



November 10, 2015

Chris Melvin
Nixon Peabody
437 Madison Avenue
New York, NY 10022

Dear Chris:

Thank you for meeting with us on November 3 to discuss the New Stadium Term Sheet draft dated September 25, 2015 that was proposed by the City of San Diego and the County of San Diego.

The proposal contemplates a \$1.1 billion football stadium in Mission Valley funded by \$350 million from the public, and \$750 million collectively from the Chargers, the League, and Stadium Builders Licenses ("SBLs"). Cost overruns would be the responsibility of the Chargers.

The stadium would be owned by the City and County Joint Powers Authority ("JPA"), which would have oversight and rights of approval over all key stadium decisions including design, construction, operations, management, and capital improvements. The Chargers would pay a rent (amount yet to be proposed), would be responsible for operating and maintaining the stadium to a "first class" standard at their expense, and would receive all NFL and non-NFL revenue (except for civic events that the JPA may host at no cost to it). The Chargers would enter into a non-relocation agreement coterminous with the lease and would be responsible for demolition costs after termination of the lease.


As you know, the League would not be the counterparty to the lease. We thought that it would be beneficial, however, to provide some observations taking into account League policies, comparisons to the economic benefits of other stadium projects, and issues that we expect NFL owners would have in evaluating a stadium proposal. Please note that the following is not intended to be a comprehensive list of comments and observations.

1. The steps needed to achieve project certainty (or to understand that project certainty is not achievable) and the timing for doing so remain unclear. The term sheet does not commit the City and County to a specific timetable or to any deadlines at all with respect to obtaining EIR certification or any required environmental or other public approvals or permits, including the contemplated public referendum. The risks associated with timing and/or project completion include litigation related to the EIR, litigation related to other aspects of the project including the City's proposed sale of Lease Revenue Bonds, the inherent uncertainty of a referendum vote, the status of the City and County finances at the time of the referendum, and any potential impacts of the downtown initiative.

2. Specific proposals on financial terms, currently undefined in the term sheet, would be necessary for a meaningful evaluation of the proposal. Those terms include such critical economic issues as base rent, facility rent, capital reserve obligations of the Chargers, and whether there would be ticket and/or parking surcharges (note that such surcharges would be considered a private contribution). Commitment of on-site parking spaces and Club rights and/or protections related to any future development on stadium parking lots also need to be better understood. How these terms are addressed, plus any improvements to the proposed financial obligations of the Chargers, will be material in affecting the attractiveness of the proposal to the Club and, by extension, the membership's evaluation of the proposal.
3. In light of the substantial financial and operational obligations of the Club, including cost overruns, the following will need to be understood more fully:
 - a. Extent of JPA oversight and approval rights in design, construction, and operation.
 - b. Definition of "first class" standard for various terms, including stadium management, and the consequences for not meeting the standard.
 - c. Whether there are requirements or risks that are not currently factored into the project budget that could lead to additional costs (e.g., construction standards, local building requirements).
4. Please provide additional financial projections, sources and uses, and advancement of design, as necessary to allow better insight into potential economics of the project, including whether the projected \$1.1 billion budget would be sufficient to build the stadium.

If you have any questions related to these points, please do not hesitate to contact us.

Sincerely,



Jay Bauman



Chris Hardart