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November 24, 2015

Jay Bauman
Chris Hardart
National Football League
345 Park Avenue
New York, NY 10154

Dear Jay and Chris,

Thank you for your letter of November 10, following up on our meeting of November 3, with respect to the September 25, 2015 draft Term Sheet (the “Term Sheet”) proposed by the City of San Diego and County of San Diego with respect to a new stadium in Mission Valley for the San Diego Chargers (the “Team” or the “Chargers”) and related matters. As you know, some, but not all, of the points you raised were addressed, at some level, in our presentation to the owners at the November 11 meeting at your offices. Nonetheless, the following is a detailed response to your letter:

- Your letter stated that the Joint Powers Authority referenced in the Term Sheet (the “JPA”) “would have oversight and rights of approval over all key stadium decisions including design, construction, operations, management and capital improvements.” You are correct that the JPA would have certain oversight and approval rights consistent with the JPA’s role as owner of the stadium and keeper of the public trust. Attached hereto as Schedule A are some examples of how similar rights have appeared in similar transactions. Please note that Schedule A has not been vetted by our clients and is not proposed language for this specific transaction. We would obviously have to work out the details in this transaction but this should give you an idea. The public entities have no desire to micromanage the construction or operation of the stadium but must act appropriately to protect the public interest. We are happy to discuss this further in detail if you would like.
- Your letter also mentioned clarifying the meaning of “first class manner”. The New Stadium Term Sheet currently contemplates a mutually agreed-upon operation and maintenance plan (the “Stadium Operation and Maintenance Plan”) pursuant to which the

Stadium will be operated and maintained by the Stadium Company in a “first class” manner. “First class manner” is intended to mean that the Stadium Company will clean, maintain, repair and keep the Stadium in safe, clean and good working order in accordance with all applicable laws and in a manner similar to and consistent with other comparable NFL facilities of similar design and age operating as a high quality professional sports facility. We would expect the Lease Agreement would give the Stadium JPA the right to periodically inspect the Stadium and any and all maintenance and repair work performed by the Stadium Company at the Stadium on reasonable notice and at reasonable times for the purpose of ensuring that Stadium Company is complying with its obligations under the Lease Agreement, including, without limitation, its maintenance and repair obligations. We would expect that the details of this language would be worked out with the Team after thoughtful consideration, based on the parties’ experience and what has worked for other teams.

- It is anticipated that the Stadium JPA would have the right to make comments and suggestions about the operational aspects of the Stadium presenting any reasonably avoidable threat to health or safety or **any** nuisance, or which are inconsistent with the good and proper operation of the Stadium as a high quality professional sports facility (subject to ordinary wear and tear) and that such items which are identified by Stadium JPA and of which Stadium Company is notified, would be promptly remedied by the Stadium Company. In the event the Stadium Company fails in any material respect to maintain the Stadium and such failure continues beyond any applicable grace period after notice it would be a breach of the Lease Agreement.

1. Timetable and Project Certainty. Your letter correctly noted that the Term Sheet does not commit the City and County to a specific timetable, in part because a number of the items on the timetable will be addressed before a term sheet is in effect. Our timetable was presented at the committee meeting on November 11. The City and County are committed to that timetable for a June election provided that the Chargers agree to a Term Sheet and can and will move forward. If the Chargers, City and County agree to a proposed Term Sheet by February 1, the City and County can move forward with actions necessary to place the item on the June ballot.

- You raised a concern about litigation relating to the EIR. As previously indicated, the Term Sheet, financing plan, permits and consideration of the final EIR would all be presented to the City Council at the same meeting. Because the Governor has certified this project for litigation streamlining via AB-900, and based on state law, any litigation challenging project approval, including any involving the EIR, would be completed by the end of 2016, with the Project continuing forward during that time period.
- Your letter also expresses concerns about potential litigation relating to the City’s proposed sale of Lease Revenue Bonds. We do not understand why this is a concern because the sale of Lease Revenue Bonds is, and has been for some time, the City’s primary and preferred way of raising financing. The City won a lawsuit that challenged these and has continued to successfully issue Lease Revenue Bonds.
- While we recognize, as you note, the inherent uncertainty of a ballot measure vote, we note that the proposed measure does not include new taxes and therefore requires only a 50% + 1 vote. Given the Mayor’s strong approval rating, we believe that a ballot

measure that is publicly supported by the Mayor, County, regional leaders and the Chargers is very likely to pass.

With respect to the concern you expressed about “the status of the City and County finances at the time of the referendum,” we are not aware of any issues relating to the status of the City’s and County’s finances. The City is AA credit rated and the County is AAA credit rated. The annual debt service on lease revenue bonds issued in connection with the Stadium Project would be a fraction of the City’s \$1.3 billion General Fund operating budget, and the County is able to fund its share without the need to issue debt.

- Finally, “any potential impacts of the downtown initiative” are unknown at this time but could certainly be mitigated if the Chargers were to come out in opposition to it. The Briggs initiative is extremely complex and it is uncertain at this time whether it will receive the number of signatures necessary for it to be placed on the ballot. We can discuss this further, if necessary, as that process evolves. We reiterate our prior statements that, although we believe Mission Valley is the best location for the new stadium from a variety of perspectives, and is much further along in terms of process, if given time by the NFL, we would be willing to work with the Chargers on a viable downtown stadium plan. Based on our review, a downtown stadium would take many more years and much more work to accomplish.

2. Financial Terms. Your letter requested specific proposals on financial terms that are currently undefined in the Term Sheet. Our intention was to discuss those in connection with the negotiation of the Term Sheet as a whole but we can provide the following in response to the items you identified:

- Base rent – As noted, this is expected to be a nominal amount.
- Facility rent – As noted, this is expected to be an amount sufficient to cover the operating expenses of the JPA.
- Capital reserve obligations of the Chargers – We will do some further analysis but expect this to be in a range comparable to other NFL facilities.
- Ticket and/or parking surcharges – We do not anticipate there being ticket and/or parking surcharges at this time.
- Parking – Based on a 68,000 seat stadium, the City would commit on-site parking spaces at all times during the lease term, as the same may be extended in accordance with the lease terms as follows, 16,500 after stadium construction and 13,860 if the river park is constructed.

3. In response to your items 3(a) and (b), we have addressed oversight and approval rights and the “first class” standard above. In response to item 3(c) and item 4, as indicated in our November 11 presentation to the owner committees, the projected construction costs have been confirmed and we are not aware of requirements or risks that have not been factored into those costs. We believe that our presentation on November 11 answered the questions you mentioned in item 4 and we are confident that the projected \$1.1 billion budget would be sufficient to build the stadium as proposed on the Mission Valley site.

If you have further questions or concerns after reviewing the foregoing, please do not hesitate to call.

Best regards,

A handwritten signature in blue ink, appearing to read "Chris Melvin". The signature is written in a cursive style with a large initial "C" and a long, sweeping underline.

Christopher Melvin

Schedule A

1. Stadium Name – If the Stadium Company names the Stadium Complex, the name shall not unreasonably cause embarrassment to the Stadium JPA, City or County. Examples include names using slang or profanity; names encouraging the use of alcohol by minors or the use of tobacco by anyone; or names relating to illicit drugs or sexually oriented businesses. If the Stadium Company contracts with a third-party with respect to the naming of the Stadium, the name shall be subject to the prior approval of the Stadium JPA, which approval shall not be unreasonably withheld.
2. Advertising – The Stadium Company has the exclusive right to control and contract with respect to advertising rights at the Stadium provided that any advertising shall not unreasonably cause embarrassment to the Stadium JPA, the City or the County; contain slang, profanity or reference to names that relate to illicit drugs or any sexually oriented business; or encourage the use of alcohol by minors or the use of tobacco by anyone.
3. Approval of concessions contracts – Each food and beverage concession contract shall be subject to the Stadium JPA’s review and approval of the non-financial covenants thereof, which approval shall not be unreasonably withheld, conditioned or delayed.
4. Preventative maintenance program – The Stadium Company shall establish and implement an annual preventative maintenance program for the Stadium reasonably satisfactory to the Stadium JPA the intent of which is to minimize structural repairs and operating expenses within the parameters of the Term Sheet.
5. Annual operating plan – The Stadium Company shall have control of the use of the Stadium and submit to the Stadium JPA prior to the beginning of each fiscal year an annual operating plan for such fiscal year indicating the type and nature of events planned to be held at the Stadium. The Stadium Company must operate concessions and the parking areas at the Stadium at the request of the City, County or Stadium JPA in connection with a Civic Event.
6. Selection of construction manager – Prior to selecting, or allowing to be selected, a person to serve as construction manager, the Stadium Company shall submit to the Stadium JPA for its approval the names and qualifications of such construction manager, which approval shall not be unreasonably withheld,
7. Approval of Plans and Specifications – The Stadium Company shall cause the architect to prepare plans and specifications and project schedule and the Stadium JPA shall have the right to review and approve the plans and specifications and project schedule, as well as any modifications or amendments thereof, which approval shall not be unreasonably withheld.
8. Preparation of construction bid packages – Once plans and specifications are approved by the Stadium JPA, the Stadium Company shall cause the construction manager and architect to prepare construction bid packages in form and content reasonably acceptable to the Stadium Company and the Stadium JPA. The Stadium JPA must approve the construction agreements with the construction providers resulting from the bidding process.
9. Right to inspect – Each Construction Agreement shall afford the Stadium JPA the right to inspect the Stadium Project periodically during the course of the construction and the right to reject any work that does not conform to the plans and specifications. The Stadium Company shall cause the construction manager to deliver to the Stadium JPA monthly written progress reports of any

work performed by any construction provider for which an invoice has been submitted to the construction manager for review and approval.

10. Proposed Change Orders – The Stadium Company shall orally notify the Stadium JPA of any proposed field change and furnish an explanation for such change. The Stadium JPA shall notify the Stadium Company of its approval or rejection of the proposed field change. The Stadium JPA and the Stadium Company shall be entitled to submit written requests for changes to the work causing amendment or alteration to a construction agreement (the “Change Requests”). Any such Change Requests shall be submitted to the other Parties and be accompanied by conceptual drawings depicting the scope of the proposed work. Each non-requesting Party shall notify the other Parties of its approval or rejection within a reasonable time.
11. Right of Audit - The Stadium Company shall keep and maintain accurate records and accounts of the Stadium Project, which the Stadium JPA shall have the right, at its sole cost and upon three days’ notice, to inspect, audit and duplicate.