LA NEIGHBORS UNITED

128 N. Swall Drive, #304 Los Angeles, CA 90048 www.LAneighbors.org

Date: 8-3-11
Submitted in Stadium Committee
Council File No: 11-0023
Item No.: 1
Deputy:

August 3, 2011

Los Angeles City Council
City Hall
200 N. Spring Street
Los Angeles, CA 90012

CC: Gerry Miller, Chief Legislative Analyst, City of Los Angeles
Miguel Santana, City Administrative Officer, City of Los Angeles
Pouria Abbassi, General Manager, Los Angeles Convention Center

RE: Council File No. 11-0023, Otherwise Known as Proposed Memorandum of Understanding Between the City of Los Angeles and AEG for Downtown Stadium - July 25, 2011

Honorable Councilmembers:

We are pleased to provide these observations, comments and questions about the proposed Memorandum of Understanding (MOU) between the City of Los Angeles and AEG for the development of a new professional football stadium and event center, and a reconfiguration of the Los Angeles Convention Center.

First, many thanks and much appreciation to the City Team of negotiators. Due to their efforts, the City is in a significantly better place today than it was several months ago. Taxpayer risk has been significantly mitigated, though some have jokingly suggested that the only way to fully mitigate the risk is for the City to accept Mr. Anschutz's children as collateral to secure AEG's obligations. We certainly wouldn't object to that!

Attention now should be paid to increasing the deal's hard return to the City, so the project helps fund essential City services beyond project-specific debt service. If the City leaves money on the table, it's the same as giving taxpayer money away.

Overview Comments

- This is not a zero-sum game. Our neighborhood-centric, livable city agenda is reconcilable, if not compatible, with the Council's jobs and downtown economic development agenda. We know that without revenues there can be no neighborhood services. We all win if the terms of the deal are reasonable, but we're not there yet.

- The City can support a stadium and repaired sidewalks. As our advertisements have pointed out, we find it incomprehensible that the City has marshaled the resources to work out the stadium deal, but cannot produce a workable solution to mend our City of Broken Sidewalks (as an example of infrastructure in need of repair). The proposed point-of-sale plan to address sidewalk repairs is unacceptable; among other things, it would be highly inefficient. There are other ways to skin the cat, including ways to finance even 50% of the sidewalk repair cost. As I have personally written, the City can support a stadium and sidewalks, but a stadium at the expense of sidewalks? That's no recipe for a livable city.

- If the City leaves money on the table, it's the same as giving taxpayer money away. Our specific questions and comments are intended to be constructive, and offered in the interest of ensuring a reasonable deal for both parties.

Questions and Comments About the MOU

- Notion of "no taxpayer money." It is disingenuous to say that no taxpayer money is proposed to be used for the project. More appropriate is to say that taxpayer money is being used, with AEG agreeing to a payment plan to pay the City back.

- Projected internal rate of return (IRR) is flawed, contradicting the notion that AEG cannot afford to contribute more resources to the deal. As Professor Quentin Fleming of USC points out, consultants have erred in their calculation of the deal's internal rate of return, principally based on the timing of the construction spend and the anticipated discount rate. Professor Fleming concludes that the real IRR would be significantly higher than the consultants' projected 6.7 percent. If two teams ultimately play at the stadium, the IRR soars to over 20 percent, he concludes. We may undertake our own evaluation of the financials independent of Professor Fleming's analysis, and reserve the right to submit to the City expert testimony as evidence. Among other things, we presume that AEG will be collecting development management fees for both the stadium and Pico Hall. It does not appear that these fees to AEG have been included in the consultants' IRR calculations. If they have, please illuminate the calculations. If they have not, why not?

- Likelihood of net-new economic benefits to the City. Virtually all of the economic benefits that are projected to accrue to the City from the project (beyond tax revenues and payments to be dedicated to debt service) are attributed to projected "off-site" economic activity. This activity may or may not ever occur. We want to believe, but believing and $2 will buy a cup of coffee at Starbucks. That's why it's so important that the City negotiate a reasonable, direct return to taxpayers given the City assets involved in the deal.

- Advertising signage on public buildings. The MOU anticipates a significant number of advertising signs on public buildings, including the convention center's South Hall, with most of the revenue directed to AEG. Why is the City assigning these signage rights to a third party, versus maintaining them for its own account? This is revenue that could fall right to the LA Convention Center's bottom line.

- Low-ball estimate of signage revenue to be generated. We believe the estimate of anticipated advertising signage revenue is low, with the corresponding annual fee directed to the City similarly low. We may undertake a third-party review of the value of these signage rights, including the anticipated revenue stream. We reserve the right to submit to the City expert testimony on this matter as evidence.

- No rental rate escalation clause if more than one professional sports team is secured. If AEG is successful in bringing more than one sports team to the facility, which is a real possibility, the event center will generate significantly more revenue to AEG. If this occurs, rent paid to the City should increase. Why is there no escalation clause in the lease agreement?

- No compensation to the City for LA Live event-deck development rights. The current LA Live agreement between AEG and the City requires AEG not to develop a portion of the site (the airspace parcel currently occupied by the event deck at the Olympic West Parking Garage) that the City initially conceived as a potential location for convention center expansion. The MOU removes this requirement, thus allowing AEG to develop the site as it sees fit. Why does the MOU not require AEG to compensate the City for these development rights, which are valuable?

- Unknown impact of stadium development project on City's inventory of convention center air rights. Currently, the City maintains an inventory of unused development rights (floor area) resulting from the convention center's mass and scale, or lack thereof. These development rights have monetary value. Most recently, some of the rights were transferred to the Wilshire Grand hotel redevelopment project, enabling a larger project on that site, which also is downtown. The City has not demonstrated how its inventory of development rights would be affected by the stadium development and convention center reconfiguration. Please provide a full accounting, including analysis of whether an economic loss to the City would result from the proposed project as it relates to convention center air rights. (We note that this is a separate issue from the stadium ground lease, and more directly relates to how else the development rights might be deployed.)

- Potential for tax-revenue sharing by other jurisdictions with the City of Los Angeles. According to consultant estimates, other jurisdictions (Los Angeles County, MTA, LAUSD combined) will reap more tax revenues from the project than will the City of Los Angeles, yet the City shoulders a disproportionate liability, including for repayment of the bonds on the existing convention center. Given that the stadium and new convention center hall would be regionally significant assets, why are other jurisdictions not making contributions to the deal? (If they are, it is unclear to us.)

We look forward to your responses to our questions.

We close on the same notes on which we began. Our neighborhood agenda is reconcilable with jobs and downtown economic development. We simply want the best deal for the City of Los Angeles … a deal that treats the stadium developer fairly but also respects the taxpayers who call Los Angeles home. Thank you for your consideration.

Sincerely,

Cary Brazeman
Founder, LA Neighbors United

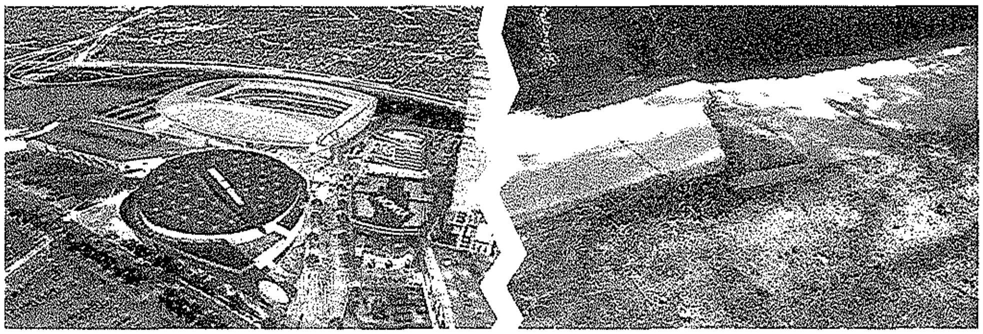
Former Managing Director, CB Richard Ellis Group, Inc. +
Member, Urban Land Institute - Los Angeles District Council +
Member, Los Angeles Area Chamber of Commerce +
Member, Board of Directors, Mid City West Community Council +

+ Titles for identification purposes only

Attachments

- LA Neighbors United advertisement in Los Angeles Daily News (July 26, 2011)
- Letter from University of Southern California Business Professor Quentin Fleming to Councilmember Bill Rosendahl

The Great Stadium Disconnect



The odds are high that the proposed downtown stadium will produce <u>zero</u> lasting benefits for the people of Los Angeles. That's not a good deal.

We love football, and we love Los Angeles, but we don't like the direction the proposed stadium plan is heading. Based on "negotiating principles" outlined earlier this year, the city may sign a preliminary development agreement with no hard return guaranteed to the people of Los Angeles.

Yes, new tax revenue is expected from the stadium deal, but it will be used to service project debt, and it could be used to fund management, operations and infrastructure related to the convention and sports facility ... in other words, go right back into the stadium owner's pocket. Either way, we don't benefit. *Remember, the city has produced no evidence that the new facilities will be self-sustaining.*

We propose a simple solution to compensate the people of Los Angeles for risks associated with the deal, and to share in the success the stadium owner will enjoy as a result of the city's largesse. Angelenos should receive a minimum 1% return on the stadium investment in the form of an *annual revenue guarantee* perhaps as part of a revenue-sharing plan. One percent of the project investment, or about $15 million annually, should be guaranteed to the city's General Fund and dedicated exclusively to neighborhood improvements citywide.

The money could fund the Sidewalk Improvement Program we envision to wipe out LA's $1 billion in deferred sidewalk repairs.

If the "One Percent Solution" is embraced, along with other reasonable terms, we will support a stadium deal. If not, we will oppose the deal and advocate instead for renovating the existing convention center, which can be completed at a relatively low cost with other funding sources. The football stadium can go somewhere else in the region.

It's not much to ask: An annual revenue guarantee earmarked for LA neighborhoods. Frankly, it's the least the city should do.

Los Angeles has neighborhoods to fix, a payroll to meet, and good (permanent) jobs to help business create. The stadium deal, with the One Percent Solution, could help on all counts. Let's get it done ... Vámonos!

The "One Percent Solution" ... It's the least the city should do.

Sign up for email alerts at www.laneighbors.org

Cary Brazeman
Founder

LA NEIGHBORS UNITED

For The Love of Our City

July 28, 2011

Honorable Bill Rosendahl
Councilmember, 11th District
200 North Spring Street
Los Angeles, California 90012

Dear Councilmember Rosendahl:

As a citizen, homeowner and taxpayer of Los Angeles, I am submitting this letter with the sincere intent to help benefit the City of Los Angeles.

There is serious misinformation resulting in a critical problem surrounding the current negotiations for constructing Farmers Field in downtown Los Angeles. The misinformation is the mistaken belief among many members of the City Council and the public that building Farmers Field will produce significant economic benefits to the citizens and to City of Los Angeles finances. The resulting problem is that the City is operating under the erroneous belief that it is in a weak negotiating position that will produce an undesirable financial situation.

The reality is this: building Farmers Field will generate significant profits for AEG, the City will not extract the full and proper revenues because of the mistaken belief of economic benefits that do not exist, and that the City will leave untold millions of dollars on the table that it otherwise should have obtained.

AEG has undertaken its own studies that claim significant economic benefits will result from building Farmers Field and there are significant errors/untruths with these assertions. Unfortunately, the draft MOU recently released by the City also contains errors that <u>overstate</u> these same purported benefits to the City.

I will frame the following key facts by quoting the late Senator Daniel Patrick Moynihan: "Everyone is entitled to his own opinion, but not to his own facts."

- Fact: New stadiums do <u>not</u> provide a net economic benefit to the local economy.

- Fact: Mega-events (e.g., Superbowl, Final Four) do <u>not</u> provide appreciable economic benefits to the host city and economy.

- Fact: Using professional sports franchises as an economic development tool is a failed economic policy.

I have conducted a review of scientifically valid economic research that conclusively demonstrates the above three facts. What is significant is that all the research consistently comes to the same conclusions despite taking differing approaches to analyze the subject. A brief list of research is presented as Appendix A, and information about the researchers and their institutions is presented as Appendix B. It is imperative that representatives for the City understand and utilize this research in their negotiations with AEG.

I have spent time studying the recently released draft MOU between the City and AEG and have identified a series of either data or methodological errors. A critical error occurs in the July 25, 2011 memo from Messrs. Miller, Santana and Abbassi titled "Los Angeles Convention Center and Event Center Memorandum of Understanding." Page 8 of the memo specifically states: "Table 1 shows the expected financing structure for the Event Center. The estimated Internal Rate of Return (IRR) for AEG is 6.7% .... This IRR is significantly below the traditional IRR sought by AEG or other developers of 15-20%. **This low IRR indicates that it is <u>not possible</u> to <u>allocate any additional Event Center revenue to the City</u>.**" (Emphasis mine.) This conclusion is based upon flawed methodology contained within the CSL report. My calculations suggest a true IRR to AEG that is significantly greater and conforming to traditional IRR sought by developers. I will lay out my reasoning when discussing page 22 of the CSL report at the end of this letter.

The remainder of this letter will proceed thorough the CSL report, identified in the MOU as "Attachment D: 'Fiscal Analysis of Proposed Downtown Stadium And Convention Center Project'."

CSL Report, Page 2. The report states: "Significant economic and fiscal impacts could be generated within the City of Los Angeles . . . and the ongoing operations of the stadium and new NFL team ... ." This assertion in the Executive Summary has been clearly and consistently proven wrong by the research in Appendix A.

CSL Report, Page 3. The report states: "New taxes paid to the City of Los Angeles ... will total more than $146 million (NPV) ... ." Again, this assertion has been clearly and consistently proven wrong due largely to what is known as the "substitution effect" in the research in Appendix A.

CSL Report, Page 3. The report states that costs used by CSL in its analysis of the stadium relies on data provided by AEG. There is no mention of independent research or analysis undertaken by CSL to validate the data provided by AEG which raises serious methodological concerns. It must be assumed that AEG presented data that is most favorable to its position, calling CSL's economic analysis into question. This reliance upon AEG-provided data is further discussed in the Financial Analysis section on page 20: "Basic assumptions have been made regarding the distribution of stadium operating revenues between the NFL team that would be the primary tenant at the facility and AEG, which would operate the stadium. These assumptions have been determined based on discussions with AEG."

CSL Report, Page 4. The report states: "The proposed operating structure at the new stadium will be unique in the NFL ... . The situation at the new stadium will require the sharing of revenues between AEG and the team, ..." This issue of "revenue sharing" is essentially irrelevant as AEG is a privately-held business wholly owned by Philip Anschutz, and the NFL team will be either wholly or substantially owned by Philip Anschutz. Revenues will be shared between Philip Anschutz and wholly or substantially Philip Anschutz.

CSL Report, Page 5. The report states: "During the first year of operations, the total <u>new</u> economic activity for the NFL team and new stadium could approximate $456 million on an annual basis, with 6,320 jobs created. Over the initial 30 years of operations the stadium should generate nearly $8.7 billion in total output, with $5.3 billion in direct new spending." (This information is also reiterated on pages 43-44.)

This conclusion is a serious error because it gives the false illusion that the City and economy of Los Angeles will benefit from the presence of an NFL team. From a methodological standpoint, CSL is committing the <u>classic error</u> of only using <u>gross</u> economic activity focused solely on the stadium/team. This error is amplified by "using multipliers supplied by the IMPLAN Group" (page 43). The research presented in Appendix A conclusively demonstrates that the <u>net</u> economic impact to Los Angeles will be negligible, largely due to the combination of what economists refer to as the substitution effect, the crowding-out effect, and the leakage effect.

CSL Report, Page 12. There are a series of data errors contained in the table titled "Summary of Public-Private Contributions to NFL Stadium Development." I have not yet been able to corroborate the data presented for stadiums constructed since 2002, but the percentages for Public Finding are significantly understated for the twelve stadiums opened between 1992-2001. CSL looks strictly at the cost to construct the stadium, ignoring the public contribution required for the stadium to operate. The result of this error is to significantly understate the true public funding required of NFL stadiums, and calls into question whether CSL has similarly failed to identify the true public funding that will be required for Farmers Field. This is in contrast to CSL's methodology for calculating economic benefits which projects forward for a 30 year period from Farmers Field opening. The correct numbers are presented in Appendix C.

CSL Report, Page 22. The report states: "The projected IRR for the stadium operations would be approximately 6.7% based on a total investment of $900 million by AEG." An examination of the data and methodology outlined in pages 19-23 enables me to arrive at an IRR of 6.71%, consistent with CSL's calculations. However, <u>close examination</u> of the data and methodology in pages 19-23 makes <u>no mention of revenues to AEG</u> from the Farmers Field naming rights. This amount has been publicly stated by Tim Leiweke to be in the neighborhood of $700+ million. Assuming an inflation/discount rate of 4.5% beginning in 2012 (the likely year any formal contract would be signed), with 30 equal payments of $23,333,333 beginning in 2016 (the first year of stadium operation), **there is a Net Present Value of $333,057,613 that will be realized by AEG and that <u>has not</u>**

been factored in. The result is a project that delivers a substantially higher IRR than the 6.7% presented in the report.

Please accept this letter in the spirit of a sincere desire to help the City of Los Angeles.

Respectfully,

Quentin Fleming

Quentin Fleming

Appendix A:
Research Bibliography

Robert A. Baade, Robert Baumann and Victor Matheson
(*"Selling the Game: Estimating the Economic Impact of Professional Sports through Taxable Sales."* Southern Economic Journal. Vol. 74(3), 2008, pp. 794-810.)

Robert A. Baade and Victor Matheson
(*"Have Public Finance Principles Been Shut Out in Financing New Stadiums for the NFL?"* Public Finance and Management. 2006: Vol.6, Iss. 3, Pg. 284, 36 pp.)

Robert A. Baade
(*"Professional Sports as Catalysis for Metropolitan Economic Development."* Journal of Urban Affairs. Vol. 18, No. 1, 1996, pp. 1-17.)

Dennis Coates and Brad Humphreys
(*"The Growth Effects of Sport Franchises, Stadia, and Arenas."* Journal of Policy Analysis and Management. Vol. 18, No. 4, 1999, pp. 601-624.)

James Cochran and Kaveephong Lertwachara
(*"An Event Study of the Economic Impact of Professional Sport Franchises on Local U.S. Economies."* Journal of Sports Economics. Vol. 8, No. 3, June 2007, pp. 244-254.)

Judith Grant Long
(*"Professional Sport Stadiums: Do They Divert Public Funds From Critical Public Infrastructure?"* U.S. Congress, Testimony before the Domestic Policy Subcommittee of the Oversight and Government Reform Committee, Washington, D.C., October 10, 2007)

(*"Full Count: The Real Cost of Public Funding for Major League Sports Facilities"* Journal of Sports Economics, Vol. 6, No. 2, May 2005, pp 119-125.)

(*"A History of Public Funding for Major League Sports Facilities, 1890 to 2001." 2004:* Center for Urban Policy Research Working Paper Series, E.J. Bloustein School of Planning and Public Policy, Rutgers University.)

Phillip Miller
(*"Private Financing and Sports Franchise Values: The Case of Major League Baseball."* Journal of Sports Economics. Vol. 8, No. 5, October 2007, pp. 449-467.)

Roger G. Noll and Andrew Zimbalist
(*"Sports, Jobs, & Taxes: Are New Stadiums Worth the Cost?"* Brookings Institution Press. Book: 1997, 525 pp.)

John Siegfried and Andrew Zimbalist
(*"The Economics of Sports Facilities and Their Communities."* Journal of Economic Perspectives. Vol. 14, No. 3, Summer 2000, pp. 95-114.)

Appendix B:
List of Researchers and their Institutions

Robert A. Baade
Lake Forest College, Dept of Economics and Business

Robert Baumann
College of the Holy Cross, Dept of Economics

Dennis Coates
University of Maryland, Dept of Economics

James Cochran
Louisiana Tech University, Dept of Marketing and Analysis

Brad Humphreys
University of Maryland, Dept of Economics

Kaveephong Lertwachara
Thammasat University, College of Innovative Education

Judith Grant Long
Harvard University, Dept of Urban Planning and Design
Rutgers University, Bloustein School of Planning and Public Policy

Victor A. Matheson
College of the Holy Cross, Dept of Economics

Phillip Miller
Minnesota State University, Mankato; Dept of Economics

Roger G. Noll
Stanford University, Dept of Economics

John Siegfried
Vanderbilt University, Dept of Economics

Andrew Zimbalist
Smith College, Dept of Economics

Appendix C:
Correct Values for Private Contributions to NFL Stadium Development
(Values are expressed as a percentage of total stadium construction cost)

Stadium/Team	Team	Public Funding: % of Total (per CSL)	Correct % of Total Public Funding
Heinz Field	Pittsburgh Steelers	61%	**116.1%**
Invesco Field at Mile High	Denver Broncos	72%	**90.7%**
Paul Brown Stadium	Cincinnati Bengals	94%	**121.9%**
LP Field	Tennessee Titans	71%	**104.3%**
Cleveland Browns Stadium	Cleveland Browns	74%	**99.7%**
M&T Bank Stadium	Baltimore Ravens	90%	**112.3%**
Raymond James Stadium	Tampa Bay Buccaneers	100%	**126.5%**
Bank of American Stadium	Carolina Panthers	23%	**62.3%**
Edward Jones Dome	St. Louis Rams	96%	**117.2%**
EverBank Field	Jacksonville Jaguars	86%	**124.6%**
Georgia Dome	Atlanta Falcons	77%	**121.1%**
FedEx Field	Washington Redskins	28%	**37.3%**

Note: CSL methodology focuses solely on revenues/economic benefits from Farmers Field from inception until the first 30 years after opening. The true or corrected Public Funding percentages in the right column include public contributions required during the first 25 years of stadium operations, which more closely matches CSL's 30 year forward emphasis.