



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: August 7, 2015

TO: Honorable Council President Sherri Lightner and Members of the City Council

FROM: Mary Lewis, Chief Financial Officer

SUBJECT: Analysis of City's Operating, Maintenance and Capital Costs at Qualcomm Stadium

This memorandum provides information on the current City operating subsidy for Qualcomm Stadium and an estimated present value cost to continue to operate the stadium for 20 more years.

Summary

Taking into account all General Fund and Transient Occupancy Tax (TOT) supported operations and maintenance, deferred capital and debt service costs, the City projects expending up to \$282M (present value) over the next 20 years on the stadium under the current operations and maintenance agreement. The City is responsible for all operations, repairs and capital improvement costs under the current agreement with the Chargers.

Current Stadium Expenditures

The City uses General Fund and TOT monies for operations, maintenance, construction and repairs for infrastructure and facilities, including the stadium. The City budgets the revenue and expenses for Qualcomm operations in the Qualcomm Stadium Fund (stadium fund), including \$4.9M in average annual debt service expense on the outstanding Qualcomm Stadium Lease Revenue Bonds. Funding for Capital Improvement Projects (CIP) is budgeted in excess of annual operating support. In FY 2016, \$1.3M in continuing appropriations was budgeted for Capital Improvement Projects. In addition, there are public safety expenses for police and fire services at Qualcomm that are directly billed by the departments that result in non-recoverable expenditures. These costs are funded by the General Fund in the Police and Fire department budgets. Combined, the City's FY 2016 support for stadium operations is \$12.8M, which includes the transfer of \$11.6M in TOT funds and the estimated public safety expenses of \$1.2M.

The TOT transfer has varied over the past 10 years, depending on the fluctuation in the operating expenses of the stadium and earned revenues, but has shown an increasing trend overall. TOT support has grown from \$4.3M in FY 2006 to the FY 2016 budgeted amount in the stadium fund of \$11.6M.

The City has outstanding debt service obligations for stadium bonds related to the renovations in the 1990s totaling \$52M. These bonds will be paid off in 11 years, by FY 2026, with an average annual debt service payment of \$4.9M.

Estimated costs to operate the current stadium over 20 years

The Debt Management and Financial Management departments evaluated the present value of City costs to continue to operate Qualcomm Stadium in its current configuration over the next 20 years, based on the current operating support described above. We chose 20 years as a reasonable period of analysis since at 30 years the cost assumptions become more uncertain and potentially understated. We also included in the analysis AECOM's 2011 assessment of deferred capital improvements that are needed to keep the facility operational.

The analysis does not include any potential amenity upgrades such as improved audio/visual equipment, bathroom and kitchen overhauls, suite upgrades, or other improvements to enhance the public experience during events.

AECOM's *Facility Condition Assessment Report* in 2011 estimated deferred capital costs to be \$79.8M, which in present dollars is \$85M. While this is four years out of date and construction costs may have increased faster than CPI due to the rebound in the real estate industry since 2011, the analysis used this estimate for deferred capital investment as the most reliable indicator of a baseline need and did not account for any new capital costs over the next 20 years. Additionally, the City would need to finance these capital improvements, and we included the financing costs for \$85M for the stadium during the 20-year period¹.

Combining the TOT and General Fund support for the stadium and the baseline deferred capital investment, the estimated present value² of the cost to continue to maintain and operate Qualcomm Stadium over a 20-year period is estimated at \$259M. If an annual 2% increase to the TOT support is added to the analysis, the present value estimate is \$282M.


It is important to note that the present value analysis includes the annual average debt service payments of \$4.9M over the next 11 years. These are obligations of the City regardless of the future of the current stadium. Backing out the cost of debt service, the present value of the net support for 20 years the City would provide for stadium operations and capital investment is in the range of \$215M-\$240M.

¹ The estimated total cost of financing \$85M over 30 years is \$145.9M in future dollars.

² 3% discount rate is assumed for all present value calculations.

Present Value Analysis – 20 years

	0% Annual Growth	2% Annual Growth in Operating Support
Present value of City's operating and capital costs excluding debt service	\$215M	\$240M
Present value of City's operating and capital costs including current debt service for \$52M lease revenue bonds	\$259M	\$282M


Mary Lewis
Chief Financial Officer

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- cc: Honorable Mayor Kevin L. Faulconer
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