

San Diego City Auditor

AUDIT REPORT

THE CITY OF SAN DIEGO FACES UNIQUE OPERATIONAL AND ADMINISTRATIVE CHALLENGES IN MANAGING QUALCOMM STADIUM

May 8, 2009

**Office of the City Auditor
Eduardo Luna, CIA, CGFM, City Auditor**

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THE CITY OF SAN DIEGO

May 8, 2009

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Attached is our audit report regarding the City's management and revenue practices for Qualcomm Stadium. Management's response to our audit recommendations can be found after page 39 of the report. The audit staff responsible for this audit report is Paul Alberga.

We would like to thank the Qualcomm Stadium staff, as well as representatives from other City departments for their assistance and cooperation during this audit. We also would like to thank officials from other municipal stadiums that participated in our audit. All of their valuable time and efforts spent on providing us information is greatly appreciated.

Respectfully submitted,

Eduardo Luna
City Auditor

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EXECUTIVE SUMMARY

The City of San Diego (City) has owned and operated Qualcomm Stadium (Stadium), formerly known as Jack Murphy Stadium and San Diego Stadium, since 1967. The Stadium is a high profile asset of the City and is home to a professional football team (San Diego Chargers) and a college football team (San Diego State University Aztecs). The Stadium has hosted many major regional, national, and international events including three Super Bowls, several college football bowl games, and two World Series'. Based on our performance audit, we found that the City faces unique operating and administrative challenges managing the Stadium, including:

- Stadium operations are not self-sustaining and must be significantly subsidized through Transient Occupancy Tax (TOT) revenue and other non-Stadium asset revenue;
- Complex agreements and legal settlements have significantly restricted the revenue generating performance of Qualcomm Stadium and results in payments to the Chargers;
- Early termination of the Chargers' agreement could leave the City with a \$21.4 million bonded debt obligation;
- Opportunities exist to improve the operational effectiveness of Stadium oversight;
- The City's agreement with San Diego State University (SDSU) has not been providing positive financial benefit to the City and has been subject to protracted contract negotiations;
- Limited personnel resources and recent turnover of Stadium management have impacted the effectiveness of Stadium administration;
- The Stadium's annual capital improvement budget is limited and insufficient to adequately address deferred maintenance needs;
- Special event revenue files were incomplete and authorized rates for events were not uniformly applied; and
- Ineffective invoicing practices result in delayed payments to the City.

In order to mitigate the operational and managerial risks associated with the stadium, we recommend that the City plan and prepare to address Stadium Renovation Bond and TOT funding issues. The City can enhance its vision for administering Stadium policy by formalizing a business plan specific to the Stadium. This plan would allow the City to develop a road map for securing agreements with legitimate Stadium event producers to help offset the costs of operating the Stadium.

We also recommend that the City can benefit from improved reporting, including high-level performance metrics of Stadium operations, and that the City improve its oversight of Stadium

operations by ensuring that the Stadium Advisory Board is actively and appropriately engaged in Stadium issues. To help alleviate the effects of administrative staff turnover at the Stadium, Stadium management should create a policy and procedure manual specific to Stadium operations. Finally, in order to avoid delays and inaccuracies of the revenue amounts collected on behalf of the Stadium, the City needs to ensure that all Stadium revenues are properly billed, received, and reconciled, including ensuring that all overdue accounts are being actively collected. By implementing these recommendations the City can reduce the risk and impact to the City's General Fund in the event that future Stadium use agreements change.

BACKGROUND

Originally built in 1967, Qualcomm Stadium (Stadium)—formerly named Jack Murphy Stadium and San Diego Stadium—is owned and operated by the City of San Diego (City). Located on 167 acres of land at the southwest corner of Interstate 15 at Friars Road in Mission Valley, the Stadium is a high profile asset of the City at which many major televised regional, national, and international events take place. Stadium facilities also include 120 acres of parking lots that surround the stadium along with an adjacent practice field.

Figure 1
Aerial View of Qualcomm Stadium



Source: Ken Rockwell [kenrockwell.com].

Over the past 41 years, the Stadium has gone through several renovations and upgrades. The most substantial addition was completed in 1997 when the Stadium was almost fully enclosed with nearly 11,000 seats added in preparation for Super Bowl XXXII bringing the seating capacity of the Stadium to approximately 71,500. The 1997 renovation was financed by the City through a \$68 million lease revenue bond issuance, along with an \$18 million payment for Stadium naming rights from the Qualcomm Corporation. In 1998, Qualcomm Stadium was the first Stadium to host a Super Bowl and World Series during the same year. In 2002 the City spent an additional \$5 million for modifications to the Stadium in order to provide more accessibility to persons with disabilities. These modifications reduced seating capacity to the current level of 70,567.

After 34 years as a marquee tenant of the Stadium, the San Diego Padres (Padres) major league baseball team discontinued playing its home games at the Stadium in September 2003. Due to the loss of the Padres to a new ballpark (Petco Park) within the downtown area of the City, the Stadium's availability to host events during the spring and summer months was no longer encumbered. As a result, the Stadium holds other types of seasonal events including professional motocross races, monster truck events, concerts, religious gatherings, and international soccer matches.

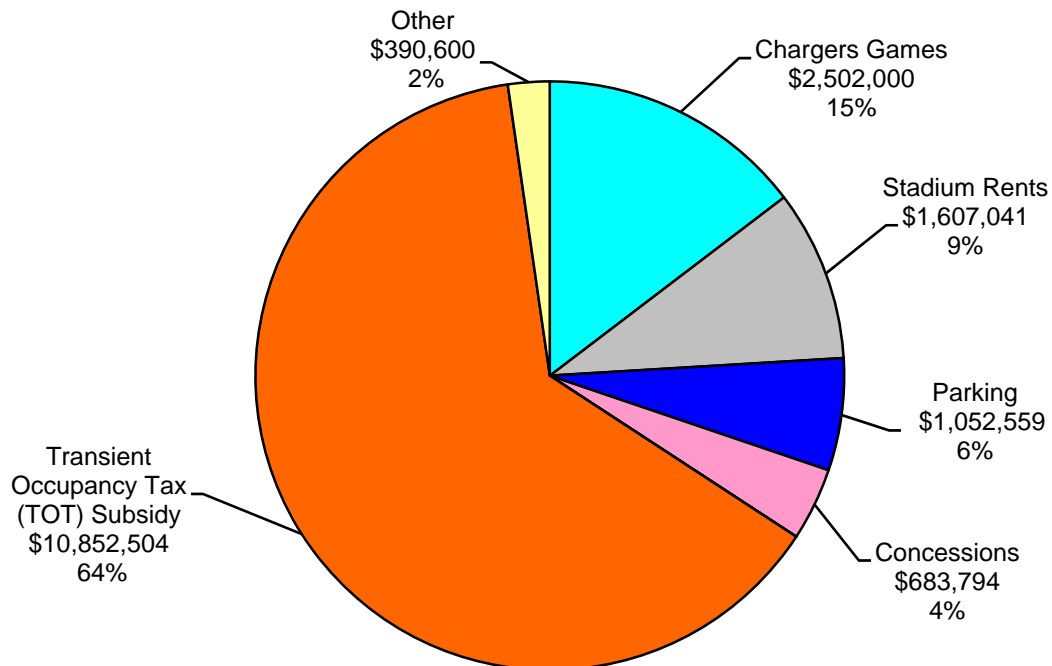
The Stadium is currently under a long-term lease agreement with one National Football League (NFL) franchise, the Chargers Football Company, LLC (Chargers), through the 2020 NFL season. The Stadium is also in agreement renegotiations¹ with one collegiate football team; San Diego State University (SDSU). In addition, two college football bowl games (Holiday Bowl & Poinsettia Bowl) are contracted to have events at the Stadium through 2011. The Chargers have recently pursued talks with the City, and other neighboring cities within San Diego County, in an attempt to privately finance and site a modernized stadium development to play future NFL games. The potential loss of the City's agreement with the Chargers to play NFL football games at the Stadium, as well as the potential development of a new stadium within San Diego County, could have a significant impact on the future operating strategy and financial performance of the Stadium.

In addition to events held within the Stadium, the Stadium facilities also attract many private and non-profit tenants that lease the parking lot and practice field for specialized events. One major tenant, the San Diego Auto Connection (SDAC), was awarded exclusivity agreements with the City to operate used car and RV sales events on the Stadium parking lot. Along with these events, several car and automotive racing clubs utilize the Stadium's parking lot for events on a regular basis. Appendix C provides a schedule of Stadium parking lot events that occurred in Fiscal Year 2008.

The Stadium has also executed exclusive and long-term revenue agreements with Centerplate Inc. (Centerplate) for concession and catering services and with Ace Parking Management Inc. (Ace Parking) for parking management services. Due to these agreements, all catering and parking services for events held at the Stadium must be provided by these companies unless alternate agreements are negotiated for specific events. A schedule of major Stadium revenue agreements is provided in Appendix A. Figure 2 below shows the budgeted revenue percentages for the Stadium in Fiscal Year 2009.

¹ The prior long-term stadium use agreement with San Diego State University expired at the end of the 2007 college football season and was amended with similar terms to allow San Diego State University to play its games at the Stadium for the 2008 season.

**Figure 2
Budgeted Revenue Percentages for Qualcomm Stadium for Fiscal Year 2009**



Source: Auditor generated from the City Comptroller's accounting system (AMRIS).

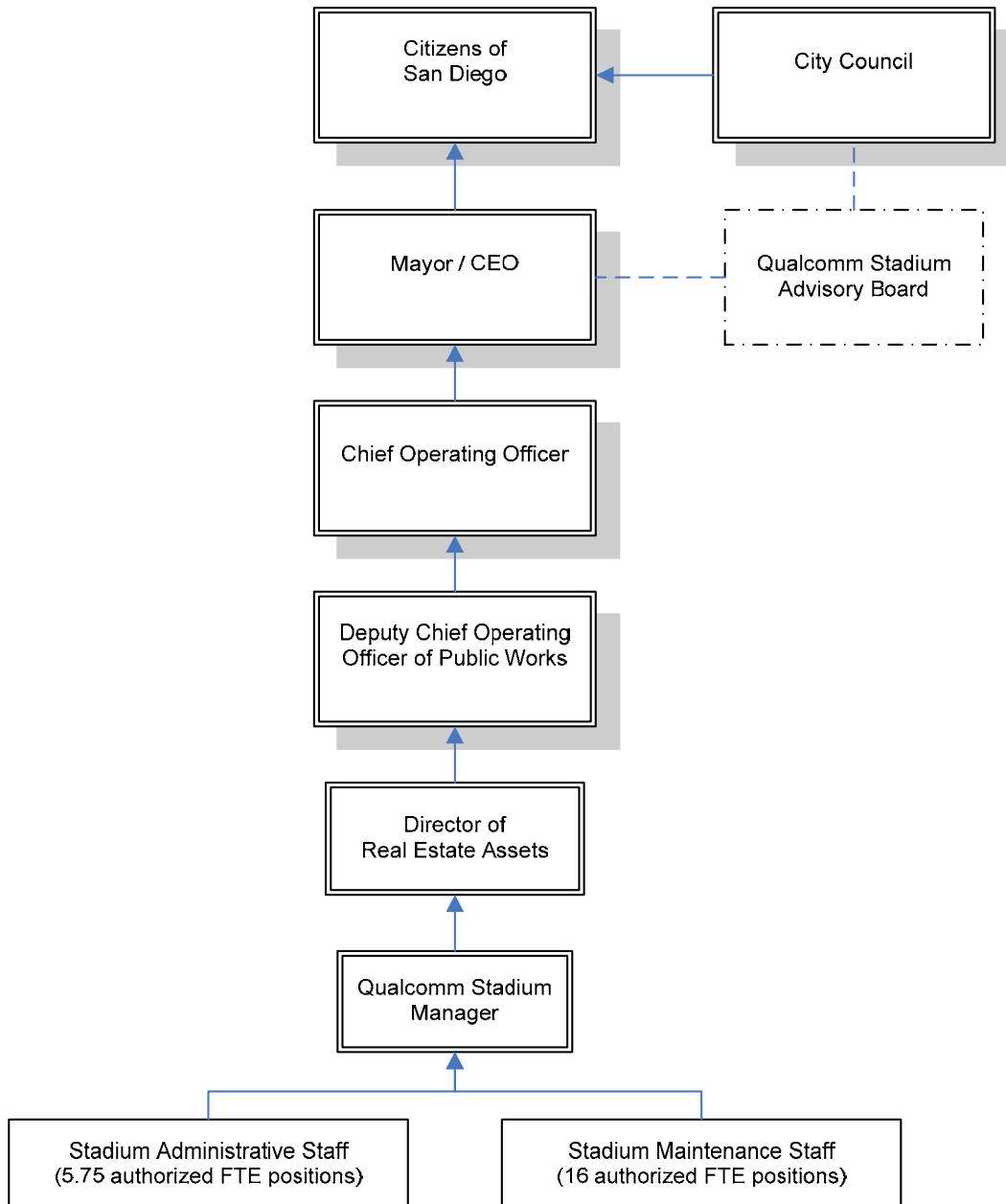
The Stadium is also used by the City for special civic purposes including alternate parking for non-Stadium related events such as the 2008 US Open of Golf at Torrey Pines Golf Course, and as a disaster recovery center during the 2003 and 2007 wildfires. In addition, Stadium facilities are also utilized as a training facility by law enforcement agencies such as the San Diego Police Department, San Diego County Sheriff's Department, and the California Highway Patrol.

Stadium operations are directly managed by a Stadium Manager who is appointed by the Mayor. The Stadium Manager has authority to negotiate and execute use agreements with Stadium tenants. Use agreements are structured to provide revenue for the Stadium in the form of rent or event revenue sharing. In some cases, alternate revenue agreements are negotiated in addition to, or as part of, stadium rent. For short-term use agreements, daily rental rates are guided by pre-determined amounts established by the City Council and approved by the Mayor. Agreements for over three years of Stadium use (long-term use agreements), such as with local sports and community organizations, require approval by the City Council.

As shown in Figure 3 below, the Stadium Manager reports directly to the City's Director of Real Estate Assets. Including the Stadium Manager, the Stadium operates with a staff of 6.75 full-time equivalent (FTE) administrative employees and 16 FTE maintenance personnel. The Qualcomm Stadium Advisory Board (SAB) is a statutorily created body consisting of nine public members appointed by the Mayor and confirmed by the City Council. According to City Municipal Code, the purpose of the SAB is to serve as an advisory body to the Mayor and City Council on matters relating to the operations of the Stadium. The duties and functions of the advisory board are listed below:

- Conduct public meetings to provide a forum on Qualcomm Stadium operations and receive public input on Stadium issues;
- Serve as liaison between the public, Stadium tenants, contractors, and the City;
- Provide recommendations to the Mayor and City Council on any action that requires City Council approval; and
- Not have any financial or budgetary authority.

**Figure 3
Qualcomm Stadium Management Organizational Chart**



Source: Auditor generated from the City of San Diego Organizational Chart and Budget Data.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

According to the City Auditor's Citywide Risk Assessment completed in January 2008, Qualcomm Stadium (Stadium) administration ranked as the highest risk activity group within the City. In addition, the terms of the City's agreement with its marquee tenant (Chargers Football Company, LLC) and the status of its agreement with another major tenant (San Diego State University) have been the subject of much public discourse. As a result, the City Auditor included a performance audit to assess the effectiveness of revenue generation and reporting practices of the Stadium as part of the City Auditor's Fiscal Year 2009 Audit Work Plan.

To accomplish our objectives related to the revenue generation and reporting practices of the Stadium, we performed the following audit procedures:

- Reviewed pertinent laws, policies, and regulations related to Stadium revenue;
- Identified, collected, and analyzed financial information and reports related to Stadium operations;
- Reviewed and analyzed revenue agreements with major Stadium tenants [See Appendix A for summary of major Stadium revenue agreements];
- Reviewed minutes of the Stadium Advisory Board (SAB) for actions taken or issues discussed related to Stadium revenue;
- Interviewed Stadium management and observed management practices related to revenue collection and reporting;
- Evaluated administrative policies and procedures related to Stadium revenue generation and reporting;
- Documented and reviewed recent audits of Stadium revenue agreements performed by the City Treasurer's office; and
- Contacted and surveyed stadium managers from other municipalities to compare revenue generation and operating activities.

We evaluated internal controls related to the audit objectives. Our conclusions on the effectiveness of these controls are detailed within the following audit results.

We limited our review of the revenue performance of the Stadium to fiscal year 2006 through fiscal year 2008. Current year financial information was reviewed to gain perspective on the current operating and reporting practices of the Stadium.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

STADIUM OPERATIONS ARE NOT SELF-SUSTAINING

A review of Qualcomm Stadium (Stadium) financial records reveals that the costs of operating and maintaining the Stadium are significantly subsidized through special tax revenue and other non-Stadium asset revenue. From fiscal year 2006 through 2008 the City's Transient Occupancy Tax (TOT) Fund² provided \$16.2 million to fund Stadium operations. In fiscal year 2009 the Stadium Fund is no longer receiving revenue from non-Stadium related assets, therefore, the TOT subsidy for the Stadium Fund has been budgeted to increase by \$4.4 million (68%) from fiscal year 2008. Without improvement in the efficiency of the Stadium to independently generate revenue, the Stadium will become even further dependent on external revenue sources to sustain its operations.

In addition, a review of current Stadium use agreements revealed that the City's agreement with the Chargers Football Company LLC (Chargers), the City's highest rental revenue Stadium tenant, significantly constricts the revenue generating capability of the Stadium. Per the use agreement with the Chargers, the City is responsible to provide the Stadium and applicable overhead services such as utilities, security, grounds keeping, and general maintenance for all Charger home football games. The City's Fiscal Year 2009 Budget shows that the Stadium expends over \$2.8 million annually to host Chargers games; however, these costs do not include administrative and maintenance costs associated with hosting Chargers games. Furthermore, our analysis of direct payments made by the Chargers for Stadium rent show that the City's General Fund (General Fund) and the Qualcomm Stadium Operating Fund (Stadium Fund) have actually paid the Chargers a net amount of \$492,000 for the 2005 through 2007 football seasons. These additional costs to the Stadium are attributed to legal settlements involving Chargers lost revenue as a result of the Stadium's non-compliance with the Americans with Disabilities Act (ADA) requirements, and to rent credits granted to the Chargers through the agreement itself.

Stadium finances are recorded within the Stadium Fund, a special revenue fund established by the City to track financial activity related to Stadium operations. An analysis of the financial information reported within the Stadium Fund reveals that Stadium operations are heavily subsidized through non-Stadium sources. During fiscal year 2008, only 46% of revenues reported within the Stadium Fund were generated through Stadium operations. The majority of revenue reported by the Stadium Fund was from two external sources: TOT subsidies and auxiliary property rents.³

The portion of the Stadium Fund exclusive to Stadium operations has reported a deficit for fiscal years 2006 through 2008, and is budgeted to operate at a deficit in fiscal year 2009. From fiscal year 2006 through 2008, 56% of the revenue reported within the Stadium Fund was generated through non-Stadium operating activity including auxiliary property leases and TOT subsidies.

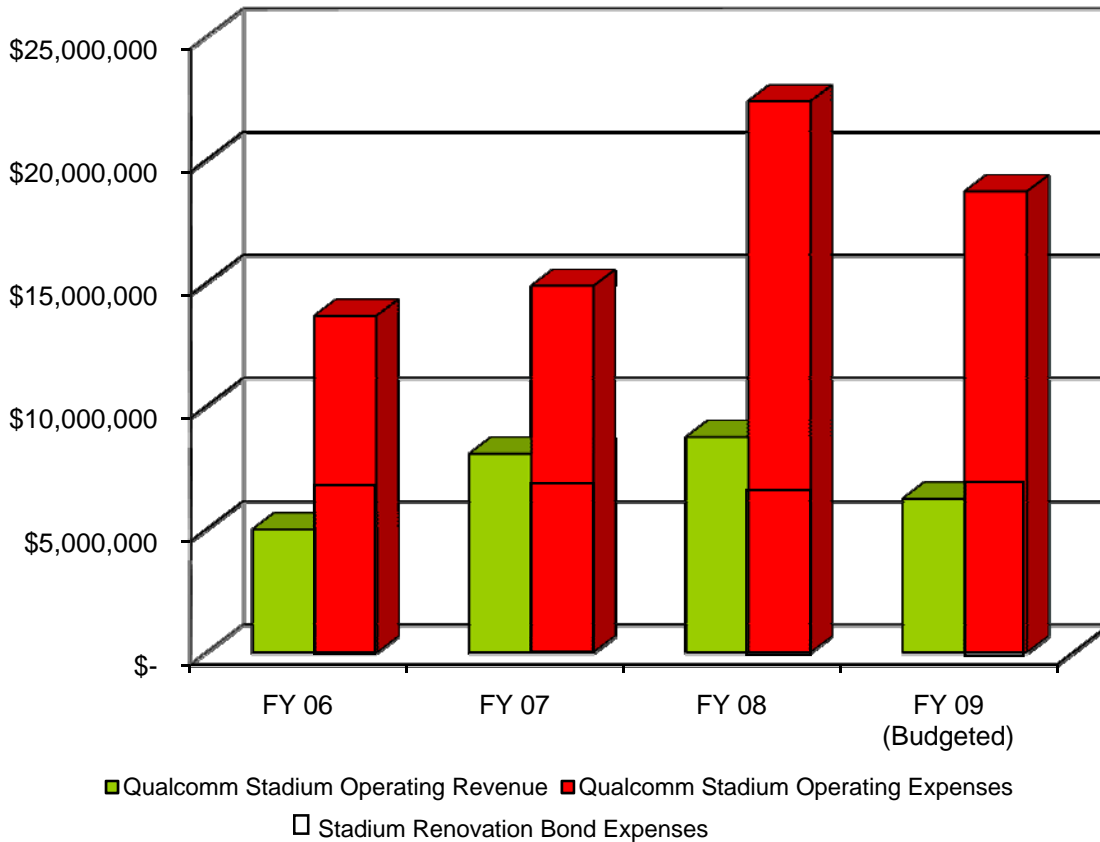
² Transient Occupancy Tax (TOT) is a 10.5% tax levied by the City on hotel and campground stays. In Fiscal Year 2009, Total TOT revenue is budgeted to be \$173 million with \$90.6 million set-aside for General Fund purposes.

³ In Fiscal Year 2006, 2007, and 2008 the Qualcomm Stadium Operating Fund reported revenue of \$3.3, \$3.8, and \$4.0 million respectively from rental payments of the San Diego Sports Arena / Midway Frontier.

Figure 4 below displays the operating revenues and expenses related exclusively to Stadium operations and the related Stadium Renovation Bond debt service.

Figure 4

**Qualcomm Stadium Operating Revenues and Expenses *
by Fiscal Year**



* In Fiscal Year 2006, 2007, and 2008 the Qualcomm Stadium Operating Fund (Stadium Fund) received of \$3.3, \$3.8, and \$4.0 million respectively from rental payments of the San Diego Sports Arena / Midway Frontier. During fiscal year 2006 through 2008 the Stadium Fund received a total of \$16.25 million in Transient Occupancy Tax (TOT) subsidies with a \$10.85 million TOT subsidy budgeted to be received in fiscal year 2009. These amounts have been omitted from Figure 4 to accurately reflect revenue related exclusively to Qualcomm Stadium Operations and the City's debt service for Stadium Renovation Bonds.

Source: Auditor generated from City of San Diego Comptroller's accounting and reporting system (AMRIS).

Each year the City's Financial Management Department (Financial Management) allocates TOT special promotional program funds to various cultural, visitor-oriented, and economic development programs within the City. The amount of TOT funding budgeted for Stadium operations is based on the amount recommended by the Mayor and approved by the City Council during the annual budget process. These funds are collected through tax levies on hotel and campground stays within the City, and are allocated for various purposes such as capital improvements and operational subsidies for maintenance and administration. As shown in Table 1, the Stadium Fund's reliance on TOT subsidies is budgeted to increase by \$4.4 million dollars, or 68%, in fiscal year 2009. Without this subsidy the Stadium Fund would become

insolvent and other financial sources of the City would have to be tapped in order to sustain Stadium operations. Table 1 below shows a breakdown of the revenues and expenses reported within the Stadium Fund for Fiscal Years 2006 through 2008, and the budgeted amounts for Fiscal Year 2009.

**Table 1
Breakdown of Qualcomm Stadium Operating Fund Revenues and Expenses**

	FY 06	FY 07	FY 08	FY 09 (budgeted)
Total Qualcomm Stadium Operating Fund Revenues	\$ 12,615,198	\$ 17,335,804	\$ 19,161,103	\$ 17,088,498
Less Non-Stadium Lease Revenue	(3,321,897)	(3,773,747)	(3,976,236)	-
Less Transient Occupancy Tax Subsidy	(4,300,000)	(5,500,000)	(6,445,000)	(10,852,504)
Qualcomm Stadium Operating Revenue	4,993,301	8,062,057	8,739,867	6,235,994
Less Qualcomm Stadium Expenses*	(13,663,745)	(14,876,659)	(22,372,269)	(18,712,887)
Qualcomm Stadium Operating Surplus (Deficit)	\$ (8,670,443)	\$ (6,814,602)	\$ (13,632,402)	\$ (12,476,893)

*Includes Stadium Renovation Bond payments averaging \$5.6 million annually.

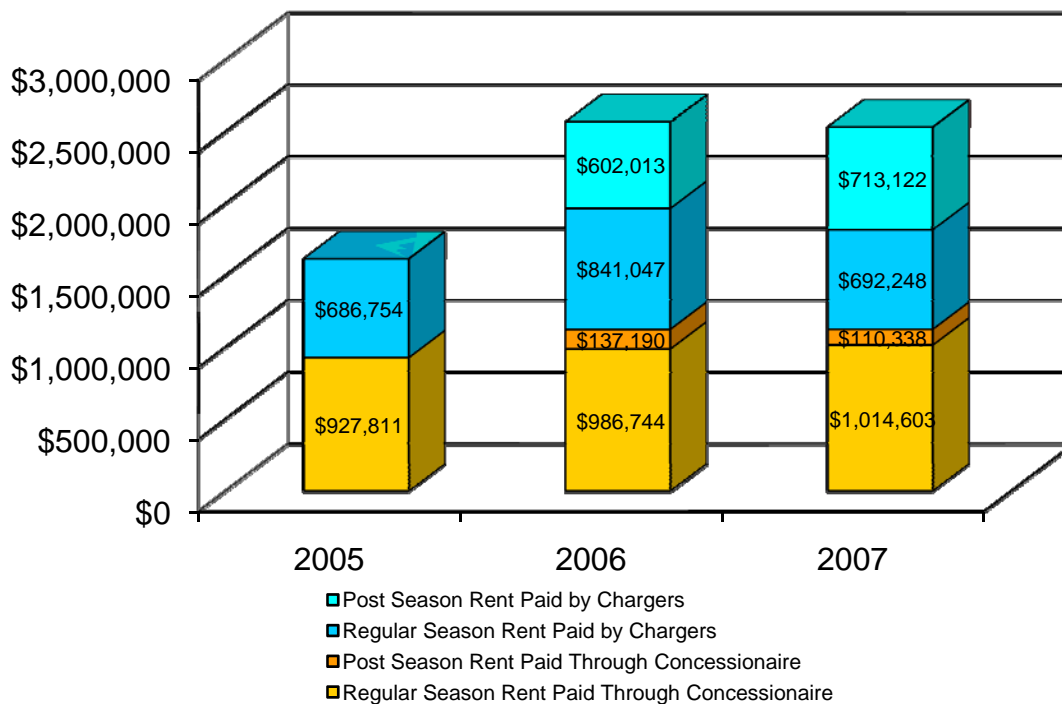
Source: Auditor generated from City of San Diego Comptroller's accounting and reporting system (AMRIS).

Complex Agreements and Legal Settlements Have Significantly Restricted the Revenue Generating Performance of Qualcomm Stadium

As shown in Figure 4, annual Stadium expenses are budgeted to outpace revenues in fiscal year 2009. Our analysis of Stadium financial reports revealed that significant amounts of Stadium revenue is either paid back to the Chargers Football Company, LLC in cash, or is offset by agreed-upon rent credits. Figure 5 below shows the amount of revenue received by the City as a result of Chargers games for the 2005 through 2007 football seasons:

Figure 5

Rents Paid to City From Chargers Games by Season



Source: Chargers Football Company LLC - Summary Schedule of Rent Paid.

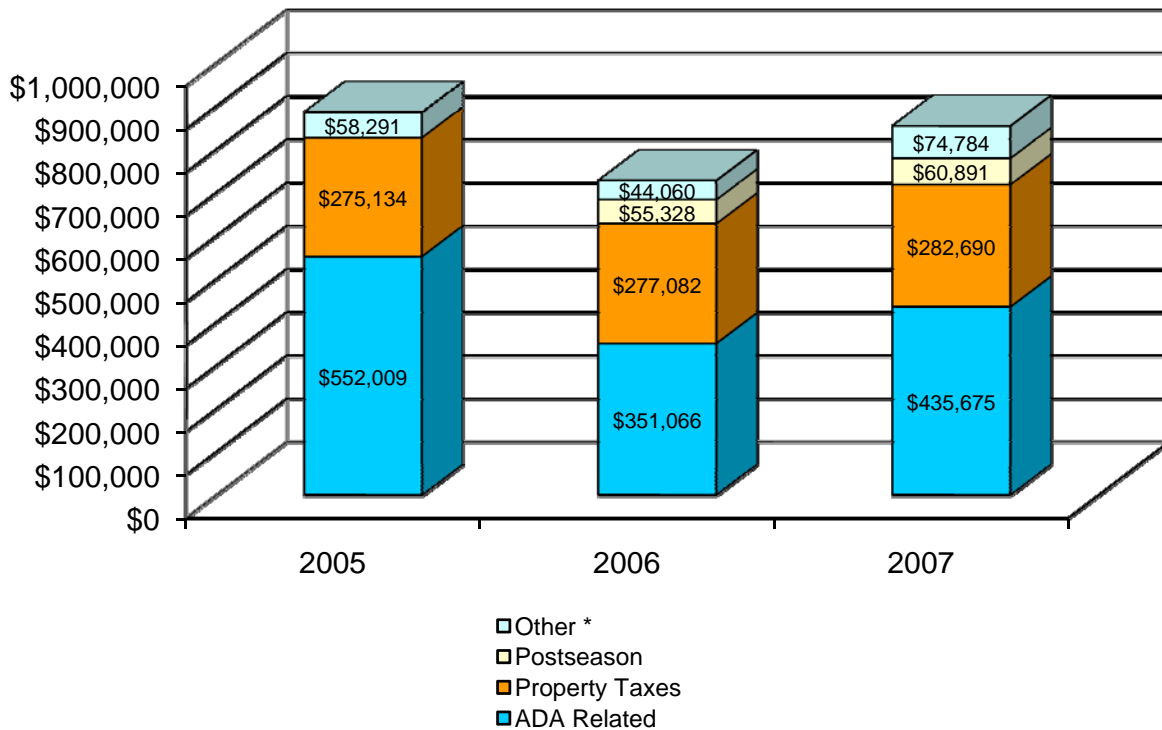
Further analysis of the agreement with the Chargers revealed that the Chargers have been granted rights to claim credits against the rental fee established within the terms of its agreement with the City. The City's agreement with the Chargers established a maximum aggregate rent of \$2.5 million for the 2004 through 2013 regular football seasons⁴, and 10% percent of ticket revenues for any post season games. The configuration of the rental agreement requires the Chargers to pay the difference between what the City receives from the concessionaire and \$2.5 million per regular season; however, the actual amount paid directly by the Chargers to the City has been significantly offset by the Chargers through the claiming of rent credits. The majority of rent

⁴ The maximum aggregate rent for the 2014 through 2016 regular seasons is \$3 million, and \$4 million for the 2017 through 2020 regular seasons.

credits claimed by the Chargers are related to an Americans with Disabilities Act (ADA) settlement from the year 2000, and through Skybox property tax concessions granted to the Chargers through the agreement itself. Figure 6 below presents a schedule of the rent credits claimed by the Chargers for the 2005 through 2007 seasons:

Figure 6

Summary of Rent Credits Claimed by Chargers by Season



* Includes annual season costs for the Qualcomm Suite and Qualcomm parking passes, City Box parking passes, and miscellaneous costs incurred by the Chargers on behalf of the Stadium.

Source: Chargers Football Company LLC - Summary Schedule of Rent Paid.

In addition to rent credits claimed by the Chargers, the Chargers were also awarded compensatory damages from the City from an arbitrated settlement awarded in February 2006. This award is based on lost ticket and concession revenue that the City was found liable for as a result of removing Stadium seats to comply with the terms of the 2000 ADA settlement. The arbitration award is calculated by two formulas created by the settlement arbitrator, and must be paid by the City directly to the Chargers for each season that they play at the Stadium under the current agreement.

In October 2007, the City’s General Fund paid out \$1.98 million to the Chargers for lost revenue damages related to the 2002 through 2005 seasons. In August 2008, the Stadium Fund paid out an additional \$3 million to the Chargers for the 2006 and 2007 football seasons. The City is

responsible to pay this award through the remainder of the City's agreement with the Chargers, therefore, this expense will potentially be an annual multi-million dollar expense to the Stadium as long as Chargers games exceed a 90% attendance requirement⁵. Under the current scenario, unless the Stadium can significantly increase net revenues from events outside of Chargers games, the City will continue to be reliant on outside financial sources to meet its legal obligations to the Chargers.

Early Termination of the Chargers Agreement Could Leave the City with a \$21.4 Million Debt Obligation

Within the City's current agreement with the Chargers, the Chargers have the right to terminate its agreement between February 1st and May 1st (termination window) each year through the remainder of the agreement. In order to terminate its agreement with the City, the Chargers must pay a termination fee to the City. Should the Chargers choose to exercise its termination right in the future, the amount of the termination fee is based on a sliding scale established within the agreement (See Table 2). According to the July 2004 City Manager's report that explained the termination fee to the City Council, the sliding scale was applied in order to reflect the outstanding balance of the City's Stadium Renovation Bonds in 2009 and 2010, and the declining balance of the Chargers' obligation thereafter. According to the terms of the Stadium Renovation Bonds, the bonds are guaranteed by a pledge of revenue derived from lease payments from the City to the City's Public Facilities Financing Authority (PFFA). However, since the Stadium Renovation Bonds are backed by the City's General Fund, the Chargers are not legally obligated to pay down any portion of the Stadium Renovation Bond indenture.

The Stadium Fund has historically been the fund used for the payment of the City's Stadium Renovation Bond obligations. From fiscal year 2006 through 2008 the Stadium fund reported average expenses of \$5.5 million annually in Stadium Renovation Bond payments. In a November 1995 City Manager's Report to the City Council, lease payments on the Stadium Renovation Bonds were to come from the following sources:

- Increased rent paid by the Chargers;
- Increased percentage of concessions revenues to be paid to the City from the Concessionaire;
- The Chargers will pay an amount equal to 75 cents per ticket in the 1996 season and \$1.50 per ticket in the 1997 and future seasons; and
- A user fee of \$1 per vehicle in the 1998 and 1999 seasons and an additional \$1 per vehicle beginning in the 2000 season.

We found that none of the above funding sources currently hold true because the updated agreement with the Chargers allows the Chargers to retain all parking revenues and caps the City's revenue from Charger games, including concessions, at \$2.5 million per regular football season through 2013. As discussed previously within this report, the City's share of Chargers

⁵ The arbitration settlement allows for separate calculations of lost revenue for Club Level and General seating, and is calculated separately for each Chargers home game. The 90% requirement independently applies to each seating area, and if reached, triggers a payment owed from the City to the Chargers based on an estimated lost ticket and concession revenue calculation.

game revenues are substantially less than the \$2.5 million cap and have resulted in net payments to the Chargers due to offsets from rent credits and the annual lost revenue arbitration award.

In a June 1998 Grand Jury report, the Grand Jury found that City officials at that time had told members of the media and the public that no general funds would be necessary to service the Stadium Renovation Bond debt. The Grand Jury report further noted that the principal feature of revenue bonds is that they are secured only by pledge of specific revenue, and that revenues are most frequently derived from rents or fees related to the operation of a facility such as the Stadium.

In fiscal years 2006 through 2008, TOT subsidies ranged from 32% to 34% of total Stadium Fund revenues. As shown in Figure 2, TOT subsidies represented 64% (\$10.8 million) of the fiscal year 2009 budgeted revenue for the Stadium. Since the Stadium Fund has almost doubled its reliance on TOT funding, the City is relying on TOT funds to meet the debt service requirements related to Stadium Renovation Bonds, as well as to cover Stadium operational expenses. This is further evident since the debt service expenses for the Stadium Renovation Bonds, totaling \$5.8 million in fiscal year 2009, remain budgeted as an expense within the Stadium Fund.

According to the City's Financial Management Department's 2010-2014 Financial Outlook, the City is forecasted to collect \$156.9 million of TOT taxes in fiscal year 2009. This forecast represents a 9% reduction from the \$173 million of TOT taxes that were originally budgeted citywide; however, the budgeted TOT subsidy for the Stadium has not changed from its original amount of \$10.8 million. This practice results in a significantly lesser amount of discretionary TOT funds available for other special promotional programs or General Fund purposes.

Table 2 below shows an analysis of the Chargers termination fee schedule and the City's Stadium Renovation Bond obligation.

Table 2: Stadium Renovation Bond Obligation Analysis

Date	Stadium Renovation Bonds Principal Balance (Est.)	Chargers Termination Fee	City Obligation Less Termination Fee*	Debt Service Reserve Account Balance **
2/1/2008	\$57,775,000	n/a	n/a	\$5,773,315
2/1/2009	\$56,275,000	\$56,275,000	\$0	\$5,773,315
2/1/2010	\$54,670,000	\$54,670,000	\$0	\$5,773,315
2/1/2011	\$52,950,000	\$25,820,000	\$27,130,000	\$5,773,315
2/1/2012	\$51,110,000	\$23,980,000	\$27,130,000	\$5,773,315
2/1/2013	\$49,145,000	\$22,015,000	\$27,130,000	\$5,773,315
2/1/2014	\$47,030,000	\$19,900,000	\$27,130,000	\$5,773,315
2/1/2015	\$44,760,000	\$17,630,000	\$27,130,000	\$5,773,315
2/1/2016	\$42,325,000	\$15,195,000	\$27,130,000	\$5,773,315
2/1/2017	\$39,705,000	\$12,575,000	\$27,130,000	\$5,773,315
2/1/2018	\$36,890,000	\$9,760,000	\$27,130,000	\$5,773,315
2/1/2019	\$33,870,000	\$6,740,000	\$27,130,000	\$5,773,315
2/1/2020	\$30,620,000	\$3,490,000	\$27,130,000	\$5,773,315

* Estimate assumes that the entire Chargers Termination Fee payment will be used to pay down the balance of the Stadium Renovation Bond principal. Amount does not consider the disposition of the Stadium Renovation Bond Debt Reserve Account which has a balance of \$5.8 million as of January 2009.

** Reserve balance must be the lesser of 10% of the bonded principal, the maximum annual debt service for current or any future year, or 125% of average annual debt service. Per Debt Management, the maximum annual debt service for the current or any future bond year is used.

Source: Auditor analysis of Chargers Agreement and City of San Diego Debt Management Department data.

According to the termination fee sliding scale in Table 2 above, the Chargers termination fee will be \$54.67 million during the 2010 window, decreasing by \$28.85 million if the Chargers decide to terminate the agreement after the 2010 termination window. Should the Chargers exercise their early termination right during any termination window after 2010, the termination fee that the Charges are obligated to pay would not be sufficient to cover the outstanding balance of the City’s Stadium Renovation Bond obligation. In the case of an early termination by the Chargers, the City would retain the balance of the Stadium Renovation Bond reserve account which is currently \$5.8 million. However, should the City apply the entire termination fee and debt reserve account balance toward the redemption of Stadium Renovation Bond principal, the City would be left obligated to pay approximately \$21.4 million in Stadium Renovation Bond principal outstanding without retaining collection rights on future Chargers game revenues.

Recommendations:

1. The Administration should proactively create a financing plan to pay down the City's Stadium Renovation Bond obligation regardless of the Chargers' tenancy at the Stadium. The plan should detail the financial strategy that the City will follow to maintain the solvency of the Stadium Fund should the Chargers terminate its agreement with the City after 2010. The Administration should continuously update the financing plan throughout the liquidation of the Stadium Renovation Bond principal.
2. In order to avoid significant legal settlements in the future, the City should continue to ensure that it meet its obligation to provide the Stadium to the Chargers per the terms of its current agreement. To minimize the legal and financial risks involved with managing the Stadium, the Stadium should perform a comprehensive analysis of its compliance with the key terms of the City's agreement with the Chargers and with the 2000 ADA compliance settlement. If the results of the analysis are unfavorable for the City, the City should take steps to aggressively abate the risks of non-compliance with ADA requirements and Chargers agreement terms.
3. To decrease its dependence on TOT tax funding, the Stadium should aggressively pursue agreements with legitimate event producers to help offset its operational costs and the City's outstanding Stadium Renovation Bond principal.

THE CITY COULD BETTER MANAGE RISKS ASSOCIATED WITH STADIUM OWNERSHIP

Within the first section of the Audit Results, we identified and discussed financial risks the City is facing in operating Qualcomm Stadium (Stadium). Namely, the City's agreement with the Chargers Football Company LLC (Chargers) significantly constricts revenue opportunities, and in the event the Chargers were to terminate its agreement with the City, the City could be left with a significant debt obligation. The Stadium is an asset of the City that is deteriorating and operates at a loss. Our audit also revealed that the City could better manage certain operational risks associated with the Stadium—oversight, personnel, and administrative. Specifically we found the following:

- The Stadium has no formalized business plan;
- Stadium oversight can be enhanced, especially regarding capital improvement issues;
- Certain agreements have not produced sustainable financial benefit to the Stadium;
- The Stadium faces unique personnel and administrative challenges; and
- The Stadium lacks specific administrative policies and procedures.

By developing a business plan, strengthening oversight and improving administrative duties, the City would better develop a plan to manage the Stadium.

The City Has No Formalized Business Plan for Qualcomm Stadium

Our audit revealed that Stadium management has not developed a business plan for the Stadium. A comprehensive business plan would outline the strategies Stadium management plans to follow in order to secure profitable events, address operational challenges, and to mitigate potential threats for increasing Stadium revenue. A business plan could also provide measurable performance benchmarks and address ongoing and potential challenges facing the Stadium. For example, the McAfee Coliseum in Oakland, California has an annual plan that its management submits to the Oakland-Alameda Coliseum Authority. The annual plan provides detailed information on operational, financial, and strategic performance of the entire Coliseum complex⁶. Included within the annual plan is a Capital Projects Improvement List that details upcoming maintenance and capital improvements planned for the upcoming year. The annual plan also describes the local event marketplace, and provides general operational data on the amount and type of events that have occurred at the Stadium during the past year. By adopting a similar approach in analyzing the trends applicable to its own event marketplace, Stadium management could more effectively communicate its operating results and improve the transparency of its operating strategy.

The Qualcomm Stadium Manager (Stadium Manager) admits that there is no formalized business plan for the Stadium; however, he contends that a formalized business plan is not necessary for the Stadium to operate effectively. The Stadium Manager indicated that the market for stadium events is a very niche marketplace, and that the large seating capacity of the Stadium is a major

⁶ The Oakland Coliseum Complex includes the McAfee Coliseum, Oracle Arena, and contiguous parking lots.

deterrent for many events. According to the Stadium Manager there are very few legitimate event producers that are interested in booking the Stadium for their events, and that current industry trends for live entertainment productions have put the Stadium at a competitive disadvantage within the live event marketplace. The Stadium Manager indicated that some of the Stadium's challenges include the inability to obtain "sell-out" status for events, competition from other regional venues, and the configuration of the Stadium itself. In our opinion, these reasons further justify the need for Stadium management to formalize its business and marketing strategy in order to fully capitalize on the scarce revenue opportunities that exist within the Stadium event marketplace. The threats listed by the Stadium manager could be incorporated within a comprehensive business plan, and oversight entities such as the City's Real Estate Assets Department Director (READ Director) and Qualcomm Stadium Advisory Board (SAB) could actively address these threats while the business plan is being processed and approved.

Stadium Oversight Could Be Enhanced

As shown within the organizational chart for the Stadium (Figure 3 within Background), the management structure of the Stadium is highly layered. The daily operating activities of the Stadium are the responsibility of the Stadium Manager, who directly reports to the READ Director. Our audit revealed that, prior to January 2009, no formalized reporting process between the Stadium Manager and the READ Director was being performed. Furthermore, the first report issued by the Stadium Manager does not discuss some of the major contractual and maintenance challenges facing the Stadium and only provides one quantifiable measure related to Stadium expenditures to gauge Stadium performance. Without a comprehensive reporting mechanism between Stadium and READ Director, the performance and status of key issues facing the Stadium may not be transparent between the entities responsible for Stadium oversight.

The READ Director indicated that the Stadium operates as an autonomous unit of the City with its own fund and operating accounts, and that he is involved with significant transactions, such as the negotiations of leases and other revenue generating agreements, when needed. The READ Director states that he provides additional oversight and management direction on an as needed basis when decisions or direction is required beyond the authority of the Stadium Manager.

Currently, the READ Director is working on completing the City's inaugural real estate portfolio management plan (citywide plan). The Stadium property itself is located on 167 acres of land in Mission Valley, however, the READ Director informed us that the Stadium will not be incorporated as a typical asset within the citywide plan, other than its place in the City's real property inventory section, because it is a unique asset that has highly specialized uses that do not fall in the mainstream of the functions of the Real Estate Assets Department. The Director further indicated that if a significant change were to be proposed in either the use of the Stadium property or the building, the Stadium would then be incorporated into the citywide plan.

Even though the READ Director is choosing not to include the Stadium as a typical asset within the citywide plan, the future condition and uses of the Stadium should be actively monitored and assessed by City management. For example, if the Chargers decide to terminate its agreement

with the Stadium, the highest and best use for the Stadium and related real estate assets could significantly change unless another comparable long-term Stadium tenant is secured.

According to the READ Director, should the Chargers terminate its agreement with the City a comprehensive planning and entitlement process could then be undertaken to support redevelopment efforts of the Stadium property and that this process would cost millions of dollars, and take years to complete, due to the extensive community outreach and environmental review efforts that would be required. Henceforth, the READ Director stated that it would not be sensible for the Real Estate Assets Department to plan for this contingency within the citywide plan at this time.

Even though we agree that any redevelopment of the Stadium real estate would take significant time and resources to redevelop, the current condition of the Stadium facilities will continue to deteriorate without adequate and continuous maintenance and improvements. A long-term strategy to finance Stadium maintenance and capital improvements could also be part of the citywide plan in order to address these issues and sustain the marketability of the Stadium and related real estate assets. In addition, planning for the contingency of the Chargers terminating its agreement with the City would help minimize the time necessary to perform required redevelopment efforts, therefore reducing the time for which the Stadium assets are underutilized.

Furthermore, the capital improvement budget for the Stadium has been held steady at \$750,000 per year since fiscal year 2006. According to the City's fiscal year 2009 budget, \$750,000 in capital improvement funds have been budgeted for the Stadium each year through fiscal year 2016. Considering that the 1997 renovations to the Stadium cost approximately \$80.6 million⁷ at that time, along with the competitive disadvantages that the Stadium is facing within the current live event marketplace, a capital improvement budget of \$750,000 annually appears highly insufficient for the Stadium to maintain its overall marketing appeal and sustainability in attracting long-term tenants such as the Chargers.

Certain Agreements Have Not Produced a Sustainable Financial Benefit to the Stadium

Since 1967, San Diego State University (SDSU) has played its home football games at the Stadium. After the 2007 college football season, the Stadium use agreement with SDSU expired without a new long-term agreement being executed. During this time the former Stadium Manager prepared a cost analysis specific to the 2007 SDSU football season showing a net loss to the City of \$187,000. This analysis shows that the prior agreement with SDSU was not providing sufficient rental revenue for the City to cover a significant portion of Stadium operating costs⁸ related to hosting SDSU games. According to the READ Director, negotiations for a new lease agreement had begun during the spring of 2008, and the City's negotiating position called for full cost recovery plus rent. As of April 2009, there is currently no formal agreement between the City and SDSU for the upcoming football seasons.

⁷ Construction costs related to the Chargers Practice Facility are included in this amount.

⁸ The majority of Stadium operating costs for SDSU home games includes staff time, post-event cleaning services, utilities, and police.

In order to allow SDSU to play its 2008 home football games at the Stadium, the Stadium executed an amendment (bridge agreement) to the prior agreement two days before the first game of the 2008 season. The Stadium Manager stated that the temporary amendments to the long-term agreement were executed to guarantee a fixed revenue stream for the Stadium and would provide full cost recovery to the City while a new long-term agreement was being negotiated. The terms of the bridge agreement were active throughout the 2008 football season, and since the bridge agreement was executed for one football season, the agreement was not brought to the City Council for approval.

The READ Director confirmed that he is negotiating with SDSU, however, no formalized agreement has been executed as of April 2009. At the January 2009 SAB meeting, the Stadium manager and a SDSU representative reported that a verbal agreement has been reached with SDSU, and that a formalized agreement guaranteeing cost neutrality for the Stadium would be finalized in the near future. At the same SAB meeting, several of the SAB members commented on their frustration with the SDSU agreement because they were not asked by the READ Director to be involved in agreement negotiations until six months after the original agreement had expired.

Without any financial or budgetary authority, the SAB is unable to negotiate financial terms of tenant agreements. Further discussions with SAB members revealed that the SAB had promoted certain recommendations for the SDSU agreement that were unknown to have been included within the verbal agreement. For example, one of these recommendations included implementation of a facility tax on tickets sold for Stadium events. According to the SAB Vice Chairperson a surcharge of approximately one dollar per ticket was strongly supported by the SAB as a potential term of the agreement that would guarantee a dedicated revenue stream to the Stadium, however, the bridge agreement did not contain this type of provision.

The SDSU contract negotiations further exemplify oversight dilemmas since all long-term Stadium use agreements over three years must be approved by the City Council and Mayor. If the Stadium were to negotiate a formal agreement with SDSU for more than three years of Stadium use, the new agreement would need to be approved by the City Council and Mayor. In a January 2008 management report the Stadium manager reported to the READ Director that the SDSU contract is currently planned to be presented to the City Council for approval, and that it will be a 10 year agreement. Should the recommendations by the SAB not be satisfactorily incorporated during the negotiation process for long-term Stadium agreements, the necessity for the City having a SAB merely for the purpose of making recommendations to the Mayor and City Council on proposed Stadium policy agreement terms is questionable.

Qualcomm Stadium Faces Unique Personnel and Administrative Challenges

Management and administrative turnover at the Stadium has been high over the past couple years. With an administrative staff of approximately seven full-time employees, along with 16 full-time maintenance staff, any significant turnover in Stadium staffing could significantly impact the effectiveness of Stadium operations. During our audit, we found areas of Stadium

administration have been negatively affected by administrative staff turnover and the lack of uniform policies and procedures.

The former Stadium Marketing Manager was promoted to Stadium Manager in June 2008 after serving as Acting Stadium Manager for 4 months upon the resignation of the former Stadium Manager. In October 2007 the Stadium lost its Administrative Aide in charge of tenant billings and event coordination. This position was not replaced with a full-time employee until April 2008. In fiscal year 2008, the Stadium was granted budget authority to hire a Senior Management Analyst in order to improve business operations, reorganize the budget, and free up staff to focus on event operations. This position was filled in November 2007, however due to the timing of hire, the Senior Management Analyst was unable to fully participate in the fiscal year 2009 Stadium budget process. Due to the specialized nature of Stadium operations, turnover in key administrative positions has led to unforeseen challenges for Stadium administration including additional on-the-job training, file keeping, and account maintenance.

Stadium Fund records indicate that special event revenues have totaled over \$3 million annually since fiscal year 2006. During our review of the special event revenue files, we found instances of event files that were not adequately maintained or complete. Our review noted that several event files from fiscal year 2006 through 2008 could not be located or were incomplete. In March 2008, the City Treasurer's Office Revenue Audit division also noted this deficiency when it completed a special review of the Racelegal organization.

To track use agreements files for special events, the Stadium utilizes a handwritten log of use agreements that assigns a unique identification number to each use agreement. According to the Stadium Manager the handwritten process has since been replaced with a more reliable electronic tracking system. From an arbitrarily selected sample of 32 use agreements listed on the log from April 2006 through October 2008, eight use agreement files were not found. Of these eight files, six were for events that Stadium management stated did not occur, one was for a concessionaire's event, and one was of unknown relation to the Stadium.

Of the 24 use agreement files that were available for review, 11 had rental rates that were lower than the established Stadium rental rates (discounted events). Of these 11 discounted events, four were not charged any rent (non-charged events). One non-charged event did contain consideration terms allowing the Stadium to collect parking and concession revenue, however, another non-charged event was granted free rent due to the organizations' affiliation with the Chargers. Three of the discounted events were noted as being granted by the former Stadium Manager, with one of these three events given a 95% discount off of the established rate for commercial filming. This event featured Chargers players and was produced by Real World Productions, a producer of reality television shows for MTV Networks.

In November 2007 the City Council approved an updated rate structure (rate card) for special events held at the Stadium. The rate card establishes minimum prices for special event use within the Stadium, on the Stadium parking lot, and for the practice field. The newly established rate card was approved by the Mayor in December 2007, however, the resolution passed by the City council did not establish an effective date for the Stadium to begin charging the updated usage fees. According to Stadium staff, the new fees established by the rate card were not

actively enforced until July 2008. Two of the 11 discounted events from our sample were for events that would have been charged at a higher rate had the updated rate card been enforced by the Stadium between December 2007 and July 2008. Even though the estimates presented to the City Council show that \$55,000 in additional Stadium Revenue could have been generated by the Stadium in fiscal year 2008 from the approval of the new rate card, the Stadium did not generate any additional revenue in fiscal year 2008 since the updated usage fees were not applied until the beginning of fiscal year 2009.

Of the 24 use agreement files that we reviewed, four did not contain a properly executed use agreements. We also found that some public agencies such as the San Diego Police Department and the Metropolitan Transportation System, do not have executed use agreements for their periodic use of the Stadium parking lot. Regardless of the revenue amounts collected from these events, without properly executed use agreements the Stadium does not have adequate legal assurance to guarantee revenue to cover operational costs and maintenance, or to protect itself against potential liabilities related to these events.

Qualcomm Stadium Lacks Specific Administrative Policies and Procedures

During our review of administrative practices at the Stadium, we found that the Stadium lacks a formalized set of policies and procedures specific to Stadium operations. Instead, Stadium administrative staff follows citywide administrative policies and procedures in performing their functions. Many of the administrative challenges we identified at the Stadium, including the personnel and file management issues discussed previously, could be somewhat mitigated with a formalized set of policies and procedures specific to Stadium operations.

The Stadium does not have an accountant on staff with the responsibility of reconciling Stadium revenue and expense accounts on a periodic basis. In fact, significant amounts of Stadium revenue from long-term tenants are received directly by the City Treasurer's Office and do not directly pass through the Stadium. For example, upon completion of a Chargers football game the Stadium sends City billing invoices to the Chargers and the concessionaire (Centerplate). The Stadium does not include a specific amount to be paid on these invoices, but sends the invoices in order to notify the tenant of their requirement to pay the City its agreed upon share of revenue for the event.

The Chargers internally calculate the amount they owe the City for each game, minus any rent credits allowed, and remit payment to the City Treasurer's Office directly. A similar process is followed by Centerplate, however, the Stadium does not verify whether the amounts remitted by these tenants are calculated correctly. Instead, they rely on the City Treasurer's Office Revenue Audit Division to audit the payments received to ensure the correct amount was paid. According to the Revenue Audit Manager Council Policy requires these audits to be conducted by the City every three years, and currently, these audits are being conducted every two to four years depending on staff availability. Considering the time and effort it takes to audit these payments, along with the associated statute of limitations on accounts receivable to the City, without auditing these payments on a timelier basis the City is sometimes forced to pursue legal actions against Stadium tenants to collect on the unpaid revenues and related penalties.

A review of Stadium revenue audits performed by the City Treasurer's Office shows that audits of certain Stadium events, including Chargers games, are completed at the individual tenant level years after most events have taken place. In addition, we found that findings from revenue audits for which the tenants owe the Stadium additional revenue have not been paid for over three years. This includes a billing invoice for \$125,795 sent to the Chargers in December 2005 for claiming rent credits that were unapproved for the 1996 through 2000 seasons. In January 2009, at the direction of the City Treasurer's Office, the City Attorney filed a breach-of-contract suit against the Chargers. The suit claims that the Chargers owe the City more than \$170,000 including more than \$44,000 in accrued interest. Had the Stadium or City Treasurer's Office been more proactive in resolving this payment discrepancy, a more timely payment resolution may have been made without incurring further payment delays, accrued interest charges, or a lawsuit.

Stadium staff do track revenues received from Stadium operations, however, Stadium staff do not independently verify or audit the amounts received from major Stadium tenants. Our analysis of the accounting records maintained by Stadium staff do not reconcile to the reported amounts

within the City's centralized accounting records. In particular, Stadium records for special event revenue for Fiscal Year 2006 and 2007 do not contain the supporting detail necessary to verify reported revenue amounts. Without an accurate reconciliation of Stadium accounts on a periodic basis, the Stadium cannot guarantee the accuracy of revenues earned when monitoring and assessing revenue agreements.

Recommendations:

4. Stadium management should create a comprehensive business and marketing plan for the Stadium that addresses the following issues:
 - a. Strengths, opportunities, weaknesses, and threats that face the Stadium in both the short and long-term, as well as provide benchmarks for the financial and operational performance of the Stadium over the next three to five years.
 - b. An analysis of major agreements and responsibilities that the Stadium is required to provide.
 - c. A strategic plan for the amounts and types of events the Stadium will be hosting in the future including estimates of the revenues and expenses attributable to each event.
 - d. A capital projects prioritization schedule that the Stadium can follow while determining the use of the Stadium's annual capital improvement budget. The schedule should be reviewed by the Stadium Advisory Board, approved by the Mayor, and presented to the City Council on an annual basis.

If Stadium management wishes to significantly deviate from strategies approved within the plan, then the plan should be updated by Stadium management and vetted through a similar review and approval process.

5. To help alleviate the effects of administrative staff turnover at the Stadium, Stadium management should create a policy and procedure manual specific to Stadium operations. At a minimum, the Stadium should ensure that unique policies and procedures are established for the following administrative functions:
 - a. Policies for the creation, content, retention, and approval of Stadium event files.
 - b. Procedures that ensure accurate and timely billings for stadium events and periodic reconciliations of all accounts within the Stadium Fund.
6. In order to avoid delays and inaccuracies of the revenue amounts collected on behalf of the Stadium by the City Treasurer, Stadium Management should request that the City Treasurer's Revenue Audit Division complete audits of major Stadium tenants on a timelier basis. If the City Treasurer does not have sufficient staff resources to perform these audits on a timelier basis, then Stadium Management should consider having its own staff responsible for ensuring all Stadium revenues are properly billed and received.

7. Stadium management should review the accounts receivable balance within the Stadium Fund and work with the City Treasurer's Office to ensure that all overdue accounts are being actively collected.
8. As part of the reporting process between the Stadium and the Department of Real Estate Assets, the Stadium should include high-level performance metrics, such as net revenue generated and attendance data, for the entire reporting period. The report should also include a schedule of events currently planned to be held at the Stadium, as well as a status report of potential events and other contractual agreements being negotiated by the Stadium Manager. These reports should be archived by the Stadium and the Department of Real Estate Assets, and be made available to all Stadium oversight entities including the Stadium Advisory Board (SAB) and City Council.
9. To improve the oversight of Stadium operations, the administration should take steps to ensure that the SAB is actively involved with making recommendations to the Mayor and City Council for all major Stadium policy decisions including long-term contract terms, capital expenditures, and long-term marketing strategy. Per the advisory capacity granted to the SAB through the Municipal Code, SAB recommendations should be formally communicated to the Mayor and City Council prior to any significant action related to Stadium policy has been taken.

OTHER PERTINENT INFORMATION

In-Stadium Utilization Decreases Significantly During the Winter and Spring Seasons

An analysis of the fiscal year 2008 Stadium Event Schedule shows that the amount of events that occur within the Stadium significantly decreases between the months of January and July. This time period represents the off-season of football, and has historically had fewer events held within the Stadium since the Padres discontinued playing their home baseball games at the Stadium in September 2003. The Stadium does, however, maintain a steady utilization schedule for the parking lot and practice field facilities during the off-season for football. Appendix B provides a utilization schedule of Stadium and Practice Field facility for fiscal year 2008. Appendix C provides a utilization schedule for the Stadium Parking Lot for fiscal year 2008.

One major reason for the reduced utilization within the Stadium during the off-season for football is due to the specific needs of event types that the Stadium hosts. For example, the Monster Jam monster truck show that took place in January 2008 required the turf field inside the Stadium to be removed and replaced with dirt racing tracks. Upon completion of Monster Jam, the dirt tracks remained within the Stadium for an AMA Supercross event in February 2008 and the Moto X World Championships in April 2008. No major events were held within the Stadium between these events, and the dirt inside the Stadium was maintained through April 2008 for the Moto X World Championships.

According to the Stadium Manager there is never any turf replacement in the stadium during the “dirt season.” The removal of the dirt is cost prohibitive and there is generally a two to three week break between the events, therefore, there is insufficient time to turn over the turf at the Stadium between events since it takes the event promoter nearly a week to take the dirt out of the Stadium. The Stadium Manager further indicated that it is common practice in most large stadiums to install turf after the “dirt season.” By maintaining the dirt within the Stadium during the Fiscal Year 2008 “dirt season” the ability to host other types of in-stadium events that require a non-dirt surface was significantly encumbered in order to accommodate for “dirt season” events.

Other Stadiums Have Significant Comparative Differences

As part of our audit we surveyed other comparable stadiums that host an NFL franchise to gain an understanding of major revenue generation and reporting issues that compare and contrast to those of Qualcomm Stadium. Three of the seven stadiums we contacted responded to our survey. These responses provided insights into revenue management practices, as well as the general financial and operational challenges facing these Stadiums.

A summary of key comparative items is presented below:

Stadium Name:	Raymond James Stadium
Capacity:	65,857
Location:	Tampa, Florida
Owner:	Tampa Sports Authority (TSA)
Management Structure:	Independent Special District with an appointed Board of Directors
Major Tenants:	Tampa Bay Buccaneers, University of South Florida, Outback Bowl, ACC Championship
Notable comparisons:	<ul style="list-style-type: none"> ▪ TSA provides an annual budget to the City of Tampa and County of Hillsborough for Raymond James Stadium that details revenues and expenses on an event basis, as well as projected capital costs through 2028. ▪ TSA receives an annual fixed rental payment of \$3.5 million from the Buccaneers NFL franchise. No rent credits or arbitrated awards are granted. ▪ Hosted Super Bowl games in 2001 and 2009.

Stadium Name:	Oakland-Alameda County Coliseum
Capacity:	63,026
Location:	Oakland, CA
Owner:	Oakland-Alameda County Coliseum Authority (OCCA)
Management Structure:	Oakland Coliseum Joint Venture [SMG as managing partner/operator]
Major Tenants:	Oakland Raiders, Oakland Athletics
Noted comparisons:	<ul style="list-style-type: none"> ▪ Operated at a \$14.8 million loss in fiscal year 2008. ▪ OCCA hired a management company to run the entire Oakland Coliseum complex which includes Oracle Arena and adjacent parking lots. ▪ McAfee Coliseum management submits an annual plan for the Coliseum complex to the OCCA Executive Director for approval. ▪ OCCA did not indemnify tenants from ADA compliance settlement.

Stadium Name:	Candlestick Park
Capacity:	70,207
Location:	San Francisco, CA
Owner:	The City and County of San Francisco
Management Structure:	San Francisco Department of Parks and Recreation
Major Tenants:	San Francisco 49ers
Noted comparisons:	<ul style="list-style-type: none"> ▪ City owned and operated. ▪ Operations financed on an annual basis with general funds. ▪ After 1999 baseball season, lost major league baseball tenant (San Francisco Giants) to a new ballpark (AT&T Park) within downtown San Francisco. ▪ General fund support was reduced to \$4.5 million from \$8 million annually when the San Francisco Giants stopped playing baseball there. ▪ Candlestick Park shares ticket, parking, and concession revenues with the 49ers organization. There is no aggregate cap for stadium revenues. ▪ Net revenues from 49ers games in 2007 were approximately \$4.7 million and \$5.5 million is projected for 2008 season.

As shown above, other stadiums have highly variable management structures and revenue generating capabilities. As discussed within this report, Qualcomm Stadium faces revenue challenges that are similar to those being faced within other stadium markets. By gathering and analyzing information from comparable stadium markets, the Stadium and City management could use this information and experience to increase the overall effectiveness of Stadium operations.

APPENDIX A

SUMMARY OF LONG TERM REVENUE AGREEMENTS FOR QUALCOMM STADIUM

Tenant	Term	Summary of Revenue Terms
Chargers Football Company LLC	Through 2020 NFL Season	<p>Regular Season: City receives \$2.5 million per season through 2013 less rent credits for half of the property taxes paid by the Chargers for stadium Skyboxes, amounts related to ADA settlements, and other agreed upon costs.</p> <p>Rental payments for Skyboxes are included within the \$2.5 million aggregate payment, and the Chargers retain all revenues from the use of Skyboxes during their events.</p> <p>Any regular season revenue from ticket sales or concessionaire that aggregate over \$2.5 million is retained by the Chargers.</p> <p>Post Season Games: City receives 10% of post season ticket sales, with no aggregate limit on concession revenue for post season games.</p> <p>Chargers retain specified percentage of concession revenues (See Centerplate agreement below) and all parking revenues.</p> <p>Chargers retain all revenue rights for advertising at the Stadium.</p>

Tenant	Term	Summary of Revenue Terms
San Diego State University - Aztec Football	TBD	<p>Long-term Agreement expired after 2007 season</p> <p><i>Note: 2008 season games were played under an amendment to the prior long-term agreement due to delays in the renegotiation of a new long-term agreement between the Stadium and SDSU. Amendment guaranteed \$50,000 in revenue to Stadium per game with provisions for full cost recovery for expenses incurred by the City.</i></p>
San Diego Bowl Game Association – Holiday Bowl & Poinsettia Bowl	Through January 10, 2011	<p>\$10,000 rent per bowl game</p> <p>Association will pay for all direct expenses including traffic control, guest services, security, game operations, custodial, grounds crew, utilities, etc.</p> <p>City retains all agreed-upon revenues from concessions and parking fees. (See terms of Ace Parking and Centerplate below)</p>
San Diego Auto Connection	<p>Car Sales: Through Dec 31, 2011</p> <p>RV Sales: Through June 30, 2010 with 2 year optional extension</p>	<p>Car Sales: \$438,000 for 2009 \$463,000 for 2010 \$488,000 for 2011</p> <p>RV Sales: \$ 181,000 flat rent for fiscal year 2008 \$ 191,000 flat rent for fiscal year 2009 \$ 201,000 flat rent for fiscal year 2010</p>
Ace Parking	Through August 11, 2011	<p>City retains 93.35% of gross parking receipts through August 11, 2009. Adjusts to 93% of gross parking receipts for August 12, 2009 through August 11, 2011.</p> <p><i>Note: Stadium does not receive parking revenue for Chargers games.</i></p>

Tenant	Term	Summary of Revenue Terms
Centerplate	Through February 15, 2015	<p>The City receives an agreed-upon percentage of gross concessions sold at events that occur at the Stadium. These percentages are established by a long-term agreement with Centerplate. The City also receives 30% of gross sales from catering within the Club suites and Loge level lounge.</p> <p><i>Note: For Chargers games, a separate schedule is used to calculate the City's percentage of Concession Revenues based on the agreement with the Chargers. (See schedules below)</i></p>

Schedule of Stadium Concession Revenue Percentages by Product Type

Chargers Games	to City*	to Chargers	Total
Concession Food	11.67%	23.33%	35.00%
Concession Branded	4.00%	30.00%	34.00%
Concession Pizza	4.00%	16.00%	20.00%
Concession Candy	0.00%	10.00%	10.00%
Catering Sales	5.58%	2.92%	8.50%
Gold Club Sales	0.00%	30.00%	30.00%
Murphy's Food & Soda	0.00%	10.00%	10.00%
Murphy's Beer	11.67%	23.33%	35.00%
Murphy's Liquor & Wine	19.44%	15.56%	35.00%
Power Party Sales	0.00%	20.00%	20.00%
Barbeque Sales	4.50%	13.50%	18.00%
Suite Sales	16.25%	5.50%	21.75%
Subcontracted Sales	17.50%	17.50%	35.00%
Merchandise	0.00%	30.00%	30.00%

*Per the terms of the City's agreement with the Chargers, the City's percentage of concession revenue from Chargers games are fully credited against the aggregate Stadium rent payable by the Chargers to the City.

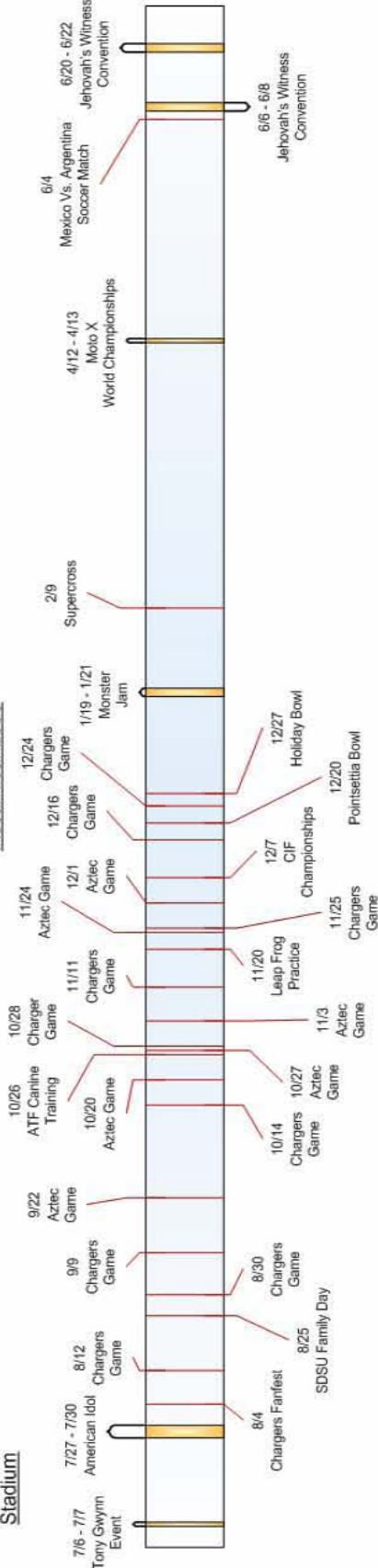
Other Stadium Events	to City
Concession Food	35.00%
Concession Branded	34.00%
Concession Pizza	20.00%
Concession Candy	10.00%
Catering Sales	8.50%
Gold Club Sales	30.00%
Murphy's Food	10.00%
Murphy's Soda	35.00%
Murphy's Beer, Liquor & Wine	35.00%
Power Party Sales	20.00%
Barbeque Sales	18.00%
Suite Sales	21.75%
Subcontracted Sales	35.00%
Merchandise	0.00%

APPENDIX B

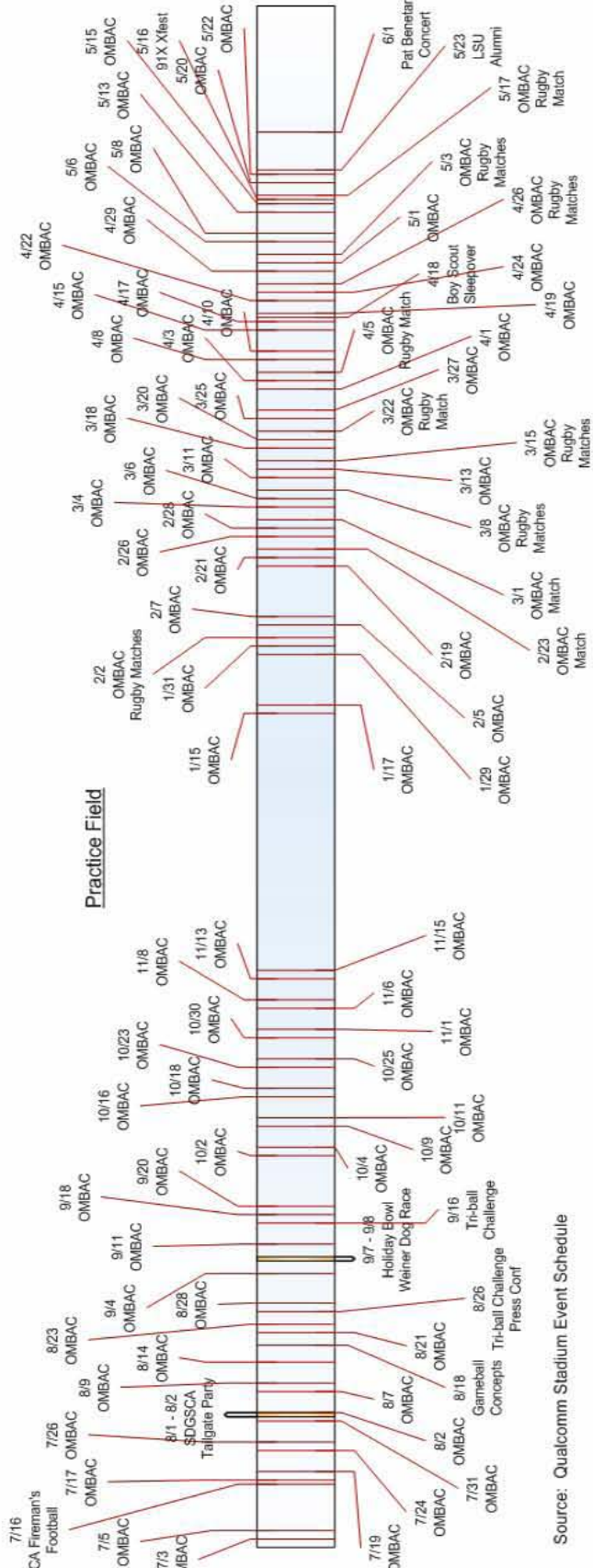
FISCAL YEAR 2008 UTILIZATION SCHEDULE OF QUALCOMM STADIUM AND PRACTICE FIELD

Stadium & Practice Field Utilization
Fiscal Year 2008

Stadium



Practice Field

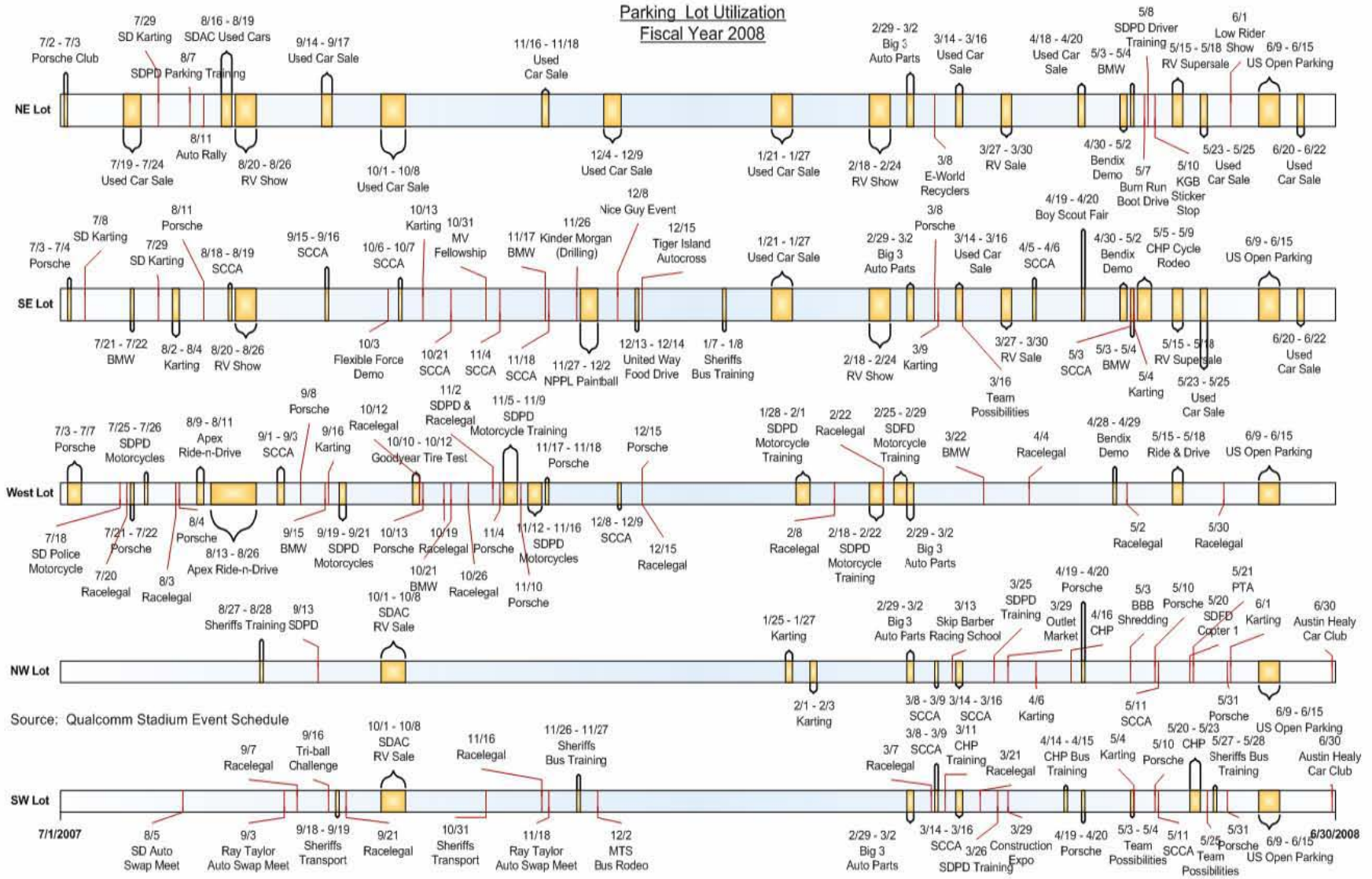


Source: Qualcomm Stadium Event Schedule

APPENDIX C

FISCAL YEAR 2008 UTILIZATION SCHEDULE OF QUALCOMM STADIUM PARKING LOT

Parking Lot Utilization Fiscal Year 2008



Source: Qualcomm Stadium Event Schedule



THE CITY OF SAN DIEGO
MAYOR JERRY SANDERS

M E M O R A N D U M

DATE: May 8, 2009

TO: Eduardo Luna, City Auditor

FROM: James F. Barwick, Director, Real Estate Assets

SUBJECT: Qualcomm Stadium – Response to April 30, 2009, Audit Report – “The City of San Diego Faces Unique Operational and Administrative Challenges in Managing Qualcomm Stadium”

Qualcomm Stadium management and Real Estate Assets Department staff have reviewed the Audit Report dated April 30, 2009. We are well aware of the difficulties of making Qualcomm Stadium operations self-sustaining, especially given the current debt burden borne by the City for Qualcomm Stadium improvements. Qualcomm Stadium faces the same challenges faced by virtually every municipally owned stadium in America. These stadiums generally require some form of public subsidy as there simply are not enough large money-making stadium events to generate the revenue necessary to break even. For Qualcomm Stadium, this situation was greatly exacerbated when the San Diego Padres departed for Petco Park. While the recommendations contained in the report may improve stadium administration, the fundamental financial challenges will remain.

The following comments are in response to the recommendations put forth in the report.

FINDING 1 -STADIUM OPERATIONS ARE NOT SELF-SUSTAINING

Recommendation 1:

The Administration should proactively create a financing plan to pay down the City’s Stadium Renovation Bond obligation regardless of the Chargers’ tenancy at the Stadium. The plan should detail the financial strategy that the City will follow to maintain the solvency of the Stadium Fund should the Chargers terminate its agreement with the City after 2010. The Administration should continuously update the financing plan throughout the liquidation of the Stadium Renovation Bond principal.

Eduardo Luna
May 8, 2009

Response:

Agree. The City acknowledges its responsibility to ensure that the Stadium Renovation Bond obligations are met, irrespective of the status of the Chargers, and will evaluate both a long-term and short-term financing plan. The City will not, however, accelerate its payment of debt service if these payments reduce the financial obligations of the Chargers should the Chargers decide to exercise its option to vacate Qualcomm Stadium and to the detriment of City services. The City will continue to plan for making the required payments and keeping Qualcomm Stadium solvent.

Recommendation 2:

In order to avoid significant legal settlements in the future, the City should continue to ensure that it meet its obligation to provide the Stadium to the Chargers per the terms of its current agreement. To minimize the legal and financial risks involved with managing the Stadium, the Stadium should perform a comprehensive analysis of its compliance with the key terms of the City's agreement with the Chargers and with the 2000 ADA compliance settlement. If the results of the analysis are unfavorable for the City, the City should take steps to aggressively abate the risks of non-compliance with ADA requirements and Chargers agreement terms.

Response:

Agree. The City has analyzed all of the terms of the Charger contract and is currently in compliance with all terms of that contract and will continue to do so in the future. Likewise, management believes that the stadium is now compliant with the 2000 ADA compliance settlement. The final determination of this will occur during a walkthrough of the stadium by the plaintiff's attorney who will verify that the terms of the settlement have been met. If any discrepancies are found during the walkthrough, they will be remedied as quickly as possible.

Recommendation 3:

To decrease its dependence on TOT tax funding, the Stadium should aggressively pursue agreements with legitimate event producers to help offset its operational costs and the City's outstanding Stadium Renovation Bond principal.

Response:

*Agree. This is already being done by Stadium Staff. Their efforts to generate additional business include regularly interfacing with other stadiums to compare business strategies with common tenants. They also gathers up-to-date market information from industry insiders on events, gross sales, actual tickets sold, percentage of seats sold and other important information regarding events at other stadiums. This information helps stadium management to determine who is in the market and their potential to generate revenue. Staff also obtains information from professional organizations such as the **International Association of Assembly Managers** and the **Stadium Managers Association** that provide a wealth of information related to the stadium industry. These organizations have volumes of industry surveys from which to gather data.*

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Stadium staff regularly meets with the Convention and Visitors Bureau (ConVis) to identify and target events that will generate room nights for San Diego and market San Diego as a tourist destination. The staff also works with the San Diego Sports Council to generate stadium occupancy. A result of this working relationship was the hosting of the Moto X Championships in 2008. ESPN provided national coverage of that event for nearly 8 hours.

As noted in the Audit Report, there is no longer a strong market for musical concerts and other events in large stadium venues. Therefore, there are limited revenue-generating opportunities. Qualcomm Stadium has managed to capture its share of these events by competing vigorously with other stadiums. For example, during 2008, Qualcomm Stadium bested Oakland Coliseum for the right to host a soccer match between Mexico and Argentina. This event netted over \$300,000.

It should also be noted that the stadium's parking lot is a significant revenue generator and is utilized over 200 event days per year.

FINDING 2- THE CITY COULD BETTER MANAGE RISKS ASSOCIATED WITH STADIUM OWNERSHIP

Recommendation 4:

Stadium management should create a comprehensive business and marketing plan for the Stadium that addresses the following issues:

- a. Strengths, opportunities, weaknesses, and threats that face the Stadium in both the short and long-term, as well as provide benchmarks for the financial and operational performance of the Stadium over the next three to five years.
- b. An analysis of major agreements and responsibilities that the Stadium is required to provide.
- c. A strategic plan for the amounts and types of events the Stadium will be hosting in the future including estimates of the revenues and expenses attributable to each event.
- d. A capital projects prioritization schedule that the Stadium can follow while determining the use of the Stadium's annual capital improvement budget. The schedule should be reviewed by the Stadium Advisory Board, approved by the Mayor, and presented to the City Council on an annual basis.

If Stadium management wishes to significantly deviate from strategies approved within the plan, then the plan should be updated by Stadium management and vetted through a similar review and approval process.

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Response:

Agree. A business plan can be a useful document to plan and track the performance of Stadium operations, as well as set a direction for the Stadium in the future. Stadium management will work with the City's Business Office to prepare a business and marketing plan for the Stadium and present it to the Mayor and City Council within the next six to nine months. The development of this Plan will incorporate the input from stakeholders and the public. It may be advisable to prepare plans for various contingencies, each anticipating a different period of occupancy by the Chargers. As noted earlier, there are a very limited number of events that require a stadium venue, but the availability of the stadium, as well as the restrictions placed on it under the current Chargers contract, are factors that will affect any business opportunities.

It should be noted that projected revenues and expenses and proposed capital improvements are currently submitted to Council for approval as part of the annual budget process.

Recommendation 5:

To help alleviate the effects of administrative staff turnover at the Stadium, Stadium management should create a policy and procedure manual specific to Stadium operations. At a minimum, the Stadium should ensure that unique policies and procedures are established for the following administrative functions:

- a. Policies for the creation, content, retention, and approval of Stadium event files.
- b. Procedures that ensure accurate and timely billings for stadium events and periodic reconciliations of all accounts within the Stadium Fund.

Response:

Agree. Stadium management will work with the Personnel and Human Relations departments to produce a manual incorporating best practices and administrative procedures for stadium operations. The production of this document is expected to be completed by the end of calendar year 2009.

Recommendation 6:

In order to avoid delays and inaccuracies of the revenue amounts collected on behalf of the Stadium by the City Treasurer, Stadium Management should request that the City Treasurer's Revenue Audit Division complete audits of major Stadium tenants on a timelier basis. If the City Treasurer does not have sufficient staff resources to perform these audits on a timelier basis, then Stadium Management should consider having its own staff responsible for ensuring all Stadium revenues are properly billed and received.

Response:

Agree. City Treasurer's Revenue Audit Division completes audits timely and in accordance with individual tenant agreements. To date, no Stadium revenue has been lost to the City due to the

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timing of revenue audits. Stadium staff is currently responsible for billing and will work with the Treasurer's Office to develop interim procedures to monitor revenue; ensuring amounts paid appear reasonable and are paid timely.

Recommendation 7:

Stadium management should review the accounts receivable balance within the Stadium Fund and work with the City Treasurer's Office to ensure that all overdue accounts are being actively collected.

Response:

Agree. Stadium staff reviews aging invoices on a monthly basis, while invoices are referred to Treasurer's Collections automatically 10 days after the due date on any outstanding balance. Once invoices are referred, Stadium staff provide necessary documentation to Treasurer's Collections to ensure that collection efforts can continue to move forward.

As noted in the audit report, there are two tenants who are repeated late payers: Racelegal and Ace Parking. Ace Parking has provided a plan to resolve its late-payment issue. Racelegal continues to be a challenge and has been denied access to the stadium when it has fallen behind in its payments.

Recommendation 8:

As part of the reporting process between the Stadium and the Department of Real Estate Assets, the Stadium should include high-level performance metrics, such as net revenue generated and attendance data, for the entire reporting period. The report should also include a schedule of events currently planned to be held at the Stadium, as well as a status report of potential events and other contractual agreements being negotiated by the Stadium Manager. These reports should be archived by the Stadium and the Department of Real Estate Assets, and be made available to all Stadium oversight entities including the Stadium Advisory Board and City Council.

Response:

Agree. The Stadium Manager currently submits a biweekly report to Real Estate Assets on a standardized reporting form that is utilized throughout the City. Information/updates on financial matters and performance measures are reported quarterly to Financial Management and Business Office, respectively, with copies sent to the Director of Real Estate Assets. This system will continue to be evaluated to determine if sufficient information is being provided to allow for effective oversight and management of Stadium operations.

Recommendation 9:

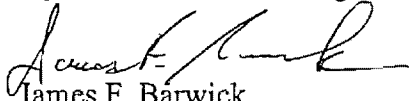
To improve the oversight of Stadium operations, the administration should take steps to ensure that the SAB is actively involved with making recommendations to the Mayor and City Council for all major Stadium policy decisions including long-term contract terms, capital expenditures, and long-term marketing strategy. Per the advisory capacity granted to the SAB through the

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Municipal Code, SAB recommendations should be formally communicated to the Mayor and City Council prior to any significant action related to Stadium policy has been taken.

Response:

Partially agree. Currently, the Stadium Advisory Board convenes monthly public meetings. At these meetings, the Stadium Manager gives a report that provides updates of significant events affecting the Stadium. Members of the Board have the opportunity to comment, ask questions, and provide recommendations. Items requiring Council approval are reviewed at these meetings, and members of the Board have the opportunity to provide their recommendations. While Stadium management appreciates the input of the Board members, the Municipal Code defines their role as being advisory.



James F. Barwick
Director, Real Estate Assets