



Memorandum

TO: HONORABLE MAYOR, CITY
COUNCIL, AND REDEVELOPMENT
AGENCY BOARD

FROM: Mark Linder
Harry S. Mavrogenes

SUBJECT: SEE BELOW

DATE: February 2, 2006

Council District: Citywide

SUBJECT: Report on the San Jose Earthquakes and Discussion with Major League Soccer (MLS) Concerning the San Jose Earthquakes and an Expansion Franchise for San Jose

RECOMMENDATION

It is recommended that the Mayor and Council, and the Agency Board, accept this report and direct staff to continue to meet with potential ownership groups, with San José State University representatives, and with the Major League Soccer (MLS) representatives concerning the potential for return of Major League Soccer to San José, and to report back in forty-five days.

BACKGROUND

Current Situation-

On December 15, 2005, the owner of the San Jose Earthquakes Major League Soccer team, AEG (a wholly owned subsidiary of the Anschutz Corporation) announced the move of the franchise to Houston, Texas.

During the two months prior to this announcement, City and Agency staff negotiated with Silicon Valley Sports and Entertainment (SVSE) on a financial package to support the acquisition of the Earthquakes by SVSE and the construction of a new soccer specific stadium in downtown San Jose. SVSE and City staffs were unable to come to a tentative agreement that could have been presented to City Council for consideration. Following the determination by both SVSE and the City that an agreement could not be reached, City staff reached out to AEG and the MLS concerning steps that could be taken to retain the Earthquakes in San Jose.

Conversations ensued with Scott Garber, the Commissioner of the League. Mr. Garber advised that the decision to move the former Earthquakes was final but that Major League Soccer would be willing to commit to work with the City to bring an expansion MLS franchise to San Jose beginning as early as the 2007 season. He further offered that the MLS would reserve the name, colors, logo, and competition records of the San Jose Earthquakes for the proposed expansion team. As Council was on holiday recess, the City Manager decided to sign a non-binding

commitment letter with MLS to that effect. The City Manager provided a detailed information memorandum to Council on December 15, 2005, including a copy of the letter of intent. Subsequent to the announcement of the move of the former Earthquakes to Houston, Lewis Wolff, Managing General Partner of the Oakland Athletics Major League Baseball Team has made public statements (including on the Oakland Athletics web-site) about the interest of the A's ownership group in acquiring an expansion MLS franchise in San Jose. Agency and City staff has had a meeting with Commissioner Garber in San Jose on the steps to secure an expansion franchise for San Jose. Commissioner Garber has also met with Mr. Wolff. Agency and City staffs are scheduled to meet with Mr. Wolff to further discuss his interest. In addition, staff will meet with San Jose State University President Don Kassing.

ANALYSIS

A Major League Soccer Expansion Team for San Jose - Key Questions

As described above, the future of professional soccer in San Jose will require the award of an expansion franchise. There are a number of key questions that will need to be considered by Council prior to such an award. The balance of this memorandum lays out a preliminary set of questions and some partial answers for Council's consideration and direction. This set of questions is not intended to be exhaustive.

What are the expansion plans of Major League Soccer?

The MLS currently has twelve teams. According to Commissioner Garber, the league will expand by two additional teams in 2007 and two more teams in 2008. Toronto has already been awarded an expansion franchise for 2007. The Cleveland metropolitan area has been awarded an expansion team for 2008. San Diego and Philadelphia are two markets that MLS is considering for expansion. Ultimately, the MLS will expand by two additional teams (after 4 teams are added in 2007 and 2008) to a maximum number of eighteen teams. Commissioner Garber indicated that the addition of the final two teams may take a number of years beyond 2008, as the league wants to maximize franchise value.

What does that mean for San Jose?

The MLS would like to place an expansion franchise in San Jose to begin play potentially as early as Spring 2007. In the best case scenario, a new stadium could not be ready until at least 2009.

What would the MLS require to award an expansion franchise to San Jose?

The MLS would need to identify a local ownership group that would acquire the franchise rights to operate a team in San Jose. The MLS working with this local ownership group would also need to negotiate an agreement with the City that would lead to the construction of a soccer specific stadium in San Jose.

Does the ownership group have to be local?

It would not be necessary, but the lack of a local ownership group is pointed to by MLS as one of the key reasons that the Earthquakes were not successful in San Jose and ultimately moved to Houston.

How much would the rights to the franchise cost?

Approximately \$15 million.

Who would pay the franchise fee?

The new ownership group.

A new stadium could not be constructed by Spring 2007; where would the new Earthquakes play prior to construction of a new stadium?

San Jose State University's Spartan Stadium would be the only viable San Jose option, although MLS has talked about possible venues in Santa Clara.

Would San Jose State University be willing to have the new Earthquakes play at Spartan Stadium and would SJSU consider a modified deal to mitigate the operating losses during that period?

The University leadership has indicated a willingness to work with the City.

Would an operating subsidy from the City be necessary to support the new Earthquakes during the period before a new stadium is ready for play?

The Earthquakes had substantial losses during the years the team played at Spartan Stadium. This was one of the main reasons the Earthquakes moved to Houston coupled with the lack of a plan to develop a new soccer specific stadium in San Jose. A City operating subsidy was included in the proposed deal with SVSE because SVSE would not consider acquiring the Earthquakes without one. However, a new ownership group may be willing to accept several years of operating losses if they can be recouped in the future from revenues from a new stadium and from appreciation of the value of the franchise. The timing of the new franchise start date can mitigate any such losses.

Is expansion of Spartan Stadium possible as an alternative to building a new stadium?

Major League Soccer has focused on the construction of new soccer specific stadiums where the professional soccer team is the main occupant. Attachment A outlines the recent deals across North America. The City and Agency staffs will explore, with the University, any and all options that could allow for the development of a facility in the Spartan Field area. Given the experience with the new Joint Library we have built successful partnerships. There is one example at the California State University, Dominguez Hills, in southern California, where such a partnership was done.

What would be the site for a new soccer-specific stadium?

A number of sites may be suitable. The basic requirement for a modern 25,000 seat soccer stadium is approximately eight to twelve acres. Parking and ancillary development may require additional land.

Why did the SVSE proposal identify a site north of San Carlos Avenue between Los Gatos Creek and the railroad tracks?

As a basic principle of urban planning and design, the City and Redevelopment Agency staff believe the development of stadiums should occur as close as possible to the downtown core area. The Redevelopment Agency was already engaged in land acquisition in this area and studying the possibility of its use for a major league baseball stadium among other uses. The proposed soccer site combined with a possible baseball stadium, the Diridon rail and transit center, and HP Pavilion all adjacent to the downtown core would give San Jose a one of kind sports and entertainment venue in the United States. A soccer stadium at that location however is not a part of the baseball EIR and has not yet been studied further from an environmental impact stand point. There has been no Council/Board direction yet to pursue an environmental assessment of that site or any other for soccer.

Would the City retain ownership of the site and the stadium?

This would be one of the variables to be considered in negotiating a stadium development agreement. City ownership of the site and the stadium is one option and was included in the SVSE proposal.

What other kinds of events could occur in a new soccer stadium?

International, club, college and high school soccer matches, women's professional soccer, the National Lacrosse League, rugby, college and high school football, concerts, and Parks and Recreation programming and concepts.

Would a new stadium be available for public use?

This would be a key consideration for the City Council. The SVSE deal proposed 120 days.

How much would a new stadium cost?

Attachment A outlines the experience in other cities. A conservative estimate of \$90 M was established in the SVSE proposal.

How could the stadium be financed?

There are myriad financing options. In all likelihood, the financing package would be a combination of private and public financing. Naming rights would be a potential funding source. A key determinant is the amount of revenues that could be generated by team operations and other events at the facility. Additional variables are the amount and form of the debt issued to

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finance the facility, the amount of upfront capital contributed by the ownership group and the City, the term (and renewal options) of an agreement and the form of guarantee backing repayment of the debt.

Would the use of public funds or land acquired with public funds require a vote of the people?

Yes.

Would an Environmental Review need to be completed prior to placement of an issue on the ballot for a new soccer stadium?

Yes.

When could a stadium issue be placed on the ballot?

The timing of an election would depend on the completion of the Environmental Review. The earliest that an election could likely be held would be Fall 2007.

How long would it take to design and construct a stadium?

The minimum time frame for design and construction would be 30 months.

Next Steps

Staff will meet with Mr. Lew Wolff to ascertain the level of interest that the Oakland A's investment group has in working with San Jose to acquire a new MLS franchise for San Jose. Staff will also meet with San Jose State University President Don Kassing and his staff. The Administration and Agency will report back to Council on the outcome of these meetings. Staff will maintain on-going communication with the MLS Commissioner's office.

CEQA

Not a project



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Assistant City Manager



HARRY S. MAVROGENES
Executive Director

Attachment

ATTACHMENT A

Recent North American MLS Soccer-Specific Stadium Projects

Colorado Rapids: Colorado Rapids Stadium, Commerce City, CO

The construction on the new Colorado Rapids Stadium is expected to be completed in time for the 2007 Major Leagues Soccer season. The stadium is currently programmed to accommodate 20,000 soccer fans and 26,000 fans for lacrosse and concerts. In addition to the soccer stadium, there will be an additional 24 practice fields. The stadium and practice fields are part of a much larger 916-acre multiuse development.

- 360 acre site
- 22 Suites
- 6,000 parking spaces
- Total Cost of project was \$130 million

The Colorado Rapids are owned by Kroenke Sports Enterprises, the owners of the Colorado Avalanche. The development agreement between Kroenke and the City of Commerce Springs stipulates that the City of Commerce Springs will sell \$64 million in voter approved bonds to fund their portion of the stadium, of which \$52 million will be paid from existing city revenues and the remaining \$12 million from revenue generated by the stadium. Kroenke Sports Enterprises (KSE) will commit a minimum contribution of \$20 million towards construction and infrastructure improvements. KSE will also guarantee \$45 million in bonds that it will request in conjunction with the project for a total commitment of approximately \$66 million. Kroenke will then lease the stadium under a 25-lease agreement.

MetroStars: Harrison Stadium, Harrison, NJ

The construction on the new MetroStars Stadium is expected to be completed in time for the 2007 Major Leagues Soccer season. The stadium is currently programmed to accommodate 20,000 soccer fans. The stadium is part of a larger redevelopment project.

- 250 acre site
- 43 Suites
- 1,500 parking garage
- Total Cost of project was \$169 million

The MetroStars are owned by Anschutz Entertainment Group (AEG). The development agreement between AEG, the City of Harrison and the Hudson County Improvement Authority stipulates that the City of Harrison will sell \$40 million in general obligation bonds for the acquisition of land, the Hudson County Improvement Authority will contribute \$36.8 million dollars and AEG will pay for the remaining \$92.2 million. AEG will use a combination of equity capital and company guaranteed taxable bonds to fund their investment. AEG will have the exclusive right to manage and operate the stadium including the scheduling of concerts, international soccer games and other events at the stadium to generate revenues.

FC Dallas: Pizza Hut Park, Frisco, TX

Pizza Hut Park in Frisco Texas is the newest major league soccer stadium. The stadium designed to accommodate 21,193 soccer fans is flexible enough to accommodate football and concert fans to the tune of 27,000. In addition to the soccer stadium, there are an additional 17 practice fields for use by local schools.

ATTACHMENT A

- 100 acre site
- 26 Suites
- 2,000 parking spaces
- Total Cost of project was \$65 million*

In addition to their operation of Crew Stadium, the Hunt Sports Group is also the operator of Pizza Hut Park. The development agreement between the Hunt Family, the County of Frisco, the City of Frisco and the Frisco Independent school districts called for both the City and County of Frisco to contribute \$20 million a piece, the Frisco Independent school district to contribute \$15 million. The Hunt Group was responsible for the remaining \$10 million in funding the construction of the stadium.

*Given changes in design changes and construction over-runs, the total contribution by the Hunt Group was \$25 million with a total project cost increasing to \$80 million. The lease agreement between the City of Frisco and the Hunt Group stipulates the Hunt Group will pay \$100,000 a year and retain any revenue from the site. Pizza Hut purchased naming rights for \$25 million dollars over a 20-year period.

Columbus Crew: Crew Stadium, Columbus OH

Crew Stadium completed construction in 1999. The stadium was designed primarily to accommodate professional soccer but flexible enough to host other types of activities such as football, concerts, lacrosse and field hockey. The stadium has a soccer capacity of 22,555 and is able to accommodate up to 30,000 for other types of activities.

- 15 acre site
- 28 Suites/loges
- 12,000 parking spaces
- Total Cost of project was \$31 million

The Hunt Sports Group and the State of Ohio entered into a 25 year and lease agreement for the 15-acre site. The development agreement has the State receiving lease revenue (approximately \$50,000 per annum) and a percentage of parking revenue (approximately \$120,000 per annum) for use of the land. The Hunt Sports Group invested \$31 million dollars for the construction of crew stadium.

Club Deportivo Chivas: Home Depot Center, Carson CA

The Home Depot Center is located in Carson Hills on the California State University Dominguez Hills campus. The 27,000-seat stadium opened in 2003 as a soccer use stadium. In addition to the Home Depot soccer stadium, the site also houses nine training soccer fields.

- 125 acre site
- 42 Suites
- 3,500 parking spaces
- Tennis Stadium
- Track & Field Facilities
- Velodrome and other sports related facilities
- Total Cost of project was \$150 million

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