll on December 11, 2009, said that taxpayer dollars should not be used for stadium construction. This comports to a June 15, 2002 *Union-Tribune* poll wherein 61% of respondents said that they were opposed to using public money to keep the Chargers in San Diego.

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<sup>1</sup> Forbes.com, NFL Team Valuations, 2009.

Nevertheless, the City and the Chargers appear to be planning a new stadium using public monies. The cost of a new San Diego stadium at the currently hypothesized downtown site is now estimated to be \$800 million. The Chargers are proposing to invest about \$200 million to build a 62,000 seat stadium, with the balance to come from: \$500 million public tax dollars in the form of tax increment bonds to be paid from property and sales taxes, and \$100 million from a National Football League (NFL) financing program. However, the NFL funding is apparently not available, so the public financing could be about \$600 million. Moreover, with the latest construction proposal, a retractable roof<sup>2</sup>, the \$800 million estimate may well be significantly low. The new roofed stadium of the Dallas Cowboys that opened in 2009 cost \$1.2 billion, of which owner Jerry Jones put up \$800 million.

The usual argument in support of construction of professional sports facilities in urban areas is economic benefit to the area. However, many sports economist now conclude that a municipality does not benefit from the location of a stadium in the urban center. Based upon almost twenty years of research on the economic impact of professional sports franchises and facilities on the local economy, there is almost no evidence that professional sports franchises and facilities have a positive impact on real per capita income or employment, and may have a negative affect. On the flip side, even work stoppages of NFL and Major League Baseball (MLB) had no economic effect. One explanation advanced by sports economists for the lack of economic effect of a stadium in an urban area is that spending and income is simply redistributed<sup>3</sup> for example to other leisure venues.

If a municipality is the source of funding for a stadium, it usually demands a long term lease with fixed rents, no risk of operating losses and use of the stadium for other public events. If the City proceeds with a new publicly financed stadium, the City will have to negotiate materially tighter terms with the Chargers than are currently in place.

## ***INVESTIGATION***

The Grand Jury reviewed:

- Contracts and addendums between the City of San Diego and the Chargers,
- Contracts and addendums between Tampa Sports Authority and the Tampa Bay Buccaneers, and
- Financial reports of the San Diego Chargers, Tampa Bay Buccaneers, and the Dallas Cowboys as reported in Forbes.com.

The Grand Jury also obtained and considered numerous other sources of information, including:

- The testimony of professional, auditing and lay witnesses;
- The testimony of appointed officials;
- News reports, letters, analyses, websites and other sources of information; and
- Reports of auditors, professional organizations and consultants.

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<sup>2</sup> *Union-Tribune*, Sign On San Diego, April 20, 2010.

<sup>3</sup> *Econ Journal Watch*, Volume 5, Number 3, September 2008, pages 294-315, Sports Economist Robert A. Baade, PhD, Economist D. Coates, PhD, Charles A. Santo, PhD.

## ***FACTS AND FINDINGS***

**Fact:** Qualcomm Stadium, completed in 1967 and renovated in 1980, 1983, 1997, and 2002, has a seating capacity of about 70,500 and an obligation of about \$52 million remaining on the Renovation Bonds issued to fund the 1997 expansion.<sup>4</sup>

**Fact:** Regular rent to be paid by the Chargers is nominally a maximum of \$2.5 million per season plus 10% of post-season ticket sales, with no fixed minimum. The Chargers retain all revenues from Skyboxes, advertising, parking revenues plus ticket sales and concessions over \$2.5 million during Charger events.<sup>5</sup>

**Fact:** Although the nominal rent is \$2.5 million per regular season, the Chargers claim rent credits averaging about \$0.8 million per season. In addition the City pays the Chargers an average of about \$0.7 million per season from the general fund on account of the 2006 arbitrated settlement with the Chargers related to an Americans with Disabilities Act (ADA) settlement in 2000. Regular net rent received by the City from the Chargers after deducting the ADA payments and rent credits, is less than \$1 million per season<sup>6</sup>.

**Fact:** City operating expenses for the stadium for 2008, 2009 and 2010 were \$17.7, \$17.9, and \$18.1 million respectively. The City's direct operating losses on Qualcomm Stadium after crediting net rents paid by the Chargers, and excluding efforts by the City to mitigate the shortfall with other events, are at least \$16.7, \$16.9, and \$17.1 million respectively for 2008, 2009, and 2010.<sup>7</sup>

**Fact:** The City partially reduces the deficit with other events and subsidizes the balance with \$10.8 million of City Transient Occupancy Tax (TOT) subsidies in 2009 and \$11.8 million in 2010.<sup>8</sup>

**Fact:** The Tampa Bay Buccaneers pay the Tampa Sports Authority rent of \$3.5 million per season, a minimum of \$3.5 million on account of premiums from the sale of Club Seats by the Buccaneers, and a ticket surcharge for Buccaneer events up to a maximum of \$2.50 per ticket, all with no rent credits. The Buccaneers retain all parking revenues from Buccaneer games and events, and all advertising and marketing rights for the stadium.<sup>9</sup>

**Fact:** Several polls indicate that a significant majority of San Diego taxpayers are opposed to using public money to build a stadium or using public money to keep the Chargers in San Diego.

**Fact:** The Chargers are proposing to invest about \$200 million to build a 62,000 seat stadium at a cost of \$800 million. The proposal originally relied upon \$100 million in

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<sup>4</sup> City of San Diego, City Auditor, Qualcomm Stadium, May 8, 2009.

<sup>5</sup> Ibid and City of San Diego, Contracts and Supplements, Chargers.

<sup>6</sup> Ibid, FN 5.

<sup>7</sup> Ibid, FN 5.

<sup>8</sup> City of San Diego, FY 2010 Annual Budget.

<sup>9</sup> Stadium Agreement, Tampa Sports Authority and Buccaneers Stadium Limited Partnership (Tampa Bay Buccaneers), August 28, 1996.

proposed loans from the NFL, which is apparently no longer available.<sup>10</sup> The balance of about \$600 million would come from public tax increment bonds to be paid from property and sales taxes provided the Redevelopment Agency receives State approval to exceed its current cap on tax increment.

**Fact:** If the Chargers move to another venue after 2010, they would be liable for a termination fee of about \$27 million, which could be used to reduce the \$52 million balance due on the 1997 stadium Renovation Bonds. It is unclear whether the building of a new stadium will trigger or be agreed to trigger the early termination clause.

**Fact:** A recent construction proposal, a retractable roof<sup>11</sup>, may well significantly increase the \$800 million estimate.

**Fact:** Many sports economists now conclude that a municipality does not benefit from the location of a stadium in its urban center. Based upon almost twenty years of research on the economic impact of professional sports franchises and facilities on the local economy, there is almost no evidence that professional sports franchises and facilities have a positive impact on real per capita income or employment, and may have a negative affect. One explanation for the lack of economic effect of a stadium in an urban area is that spending and income is simply redistributed.<sup>12</sup>

**Fact:** If the public sector is the source of funding for a stadium, the public entity tends to seek a long-term (25+ year) lease, no risk of cost overruns, fixed rents, and use of the stadium for public events. Public funding is often provided through hotel, rental car and/or sales taxes.<sup>13</sup>

## ***FINDINGS***

***Finding #01:*** Qualcomm Stadium has a seating capacity of about 70,500 and a remaining obligation of about \$52 million on the 1997 Renovation Bonds.

***Finding #02:*** Regular net rent received by the City from the Chargers after deducting the ADA payments and rent credits, is less than \$1 million per season.

***Finding #03:*** The City's direct operating losses on Qualcomm Stadium after crediting net rents paid by the Chargers, and excluding efforts by the City to mitigate the shortfall with other events, are at least \$17.1 million for 2010

***Finding #04:*** The City partially reduces the deficit with other events and subsidizes the balance with City Transient Occupancy Tax (TOT) revenues of \$11.8 million in 2010.<sup>14</sup>

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<sup>10</sup> *San Diego Business Journal*, "Critical Part of Chargers' Financing Deal Out of Play", February 1, 2010.

<sup>11</sup> *Union-Tribune*, Sign On San Diego, April 20, 2010.

<sup>12</sup> *Econ Journal Watch*, Volume 5, Number 3, September 2008, page 294-315, Sports Economist Robert A. Baade, PhD, Economist D. Coates, PhD, Charles A. Santo, PhD.

<sup>13</sup> Evolution Media Capital, NFL Stadium Financing Background, January 2010 (Presentation to Centre City Development Corporation).

<sup>14</sup> City of San Diego, FY 2010 Annual Budget.

***Finding #05:*** The Tampa Bay Buccaneers pay the Tampa Sports Authority fixed rent of \$3.5 million per season, a minimum of \$3.5 million on account of premiums from the sale of Club Seats and a ticket surcharge of \$2.50 per ticket, all with no rent credits, for a total of at least \$8.1 million.

***Finding #06:*** San Diego taxpayers oppose the use of public monies for the construction of a new Charger stadium.

***Finding #07:*** The Chargers are proposing to invest about \$200 million to build a 62,000 seat stadium at a cost of \$800 million, with the balance of about \$600 million to come from tax increment bonds to be paid from property, sales and Transient Occupancy Taxes.

***Finding #08:*** The \$800 million estimate may be significantly increased by the addition of a retractable roof.

***Finding #09:*** The \$52 million balance due on the 1997 stadium Renovation Bonds must be dealt with if a new Chargers stadium is built.

***Finding #10:*** There is almost no evidence that professional sports franchises and facilities have a positive impact on real per capita income or employment, and may have a negative affect.

***Finding #11:*** If public financing is the source of funding for a new Charger stadium, the City should demand a lease with terms that will protect the City such as a long-term lease with fixed rents and no credits, no risk of cost overruns, and City use of the stadium for other public events.

## ***RECOMMENDATIONS***

**The 2009/2010 San Diego County Grand Jury recommends that the Mayor and the City Council of the City of San Diego:**

**10-44: Study independent economic analyses of a proposed new stadium so as to accurately project per capita income and employment data for the construction and operation of a new downtown Chargers stadium.**

**10-45: If a new downtown stadium for the Chargers is to be built, negotiate a favorable resolution of the \$52 million balance remaining on the 1997 stadium Renovation Bonds.**

**10-46: If public financing is to be employed for the construction of a new downtown stadium for the Chargers, demand a lease with terms that will protect the City such as a long-term lease with fixed rent sufficient to cover any public indebtedness incurred by the City or the City of San Diego Redevelopment Agency, with no credits, no risk of**

**cost overruns and control of the use of the stadium for other City and City contracted events.**

***REQUIREMENTS AND INSTRUCTIONS***

The California Penal Code §933(c) requires any public agency which the Grand Jury has reviewed, and about which it has issued a final report, to comment to the Presiding Judge of the Superior Court on the findings and recommendations pertaining to matters under the control of the agency. Such comment shall be made *no later than 90 days* after the Grand Jury publishes its report (filed with the Clerk of the Court); except that in the case of a report containing findings and recommendations pertaining to a department or agency headed by an elected County official (e.g. District Attorney, Sheriff, etc.), such comment shall be *within 60 days* to the Presiding Judge with an information copy sent to the Board of Supervisors.

Furthermore, California Penal Code §933.05(a), (b), (c), details, as follows, the manner in which such comment(s) are to be made:

- (a) As to each grand jury finding, the responding person or entity shall indicate one of the following:
  - (1) The respondent agrees with the finding
  - (2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.
- (b) As to each grand jury recommendation, the responding person or entity shall report one of the following actions:
  - (1) The recommendation has been implemented, with a summary regarding the implemented action.
  - (2) The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.
  - (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This time frame shall not exceed six months from the date of publication of the grand jury report.
  - (4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.
- (c) If a finding or recommendation of the grand jury addresses budgetary or personnel matters of a county agency or department headed by an elected officer, both the agency or department head and the Board of Supervisors shall respond if requested by the grand jury, but the response of the Board of Supervisors shall address only those budgetary or personnel matters over which it has some decision making authority. The response of the

elected agency or department head shall address all aspects of the findings or recommendations affecting his or her agency or department.

Comments to the Presiding Judge of the Superior Court in compliance with the Penal Code §933.05 are required from the:

<b><u>Responding Agency</u></b>	<b><u>Recommendations</u></b>	<b><u>Date</u></b>
<b>Mayor, City of San Diego</b>	<b>10-44 through 10-46</b>	<b>8/19/10</b>
<b>City Council, City of San Diego</b>	<b>10-44 through 10-46</b>	<b>8/19/10</b>