WORLD CHAMPIONS
2001

NL WEST CHAMPIONS
1999 2001 2002
2007 2011

January 12, 2016

PRIVATE AND CONFIDENTIAL

Clint L. Hickman, Chairman
Maricopa County Board of Supervisors
Maricopa County Supervisor, District 4
301 W. Jefferson, 10th Floor
Phoenix, AZ 85003

Denny Barney
Maricopa County Board of Supervisors
Maricopa County Supervisor, District 1
301 W. Jefferson, 10th Floor
Phoenix, AZ 85003

Andy Kunasek
Maricopa County Board of Supervisors
Maricopa County Supervisor, District 3
301 W. Jefferson, 10th Floor
Phoenix, AZ 85003

Steve Chucri
Maricopa County Board of Supervisors
Maricopa County Supervisor, District 2
301 W. Jefferson, 10th Floor
Phoenix, AZ 85003

Steve Gallardo
Maricopa County Board of Supervisors
Maricopa County Supervisor, District 5
301 W. Jefferson, 10th Floor
Phoenix, AZ 85003

Re: Disengagement from the District

Dear Chairman Hickman and Board Members:

The purpose of this letter is to inform you once again of the Arizona Diamondbacks' high level of frustration and dissatisfaction with its current relationship with the Maricopa County Stadium District and to demonstrate the need for both parties to disengage.

The one aspect we can all agree upon is that the principal purpose of this entire relationship is correctly reflected in your Annual Reports, which state that the Stadium District is, and should be, "funding financial reserves for future capital needs of the stadium and capital improvements to remain a state-of-the-art facility to accommodate future world class national and international sports or championship events." In fact, since the June 30, 2005 report, that phrase, or words to that effect, has appeared in every Comprehensive Annual Financial Report for years 2005-2015.

From the 2005 Comprehensive Annual Financial Report: "... funding financial reserves for future capital needs of the stadium and capital improvements to remain a state-of-the-art

facility to accommodate future world class national and international sports or championship events."

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From the 2013 Comprehensive Annual Financial Report: "... funding financial reserves for future capital needs of the stadium and capital improvements to remain a state-of-the-art facility to accommodate future world class national and international sports or championship events."

From the 2014 Comprehensive Annual Financial Report: "... funding financial reserves for future capital needs of the stadium and capital improvements to remain a state-of-the-art facility to accommodate future world class national and international sports or championship events."

From the 2015 Comprehensive Annual Financial Report: "... funding financial reserves for future capital needs of the stadium and capital improvements to remain a state-of-the-art facility to accommodate future world class national and international sports or championship events."

As you know from the Facility Assessment Report dated December 2, 2013, a report that the District itself commissioned, maintenance and repair costs for Chase Field through the year 2027 are projected to be in excess of $187 million. This $187 million does not include most needs to upgrade the aging stadium to a "state-of-the-art facility." The District's past mismanagement and failure to adequately contribute to the stadium's maintenance and capital repair reserves have resulted in the fact that there is not enough money in existing and anticipated future reserves to pay for these documented projected expenses. In fact, as of June 30, 2015, current reserves total a mere $16 million. Furthermore, the District has made it clear that it has neither the intent, willingness nor ability to provide the shortfall. Additionally, the District has offered no suggestion or proposal to make up that shortfall. Even as early as 2009, the District commissioned a similar report evidencing over $100 million of necessary capital repairs. But the District chose to do nothing and the situation has only grown and worsened.

During the past several years, we have had discussions in a good faith attempt to explore other options that would secure the Arizona Diamondbacks' future in downtown Phoenix and that would relieve the District of its long-term inability to adequately maintain Chase Field. In response to our efforts to find a solution, the District has dragged its feet and wasted valuable time while proposing no solutions. Given all that is at stake for the Diamondbacks, its fans, the City, and the broader community, the District's response has been irresponsible. We are no closer to a realistic solution and can wait no longer. As further described in this letter, the Diamondbacks have no choice but to take appropriate action to protect its interests. We are no longer willing to be held hostage, as the District has made it clear it is not willing or not able to provide an adequate reserve to meet its obligation to provide a "state-of-the-art" facility.

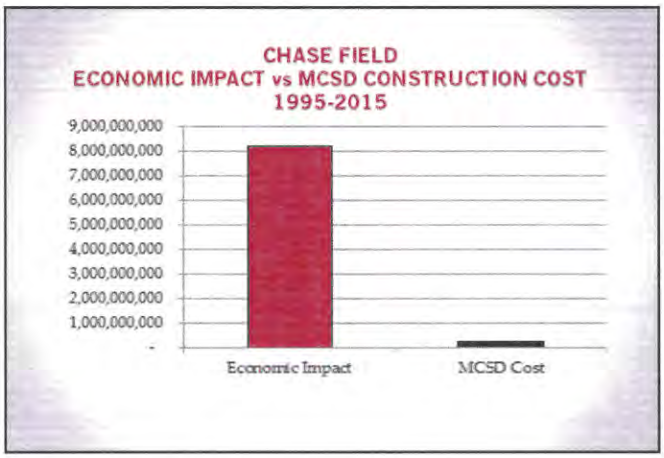
Yet our ownership group continues to invest in the facility and the team without the promise of any profits. In fact, Diamondbacks' investors have put nearly $500 million into the franchise, without receiving a single distribution. All revenues generated from annual operations have always gone back into the product on the field, the facility, the fan experience and/or the community.

A Long-Term Solution is Necessary to Preserve the Diamondbacks' Positive Impact on Arizona's Economy

Not only do you jeopardize the team itself, but the Diamondbacks' continuing ability to contribute to the Arizona economy, to continue to revitalize downtown Phoenix and to fund local charities are also at risk.

A 2015 economic and fiscal impact study performed by Arizona economist, Elliott D. Pollack and Company, documented that during its 18 seasons, the Diamondbacks have produced $8.2 billion of total economic output resulting from the construction of the stadium and the operation of our franchise. Of this, $7.5 billion has resulted from operations and $690 million from the construction of the stadium. The Diamondbacks have also generated approximately $94 million for the City of Phoenix, $76 million for Maricopa County and $187 million for the State of Arizona in direct taxes.[1]

We take great pride in the economic benefits that we have generated for the community. The $8.2 billion of total economic output is a remarkable return on the District's original $238 million investment made by county taxpayers to participate in the stadium's construction.



Source 1: Diamondbacks

The Diamondbacks have also been a key component and contributor to the vitality of Downtown Phoenix, bringing in a huge influx of visitors for each of our events. As the District described in its 2015 Annual Financial Report: "Chase Field is a cornerstone of downtown Phoenix. The building of the ballpark was one of the catalysts for revitalization of the downtown area." (p. 3). We accept our social responsibility, having contributed over $45 million to our

[1] See attached study dated December 2015.

Arizona communities through charitable donations. As community and civic leaders, we enthusiastically embrace the positive impact the Diamondbacks provide.

In order to continue this economic and charitable contribution, it is critical that we now seek outside alternatives to solve the District's current inability to adequately fund Chase Field's ongoing maintenance, repairs and improvements. It is also important for the District to recognize it has already received a remarkable return on its investment.

The District has Failed to Meet its Obligation to Fund the Repair and Maintenance Reserves Creating an Insurmountable Shortfall

From the beginning of the Arizona Diamondbacks' relationship with the District, we have both understood the need to build and maintain what you appropriately refer to in the District's 2015 Annual Financial Report as a "state-of-the-art" stadium: "The Stadium District is now focused on funding financial reserves for future capital needs of the stadium and capital improvements to remain a state-of-the-art facility..." (p. 3). A critical source of funding for those reserves was to come from revenue generated from the District marketing the stadium for non-baseball events: "Revenue generated by these events is used to make capital repairs and improvements to the ballpark and for Stadium District operations." (*Id.*) The District also admits that "all future capital repairs or improvements will be funded through charges for use of the ballpark." (*Id.*) Although the District assumed the responsibility of generating non-baseball related revenue to fund reserves, it has failed to perform, causing the maintenance and repair reserves to be hopelessly underfunded.

The District has delegated its responsibility to rent the stadium for non-baseball events ("District Events") by entering into an agreement with its Booking Manager: "The Stadium District revenues are impacted by the contracts with the Arizona Diamondbacks and Stadium District Booking Manager ...." (*Id.* at 2). The Booking Manager's level of past rental activity has not produced adequate funds for the reserves.

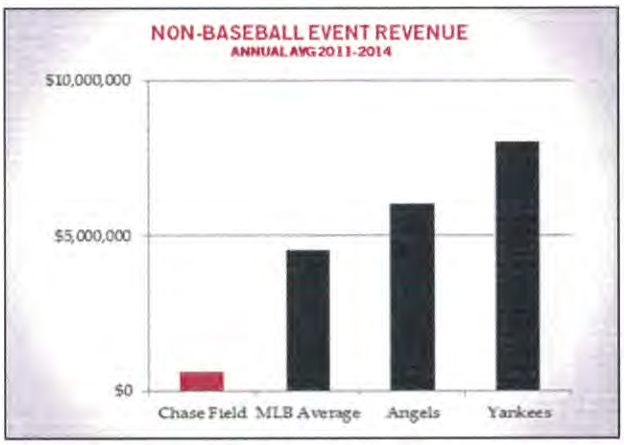
Further, the District has not produced revenue even close to what would be considered normal for a venue with a comparable opportunity for non-baseball events. Based upon the information we have gathered, over the period 1998 through June 30, 2015, the Diamondbacks have paid the District more than five times the amount the District has earned from District Events!

Diamondbacks Payments to District	Revenue From District Events
$62 million	$11 million

While other MLB facilities maximize non-baseball revenues by booking concerts and other revenue generating events, the District's Booking Manager has only booked two stand-alone concerts in the stadium in 18 years. From 2011 to 2014, baseball teams that booked their

own buildings generated revenues totaling $215 million, for an annual average of $4.5 million per team. The New York Yankees are the high mark with an average of $8 million per year during that time. But even the Los Angeles Angels, a more comparable market and region to ours, average over $6 million. Therefore, just for the years 2011 through 2014, the District has failed to capture over $22 million in non-baseball revenues, when compared to the Angels. The Phoenix Suns alone are now producing annual revenues of over $4.5 million from non-basketball events at their arena.

Exhibit 2:



Source 2: MLB

Although the Booking Manager has previously arranged for and hosted college bowl games, it lost all bowl games since 2006, before only recently scheduling a game for 2016. And, incredibly, the Booking Manager has now lost two of its long-standing, highest revenue generating events – the Motocross and Monster Truck. To our knowledge, there are no plans to replace these events. Because, according to Section 8.1 of the Activities Agreement, revenues from District Events provide a direct source of funding the maintenance and repair reserves, the District's 18-year failure to responsibly meet its obligation to rent out the stadium has been a significant cause of the reserves being dramatically underfunded.

In spite of the above, the Diamondbacks and the Booking Manager have cooperated with one another, and any amounts invoiced for use of the facility have always been paid in full.

The District's Historical Mismanagement and Overstaffing Has Diverted Funds that Would Otherwise Have Been Available to Fund the Repair and Maintenance Reserves

Despite its frequent resistance to fund important projects requested by the Diamondbacks, the District has insisted on funding unnecessary stadium projects. These unnecessary projects,

together with other questionable expenditures, poor management decisions and ill-advised contract arrangements, have further depleted the maintenance and repair reserves. For example:

- The Diamondbacks had to incur the expense of working through several warranty issues with the stadium relating to concrete, windows, dywidags, water damage and drainage and faulty roof coating. These warranty issues were the District's responsibility.

- There have been other major construction issues and land condemnation claims, and the District has yet to correct several real property record keeping issues. Even after 20 years, several parcels of land have still not yet been recorded properly because the District does not have clear title to those properties. Additional costs will be incurred in the future to update and correct those records, and those costs will come out of funds that would otherwise be available for use for maintenance and repair of the stadium.

- District projects relating to the stadium alone have cost nearly $1 million more than necessary, due to excessive bonding and procurement requirements, which are not required at other facilities such as Talking Stick Resort Arena.

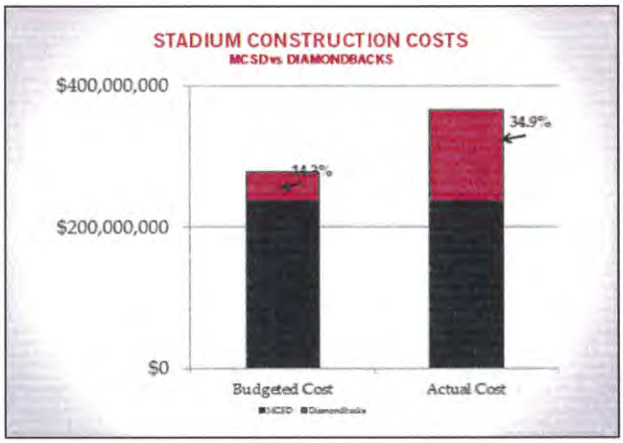
- The District office is overstaffed with unnecessary employees, resulting in annual payroll benefits and related overhead totaling over $5 million. The duties performed by District staff are often duplicative of those performed by the Diamondbacks, and could easily be absorbed by the Diamondbacks or other Maricopa County employees.

The Diamondbacks Have no Responsibility to Fund the Repair and Maintenance Shortfall and Have Already Far Exceeded Their Required Financial Contribution

When the Diamondbacks and the District undertook this venture, they did so with the understanding that the budgeted construction cost for the stadium would be less than $300 million. The agreements provided that no more than $238 million was to be paid by the District from county-wide sales tax receipts for project costs. Although the Diamondbacks agreed to pay all excess project costs, they were estimated to be no more than $40 million.

Unfortunately, the Diamondbacks' share of the stadium construction costs dramatically exceeded the anticipated budget, resulting in the Diamondbacks contributing a total of $128 million. This was $88 million more than its anticipated cost. The Diamondbacks' required financial commitment was steep to begin with and has only become progressively worse over time.

Exhibit 3:

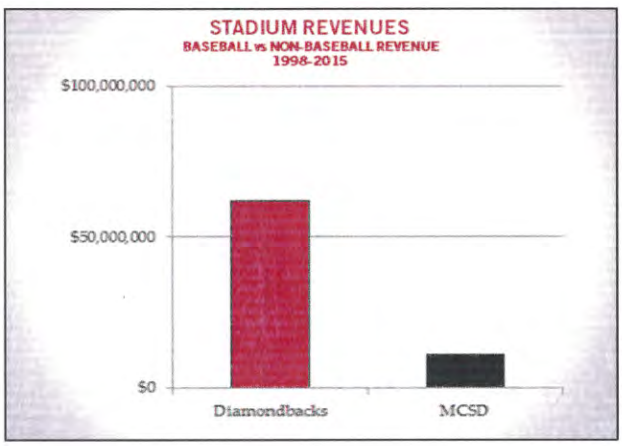


Source 3: Diamondbacks

Given this extraordinary, unplanned additional investment in the construction of the stadium, the Diamondbacks have repeatedly asked the District and County to renegotiate a more reasonable, reduced annual License Fee to help the Diamondbacks recoup some of its unanticipated $88 million investment in the stadium's construction. Despite the Diamondbacks' efforts over the years to be a good tenant, the District has refused to honor our requests for any financial accommodation.

To date, the Diamondbacks have paid over $62 million in license fees to the District for baseball-only use of the stadium. As described earlier, the District has generated a mere $11 million in license fees from its operation of the ballpark for non-baseball events.

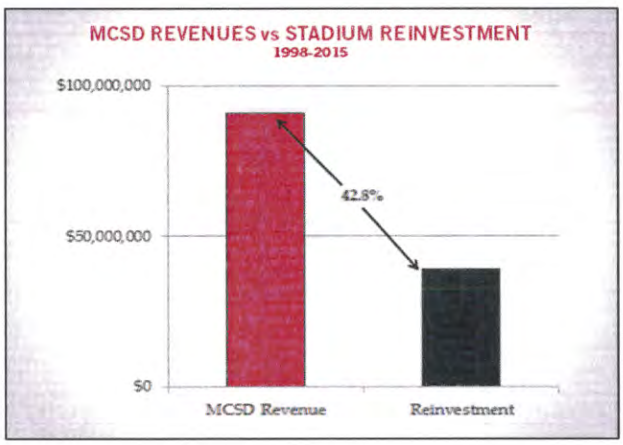
Exhibit 4:



Source 4: Diamondbacks

An additional $18 million of revenue has been generated, yet this came primarily from carry-over tax receipts and investment earnings. Unfortunately, of this nearly $91 million of revenue generated, only $39 million has been reinvested in the stadium by the District, further contributing to the underfunding of the reserves.

Exhibit 5:



Source 5: Diamondbacks

The Diamondbacks Have Repeatedly Come to the District's Aid in Meeting the District's Financial Obligations

Over the years, the Diamondbacks have acted in good faith and made every effort to be a good tenant to the District. In fact, the Diamondbacks have done far more than is required under its agreements with the District to get the stadium built and maintain it at acceptable standards. Here are just a few examples:

- At the outset, the District was unable to obtain its required $15 million District loan to cover project costs because revenues had been pledged to support Cactus League bonds. The Diamondbacks stepped in and combined the $15 million loan into our IDA bonds, and then agreed to accept payment through a credit against the License Fee rather than requiring the District to pay back the Diamondbacks in cash. Although the District ultimately paid off the loan, the Diamondbacks are still servicing the bonds at 6.85% interest through 2027, resulting in $12 million total additional cost for making this good faith effort to help the District.

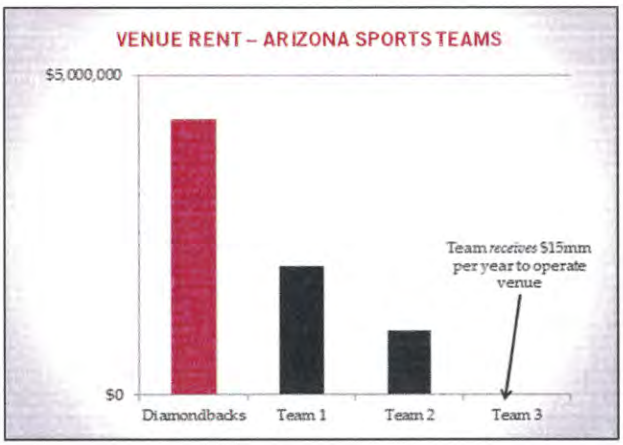
- In addition to the initial $128 million in project costs paid by the Diamondbacks to construct the stadium, to date the Diamondbacks have spent over $15 million on additional improvements not funded by the Project Reserve Accounts. In addition, when $12 million was needed for a new video board and suite renovation and funds were once again not available from the reserves, the Diamondbacks paid the costs upfront with very little District participation. These funds would ultimately be repaid, but without an interest component.

- Working with business partner Arizona Public Service, the Diamondbacks negotiated the construction of the Solar Pavilion on the Chase Field Plaza – a project for which the District took public credit without any investment. The project would have cost nearly double if it had in fact been managed by the District and its procurement process rather than including the relationships that the Diamondbacks brought to the table.

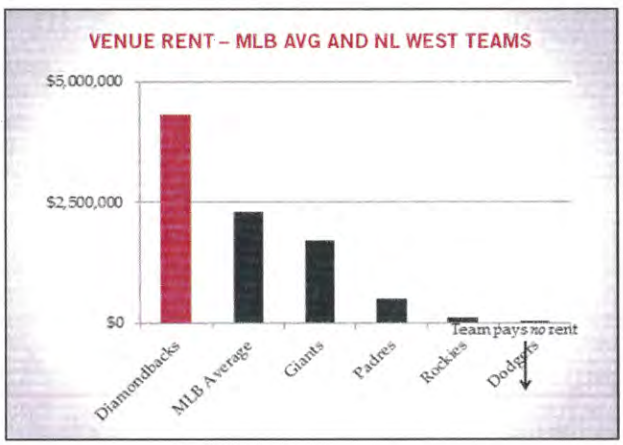
The Diamondbacks Have Paid More Rent than All Other Arizona Professional Teams Combined and More than Any Other National League West Team

Since the beginning of the term of the Diamondbacks' Facility Use Agreement, the annual License Fee paid by the Diamondbacks has risen to $4.3 million – which is significantly higher than the aggregate of all of the license fees paid by the other Arizona professional sports franchises and four times the amount of rent paid by any other National League West team in Major League Baseball.

Exhibits 6 and 7:



Source 6: Diamondbacks



Source 7: MLB

The Diamondbacks have Worked in Good Faith and at Their Expense to Resolve Past Disputes

There have been numerous other examples of the District being uncooperative and inexplicably difficult to work with over the years. Several of the disputes between the District and the Diamondbacks are identified below. The resolution of these disputes has almost always been at the Diamondbacks' expense, including the payment of attorneys' and consulting fees that could have been avoided had the District operated in good faith and in a spirit of partnership with the Diamondbacks. Disputes between the Diamondbacks and the District include:

- Marketing Fee payment disputes and renegotiation;
- Renegotiation of the calculation of attendance-based licensing payments;
- Additional charges for use of extra patio space near the Plaza Building during Diamondbacks events;
- Party suite renovation costs;
- Cost responsibility for the Heat Exchanger (the District made a deal with Northwind and receives additional revenue, but has not contributed to pay for this improvement); and
- Legends Entertainment District (although the Diamondbacks have all advertising rights at the stadium, the District attempted to interfere with the Diamondbacks' ability to place advertising on the stadium in connection with the Diamondbacks' interest in the Legend's Entertainment District).

Even if Funds Were Available, it Would Make no Economic Sense to Invest Close to $200 Million in Chase Field

Even if the District had been able to identify adequate financial resources to fund the $187 million anticipated maintenance and repair costs, it would make no economic sense to make that investment in what would then be a 30-year-old facility. This should not rule out the possibility of retrofitting Chase Field if it is determined to be the best option. However, the $187 million would cover only basic maintenance and repair costs. It would do very little to upgrade the stadium to a "state-of-the-art facility" – it would merely enable an aging building to remain open.

Admitting no other source of funding, the District would need the Diamondbacks to pay for the admitted shortage in the Facility Reserve Accounts. But the Diamondbacks have no obligation under the Facility Management Agreement ("FMA") to fund capital repairs in the absence of adequate reserves. On the other hand, the District does have an obligation to provide a state-of-the-art facility that is safe to all fans. The FMA does not address how to fund what can only be described as a massive reserve short fall. (*See* FMA § 17.2.2).

Chase Field will soon be the fourth oldest stadium in the National League behind only Wrigley Field, Dodger Stadium and Coors Field. (*See* Exhibit 8). Furthermore, the Dodgers have already committed over $300 million in renovations and maintenance, while the Cubs are spending over $500 million to retrofit its ballpark. They have only chosen (at great expense) to remain in their current locations because these are two iconic stadiums with immense history and landmark status. The Atlanta Braves recently took the most economically efficient and

responsible approach by deciding to leave Turner Field and construct a new stadium and business district that will become an economic driver for the City of Atlanta. Turner Field opened just two years before Chase Field, yet the Braves and its governmental partners made the wise decision of not throwing good money after an aging and outdated facility.

Exhibit 8:

NL TEAMS – YEAR STADIUM OPENED

1.	Wrigley Field – Chicago Cubs	1914
2.	Dodger Stadium – Los Angeles Dodgers	1962
3.	Coors Field – Colorado Rockies	1995
4.	Turner Field – Atlanta Braves	1997 (Closing 2017)
5.	Chase Field – Arizona Diamondbacks	1998
6.	AT&T Park – San Francisco Giants	2000
7.	Miller Park – Milwaukee Brewers	2001
8.	PNC Park – Pittsburgh Pirates	2001
9.	Great American Ballpark – Cincinnati Reds	2003
10.	Citizens Bank Park – Philadelphia Phillies	2004
11.	Petco Park – San Diego Padres	2004
12.	Busch Stadium – St. Louis Cardinals	2006
13.	Nationals Park – Washington Nationals	2008
14.	Citi Field – New York Mets	2009
15.	Marlins Park – Miami Marlins	2012

Source: MLB

Conclusion

Both the District and the Diamondbacks clearly understand there is no source of available funding to bridge the massive gap between available and anticipated future reserves and the $187 million that would be needed over what was hoped to be the remaining 12-year life of the stadium lease. The District's assessments in its Annual Financial Reports repeatedly state "all future capital repairs or improvements will be funded through charges for use of the ballpark." That is completely unrealistic particularly given the District's failure to meet its obligation to generate rental revenues. Even if those funds were available, it makes no economic sense to invest them in what will be a 30-year-old facility that is far from being "state-of-the-art."

Throughout the Diamondbacks' relationship with the District, the team has exceeded its required financial commitment and has worked diligently to generate a significant return for the county taxpayers who helped build the stadium.

In order to protect the Diamondbacks' franchise value and ability to contribute to the community, the team must now pursue other stadium options and work expeditiously towards concluding its relationship with the District in an orderly manner.

The Diamondbacks have no obligation under the Facility Management Agreement to fund any part of the $187 million. What is also crystal clear and has been represented in virtually all of the Comprehensive Annual Financial Reports is the District's responsibility to provide the Diamondbacks a "state-of-the-art facility." Equally clear is that the District has no intent to cover the $187 million to provide basic repairs and maintenance of the ballpark for our fans and the community. As previously stated, even that level of investment would leave the stadium far short from being considered "state-of-the-art."

As a result of the District's repeated and ubiquitous failures to act in good faith to try to deal with this problem on a forward-looking basis, we have concluded that our obligation to our constituencies including, but not limited to, the Arizona community, the Phoenix community, the taxpayers, fans and ourselves, is to pursue alternatives. As you know, it takes a long time to acquire, organize, and plan for such a new facility. We have worked long and hard to avoid this situation. There has been little to no cooperation in a constructive manner. As a landlord, the District's obligation has been and is to provide us with a state-of-the-art facility. That has not happened, and at this point, it cannot happen. We are not prepared, nor are we willing (or obligated), to expend $187 million, or any monies, to solve the deficiencies the District acknowledges exist.

So there is no misunderstanding, we would very much like to remain in downtown Phoenix. However, if the District makes that impossible, the principals of the Diamondbacks will look elsewhere. As is well known, one of those principals of the Diamondbacks in particular, our Managing General Partner, has major investments in downtown Phoenix. They all wish to preserve those relationships and the investments they have made and would like to continue making. They unanimously believe that it is in the best interests of the community to stay in downtown Phoenix, but if there is no other choice, we will go elsewhere.

Because of the District's breaches and the frustration of purpose as described in this letter, the Diamondbacks do not believe that the Team continues to be bound by the requirements of FUA Section 11.2.1.2. However, to avoid any dispute, we request that you give us written permission, to look elsewhere for alternative locations to house the Diamondbacks and play its baseball games, should we determine a retrofit of Chase Field is not feasible. If permission is not granted, we will ask the Court for all appropriate relief.

The Diamondbacks understand our significance as a key component and contributor of Downtown Phoenix, as we bring a huge influx of visitors here for each of our events. And we accept our social responsibility, as we have contributed over $45 million in charitable

contributions alone into our Arizona communities. We also enthusiastically embrace the impact that we provide as community and civic leaders.

With our fans and corporate partners in mind, the end goal has always been, and will always be, providing the best fan experience in a world-class facility that is always "state-of-the-art," as outlined in our agreement and the Annual Reports. This is entirely consistent with our top priority of being the most fan-friendly team in sports. We are hopeful that the District will also keep the fans in mind at this time and work with us for the betterment of our community.

Very truly yours,

ARIZONA DIAMONDBACKS

By: _____

Derrick M. Hall, President and CEO
Arizona Diamondbacks