SAN DIEGO PADRES: PETCO PARK AS A CATALYST FOR URBAN REDEVELOPMENT

The city had been in search of a viable development plan for the East Village for a generation. The ballpark became the catalyst for the implementation of a bold vision of redevelopment. Although the political, legal and financial challenges were significant, the strong partnership between the San Diego Padres and the City of San Diego proved to be the foundation of success for this enormously important project.

—Dick Murphy, Former San Diego Mayor

In 2007, a number of major league sports franchises were considering building new facilities. In San Francisco, the 49ers football team and Oakland A’s both wanted new stadiums and were looking for locations in the Bay Area. The owners of a new Major League Soccer expansion franchise were looking to build a stadium in the San Jose, California area. Las Vegas planned to build an arena for an NBA basketball team. The San Diego Chargers also sought a new stadium. In each case, financing the new facilities and gaining public support were important issues.

The San Diego Padres baseball team moved into its new ballpark (PETCO Park) in 2004. PETCO Park was built with public funding sources contributing $301 million and the Padres contributing $173 million. What made PETCO Park unique was that substantial urban redevelopment was integrated at an early stage into the overall project. The ballpark was located in a blighted area of the city, and the Padres were contractually obligated to secure a portion of the public’s investment through its investment in private development. As master developer, the Padres and ultimately JMI Realty, a real estate company founded by Padres’ owner John Moores to implement the Padres development obligation, guaranteed to the City of San Diego that the redevelopment would generate sufficient taxes to pay debt obligations incurred by the city to fund its portion of the ballpark—John Moores would have to make up shortfalls in new tax revenue. Furthermore, Moores agreed to absorb construction cost overruns for the ballpark.

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1 E-mail communication.
2 JMI stands for “John Moores Investments.”
Thus, the city’s funding for the project was capped, with the team owner taking most of the financial risk.

By 2007, PETCO Park had become the cornerstone of massive redevelopment in the previously neglected East Village of downtown San Diego. While the ballpark, including land and infrastructure, had cost a total of $474 million, about $4.25 billion had been spent, or committed, to the larger redevelopment project—$4 billion of which was private money. The combined ballpark/redevelopment project was a tremendous success, both for the city and for the team.

What lessons did the PETCO Park project offer to others considering building new sports facilities? Were the conditions that contributed to the San Diego success unique, or could the success of this project be instructive for other team owners and cities with sports franchises?

THE SAN DIEGO PADRES

The original San Diego Padres baseball team was a minor league club that played in the Class AAA Pacific Coast League (PCL) from 1936 to 1968. Its most famous player was Ted Williams, who played with the team in 1936 and 1937 after graduating from high school in San Diego.3 Williams went on to become one of the game’s greatest stars, and arguably the best hitter in the history of baseball.

The PCL Padres played at Lane Field (named for the team’s original owner) on the San Diego waterfront, which originally seated 9,600 fans and was built in 1936, financed by the Works Progress Administration. In 1956, the Padres were purchased by banker and entrepreneur C. Arnholdt Smith, who moved the team to Westgate Park in Mission Valley.

In the mid-1960s, the City of San Diego wanted to attract major league sports, and built a dual-use football/baseball stadium, Jack Murphy Stadium (later renamed Qualcomm Stadium), in Mission Valley. The NFL San Diego Chargers began playing in the new stadium in 1967, and the PCL Padres moved to the new stadium in 1968. That year, Smith paid a then record $10.2 million fee to get a Major League Baseball (MLB) expansion franchise for a team in San Diego. The team played its first season as the major league San Diego Padres in 1969.4

The major league Padres struggled to attract fans, and the team nearly relocated to Washington D.C. in the early 1970s. In 1974, when Smith’s financial empire collapsed in the savings and loan scandal, he sold the team to Ray Kroc, owner of the McDonald’s Corporation, who kept the team in San Diego. Kroc moved from Chicago to San Diego, becoming a beloved member of the community and a generous philanthropist. Kroc died at the start of 1984. Later that year the Padres made their first trip to the World Series, losing in five games to the Detroit Tigers. Following his death, Kroc’s wife became the owner of the team. Joan Kroc was also well loved in San Diego, an active member of the community, and a leading philanthropist.

A group of southern California businessmen led by Tom Werner purchased the team from Joan Kroc in 1990. Werner was a television producer, most noted for the sitcoms “Roseanne” and

4 Ibid. pp. 4-7.
“The Cosby Show.” Werner was not popular with Padres’ fans, as he reduced the club’s payroll, and the team had poor records on the field. His use of the team to promote his television shows was also poorly received by fans, with one such attempt—in which Roseanne Barr gave an off-key and crude rendition of the national anthem—resulting in a disastrous embarrassment.

John Moores

On December 21, 1994, John Moores bought the San Diego Padres. Moores was a software entrepreneur from Texas with a passion for sports. In 1980, Moores had founded BMC Software, which he built into a significant company, serving as CEO until 1987 and chairman until 1992. He had been involved in a number of other software companies, both as an investor and an active participant.5

Moores had also used much of his energy and personal wealth for philanthropic purposes around the world. After purchasing the Padres and moving to San Diego, his philanthropy included substantial support for local programs that included health, education, and recreation. In 2005, Moores became chairman of the board of trustees of The Carter Center, the humanitarian organization founded by former President Jimmy Carter. Moores devoted a considerable amount of his time to his work with the Center.

When Moores bought the Padres, baseball was in a difficult position, having canceled much of the 1994 season, including the World Series, as the result of a players’ strike. The strike would not end until April 1995. Moores invested in the team, and the Padres won the National League West in 1996, 1998, 2005 and 2006. The team went to the World Series in 1998. As in 1984, the team lost, but the city was thrilled by the success of the team under its new owner.

From the time he bought the Padres, Moores was committed to putting a quality team on the field. He was also committed to providing an entertaining experience for fans at the ballpark. One of the obstacles he faced was the Padres’ stadium lease agreement. The terms of this agreement limited the Padres’ ballpark revenue, so that if Moores wanted to pay enough to field a competitive team, it would have to come out of his own pocket, not from team revenues. The team incurred annual operating losses of $10-$15 million.

A NEW BALLPARK FOR THE PADRES, REDEVELOPMENT FOR THE CITY

When Moores purchased the Padres in 1994, the team shared Qualcomm Stadium with the city’s NFL football team, the San Diego Chargers. Despite the fact that the Padres played nearly 10 times as many games at the stadium as the Chargers each year, the Chargers were the senior tenant and had a disproportionate share of stadium revenue.

To illustrate the Padres’ revenue problem at Qualcomm, skybox lease revenue went to the Chargers, with the Padres receiving only the ticket revenue for skybox attendees at its games—a very small amount compared with lease revenue. In-stadium advertising went to the Chargers, as

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5 This section primarily sourced from “Chairman John Moores,” San Diego Padres Magazine, August 2007, p. 61.
did revenue for concession rights. After 1999, the Chargers would get parking revenue for Padres games. Thus, the Padres received revenue from ticket sales, but were cut out of most other stadium-based revenue sources.

Compounding this problem was the fact that San Diego was a small media market. National television broadcasting was negotiated by MLB and split equally among teams. Local television rights, however, were owned by each team. Teams in cities like New York, Chicago, or Los Angeles could negotiate large local television contracts; the Padres’ local television revenue was extremely small by comparison.

These factors meant that the Padres were losing money, and Moores had to pay $12-$15 million annually to field the team. The previous owners had responded to the financial challenge by minimizing player payroll, resulting in a poor team and unhappy fans. Moores was committed to giving San Diego a competitive team, saying:

Nobody wants to see a ball club in name only. They want to see competitive ballplayers…. Without spending the payroll dollars, you can’t [put together a winning team]…. Sports is supposed to be about a lot of things. Chief among them is enjoying the experience of the season. It’s not a lot of fun if you know you’re not going to be competitive from the start of the season. I think we would be not living up to what I think our responsibilities are to the community [if we tried to minimize our payroll].

Two Citizen Task Forces

The city was also concerned about the economic viability of the Padres. If it was not possible for the Padres to succeed in San Diego, the team might move to another city. The team’s lease for Qualcomm Stadium was due to expire just before the start of the 2000 baseball season. On December 30, 1996, San Diego Mayor Susan Golding established the Mayor’s Task Force on Padres Planning. She appointed 17 citizens from diverse backgrounds, none of whom were affiliated with the Padres. Their charter was to evaluate the importance of the Padres to the San Diego community, the financial viability of the team at Qualcomm Stadium, and to make recommendations as to whether the idea of a new baseball park should be explored.

The task force thoroughly investigated the Padres financial situation and the practices of other MLB teams. It concluded, in a report dated September 19, 1997, that the team was an important asset to the life and economy of the San Diego region, and that the new owners had “set new industry standards for regional marketing and community involvement and have been exceptional corporate citizens.” The task force found that the team was already employing industry best practices, and that it could not be economically viable in Qualcomm Stadium. It

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6 The Padres received revenue from concession sales at Padres’ games. However, revenue from the sale of the concession rights was retained by the Chargers.
8 Proposition C Editorial, loc. cit.
concluded that a new baseball-oriented ballpark (as opposed to a dual baseball-football facility) should be explored.

In response to the conclusions of the first task force, the city council appointed 18 citizens to form a second task force, the City of San Diego Task Force on Ballpark Planning. This group, which began work on October 10, 1997, had three primary responsibilities: site selection; recommending a financing plan; and preparing a preliminary cost estimate, including land acquisition, infrastructure, environmental issues, design, and construction. The Task Force on Ballpark Planning held 56 public meetings, evaluated seven sites, and made its recommendations on January 29, 1998. The city council accepted its recommendations in late February.

The task force recommended that a new ballpark be built in East Village, a run-down district near the city’s convention center. It proposed that the ballpark be paid for by a combination of public and private funds. A “Ballpark District,” encompassing much of East Village, was defined for redevelopment. This was to be an integral part of the project, and economic benefits from this redevelopment were to help finance the project. The task force recommended that the ballpark should be designed to express the character and beauty of San Diego, with a park-like setting and extensive landscaping. These recommendations were implemented in concept, and expanded in the coming months, as discussed in detail below.

Assembling Experts

The issues that led to the formation of the task forces also led city administrators and Padres executives to do their own studies and planning. An important part of this preparation was to bring on a group of experts with relevant knowledge. Often, cities and major league clubs each felt that they had the expertise to handle any situation. Les Girard, an assistant city attorney for the City of San Diego, who worked on the Padres ballpark project, observed:

I know from personal experience that that kind of arrogance [of rejecting outside assistance] leads to mistakes—and I’ll use the word ‘arrogance.’ I go back to a former sports-related negotiation, which the then city manager and the then city attorney, and the mayor and the [city] council figured they could deal with. They didn’t need outside experts who had dealt with sports teams before and knew the ins and outs of sporting agreements…. [The project] played out badly for both sides, the city and the [team]. I think it was due in large part because they didn’t bring in outside expertise to help them. The best thing the City of San Diego did for PETCO was that we hired outside experts to be on our negotiating team.

The city’s outside experts included a lawyer from Atlanta, Georgia who had been the chief of staff to the Atlanta mayor during the Olympics bidding and arena construction. The city also

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10 The Ballpark District as well as East Village were part of a larger redevelopment project area adopted in 1992. Called the Centre City Redevelopment Project, the project area encompassed approximately 1,500 acres, virtually all of downtown San Diego.
12 Quotations are from interviews with the author, unless otherwise noted.
hired a lawyer from Denver who was involved in bringing the MLB Rockies to Denver and in the construction of Coors Field. They hired a sports consultant from Los Angeles with broad experience with the NFL and NBA, bringing an in-depth knowledge of finances of major league franchises.

These outside experts supplemented the city’s existing staff, which had experience in high profile, controversial projects, and knew the local issues and stakeholders. Of primary importance was the Centre City Development Corporation (CCDC), a public nonprofit corporation established by the City of San Diego in 1975 to manage downtown redevelopment. As a separate corporation, CCDC’s staff were not city employees. Girard also commented on the skills needed on the sports team’s staff.

You have to have people that can sell to the fans. You have to have people that can deal with the players and provide them with what they need. But you also need people that can interact with your public entity, either because they have an ownership interest, or because you have to have a good relationship with your host city in order to get things that you want. Too often, I think ownership focuses on the first two because that’s their business. They don’t understand the need to have and maintain good relationships with the local government entities.

The Padres worked closely with the city. The team’s effort was led by its president and CEO, Larry Lucchino, the former president of the Baltimore Orioles and the visionary behind the Orioles’ new downtown ballpark at Camden Yards. The team also assembled its own set of outside experts. Moores brought in urban planners, a design architect, a sports architect, and a lawyer with expertise in redevelopment, environmental, and financial issues. Additionally, the Padres engaged a first-class commercial real estate development firm to be the development manager, and the firm that had built Baltimore’s Camden Yards to lead the general contracting team.

Memorandum of Understanding

Following the recommendations of the second task force, the Padres and the City of San Diego negotiated a Memorandum of Understanding. This took the form of a contract between the parties, which would become effective after approval by the voters in November 1998. The schedule incorporated into the MOU anticipated that the ballpark would be ready for the opening of the 2002 season.

While management and ownership of many sports teams resisted submitting their facilities plans to the uncertainties of the ballot, Moores and Lucchino believed that this was an essential step. Once the voters approved a new ballpark for the Padres, the project would be very difficult to stop—politicians would have to take the actions needed for the new ballpark, because they had to respect the wishes of the voters. There would be changes among the political officeholders (for instance, Mayor Golding would have to leave office in 2000 due to term limits), but a public vote would help ensure that the project survived despite these changes.
Site Selection
The East Village site was not the only site considered for the new ballpark. A number of potential sites were considered, but three were explored in detail. One obvious choice was in Mission Valley, adjacent to Qualcomm Stadium. Padres fans were used to going there, and there was a large amount of space available for a new ballpark. This was the site initially supported by Lucchino because it provided the shortest timeline for implementation and could be part of a larger sports and entertainment development.

A second alternative was the old site of Lane Field, located at the foot of Broadway adjacent to San Diego Bay. This was the “romantic” choice, recalling the early days of Ted Williams and the PCL Padres. Moores, in particular, was partial to this site. However, it was a very small site for a major league ballpark. Access was a problem, as it was on the waterfront and all access points had to cross a series of railroad tracks. In addition to the logistical problems posed by the tracks, a lengthy approval process would also have been required.

A third alternative was the East Village section of downtown San Diego. The city’s convention center was located on the waterfront in the adjacent Marina District. Nearby was the Gaslamp District, a historic area that was being redeveloped and becoming a trendy area of nightclubs and restaurants. East Village was a large area that was severely blighted, and adjoined both the convention center and the Gaslamp District. It consisted primarily of surface parking lots, warehouses, and outdoor storage yards. (See Exhibit 1 for a map of San Diego.)

The East Village was not a place that people wanted to go in 1997. (See Exhibit 2 for a photograph of the area.) One participant in the process recalled the first time that Moores visited this potential new ballpark site. After walking around a few blocks, they returned to find a homeless man urinating on a hubcap of Moores’ car. When someone claimed that the East Village was an historic district, the rejoinder was that “it was the Historic Needle Exchange District.”

The city clearly had an interest in the East Village site, as this was the last large area in downtown San Diego in need of redevelopment. The area was a cash drain for the city, and those businesses that were located there required subsidies to stay. A new ballpark might be a catalyst for development, hopefully turning a tax drain into a tax generator for the city. Downtown ballparks had been catalysts for redevelopment in other cities, such as Baltimore, Cleveland and Denver. However, putting in a new ballpark did not ensure that the adjacent areas would attract investors and redevelopment—in some cases this had occurred, in others it had not, or had been delayed. This was the case in Houston, Texas, where Minute Maid Park (originally Enron Field), opened in 2000. The new home of the Houston Astros baseball team was expected to bring redevelopment to the downtown area. Seven years later, “the stadium is surrounded mostly by asphalt parking lots, and a cluster of turn-of-the-century buildings several blocks from the ballpark are waiting for tenants.”

13 Potential sites that were eliminated early in the evaluation process included Chula Vista, a city between San Diego and the Mexican border, and the site of a large former facility of General Dynamics north of Mission Valley.
Even for those venues that did attract urban redevelopment, time delays could be long. The Staples Center, for instance, opened in downtown Los Angeles in October 1999. Staples Center was home to five professional sports franchises, including the NBA Lakers and Clippers, and the NHL Kings. The development around Staples Center (known as “LA Live”), consisting of entertainment venues, hotels, retail, commercial and residential projects, did not even break ground until September 2005—six years after the sports arena opened.

Lucchino recognized early on that the city, and particularly the CCDC, would favor the East Village location, and viewed this alternative as a good choice. Lucchino had led the Baltimore Orioles project to build Camden Yards, a downtown ballpark. Erik Judson, the first person hired by the Padres to work exclusively on the new ballpark, and later the club’s vice president of development, observed about the Baltimore experience, “Larry was the first to say, ‘This is a downtown game. The history of the game is really in an urban setting. So let’s start looking downtown for the opportunity to bring the game back there.’”

As Judson recalled:

CCDC was the strongest advocate of the East Village location. So, the Padres interviewed and selected a comprehensive design team that included an urban planner, Roma from San Francisco, HOK Sport, who had designed many new facilities, and Antoine Predock, who is a design architect who had never designed a ballpark before. We then started focusing their attention very quietly, behind closed doors. If we were required to come into the East Village, we were going to be proactive in developing an urban plan that worked well for the Padres, and determining what the ballpark was going to look like.

In addition to the design team, the Padres recruited top development and construction firms for a downtown ballpark—Hines, a top commercial real estate firm to be the development manager, and Clark Construction, which had built the Baltimore Orioles’ downtown ballpark, Camden Yards, to lead the general contracting team.

Publicly, Lucchino continued to favor for Mission Valley as the site for the new Padres’ ballpark, wanting the public and voters to feel that the East Village was the city’s plan, not the Padres’ plan. This public stance also provided leverage for future negotiations, as the Mission Valley location was something that the Padres could concede in talks with the city. In the end, the task force recommended the East Village location, which was incorporated into the MOU.

The exact location of the ballpark within the East Village was determined after the task force selected the East Village. The ballpark would be close to existing attractive locations—the Gaslamp District, with its clubs and restaurants, the convention center, and a new hotel to be constructed by Moores’ real estate firm, JMI Realty. Thus, visitors to these areas could easily come to the ballpark without crossing blocks of new development—reducing the concern that the Padres beautiful new ballpark would be “the jewel in the junkyard.” The areas to the north and east of the new ballpark would be available for redevelopment.
This location also enabled the Padres to implement a part of the San Diego Master Plan that had been on the books since 1910, but had never been built. Two great assets of San Diego, Balboa Park and the San Diego Bay, were separated by about two miles. The 1910 master plan envisioned a link between the park and the bay, with a grand promenade and a green belt. In the detailed plan for the ballpark and Ballpark District, the Padres extended a major street leading from Balboa Park, curving it around the ballpark to the Bay. At the end of this street, renamed Park Boulevard, would be a park on the waterfront. This would be the long-sought-after “Park-to-Bay Link” described in the original City of San Diego Master Plan.

**Financing the Ballpark**

The MOU was based on a budgeted ballpark cost of $411 million, including acquiring the land, environmental remediation, infrastructure development, design, and construction. This would be paid as follows: $225 million by the city, $50 million by the CCDC, and $115 million by the Padres, leaving a $21 million in funding to be secured from other sources (Exhibit 3). The ballpark construction was estimated to cost $267.5 million, with any construction cost overruns paid for by the Padres. Thus, the Padres would contribute 28 percent of the funding for the ballpark, assuming the project came in as estimated in 1998. The city would own 70 percent, with the Padres owning the remaining 30 percent. The Padres were required to occupy the ballpark until the bonds issued by the city to pay for their portion of the financing were paid off, between 22-30 years. Once the bonds were paid off, the city would fully own the ballpark.

The city would finance its portion of the ballpark by issuing tax exempt bonds. Because the bonds were to be tax exempt, the city needed a legal opinion stating that all of the legislative steps had been properly taken, and that there was no outstanding litigation that would impact the tax exempt status of the bonds. For the city, the most important financing issue was to protect its general fund. Thus, the bonds would be repaid by an increase in transient occupancy tax (TOT) receipts due to the development of new hotels in the Ballpark District. The Padres were required to build a specified number of hotel rooms, which would be the source of the city’s additional TOT revenue. If the required rooms were not built by a specified date, or if the actual TOT generated was less than the projected amount (due to rooms not being built), the city had a right to offset it annual payment for operating expenses and Moores personally guaranteed to pay to the city the amount that these rooms would have generated in TOT.

The CCDC contribution was to come from a combination of equity and real property tax increment financing, which also protected the city’s general fund. Tax increment financing was a mechanism by which increases in property taxes as the result of projects in “adopted redevelopment project areas” were paid to the local redevelopment agency. For instance,
suppose a property initially generated property tax revenue of $50,000. After redevelopment, the tax rate was unchanged but the assessed value of the property increased, and now generated property taxes of $250,000. A significant portion of the additional $200,000 would go to the redevelopment agency to finance debt used to pay for the project, or for use in future projects. It could be also be leveraged, with the agency taking on debt to be repaid through future property tax increments. Adopted redevelopment project areas were designated for redevelopment that would eliminate blight—downtown San Diego had two such designated areas. One of the problems with the proposed Mission Valley location for a new ballpark had been that many believed that this area could not qualify for redevelopment status. Thus there was a question as to whether tax increment financing would have been available for a Mission Valley project.

The Padres planned to sell bonds to cover their portion of the ballpark cost. They intended to service the ballpark bonds through increased ballpark revenues. They also hoped to generate profits on the redevelopment of the Ballpark District, but at the time of the MOU, this was something that was unproven and contained substantial risk.

**Ballpark Design**

The detailed ballpark design was not part of the MOU, but was important to voter approval of the MOU. The Padres had a bold vision to break the mold of recent ballparks, so they were hesitant to open the design details to public critique and tinkering, but did want to be able to present a clear and appealing concept to voters. Also, since the Padres carried the financial risk from any construction overruns, it was important that the Padres have control of the ballpark’s design and construction.

To design the ballpark, the Padres retained HOK Sport, one of the premier sports facility architects, as well as Antoine Predock, who did not have experience designing ballparks, but brought a unique aesthetic sense to the project. The design was intended to provide a superior fan experience, and to incorporate the distinctive beauty and feel of San Diego. Unlike new stadiums in other cities, which tended to have a similar “retro” look with brick facades, the Padres new ballpark would be coated with sandstone, reflecting the city’s ocean-side location and beaches. Approaching the ballpark from behind home plate, fans would pass by a sandstone wall with a large waterfall. There would be many planters around the ballpark, filled with a variety of plants, adding to the beauty of the facility.

The second and third decks would be steeply tiered, so that all fans, even those in the seats farthest from home plate, were relatively close to the action. All seats would be positioned so that they faced the pitcher’s mound.

One distinctive feature of the ballpark was the incorporation of the historic Western Metal Supply Company building (Exhibit 4). This old, multistory brick building sat in the area that the team selected to place the ballpark. Because the building was considered historic, the team’s options were limited as to how to deal with it. (Historic buildings are discussed in more detail below.) The team decided to use one corner of the building as the left field foul pole, which set the precise location of the field. The building would be extensively retrofitted to meet earthquake and other safety requirements, while retaining the historic appearance, both inside and out. The ground floor would house the Padres Team Store, for the sale of team merchandise. The Padres Hall of Fame Bar and Grill would be on the fourth floor. Party suites that could be
rented for individual games would be on the second and third floors, and included balconies from which fans could watch the games. There would also be bleacher seating on top of the building. The building was connected to the rest of the ballpark, so fans could walk from the left field grandstands directly into the Western Metal Supply Company building.

The Padres also wanted their new ballpark to be a place where children and families could come, even when games were not being played. Just outside the center field fence, they planned a 2.8 acre “Park at the Park,” a large grassy area that would be open to the public at no charge on non-game days. There would be a play area for children, and a miniature baseball diamond for wiffle-ball games. Immediately behind a chain link fence in center field would be a beach, a large area of sand where children could play. A few hours before game time, the Park at the Park would be cleared of people and secured. Then, families could come in to watch the game, at just $5 per person. An enormous video display screen allowed adults to watch the game if their children were playing in a part of the park where they could not see the game (Exhibit 5).

The ballpark would have wide concourses behind the stands, with many lounges and bars. Fans could come to the ballpark before the game, have a nice meal, then go to their seats to watch the game. Or, they could visit a lounge during the game, watching the game on video monitors. Access to the various concourses depended on the type of ticket purchased. Fans with the most expensive seats had access to all lounge areas. Those with less expensive tickets had less access. This would help manage traffic in each facility, and also create additional value for more expensive tickets, while retaining the ability of families to come to games at a reasonable cost.

One of the Padres’ important objectives was to enable families to enjoy a Padres game at a family-friendly price. In September 1998, the Padres announced its “SAFE” Plan, to “Save Affordable Family Entertainment.” This plan included Lawn Seating in the Park at the Park, priced at $5.00, with about 10,000 additional tickets priced from $8-$10. Moores and Lucchino reiterated commitments made in 1995, and responded to comments at public forums by saying: “First, we commit that Padres Baseball in a new ballpark will remain affordable and accessible for the families of San Diego. Second, we will work with our fans to develop innovative concessions options. Third, we will make sure we have ample parking and convenient access to the ballpark by car, bus, trolley, train, and boat.”18 When the new ballpark opened, more than 10,000 seats would be priced at less than $10.

**Redevelopment as Part of the MOU**

The MOU integrated construction of the ballpark with redevelopment of East Village—the first time that public financing of a sports facility had been integrated with, and contractually tied to redevelopment. Moores did not initially envision an integrated ballpark/redevelopment project. He was interested in a hotel that would be associated with the ballpark. He also thought there might be some other real estate opportunities in the area around the ballpark, but did not anticipate that the Padres would be required to play a redevelopment role.

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The concept of an integrated ballpark/redevelopment project evolved as the Padres and the city discussed the benefits of a new ballpark, and the opportunities for redeveloping the East Village. The Padres pointed to other cities that had benefited from development after new ballparks, such as Cleveland and Denver. As Judson recalled,

We were saying, ‘There could be hotels here, there could be new development.… The city said, ‘Well, that’s terrific. But, we are in the risk aversion business. We want to mitigate any risk of ours. So, if you think that there’s such a great opportunity there, you guys do it.’ And not only ‘You guys do it,’ but ‘You guys guarantee that you’re going to do it so we can then base our financing plan on the economic engines that you are developing.’

To redevelop the East Village, the MOU stipulated that the city would create a “Ballpark District” surrounding the ballpark (Exhibit 6). The Padres (later JMI Realty) were to be “master developers” of the Ballpark District. As part of Phase 1 of the Ballpark District redevelopment, they were required to build:

• 150-room extended stay hotel,
• 700 additional hotel rooms, with associated parking,
• Office complexes of at least 600,000 square feet, with associated parking,
• Retail development of at least 150,000 square feet,
• Additional parking of approximately 2,238 stalls.

The MOU stipulated that the developer could adjust this mix of properties to respond to changes in the market, so long as the TOT generated did not decrease from a value that the parties would agree to in February 1999.

As master developers of the Ballpark District, JMI Realty had both the responsibility to oversee the private development within the district, and the opportunity to financially benefit from the development. JMI Realty would either purchase the property itself directly from the owner, or buy the property from the city after the use of eminent domain. It could then resell the property to another developer, or develop the property itself. In either case, however, JMI Realty would be subject to the tax increase guarantees in the MOU, thus incurring an obligation and gaining a direct financial interest in promoting redevelopment.

Rent, and Distribution of Ballpark Revenue

The MOU stipulated that the Padres would pay rent to the city of $500,000 per year, to be adjusted every five years by the cumulative change in the San Diego Consumer Price Index (CPI). The Padres would manage the ballpark, and the city would pay 70 percent of ownership expenses, not to exceed $3.5 million for the first year (increasing annually according to changes in the CPI).20

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19 MOU, Section II: Definitions.
20 MOU, Sections XXII B, C, D.
The Padres received all the revenue from naming rights, concessions rights, advertising, ballpark suites, and baseball game gate receipts. The ballpark could also be used for non-baseball events, such as private receptions, corporate meetings, public concerts, and other sporting events. When this happened, revenue from tickets, parking, concessions, and merchandise sales were split between the Padres and the city. During the baseball season, 70 percent of these event revenues (after expenses) went to the Padres, with the city receiving 30 percent. The rest of the year, the city received 70 percent. The Padres operated the facility year-round, including marketing for and managing all non-baseball events.

Proposition C

The MOU was put to the voters as Proposition C on November 3, 1998. The timing was fortuitous for the Padres. They had a popular new owner, and the team had played in the World Series a month before the vote. However, voter support of publicly funded sports facilities could not be taken for granted, particularly in California, where voters had resisted such efforts in previous elections. For instance, San Francisco voters rejected initiatives in 1987 and 1989 to publicly finance a downtown ballpark for the Giants baseball team. The owner, Robert Lurie, then tried to refurbish the team’s home, Candlestick Park, with public funding, which was again rejected by voters. The team then tried to have a new ballpark built in nearby Silicon Valley, only to be rejected by voters in both Santa Clara and San Jose. In frustration, Lurie sold the team, and the new owners built a privately funded ballpark in downtown. The privately funded ballpark still needed voter approval, due to infrastructure and other support that would have to be provided by the city. This passed in March 1996, by a 2:1 margin.

Making the Case for Proposition C

The Padres presented their case aggressively, focusing on the project’s value to the community. San Diego was a great city, a major league city. Its citizens deserved a major league ballpark, which would be a great asset for the city. In addition, the project would be “more than a ballpark”—a motto that was used throughout the campaign. The project would provide recreation facilities for the community, long sought-after urban planning objectives such as the Park-to-Bay Link, and redevelopment of the last large blighted area in downtown San Diego. Redevelopment of East Village would be done using private funds, generating far more economic value to the city than the relatively small amount the city would pay to prime the redevelopment pump by subsidizing the ballpark.

There were many formal public hearings on Proposition C—perhaps as many as 60 to 70. A hardcore group of articulate and influential fans involved in businesses and civic organizations came to the hearings. Lucchino cultivated these supporters, spending time with them and making them feel like an important part of the project. They became an informal “speakers’ bureau” on behalf of the project, contributing to public acceptance. Supporters also worked...
closely with important interest groups, such as the East Village Association, property owners, and tenants, helping them to understand the importance of the project to the community.

Lucchino was the club’s public “face” in the campaign. Moores played an active role, attending all official public meetings, but Lucchino was particularly gifted at “working a room” and making presentations.

While Lucchino was the Padres primary spokesperson, other Padres personnel also presented the case. Greg Shannon, a developer hired by the Padres to do master planning of the project, estimated that he made five presentations daily, totaling about 250 during the campaign. Shannon described a day of campaign presentations:

It would start with the breakfast Rotary Club in Point Loma; then mid-morning, I’d make a presentation to a council member and his staff. Lunch would be a presentation to the Downtown Rotary. In the afternoon, I’d meet with a Chamber of Commerce group of business people, or the East Village Association, or a residents’ group. Then there would be a presentation to a group at a dinner meeting.

When presenting to the public, Padres representatives had the ability to make changes based on public comment. This was in stark contrast to the typical situation in public meetings held to present plans and solicit input. Shannon explained:

I think one very, very good thing that the Padres, Lucchino, and Judson did for me was they empowered me to make changes on the spot. The way developers typically make public presentations is pro forma. They stand up, give a presentation, the crowd gets angry, wants this, wants that. They’d say, ‘We’ll take it into consideration,’ they leave, and they never come back. Basically, what you’re telling people is that ‘your time isn’t important.’ Lucchino and Judson empowered me that if I heard a good idea brought up by the public, I could say, ‘We’ll do it.’

I’ll never forget the first time I presented to the East Village Association, which is the business association for this part of town. East Village was dying for a catalyst, dying to get something going. We presented the first plan and they were angry because they weren’t there at the inception. In their view, they should have been. They made a couple of suggestions, and I said, ‘We’ll do it.’ You could have heard a pin drop because they were so used to being ‘shined on.’

I think the other thing Lucchino and Judson were really good at was bringing people in, getting them involved early on—getting their buy-in. For the most part people will be reasonable if you tell them what you are trying to accomplish and why you are trying to accomplish it.

The Padres received support from the city’s major newspaper, as well as local television. The mayor and most city council members supported Proposition C. After all, the proposition was
the result of two task forces appointed by the mayor and council, consisting of citizens that were independent of the Padres.

**Traffic and Parking Concerns**

One of the areas of public concern was traffic—access to the ballpark, and parking for games. Qualcomm Stadium had one of the largest surface-level parking areas of any stadium in the country. The stadium was surrounded by a massive parking lot—it was remotely located, and space was readily available. However, there was only one way into the stadium and back out again, and all fans needed to take Friars Road to get to Qualcomm, with three lanes in each direction. As a result, many fans arrived early and had tailgate parties while waiting for the game—since Qualcomm was remote from other businesses, there was nothing else to do while waiting for games to start. Since tailgating had become a tradition for Padres fans, a “Tailgate Park,” consisting of a set of parking lots adjacent to the new ballpark would be built.

Most people’s perception of driving in the city was of rush-hour traffic jams. However, the vast majority of games would be played at night. There were also many roads to and from the ballpark location, including numerous major highways and an urban grid of surface streets—fans would be able to use this large number of roads to avoid congestion while driving to and from the ballpark. There would be three trolley stations within a few blocks of the ballpark, with trains going in three different directions. Finally, parking that was used for business during the day would be available for fans at night. Within a few blocks of the ballpark, there would be more than enough parking spaces to meet the need. The Padres prepared a map of the proposed ballpark and the nearby parking spaces, over which they placed a map of Qualcomm Stadium and its expansive parking lot. The farthest dedicated parking lot required for the downtown ballpark required a considerably shorter walk than was needed at Qualcomm.

**Historical Preservation**

While the East Village was a blighted area, consisting primarily of parking lots, warehouses, and outdoor storage yards, there were a number of buildings that were considered historical. The concerns of those interested in preserving these buildings would need to be addressed before the ballpark could be built. Rather than make plans which they would try to sell to (or force upon) the preservationists, the Padres brought these groups into the process at an early stage. They worked with the National Trust for Historic Places and the local Save Our Heritage organization to identify approximately 18 buildings of concern, and evaluate how each should be handled. The previously described case of the Western Metal Supply Company was one example of dealing with an historic building in a creative way that met the needs of both the Padres and those concerned with preservation of historic buildings.

Working with the preservation community enabled the Padres to gain their support, and later to implement their plans without opposition from these groups. On September 9, 1999, a comprehensive agreement was signed for the preservation of historic buildings in the Ballpark District. As part of the preservation process, an old candy factory would be relocated, at a cost of $4 million, becoming part of the Park at the Park. In exchange for renovating some of the historic buildings, seven buildings from the original list of 18 were allowed to be torn down.
The Impact of Redevelopment

The redevelopment aspect of the project was an important issue working in favor of the ballot measure. While the city would pay a major portion of the ballpark cost, almost all the rest of East Village redevelopment would be privately funded. The economic benefits of this development were anticipated to more than offset the city’s investment in the ballpark. And, the city’s financial obligation was capped—the Padres would be responsible for construction cost overruns, and would partially guarantee the increased tax revenues needed to pay for the city’s bonds.

One academic that evaluated the project was Mark Rosentraub, then a professor and associate dean of the School of Public and Environmental Affairs at Indiana University. Rosentraub had been a strong opponent of previous publicly funded sports facilities, writing a book entitled *Major League Losers* in which he discussed the “great sports welfare system” that victimized cities and paid excessive subsidies to team owners who did not invest in collateral development to help the cities. After studying the situation in San Diego, he came out strongly in support. In his report, he stated:

> While several teams have made contributions to the building of a facility, to my knowledge the redevelopment and ballpark plan proposed for San Diego is among the first of its kind. The proposed ballpark and redevelopment plan for San Diego may well be the best redevelopment plan that includes the framework for securing a competitive MLB team that a small market city could create.

> It is important to underscore that even in larger and more profitable markets for baseball, no team has committed itself to lead a redevelopment effort… Similarly, in smaller markets, there has never been a redevelopment and ballpark plan proposed on the scale of the one planned for downtown San Diego….

> The plan and proposal for San Diego is unique and one that meets the public policy objectives of virtually every city concerned with the redevelopment of its downtown area. If I lived in San Diego I would vote for Proposition C.25

The East Village area was noted for its homeless population. Many social services agencies were located near the Ballpark District, most prominently the St. Vincent DePaul Village. This community also endorsed the project. Rev. Joseph Carroll of St. Vincent DePaul stated during a television interview that:

> They should clean the whole neighborhood up. I think it’s a great thing for downtown. It’s not jobs at the ballpark, because that’s entry level jobs for most people. But the hotels are jobs. All those new businesses will be hiring people. So, as you get your skills, as you get your degrees, as you get your ability to put your life together, there’s not only ballpark jobs, there are jobs in the offices, jobs in the hotels, jobs in the grocery stores, jobs in the restaurants. Anything that

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brings jobs closer to us is really good for us, because we’ll develop relationships with all those new businesses, build relationships with companies that work out of the ballpark to hire our people, help us train them. So, we think it will enhance our program dramatically. So, we’re excited about it.26

The chair of a citizens’ organization to improve San Diego stated:

What is being proposed for this city is unprecedented in the annals of American sports. No other professional sports team has proposed to do what the Padres propose to do. The Padres are not only in the baseball business, they are going to be in the development business. And we, every one of us, will be the beneficiaries of it, whether we ever go to a game or not.27

Opposition to Proposition C
Many opponents to previous publicly funded stadium deals had argued that the public cost was not justified by the expected economic benefit. They had criticized optimistic economic projections, claiming that the jobs created by a new stadium would be low-paying, that the economic stimulus was overestimated, and that much of the supposed increased spending by fans was not actually new spending, but rather a reallocation of spending that would otherwise be used for other purchases.

These arguments were weakened in the San Diego case, because the economic justification was based on an integrated redevelopment plan that would be privately funded, rather than on economics solely related to ballpark activities.

Some opponents of Proposition C took the view that any public funding of facilities to be used by private business was wrong. There were two particularly vehement opponents to Proposition C. One was a former member of the city council, the other a prominent libertarian. Earlier, they had opposed using public money for the city’s convention center—a facility that brought large numbers of people to San Diego, providing substantial business for local hotels and restaurants.

In addition to campaigning against the ballot measure, they challenged it in court, filing a suit on August 17, 1998 to invalidate Proposition C. Three weeks later, a judge ruled the proposition legal, and it went onto the ballot. Opponents would continue to fight the ballpark even after the Proposition C vote.

On November 3, 1998, the voters made their opinion clear and unambiguous. Proposition C passed with nearly 60 percent of the vote. The Padres may have thought that the most difficult part of the process was over. Unfortunately, the real challenges had not even started.

Building the New Ballpark
The positive vote enabled the Padres and the city to begin the process of acquiring land, building the needed infrastructure, and preparing an environmental impact report. It also cleared the way

26 Proposition C Editorial, loc. cit.
27 George Mitrovich, Chair of the Committee of 2000, interviewed on Proposition C Editorial, loc. cit.
for the redevelopment that was associated with the new ballpark. Of critical importance was selling bonds to finance the city’s portion of the project.

**Litigation**

The project’s opponents were not deterred by the public vote of support. They began to file a series of lawsuits, challenging the actions of the city council in approving the project. Each step in implementing the MOU was approved by the city council in a separate vote—and each such vote became the basis of a new lawsuit, even if previous suits filed on the same grounds had been dismissed. In total, opponents filed 16 lawsuits and 6 appeals against the project, winning none. It appeared that the opponents were less interested in contesting the matter on its merits than they were in endlessly delaying the process and wearing out the project’s proponents.

One of the consequences of the continual litigation was that the city could not sell its bonds. In order to sell tax exempt bonds, the city needed a legal opinion confirming that the process had been conducted according to all applicable laws, and that there was no outstanding litigation that was relevant to this determination. Both the city and Padres had anticipated lawsuits, but the number of suits, and the use of litigation in an attempt to “run out the clock” had not been expected. They viewed the never-ending stream of repetitive lawsuits as abusive. The Padres went so far as to file their own suits against their tormentors, on the basis of abuse of process and malicious prosecution.

**Land Acquisition and Environmental Clean-up**

Land for the project was acquired in three phases. During the first phase, CCDC and the Padres acquired the land that would be used for the ballpark itself. The second phase involved three blocks to the north of the ballpark, including the land used for the Park at the Park and for the new hotel specified in the MOU. The third phase was the purchase of other parcels in the Ballpark District.

The land was acquired by the Redevelopment Agency of the City of San Diego through CCDC, either through negotiated purchase or by condemnation under the Redevelopment Agency’s power of eminent domain. Once acquired, the land for the ballpark would be sold to the city for $1. Since city funds were needed for the land acquisition (as funding was coming from the Redevelopment Agency), this process could start immediately. CCDC, acting as the agent of the City Redevelopment Agency, began buying land for the ballpark and the Ballpark District redevelopment. When owners refused to sell, the Redevelopment Agency could exercise the power of eminent domain within the redevelopment project area. Overall, for both the ballpark and Ballpark District, CCDC filed 56 eminent domain actions on behalf of the Redevelopment Agency, settling all but six before trial. Very few people lived in the redevelopment district, and there were fewer than 40 displaced residents. In the 36 city blocks used for the first phase of the project, just 23 residents were affected, all but two of whom were renters. In order to speed the redevelopment process, CCDC could ask the courts for an “order of immediate possession.” Ninety days after the order was granted, the Redevelopment Agency could take physical possession of the property.
David Allsbrook, the CCDC executive responsible for acquiring land for the project recalled that:

We had some interesting businesses to relocate, the largest being a manufacturing cold-storage facility that’s approximately where home plate is. It’s a five-story structure that’s been there for years and had about 20 feet of permafrost underneath the building. The refrigeration was done with ammonia, so it was dangerous to handle. The gentleman that I bought it from was not happy, so he left me 25,000 pounds of rotting fish that I had to deal with!

CCDC also had to address the issue of environmental contamination of the land being bought for the ballpark and Ballpark District redevelopment. This area had been used for a wide variety of activities over more than 100 years—including some polluting activities such as gas manufacturing, blacksmithing, foundry work, and storage of used batteries. In addition, it was estimated that there were more than 60 underground storage tanks in the area. There were many fuel pipes under the surface of the redevelopment area, which had contaminated much of the area with a wide range of pollutants.28

In 1990 the California Legislature passed the Polanco Redevelopment Act after the San Diego Redevelopment Agency had been threatened with liability from pollution caused by a previous gas station on land that they had acquired for redevelopment. The Polanco Act allowed redevelopment agencies to require responsible parties to clean up pollution—if the responsible parties refused to cooperate, the redevelopment agency could do the clean-up work itself and seek reimbursement of its expenses, including interest and legal fees. After the clean-up work was completed, the redevelopment agency received immunity for future liability, which could be passed on to developers.29

CCDC informed property owners of the clean-up requirement, giving them a 60-day notice as provided in the law. CCDC worked with the property owners to understand the environmental issues, creating a master plan for the entire project area. Those that wanted to work cooperatively with CCDC signed agreements as to the work to be done, and worked with CCDC during the clean-up process. For those properties in which the owner did not want to cooperate, CCDC did the clean-up, charging the owners for the cost. For those properties that were condemned under eminent domain because a purchase price could not be negotiated, CCDC deposited the appraised value of the property in an account that the property owner could access, setting aside the estimated clean-up costs in a separate escrow account. Thus, the property could be cleaned up and made available for development while the property owner contested the valuation in court. In the end, over $20 million of environmental clean-up was completed, paid primarily by the property owners. The public cost was less than $1 million.30

JMI also needed to acquire land in order to develop the Ballpark District, in particular those hotels and other projects specified in the MOU. They could do this by either purchasing the land

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30 Interview with David Allsbrook.
themselves, or by buying it from CCDC (which had acquired it either by purchase or condemnation). Early in the process, the Padres acquired a 12-acre parcel from San Diego Gas & Electric (SDG&E) at the then-high price of $39 per square foot, later selling some of the land at prices of between $150 and $250 per square foot. By 2007, this land was valued at $450 to $500 per square foot.

Land bought by JMI Realty that was needed for infrastructure use, such as streets, was exchanged with the Redevelopment Agency for equivalent property that was needed for development.

Construction Starts, and Stops, and Starts Again

With the city’s bond issue delayed due to lawsuits, and the Padres reluctant to sell bonds without assurance that the city would be able to meet its financial obligations, both parties decided to provide interim funding to start the project. Once started, the project would be more certain of completion. The interim funding to start construction initially totaled about $20 million, but this amount was only a fraction of the total expenditures, which included land acquisition, clean-up, and infrastructure development. Both the Padres and the city knew, however, that if the bond sales were continually delayed, at some point the construction would have to stop.

In order to ease concerns about the negative impact of the construction process, for both the ballpark and the associated redevelopment, a program called “Paradise in Progress” was created. This included a hotline that a resident or business owner could call to report a problem such as construction starting too early, or blocking streets. The program, still in place in 2007 for other development, helped coordinate aspects of the construction such as where trucks would be, where they would queue, dust problems, and so forth. While construction would inevitably create headaches for local residents and businesses, the city and the Padres wanted to minimize the impact as much as possible, and ensure that there was a place for people to go with complaints and concerns.

Demolition began on February 10, 2000, but the first highly visible construction event occurred on April 1, with the “Ballpark Blast,” the implosion of a former SDG&E building. This was a major media event in the town, and helped keep momentum going for the project. Lucchino strongly believed that momentum was important in major projects, and tried to use media events related to the ballpark’s progress to maintain public interest. On August 12, “Ballpark Blast II” brought down the former San Diego Refrigeration building (described earlier), the last building to be cleared within the ballpark’s footprint. The first concrete for the new ballpark had been poured the previous month.31

Ballpark opponents continued to file suits, delaying permanent funding. Eventually, construction would have to stop until bond funding was secured. There was one additional problem, though, that made it impossible to continue—allegations of corruption involving Moores and a member of the city council.

Councilmember Valerie Stallings was a baseball fan, a strong supporter of the Padres, and a friend of Moores. Allegations were made that she had accepted gifts from Moores and the Padres, leading to a state and federal criminal investigation. In light of these allegations, together with the continuing litigation and lack of permanent funding, ballpark construction was halted on October 2, 2000. By this time, the city and the Padres had already committed approximately $50 million to the project.

The project might have died during the ensuing delay. In the midst of continuing frustration over the delays, other cities approached the Padres with enticements to move the team. Moores watched as other teams, which had started later than the Padres, began playing in new ballparks. But the new mayor, Dick Murphy, was a strong advocate for the project. Construction had already started—a partially built, abandoned ballpark would be a serious impediment to further development in the area.

Lucchino also kept the pressure on to move ahead with the project. Charles Black, a prominent lawyer who worked for the Padres on the ballpark project, then briefly served as the club’s president, recalled that, “Lucchino did a very good job in constantly stoking the fans’ fires and their passion for baseball and bringing baseball downtown. It was important to him to never lose the momentum—don’t let the idea get cold. When Lucchino left [in late 2001], it was hard to keep that momentum, because he was so totally focused on it.”

The lawsuits and delays were difficult for Moores, particularly as some began to attack him personally. Black commented on the impact of the deteriorating situation on Moores, and the possibility of the team leaving San Diego, saying:

I think John’s a great civic asset. He’s active in his community, he’s active in everything that touches the community, and he’s a positive influence everywhere. I hated to see him bashed around. But you can see why a guy in that position would come to enjoy at least having the prospect of picking up and going somewhere else, and just saying ‘the hell with it.’ It wasn’t his agenda, but I think it was a legitimate alternative.

The criminal investigation ended on January 29, 2001. Among the gifts that Stallings had received were airplane tickets for her family members while she was undergoing treatment for cancer, use of a car and vacation home during her treatment and recovery, and Padres memorabilia. Stallings pled guilty to two misdemeanor state ethics violations for failure to report gifts, and for not disqualifying herself from council votes on the ballpark project. She resigned from the city council. Moores was exonerated of any wrongdoing.32

One of the consequences of these events was that all ballpark matters on which Stallings had voted were potentially tainted. To address this problem, the city council re-voted on each of those matters. This, however, led to a new wave of lawsuits, further delaying the project.

Eventually, on January 30, 2002, the San Diego Superior Court dismissed the last of the lawsuits, and two weeks later the city sold bonds to finance the project, raising $130 million. Construction resumed on February 28, 2002, after a delay of 16 months. On May 24, the Padres completed its debt financing, raising $135 million from TIAA-CREF, New York Life, and Allstate Insurance. The long delays resulted in a higher interest rate when the Padres sold their bonds. As project finance loans, the bond terms specified that they could not be prepaid—thus they could not be refinanced later at lower rates. The city used $75.5 million of equity for the project, and the Redevelopment Agency used nearly $74 million of equity.

From this point, construction proceeded in an orderly manner. PETCO Animal Supplies signed a 22-year naming rights agreement in January 2003, for a reported $60 million. Construction milestones were celebrated throughout the process, maintaining fan interest in the new park.

PETCO Park was completed in February 2004. The first event at the ballpark was held in March—the Tony Gwynn Classic, a collegiate invitational baseball tournament. The Padres played their first exhibition game at PETCO Park on April 3, 2004, two years after the ballpark’s initially scheduled opening. (See Exhibit 7 for photographs of the completed ballpark, and Exhibit 8 for a seating diagram and pricing.)

**Impact of the Two-Year Delay**

When construction shut down in October 2000, the Padres halted all construction contracts and materials purchases. One purchase that Lucchino did not stop was the order for structural steel coming from South Korea. The first shipment arrived in December 2000. While buying the steel was expensive, it turned out to be a wise move, as steel costs dramatically increased and delivery times lengthened during the construction halt.

The delay increased the cost of the ballpark from $411 million to $474 million. The differences between the original MOU cost estimates, and the actual costs were distributed among the city, CCDC, and Padres were as follows:

<table>
<thead>
<tr>
<th>Source</th>
<th>MOU $ millions</th>
<th>Actual $ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sources</td>
<td>296</td>
<td>301</td>
</tr>
<tr>
<td>Padres/Private Sources</td>
<td>115</td>
<td>173</td>
</tr>
<tr>
<td>Total</td>
<td>411</td>
<td>474</td>
</tr>
</tbody>
</table>

Thus, the cost of the delay, together with cost overruns had been contained to $63 million, or 15 percent of the original estimate. Because the Padres were obligated to pay for construction cost overruns, they absorbed nearly all of this increase. The city paid for cost overruns related to infrastructure.

34 MOU, Section V.
35 CCDC Scorecard, loc. cit., and San Diego Padres.
In addition to the increased construction costs, the Padres estimated that they had lost $52 million in ballpark and hotel revenue that would have been earned had the project been completed on schedule. Opportunity costs for ancillary development added even more to the total cost of the delay for the Padres.

**REDEVELOPING THE BALLPARK DISTRICT**

The Padres had originally planned for the Ballpark District to be developed largely with office space. Part of the rationale was related to parking—the same parking spaces could be used for office workers during the day, and for baseball fans in the evenings. However, several factors weighed against this concept. First, most new office development was being built outside the city, and few companies were trying to relocate to downtown. Second, economic conditions after the burst of the Internet bubble, and after 9/11, were not favorable for new office development.

During the 1990s, the prices of housing in San Diego suburbs had skyrocketed, and lower-priced housing in the city became more attractive. In the mid-1990s, before the idea of the Ballpark District had been conceived, the City of San Diego had tried to interest investors in building residential units downtown. CCDC put out a nationwide request for qualifications proposal for every site of 10,000 square feet or greater in the downtown Marina District. This raised awareness of San Diego as a potential development location, and had drawn particular interest among Canadian developers, some of whom had done projects in the Marina District, west of the Ballpark District. When the Ballpark District development opened up, these developers were already aware of the possibilities in San Diego, and were quick to show an interest.

In order to build a vibrant East Village, there had to be a reason for people to want to be there. The Gaslamp District redevelopment had been a success—this area was popular, especially at night. The nearby convention center was busy, primarily with out-of-town visitors. A mix of residential, office, and retail in the nearby East Village might create a sufficient critical mass of people and activity for the area to thrive.

One important factor was that the Padres got the Ballpark District zoned so that the development could be adapted to the market. Shannon explained:

> When we changed the zoning and wrote a new ‘planned district ordinance’ for the Ballpark District, we wrote it so that you could put any use in. A lot of cities do that, but San Diego doesn’t. A lot of Southern California cities are very prescriptive—‘we want retail here, we want this here, we want that there.’ By having zoning where you can literally come in and build residential, office, retail, hotel, whatever, it allows you to adjust to what the market is. These big projects take so long that you don’t know what the market is going to be like. We started out not doing any residential—we planned to do office, because of the shared parking.

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In planning the Ballpark District, the Padres’ advisors felt that people should be encouraged to be on the streets. For instance, there was a suggestion that a trolley station be located underneath the ballpark, so that passengers could go directly from the train to their seats. The approach that was implemented, however, had three trolley stations, each located two to three blocks from the ballpark. Fans would have to make a short walk to the ballpark, providing exposure and opportunities for local businesses. This would encourage them to come early and visit restaurants and bars in the Gaslamp District, or in a redeveloped East Village. Increasing the number of people on the streets would enhance the economy of the area. This proved to be so successful that few fans had tailgate parties in Tailgate Park—whereas there had been nothing for fans to do before games at Qualcomm Stadium, leading them to tailgate, at PETCO Park there were lots of attractive opportunities. As a result, a portion of Tailgate Park might be available for future development.

As master developer, JMI Realty could develop property in the Ballpark District in one of two ways. Either it could develop the property itself, investing its own capital and taking an equity share of the resulting properties (solely, or with equity partners), or after acquiring the land from the Redevelopment Agency and gaining approval for a project, it could sell the land and project rights to other developers.

The first phase of Ballpark District redevelopment included two hotels. One, the Omni, was connected to PETCO Park by a skybridge. JMI Realty built this hotel, selling a 50 percent equity stake to the hotel operator, Omni. (JMI’s original partner in the hotel project had been Westin, but that company had backed out during the construction delay.) The second, the Hotel Solamar, was also co-owned by JMI Realty and the hotel operator. Rather than develop the rest of the Ballpark District itself, JMI Realty chose to sell most of the property to other developers.

By 2007 the Ballpark District redevelopment was well under way. Twenty-eight projects had been completed, and 19 more were under construction. The area was a beehive of activity. By mid-2007, 3,040 residential units had been completed, with another 5,273 pending or in process. An additional 594 low-income residential units had been completed, with 241 more in process. 747 hotel rooms had been completed; another 430 were pending or under construction. 546,670 square feet of commercial space had been completed, with 727,000 under construction or pending. 3,000 public parking spaces had been added, with 650 more under development. Altogether, development valued at nearly $1.2 billion had been completed, and over $3.1 billion were underway or pending. Of the total $4.27 billion estimated value of these projects (completed and in process), $4 billion was private investment. Public money had been used (or planned) only for a new Main Library, public parking, and the Park-to-Bay link. Land values in the Ballpark District had increased by a factor of ten, from $40 to $400 per square foot. (See Exhibit 9 for photographs of the area in 1997 and 2007.)

The New York Times reported in 2007 that:

In the last few years…. San Diego has morphed into one of Southern California’s most desirable places for vacation homes…. it has something remarkable for that region: a thriving and traditional downtown…. Builders and real estate agents in

37 CCDC Scorecard, loc. cit.
San Diego credit the construction of PETCO Park, the new home of the San Diego Padres, with revitalizing the downtown and surrounding areas.38

The Times noted that many new condominiums in the East Village “overlook the Gaslamp Quarter, the ocean and ships in the harbor…. Prices start at $1,000 a square foot and more.”39

The CCDC chair observed that, “This project is so much more than simply a ballpark. It sparked the transformation that resulted in a thriving neighborhood, now one of the most sought-after locations to live, work, and play in San Diego.”40

Black observed:

Without the investment of the Padres and the city in rebuilding the infrastructure, it would have been hard for people to see how the area was going to grow and improve. It’s really so dramatically different today than it was in back in 1999, I just can’t tell you. The project greatly accelerated any development that might have happened, and it focused the development on the East Village area.

Moores reflected on the journey taken by the team and the public, and the benefits achieved by both:

We began the journey as a baseball team in need of a new facility. Along the way, we became the planning and implementation team for a new ballpark and a new neighborhood—a massive redevelopment project. The tireless efforts of the public and private partners rendered a beautiful ballpark surrounded by tremendous new development that has more than paid for the public's investment. Without question, this public-private partnership was the catalyst that drew billions of private investment dollars and transformed a blighted area of downtown into a thriving urban community.41

Former Mayor Dick Murphy noted the importance of the partnership between the city and the Padres in accomplishing an objective that had long proved elusive:

The city had been in search of a viable development plan for the East Village for a generation. The ballpark became the catalyst for the implementation of a bold vision of redevelopment. Although the political, legal and financial challenges were significant, the strong partnership between the San Diego Padres and the City of San Diego proved to be the foundation of success for this enormously important project.

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39 Ibid. Some felt that the $1,000 number was an overstatement for the average price, and was closer to the high end of pricing in 2007. In any case, the new condominiums were expensive—a radical change from valuations in the area prior to the redevelopment.
40 CCDC Scorecard, loc. cit.
41 E-mail communication.
CONCLUSION

The integrated ballpark/redevelopment project in San Diego was an enormous success. The Padres had an exceptional new ballpark that had become an important downtown destination. The blighted East Village had been transformed. The public investment of $300 million had helped stimulate more than $4 billion of private investment by 2007. What had previously been a cash drain for the city was now the source of substantial tax revenue.

Between 2002 and 2007, PETCO Park, and the associated redevelopment received at least 28 awards for architecture, accessibility, preservation, and other accomplishments (Exhibit 10). One, given in 2005, was the prestigious Phoenix Award, given each year to the outstanding project in each of the ten U.S. Environmental Protection Agency regions, “to honor the groups that develop significant brownfields sites across the country. [These awards] seek to recognize innovative yet practical remediation projects, which bring blighted, old commercial and industrial sites back to productive use.”

For the Padres, ballpark revenue increased substantially, as it now received money from its naming rights deal, sale of advertising, luxury suites, and concessions, and a share of non-baseball event revenue, none of which it had received at Qualcomm Stadium. Team revenues increased from slightly more than $100 million to well in excess of $150 million. However, service of the debt it had acquired to build the ballpark, and the costs of operating the ballpark, ate into this increased revenue. Moores also increased the team payroll, resulting in annual operating losses of about $3 million per year—well below the previous levels of $10-15 million. Partially offsetting this was income from development of the Ballpark District.

Overall, the project was considered a win for all involved—the city, San Diego taxpayers, and the Padres.

STUDY QUESTIONS

1. As other sports teams planned to build new facilities, what lessons could they learn from the Padres experience in San Diego?
2. What lessons could cities draw from this experience?
3. How much of the success was due to factors unique to San Diego and the East Village?
4. Discuss the risks and potential returns from the perspective of the Padres and the City of San Diego. Explain the reasons for any disparities.
5. Should the Padres take the PETCO Park model to other cities? Should they go into the facility/redevelopment business as consultants or developers?

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Exhibit 1
Downtown San Diego

Source: CCDC (reprinted with permission)
Exhibit 2
East Village in 1997

In this photo, taken in 1997, the East Village area is seen on the bottom right, approximately outlined by white lines. The Convention Center and Marina District are on the left, next to the bay.

Source: Photo by Lenska Aerial Images (reprinted with permission).
The 1998 Memorandum of Understanding provided the following financial estimates for the ballpark. Actual costs are also shown.

<table>
<thead>
<tr>
<th>Costs</th>
<th>Budget (per MOU) $ (in millions)</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ballpark</td>
<td>267.5</td>
<td></td>
</tr>
<tr>
<td>Land Acquisition and Infrastructure</td>
<td>143.5</td>
<td></td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td><strong>411.0</strong></td>
<td><strong>474</strong></td>
</tr>
</tbody>
</table>

**Funding**

<table>
<thead>
<tr>
<th>Ballpark</th>
<th>Padres/Private 81.0</th>
<th>City 186.5</th>
<th><strong>Ballpark Total 267.5</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Acquisition and Infrastructure</td>
<td>Padres/Private 34.0</td>
<td>City/CCDC 88.5</td>
<td>Other 21.0</td>
</tr>
</tbody>
</table>

**Total Funding by Source**

| Padres/Private                      | 115.0 | 173  |
| Public                              | 296.0 | 301  |

Source: Budget numbers from MOU, op. cit. Section V. Actual spending from San Diego Padres.
Exhibit 4
Western Metal Supply Building

The historic Western Metal Supply Company building, before and after incorporation into PETCO Park.

Source: San Diego Padres (reprinted with permission)
Exhibit 5
The Park at the Park

The Park at the Park during game (top).

The Beach (below, left) during a game. The Park at the Park (below, right) used for sledding in winter, and a children’s wiffle ball game before a Padres game.

Source: San Diego Padres (reprinted with permission).
Exhibit 6
Ballpark District

Drawing of Ballpark District, with planned development.

Source: San Diego Padres (reprinted with permission)
Exhibit 7
PETCO Park

PETCO Park during game. Note Western Metal Supply Company building in upper picture between 3-tiered stands and left field scoreboard.

Source: San Diego Padres (reprinted with permission).
Exhibit 7 (continued)

PETCO Park exterior in daylight (above). New development, integrating two historic buildings, surrounds the Park at the Park (below).

Source: San Diego Padres (reprinted with permission).
See following page for ticket pricing, and number of seats in each category.

Source: San Diego Padres (reprinted with permission).
Exhibit 8 (continued)

2007 Prices and Seats by Ticket Category

<table>
<thead>
<tr>
<th>Ticket Category</th>
<th>Advanced Ticket Price</th>
<th>Game Day Price</th>
<th>Premium Game Price</th>
<th>Seats in Ticket Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Park at the Park / SRO</td>
<td>$5</td>
<td>$7</td>
<td>$7</td>
<td>1,000</td>
</tr>
<tr>
<td>Bleachers</td>
<td>$8</td>
<td>$10</td>
<td>10</td>
<td>804</td>
</tr>
<tr>
<td>Upper Reserved</td>
<td>$12</td>
<td>$14</td>
<td>$15</td>
<td>5,535</td>
</tr>
<tr>
<td>Right Field Reserved</td>
<td>$12</td>
<td>$14</td>
<td>$15</td>
<td>1,421</td>
</tr>
<tr>
<td>Left Field Reserved</td>
<td>$14</td>
<td>$16</td>
<td>$17</td>
<td>1,108</td>
</tr>
<tr>
<td>Right Field Upper Box</td>
<td>$16</td>
<td>$18</td>
<td>$19</td>
<td>804</td>
</tr>
<tr>
<td>Upper Infield Reserved</td>
<td>$18</td>
<td>$20</td>
<td>$21</td>
<td>5,009</td>
</tr>
<tr>
<td>Right Field Lower Reserved</td>
<td>$18</td>
<td>$20</td>
<td>$21</td>
<td>1,940</td>
</tr>
<tr>
<td>Upper Box</td>
<td>$27</td>
<td>$30</td>
<td>$32</td>
<td>2,165</td>
</tr>
<tr>
<td>Right Field Lower Box</td>
<td>$27</td>
<td>$30</td>
<td>$32</td>
<td>416</td>
</tr>
<tr>
<td>Left Field Upper Box</td>
<td>$27</td>
<td>$30</td>
<td>$32</td>
<td>176</td>
</tr>
<tr>
<td>Left Field Lower Box</td>
<td>$27</td>
<td>$30</td>
<td>$32</td>
<td>905</td>
</tr>
<tr>
<td>Field Reserved</td>
<td>$38</td>
<td>$41</td>
<td>$45</td>
<td>6,392</td>
</tr>
<tr>
<td>Toyota Terrace Reserved</td>
<td>$45</td>
<td>$48</td>
<td>$52</td>
<td>3,104</td>
</tr>
<tr>
<td>Field Box</td>
<td>$48</td>
<td>$53</td>
<td>$55</td>
<td>7,327</td>
</tr>
<tr>
<td>Toyota Terrace Infield</td>
<td>$60</td>
<td>$60</td>
<td>$65</td>
<td>1,975</td>
</tr>
<tr>
<td>Premier Club</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>1,497</td>
</tr>
<tr>
<td>Dugout</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>301</td>
</tr>
</tbody>
</table>

Premier Club seats were sold on a season basis only, at $60 per game.

Dugout seats were sold on a season basis only, at $325 per game (including food and drink). There was a waiting list for these seats.

Source: San Diego Padres.
Exhibit 9
East Village Redevelopment

East Village in 1997 (above) and in 2007 (below).

Source: Photos by Lenska Aerial Images (reprinted with permission).
### Exhibit 10
PETCO Park Awards (through 2007)

<table>
<thead>
<tr>
<th>Year</th>
<th>Presenting Organization</th>
<th>Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Urban Land Institute</td>
<td>Award for Excellence in Development</td>
</tr>
<tr>
<td>2007</td>
<td>California Office of Historic Preservation</td>
<td>Governor's Historic Preservation Award</td>
</tr>
<tr>
<td>2007</td>
<td>BusinessWeek / Architectural Record</td>
<td>Citation Award for Excellence in Design</td>
</tr>
<tr>
<td>2006</td>
<td>City of San Diego Environmental Services</td>
<td>Director’s Recycling Award</td>
</tr>
<tr>
<td>2006</td>
<td>Orchids and Onions People’s Choice Awards</td>
<td>Orchid Award for Architecture</td>
</tr>
<tr>
<td>2006</td>
<td>California Preservation Foundation</td>
<td>Preservation Design Award</td>
</tr>
<tr>
<td>2006</td>
<td>Building Stone Institute</td>
<td>Tucker Design Award</td>
</tr>
<tr>
<td>2006</td>
<td>American Institute of Architects</td>
<td>Citation Award for Architecture</td>
</tr>
<tr>
<td>2006</td>
<td>Consulting Engineers of California</td>
<td>Honor Award for Engineering Excellence</td>
</tr>
<tr>
<td>2005</td>
<td>Urban Land Institute</td>
<td>Smart Growth Catalyst Project Award</td>
</tr>
<tr>
<td>2005</td>
<td>City of San Diego Environmental Services</td>
<td>Environmental Partner Award for Waste Reduction</td>
</tr>
<tr>
<td>2005</td>
<td>Phoenix Awards Institute</td>
<td>Phoenix Award for Brownfield Redevelopment</td>
</tr>
<tr>
<td>2005</td>
<td>American Society of Landscape Architects</td>
<td>Merit Award for Urban Design</td>
</tr>
<tr>
<td>2005</td>
<td>National Conflict Resolution Center</td>
<td>Peacemaker Award for Accessibility Collaboration</td>
</tr>
<tr>
<td>2005</td>
<td>Association of General Contractors</td>
<td>Build San Diego Award for Construction</td>
</tr>
<tr>
<td>2005</td>
<td>American Council of Engineering Companies</td>
<td>Platinum Award for Engineering Excellence</td>
</tr>
<tr>
<td>2005</td>
<td>American Public Works Association</td>
<td>Public Works Project of the Year Award</td>
</tr>
<tr>
<td>2004</td>
<td>City of San Diego Environmental Services</td>
<td>Recycler of the Year Award</td>
</tr>
<tr>
<td>2004</td>
<td>Downtown San Diego Partnership</td>
<td>Distinguished Alonzo Award for Revitalization</td>
</tr>
<tr>
<td>2004</td>
<td>American Institute of Architects</td>
<td>Merit Award for Architecture</td>
</tr>
<tr>
<td>2004</td>
<td>American Society of Civil Engineers</td>
<td>Civil Engineering Project of the Year Award</td>
</tr>
<tr>
<td>2004</td>
<td>Save Our Heritage Organization</td>
<td>Developer of the Year Award</td>
</tr>
<tr>
<td>2004</td>
<td>United Cerebral Palsy</td>
<td>Award for Excellence in Accessible Design</td>
</tr>
<tr>
<td>2004</td>
<td>Atlanta Sports Council / Horizon Awards</td>
<td>Best New Sports Facility Award</td>
</tr>
<tr>
<td>2004</td>
<td>Baseballparks.com</td>
<td>New Park of the Year Award</td>
</tr>
<tr>
<td>2002</td>
<td>American Institute of Architects</td>
<td>Award for Unbuilt Architecture</td>
</tr>
<tr>
<td>2002</td>
<td>Chicago Athenaeum</td>
<td>American Architecture Award</td>
</tr>
<tr>
<td>2002</td>
<td>California Redevelopment Association</td>
<td>Award for Excellence on Brownfield Project</td>
</tr>
</tbody>
</table>

Source: San Diego Padres.