July 28, 2011

Honorable Antonio R. Villaraigosa
Mayor, City of Los Angeles
200 North Spring Street
Los Angeles, California 90012

Dear Mr. Mayor:

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 overstate 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 not provide a net economic benefit to the local economy.
- Fact: Mega-events (e.g., Superbowl, Final Four) do notprovide 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 fmancing 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 MOD 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 new 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 classic error of only using ~ 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 net 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, close examination of the data and methodology in pages 19-23 makes no mention of revenues to AEG 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 has not**

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,

Original signed by
Quentin Fleming

Quentin Fleming

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	Pittsburg 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.