



City of Santa Clara

Meeting Agenda

Audit Committee

Tuesday, September 10, 2019

3:30 PM

City Manager's Office (CMO)
Conference Room
1500 Warburton Avenue
Santa Clara, CA 95050

CALL TO ORDER AND ROLL CALL

CONSENT CALENDAR

1. 19-869 [Audit Committee Minutes](#)

Recommendation: Approve the Audit Committee minutes of February 25, 2019.

PUBLIC PRESENTATIONS

GENERAL BUSINESS

2. 19-870 [Overview of Santa Clara Stadium Authority Fiscal Year 2018/19 Annual Financial Statements and Audit Results Presentation by KPMG, LLP](#)

Recommendation: Accept the Santa Clara Stadium Authority Fiscal Year 2018/19 Annual Financial Statements and recommend that the Stadium Authority note and file the report at the September 17, 2019 Joint Council and Authorities Concurrent and Stadium Authority meeting.

3. 19-1033 [Information Report on the Status of Harvey M. Rose Associates Audit Recommendations](#)

Recommendation: Note and file an update on the status of the Harvey M. Rose Associates Audit Recommendations.

STAFF REPORT

COMMITTEE REPORT

ADJOURNMENT

Future Audit Committee Meetings will be scheduled at a future date.



City of Santa Clara

1500 Warburton Avenue
Santa Clara, CA 95050
santaclaraca.gov
@SantaClaraCity

Agenda Report

19-869

Agenda Date: 9/10/2019

SUBJECT

Audit Committee Minutes

RECOMMENDATION

Approve the Audit Committee minutes of February 25, 2019.



City of Santa Clara

Meeting Minutes

Audit Committee

02/25/2019

3:30 PM

CMO Staff Conference Room
1500 Warburton Avenue
Santa Clara, CA 95050

CALL TO ORDER AND ROLL CALL

Chairperson Gillmor called the meeting to order at 3:30 p.m.

Present 3 - Lisa M. Gillmor, Kathy Watanabe, and Patricia M. Mahan

CONSENT CALENDAR

1.A [19-203](#) Audit Committee Minutes

Recommendation: Approve the Audit Committee minutes of December 3, 2018.

A motion was made by Committee Member Watanabe, seconded by Committee Member Gillmor to approve staff recommendation.

Committee Member Mahan abstained as she did not attend the meeting.

Aye: 2 - Gillmor, and Watanabe

Abstained: 1 - Mahan

PUBLIC PRESENTATIONS

None.

GENERAL BUSINESS

2. [19-202](#) Overview of the Draft Single Audit Report for Fiscal Year Ended June 30, 2018

Recommendation: Accept the Single Audit Report for Fiscal Year Ended June 30, 2018 and recommend that the reports are forwarded for note and file to the full Council at the March 26, 2019 Council and Authorities Concurrent meeting.

A motion was made by Committee Member Mahan, seconded by Committee Member Watanabe, to approve staff recommendation.

Aye: 3 - Gillmor, Watanabe, and Mahan

STAFF REPORT

COMMITTEE REPORT

ADJOURNMENT

Chairperson Gillmor adjourned the meeting at 3:48 p.m.

Future Audit Committee Meetings will be scheduled at a future date.



Agenda Report

19-870

Agenda Date: 9/10/2019

REPORT TO AUDIT COMMITTEE

SUBJECT

Overview of Santa Clara Stadium Authority Fiscal Year 2018/19 Annual Financial Statements and Audit Results Presentation by KPMG, LLP

BACKGROUND

The Santa Clara Stadium Authority (Stadium Authority), the Stadium Funding Trust, and Goldman Sachs Bank USA entered into a Credit Agreement on June 19, 2013. Section 5.1(a) of the Credit Agreement requires that the Stadium Authority Annual Financial Statements be audited by independent certified public accountants within 180 days after the end of each fiscal year. On June 11, 2019 the Stadium Authority entered into a professional services agreement with KPMG, LLP (KPMG) to perform the annual financial audit of the Stadium Authority's Fiscal Year 2018/19 Annual Financial Statements.

The Annual Financial Statements include: (1) the Independent Auditors' Report which describes the auditors' responsibility and their opinion of the Financial Statements, (2) Management's Discussion and Analysis which provides an overall review of the Stadium Authority's financial activities, (3) the Basic Financial Statements, and (4) the Notes to the Financial Statements which have additional information pertaining to the Stadium Authority's operations and financial position.

The Financial Statements being discussed with this report cover the Stadium Authority's 2018/19 fiscal year, which runs from April 1, 2018 to March 31, 2019.

DISCUSSION

The role of the audit committee is to provide oversight of the Stadium Authority's financial reporting processes, internal controls and independent auditors. KPMG will present the Stadium Authority audit results to the audit committee to provide a brief overview of the audit. This includes their audit report, financial statement disclosures, internal control related matters and other items.

Stadium Authority staff will be providing an overview of the Stadium Authority Fiscal Year 2018/19 Annual Financial Statements including year-over-year comparison of the Stadium Authority financial position.

Lisa Avis, Managing Director, Audit and Jave Balajadia, Manager, Audit, will be presenting the Stadium Authority Audit Results.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environment Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(a)(4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a

potential significant impact on the environment.

FISCAL IMPACT

Costs associated with the preparation of this report are included in the Stadium Authority Operating Budget.

PUBLIC CONTACT

Public contact was made by posting the Audit Committee agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov or at the public information desk at any City of Santa Clara public library.

RECOMMENDATION

Accept the Santa Clara Stadium Authority Fiscal Year 2018/19 Annual Financial Statements and recommend that the Stadium Authority note and file the report at the September 17, 2019 Joint Council and Authorities Concurrent and Stadium Authority meeting.

Reviewed by: Kenn Lee, Director of Finance/Treasurer for Stadium Authority

Approved by: Deanna J. Santana, City Manager/Executive Director for Stadium Authority

ATTACHMENTS

1. FY 2018/19 Santa Clara Stadium Authority Financial Statements Draft

SANTA CLARA STADIUM AUTHORITY

(a Component Unit of the City of Santa Clara, California)

Financial Statements

March 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)

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DRAFT

Independent Auditors' Report

The Board of Directors
Santa Clara Stadium Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Clara Stadium Authority, a component unit of the City of Santa Clara, California (the Stadium Authority), as of and for the years ended March 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Stadium Authority's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stadium Authority as of March 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2 to the financial statements, the financial statements present only the Santa Clara Stadium Authority and do not purport to and do not present fairly the financial position of the City of Santa Clara, California as of March 31, 2019 and 2018, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this manner.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management’s discussion and analysis on pages 3–7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated _____, _____ on our consideration of the Stadium Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Stadium Authority’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Stadium Authority’s internal control over financial reporting and compliance.

[(signed) KPMG LLP]

San Francisco, California
Date

SANTA CLARA STADIUM AUTHORITY

(a Component Unit of the City of Santa Clara, California)

Management's Discussion and Analysis (Unaudited)

March 31, 2019 and 2018

The management's discussion and analysis of the Santa Clara Stadium Authority (Stadium Authority) provides an overall review of the Stadium Authority's financial activities for the fiscal years ended March 31, 2019 and 2018. The intent of this discussion and analysis is to look at the Stadium Authority's financial performance as a whole. Readers should review the discussion and analysis in conjunction with the basic financial statements, including the notes to the basic financial statements to enhance their understanding of the Stadium Authority's financial performance.

The Stadium Authority has elected to provide comparative financial statements to better assist the reader. The Stadium Authority's fiscal year runs from April 1 through March 31 to conform to the fiscal year of the Stadium Funding Trust (FinanceCo). The Stadium Authority is a Component Unit of the City of Santa Clara (City) whose fiscal year is July 1 through June 30.

The Stadium Authority exists as a public body, separate and distinct from the City. It was established to provide for development and operation of Levi's Stadium.

Financial Highlights

Key financial highlights for the fiscal year ended March 31, 2019 are as follows:

- The carrying value of Levi's Stadium at March 31, 2019, net of depreciation, is \$749,213,592.
- During the fiscal year, there were 10 National Football League (NFL) games, 12 ticketed non-NFL events, and 100 smaller special events held at Levi's Stadium. The Stadium Authority recognized \$106,489,643 in operating revenue and \$85,090,624 in operating expenses.
- Revenue from the non-NFL events totaled \$50,856,562 and the related expenses were \$50,837,971 resulting in net non-NFL event revenue of \$18,591.
- Debt service payments during the fiscal year totaled \$61,252,481. Overall remaining outstanding debt was reduced by \$42,444,397.
- The assets of the Stadium Authority exceeded its liabilities by \$60,142,288 due to income from the operation of Levi's Stadium.
- The City of Santa Clara (City) received \$320,000 for stadium ground rent, \$227,933 for senior and youth fees, and \$23,645 for parking fees at the Tasman lots, most of which came from the Stadium Authority. Additionally, the City is fully reimbursed for all of its administration and public safety costs by either the Stadium Authority for non-NFL events or Forty Niners SC Stadium Company LLC (StadCo) for NFL events.

Overview of the Financial Statements

This annual report consists of a series of financial statements and the notes to those statements. These statements are organized so the reader can understand the Stadium Authority as a financial whole. The basic financial statements provide both a short-term and long-term view of the Stadium Authority's financial activities and financial position.

SANTA CLARA STADIUM AUTHORITY

(a Component Unit of the City of Santa Clara, California)

Management's Discussion and Analysis (Unaudited)

March 31, 2019 and 2018

The basic financial statements are comprised of the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, the Statements of Cash Flows, and the notes to the financial statements. The Statements of Net Position provide information about the financial position of the Stadium Authority as a whole, including all of its long-term liabilities on the full accrual basis. The Statements of Revenues, Expenses, and Changes in Net Position provide information about all revenue and expenses. The Statements of Cash Flows provides information about cash activities for the period.

Financial Analysis of the Stadium Authority as a Whole

The Stadium Authority's net position at March 31, 2019, March 31, 2018, and March 31, 2017 is as follows:

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2019 increase (decrease)</u>	<u>FY 2018 increase (decrease)</u>
Assets:					
Capital assets	\$ 750,710,634	766,171,940	781,935,288	(15,461,306)	(15,763,348)
Other assets	77,378,199	80,793,577	87,718,800	(3,415,378)	(6,925,223)
Total assets	<u>\$ 828,088,833</u>	<u>846,965,517</u>	<u>869,654,088</u>	<u>(18,876,684)</u>	<u>(22,688,571)</u>
Liabilities:					
Current unearned revenue	\$ 13,583,615	12,757,656	12,056,112	825,959	701,544
Other current liabilities	25,222,836	26,689,430	15,033,436	(1,466,594)	11,655,994
Long-term unearned revenue	400,819,874	393,727,571	380,886,790	7,092,303	12,840,781
Other long-term liabilities	328,320,220	370,966,621	429,735,955	(42,646,401)	(58,769,334)
Total liabilities	<u>\$ 767,946,545</u>	<u>804,141,278</u>	<u>837,712,293</u>	<u>(36,194,733)</u>	<u>(33,571,015)</u>
Net position:					
Net investment in capital assets	\$ 415,272,986	387,976,702	356,628,352	27,296,284	31,348,350
Restricted for:					
Debt service	19,884,752	24,565,822	34,761,050	(4,681,070)	(10,195,228)
Capital projects and other agreements	32,525,642	29,167,798	27,217,329	3,357,844	1,950,469
Unrestricted deficit	<u>(407,541,092)</u>	<u>(398,886,083)</u>	<u>(386,664,936)</u>	<u>(8,655,009)</u>	<u>(12,221,147)</u>
Total net position	<u>\$ 60,142,288</u>	<u>42,824,239</u>	<u>31,941,795</u>	<u>17,318,049</u>	<u>10,882,444</u>

SANTA CLARA STADIUM AUTHORITY

(a Component Unit of the City of Santa Clara, California)

Management's Discussion and Analysis (Unaudited)

March 31, 2019 and 2018

Fiscal Year 2018-19 Analysis

Capital assets decreased when compared to the prior year by \$15,461,306 due to annual depreciation, offset by a small amount of current period construction activity. Other assets also decreased when compared to the prior year by \$3,415,378. This was due mainly to the net effect of decreases in cash that was used for debt service and decrease in Non-NFL event net receivable, offset by an increase in accounts receivable associated with naming rights payments. Liabilities decreased by \$36,194,733 mainly due to principal prepayment of long-term debt, partly offset by an increase in unearned Stadium Builder License (SBL) revenue due to collection of SBL principal that is amortized over the life of the SBL. Other current liabilities decreased by \$1,466,594 primarily due to a decrease in accounts payable and accrued liabilities. Total net position for the Stadium Authority, as a whole, increased between March 31, 2018 and March 31, 2019 to \$60,142,288. This increase of \$17,318,049 is primarily due to a decrease in total liabilities.

Fiscal Year 2017-18 Analysis

Capital assets decreased when compared to the prior year by \$15,763,348 due to annual depreciation, offset by a small amount of current period construction activity. Other assets also decreased when compared to the prior year by \$6,925,223. This was due mainly to the net effect of a decrease in cash that was used for debt service and an increase in accounts receivable associated with naming rights payments. Liabilities decreased by \$33,571,015 mainly due to principal prepayment of long-term debt, partly offset by an increase in unearned Stadium Builder License (SBL) revenue due to collection of SBL principal that is amortized over the life of the SBL. Other current liabilities increased by \$11,655,994 primarily due to the transfer long-term debt from noncurrent to current liabilities to reflect the principal amounts due within one year. Total net position for the Stadium Authority, as a whole, increased between March 31, 2017 and March 31, 2018 to \$42,824,239. This increase of \$10,882,444 is primarily due to a decrease in total liabilities.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2019 and 2018

The Stadium Authority's revenues, expenses, and changes in net position for the fiscal years ended March 31, 2019, March 31, 2018, and March 31, 2017 are as follows:

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2019 increase (decrease)</u>	<u>FY 2018 increase (decrease)</u>
Operating revenues	\$ 106,489,643	108,494,543	106,586,018	(2,004,900)	1,908,525
Operating expenses	(85,090,624)	(90,111,222)	(83,217,271)	5,020,598	(6,893,951)
Operating income	21,399,019	18,383,321	23,368,747	3,015,698	(4,985,426)
Nonoperating revenues	10,947,234	10,053,014	8,870,702	894,220	1,182,312
Nonoperating expenses	(18,808,084)	(21,098,455)	(22,375,436)	2,290,371	1,276,981
Income before contributions and other revenues	13,538,169	7,337,880	9,864,013	6,200,289	(2,526,133)
Contributions and other revenues	3,779,880	3,544,564	3,473,113	235,316	71,451
Increase in net position	17,318,049	10,882,444	13,337,126	6,435,605	(2,454,682)
Total net position – beginning of fiscal period	42,824,239	31,941,795	18,604,669	10,882,444	13,337,126
Total net position – end of fiscal period	\$ 60,142,288	42,824,239	31,941,795	17,318,049	10,882,444

Fiscal Year 2018-19 Analysis

Stadium Authority operating revenues decreased when compared with the prior year by \$2,004,900. This was mainly due to a decrease in Non-NFL events revenue, offset by an increase in stadium lease revenue. Operating expenses decreased by \$5,020,598 primarily due to a decrease in performance based rent expense and a decrease in credit card fees on Stadium Builders License collections due to a \$1.8 million true-up adjustment in fiscal year 2017-18. These decreases in operating expenses were offset by increases in Non-NFL event expenses.

Nonoperating revenues increased by \$894,220 due to an overall rise in interest rates over the past year resulting in an increase in bank interest revenue offset by lower SBL interest revenue associated with new SBL holders paying additional principal on their SBL financing agreements. Nonoperating expenses decreased by \$2,290,371. Significant prepayments were made on the Community Facilities District (CFD) Advance Loan and the StadCo Subordinated Loan in the current year resulting in lower interest expense.

Contributions and other revenues were \$3,779,880, an increase of \$235,316 over the prior fiscal year. These represent special hotel tax revenues collected to pay the CFD Advance Loan.

SANTA CLARA STADIUM AUTHORITY

(a Component Unit of the City of Santa Clara, California)

Management's Discussion and Analysis (Unaudited)

March 31, 2019 and 2018

Fiscal Year 2017-18 Analysis

Stadium Authority operating revenues increased when compared with the prior year by \$1,908,525. This was mainly due to an increase in non-NFL events revenue, offset by a decrease in NFL and non-NFL event ticket surcharge. Operating expenses increased by \$6,893,951 primarily due to increases in non-NFL event expenses, SBL sales and service expenses, Stadium Authority general and administrative expenses, and other services and supplies. These increases to operating expenses were offset by decreases in discretionary expenses and utilities.

Nonoperating revenues increased by \$1,182,312 resulting from higher SBL interest revenue associated with new SBL holders financing their SBLs. Additionally, the overall rise in interest rates over the past year resulted in an increase in bank interest revenue. Significant prepayments were made on the Community Facilities District (CFD) Advance Loan and the StadCo Subordinated Loan in both the current and the prior years resulting in lower interest expense. This is the reason that nonoperating expenses decreased by \$1,276,981.

Contributions and other revenues were \$3,544,564, an increase of \$71,451 over the prior fiscal year. These represent special hotel tax revenues collected to pay the CFD Advance Loan.

Capital Assets

The capital assets of the Stadium Authority are those which are used in the performance of the Stadium Authority's functions, including but not limited to infrastructure-related assets. These assets do not include StadCo's tenant improvements. At March 31, 2019, capital assets totaled \$750,710,634.

Further detail may be found in note 4 to the financial statements.

SANTA CLARA STADIUM AUTHORITY

(a Component Unit of the City of Santa Clara, California)

Management's Discussion and Analysis (Unaudited)

March 31, 2019 and 2018

Debt Administration

At March 31, 2019, the Stadium Authority had total debt outstanding of \$340,217,223, as shown in detail in note 5 to the financial statements. Stadium Authority's debt was comprised of Stadium Funding Trust Term A loan of \$270,266,412, the CFD Advance Loan of \$30,925,978, and the StadCo Subordinated Loan of \$39,024,833.

Economic and Financial Overview

Over the last few years, Silicon Valley has seen job growth that has outpaced the rest of the state. This growth has led to rising home prices and a significant increase in commercial and residential development, including several projects in the vicinity of Levi's Stadium. Major financial factors impacting the Stadium Authority are:

- In May 2013, a Naming Rights Agreement with Levi Strauss & Co. (Levi's) was approved. The name of the Stadium is "Levi's Stadium". The naming rights agreement calls for Levi's to pay a total of \$154.2 million to the Stadium Authority over a 20-year period. As of March 31, 2019, the Stadium Authority has received \$33.8 million in naming rights revenue.
- SBLs entitle the license holder to priority rights to buy tickets for events at Levi's Stadium. The total value of the currently active SBL holders' licenses is \$532.4 million. Through March 31, 2019, \$455 million in SBL principal payments have been collected. This is due in part to a number of SBL holders paying off or prepaying a large portion of their SBL, and defaulted SBLs being resold at full price. In addition to SBL collections, the Stadium Authority has collected over \$52 million in interest from license holders who financed their SBLs.
- The Stadium Authority generated \$25.8 million in lease revenue during the NFL season and \$18 thousand net revenue associated with hosting non-NFL events for the fiscal year ended March 31, 2019.
- The Stadium Authority collected a 10% surcharge on the price of admission to all NFL games, which totaled \$8.1 million. Also recognized during the fiscal year was \$1.6 million in non-NFL event ticket surcharge, which is calculated based on a \$4 per ticket surcharge for all ticketed non-NFL events.

Contacting the Stadium Authority's Financial Management

This financial report is designed to provide our residents, taxpayers, investors, and creditors with a general overview of the Stadium Authority's finances and to demonstrate the Stadium Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City of Santa Clara Finance Department at 1500 Warburton Avenue, Santa Clara, CA 95050-3796.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)

Statements of Net Position - ***DRAFT***

March 31, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash	\$ 4,608,637	4,371,116
Restricted cash	25,796,929	23,872,996
Restricted cash with fiscal agent	26,613,465	29,891,710
Accounts receivable	8,822,933	11,121,520
Total current assets	<u>65,841,964</u>	<u>69,257,342</u>
Capital assets:		
Buildings, net	749,213,592	764,834,447
Machinery and Equipment, net	1,095,312	1,085,694
Construction in progress	401,730	251,799
Total capital assets	<u>750,710,634</u>	<u>766,171,940</u>
Long-term restricted cash with fiscal agent	11,536,235	11,536,235
Total noncurrent assets	<u>762,246,869</u>	<u>777,708,175</u>
Total assets	<u>\$ 828,088,833</u>	<u>846,965,517</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,135,136	3,172,740
Interest payable	6,756,660	7,069,853
Due to other City of Santa Clara funds	75,490	52,335
Deferred rent, current portion	355,000	320,000
Term A loan payable, current portion	12,718,000	12,110,000
Subordinated loan payable, current portion	4,182,550	3,964,502
Unearned revenue, current portion	13,583,615	12,757,656
Total current liabilities	<u>38,806,451</u>	<u>39,447,086</u>
Deferred rent	5,003,547	4,379,503
Term A loan payable	257,548,412	270,684,108
CFD advance loan payable	30,925,978	32,834,885
Subordinated loan payable	34,842,283	63,068,125
Unearned revenue	400,819,874	393,727,571
Total noncurrent liabilities	<u>729,140,094</u>	<u>764,694,192</u>
Total liabilities	<u>\$ 767,946,545</u>	<u>804,141,278</u>
Net Position		
Net investment in capital assets	\$ 415,272,986	387,976,702
Restricted for:		
Debt service	19,884,752	24,565,822
Capital projects and other agreements	32,525,642	29,167,798
Unrestricted deficit	(407,541,092)	(398,886,083)
Total net position	<u>\$ 60,142,288</u>	<u>42,824,239</u>

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)

Statement of Revenues, Expenses, and Changes in Net Position - ***DRAFT***

Years ended March 31, 2019 and 2018

	2019	2018
Operating revenues:		
Charges for services	\$ 61,227,249	65,283,221
Rents and licensing	45,262,394	43,211,322
	106,489,643	108,494,543
Operating expenses:		
Leases	1,206,977	3,643,324
Materials, services and supplies	66,512,210	69,288,741
Selling, general, and administrative expenses	667,903	541,575
Depreciation	16,703,534	16,637,582
	85,090,624	90,111,222
Operating income (loss)	21,399,019	18,383,321
Nonoperating revenues (expenses):		
Interest revenue	8,667,016	10,053,014
Other revenue	2,280,218	—
Interest expense	(18,808,084)	(21,098,455)
Income (loss) before contributions and other revenues	13,538,169	7,337,880
Contributions and other revenues:		
Contribution from Community Facilities District	3,779,880	3,544,564
Increase (decrease) in net position	17,318,049	10,882,444
Net position – beginning of period	42,824,239	31,941,795
Net position – end of period	\$ 60,142,288	42,824,239

See accompanying notes to financial statements.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)

Statements of Cash Flows - ***DRAFT***

Years ended March 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from customers	\$ 72,635,581	79,523,439
Payments to suppliers	(69,586,355)	(73,696,129)
Rents and licensing received	44,175,336	41,682,606
Net cash provided by operating activities	47,224,562	47,509,916
Cash flows from noncapital financing activities:		
Increase (decrease) in due to other City of Santa Clara funds	23,155	24,907
Net cash provided by (used in) noncapital financing activities	23,155	24,907
Cash flows from capital and related financing activities:		
Contribution from Community Facilities District	3,731,546	3,497,288
Acquisition and construction of capital assets	(1,421,523)	(678,294)
Principal payments on capital debt	(42,444,397)	(47,111,698)
Interest paid on capital debt	(19,121,277)	(21,098,455)
Net cash used in capital and related financing activities	(59,255,651)	(65,391,159)
Cash flows from investing activities:		
Interest and dividends	8,610,925	9,992,972
Net cash provided by investing activities	8,610,925	9,992,972
Net increase (decrease) in cash and restricted cash	(3,397,009)	(7,863,364)
Cash and restricted cash, beginning of period	69,672,057	77,535,421
Cash and restricted cash, end of period	\$ 66,275,048	69,672,057
Reconciliation of operating income (loss) to cash provided by operating activities:		
Operating income (loss)	\$ 21,399,019	18,383,321
Depreciation	16,703,534	16,637,582
Change in operating assets and liabilities:		
Accounts receivable	2,403,012	(830,823)
Accounts payable and accrued liabilities	(1,858,309)	(916,533)
Unearned revenue	7,918,262	13,542,325
Deferred rent	659,044	694,044
Net cash provided by operating activities	\$ 47,224,562	47,509,916

See accompanying notes to financial statements.

SANTA CLARA STADIUM AUTHORITY

(a Component Unit of the City of Santa Clara, California)

Notes to Financial Statements

March 31, 2019 and 2018

(1) Organization and Reporting Entity

(a) Organization

On June 8, 2010, residents of Santa Clara voted to adopt Measure J, the Santa Clara Stadium Taxpayer Protection and Economic Progress Act, resulting in the approval to construct a new 68,500-seat football stadium (the Stadium) to be leased to the San Francisco 49ers (49ers). In addition, Measure J called for the creation of the Santa Clara Stadium Authority to own, develop, construct, operate, and maintain the Stadium project. The City of Santa Clara (City) and the City of Santa Clara Redevelopment Agency (Agency) entered into a Joint Exercise of Powers Agreement (JPA Agreement) establishing the Santa Clara Stadium Authority (Stadium Authority). The JPA Agreement was later amended to add the Bayshore North Project Enhancement Authority as a member of the Stadium Authority. On June 28, 2011, the Governor signed into law Assembly Bill No. X1 26 (ABX1 26), which called for the dissolution of Redevelopment Agencies throughout the State. The California State Supreme Court upheld ABX1 26, and as a result, on February 1, 2012, all California Redevelopment Agencies were dissolved. The Successor Agency of the City of Santa Clara (Successor Agency) then assumed the obligations of the Agency under the JPA Agreement.

(b) Financial Reporting Entity

As defined by U.S. generally accepted accounting principles (GAAP), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the application of these criteria, the Stadium Authority has no component units. However, the Stadium Authority is a component unit of the City because the Mayor and City Council serve as the Board of the Stadium Authority. The City Manager serves as the Executive Director. The debt which was incurred for the construction of the Stadium is the responsibility of the Stadium Authority. The City is not a party to the debt nor has the City guaranteed such debt.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Stadium Authority have been prepared in conformity with GAAP, as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing government accounting and financial reporting principles. The Stadium Authority is included as an enterprise fund in the City's Comprehensive Annual Financial Report, and therefore, these financial statements do not purport to represent the financial position and changes in financial position of the City.

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(b) Basis of Accounting and Measurement Focus

The Stadium Authority reports its activities as a business-type activity. The financial statements include statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows, and are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statements of net position. Reported net position is segregated into three categories – net investment in capital assets, restricted and unrestricted. The statements of revenues, expenses, and changes in net position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which a liability is incurred.

Operating revenues are those revenues that are generated from the primary operations of the Stadium Authority. All other revenues are reported as nonoperating. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

(c) Year-End

An amendment was made to the JPA Agreement on November 13, 2012 in part to change the fiscal year of the Stadium Authority from a July 1 through June 30 fiscal year to an April 1 through March 31 fiscal year to conform with the fiscal year of Stadium Funding Trust.

(d) Cash, Restricted Cash, and Cash with Fiscal Agent

The Stadium Authority’s cash is not pooled with the City, but is held in separate bank and trust accounts.

(i) Composition of Cash, Restricted Cash, and Restricted Cash with Fiscal Agent

Cash, restricted cash, and restricted cash with fiscal agent at March 31, 2019 and 2018 consist of cash deposits in banks.

Restricted cash includes revenue that has not yet been transferred to Stadium Funding Trust accounts. On the 15th of the following month all revenue is swept into the Stadium Funding Trust accounts as required by the Deposit and Disbursement Agreement and becomes restricted cash with fiscal agent. It also includes cash dedicated to construction and the capital expenditure and operating reserve accounts.

Restricted cash with fiscal agent consists of stadium deposits pledged to a syndicate of lenders and deposits for stadium construction. The application of these deposits is restricted to fund stadium construction and Stadium Authority operations and debt service.

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March 31, 2019 and 2018

(ii) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its agent having a fair value of 105% to 150% of the Stadium Authority's cash on deposit. All of the deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions.

(e) Accounts Receivable

Accounts receivable are recorded in the Stadium Authority's accounts at the amounts that are contractually due. Accounts receivable include payments due from the Forty Niners Stadium Management Company, LLC (ManagementCo) as a result of the operations of non-National Football League (NFL) events held at the Stadium and the overpayment of stadium manager expenses. Naming Rights revenue due from Levi's Strauss & Co., special tax proceeds collected by the Community Facilities District (CFD) and not yet paid to Stadium Authority pursuant to the CFD Reimbursement Agreement, and other miscellaneous receivables are also included as accounts receivable in the statements of net position.

(f) Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets and is charged as an expense against operations.

	Useful lives (years)
Buildings	20–50
Machinery and equipment	3–25

The cost of maintenance, repairs, minor replacements, and renewals are charged to operations as incurred. Major replacements, renewals, and betterments are capitalized. Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in the statements of revenues, expenses, and changes in net position.

Interest is capitalized on construction in progress in accordance with applicable guidance.

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Notes to Financial Statements

March 31, 2019 and 2018

(g) Unearned Revenue and Revenue Recognition

Stadium Builder License (SBL) proceeds and payments received for other license agreements are initially recorded as unearned revenue and are recognized as revenue over the term of the contracts. Rental income is recognized as revenue on a straight-line basis over the term of the Stadium Lease (note 6(b)).

Non-NFL event revenue, NFL ticket surcharge, non-NFL ticket surcharge, and other operating revenues are recognized as they are earned.

(h) Risk Management

Per the terms of the Stadium Lease, during operations, the Forty Niners SC Stadium Company LLC (StadCo) procures insurance and the Stadium Authority pays a proportionate share to StadCo. The Fairly Group is the insurance broker for Stadium operations.

(i) Income Taxes

The Stadium Authority falls under the purview of Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes.

(j) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(3) Stadium Development

(a) Transaction Overview

During fiscal year 2011-12, the Stadium Authority and StadCo entered into a series of agreements in connection with the construction of the Stadium. The Stadium was constructed and is owned by the Stadium Authority; certain tenant improvement components are owned by StadCo. Construction on the Stadium began in April 2012 and it was substantially completed in July 2014, in time for the 2014 NFL season.

The City owns the land on which the Stadium was constructed. The City has leased the land to the Stadium Authority under a ground lease, and the Stadium Authority has leased the Stadium to StadCo for the six-month period from August through January (the NFL season) of each year, for an initial lease term of 40 years. The stadium lease commenced in August 2014 upon substantial completion of construction.

The Stadium Authority retained a design-build firm to complete the design and construction of the Stadium pursuant to a guaranteed maximum price contract. The Stadium Authority was generally responsible for amounts due to the design-builder, except that StadCo was responsible for payment of

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costs of tenant improvements. StadCo acted as construction agent for the Stadium Authority, with primary responsibility for administering the design-build contract.

The Stadium Authority and StadCo have engaged ManagementCo, an affiliate of StadCo, to manage the Stadium on a year-round basis. The Stadium Management Agreement has an initial term of 25 years, plus a 15-year renewal option. The Stadium Authority pays ManagementCo for services related to its operations on behalf of the Stadium Authority. As of March 31, 2019 and 2018, the cost of these services amounted to \$7.06 million and \$7.47 million, respectively.

(b) Construction Funding

Funding for construction of the Stadium, excluding tenant improvements funded by StadCo, falls into three major categories: an initial construction loan from a bank syndicate, which was refinanced during 2013 as described below; funding from the StadCo Subordinated Loan; and construction period and other revenues.

(i) Stadium Construction Loan Facility

The initial financing included a delayed draw term loan facility (the Construction Facility) provided by a syndicate of banks (the Lenders) to Stadium Funding Trust (FinanceCo). FinanceCo, a Delaware statutory trust, entered into the Construction Facility with the Lenders and then issued a loan facility to the Stadium Authority in the amount of \$450 million (the Authority Loan). The Construction Facility had a maturity date of September 1, 2015. In June 2013, FinanceCo and the Stadium Authority refinanced the Construction Facility, resulting in FinanceCo paying off the Construction Facility and entering into a new debt structure that includes 26-year fixed rate notes and a delayed draw 5-year loan facility. FinanceCo then issued a new loan facility to the Stadium Authority in the amount of \$450 million. The Stadium Authority's loan facilities are discussed in note 5.

(ii) StadCo Subordinated Loan

In March 2012, StadCo agreed to loan the Stadium Authority up to \$500 million (the Subloan) to be used for the construction of Levi's Stadium. During the refinance process in June 2013, the interest rate on the Subloan was fixed and part of the then outstanding Subloan was paid down. The Subloan is discussed in note 5.

(iii) Construction Period and Other Revenues

Certain revenues were collected by the Stadium Authority while the Stadium was under construction. These construction period and other revenues primarily consist of SBL and Naming Rights revenues collected by the Stadium Authority.

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(4) Capital Assets

Capital asset activity for the year ended March 31, 2019 was as follows:

	Balance March 31, 2018	Additions	Reductions	Balance March 31, 2019
Nondepreciable assets:				
Construction in progress	\$ 251,799	401,730	(251,799)	401,730
Total nondepreciable assets	<u>251,799</u>	<u>401,730</u>	<u>(251,799)</u>	<u>401,730</u>
Capital assets being depreciated:				
Buildings	825,341,531	886,357		826,227,888
Machinery and equipment	1,609,757	205,940		1,815,697
Less accumulated depreciation for:				
Buildings	(60,507,084)	(16,507,212)		(77,014,296)
Machinery and equipment	(524,063)	(196,322)		(720,385)
Net depreciable assets	<u>765,920,141</u>	<u>(15,611,237)</u>	<u>—</u>	<u>750,308,904</u>
Net capital assets	<u>\$ 766,171,940</u>	<u>(15,209,507)</u>	<u>(251,799)</u>	<u>750,710,634</u>

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March 31, 2019 and 2018

Capital asset activity for the year ended March 31, 2018 was as follows:

	Balance March 31, 2017	Additions	Reductions	Balance March 31, 2018
Nondepreciable assets:				
Construction in progress	\$ 79,849	251,799	(79,849)	251,799
Total nondepreciable assets	79,849	251,799	(79,849)	251,799
Capital assets being depreciated:				
Buildings	825,096,651	244,880	—	825,341,531
Machinery and equipment	1,152,353	457,404	—	1,609,757
Less accumulated depreciation for:				
Buildings	(44,005,152)	(16,501,932)	—	(60,507,084)
Machinery and equipment	(388,413)	(135,650)	—	(524,063)
Net depreciable assets	781,855,439	(15,935,298)	—	765,920,141
Net capital assets	\$ 781,935,288	(15,683,499)	(79,849)	766,171,940

Interest cost incurred during the years ended March 31, 2019 and 2018 totaled \$18,808,084 and \$21,098,455, respectively. No interest was capitalized.

(5) Long-Term Debt

(a) Long-Term Debt Summary

Changes in long-term debt for the year ended March 31, 2019 consisted of the following:

Type of indebtedness	Issue date	Due date	Interest rates	Outstanding as of March 31, 2018	Additions	Reductions	Outstanding as of March 31, 2019	Amounts due within one year
Business type activity debt:								
Stadium Funding Trust								
Loan:								
Term A Loan	6/19/2013	4/1/2039	5.00 %	\$ 282,794,108		(12,527,696)	270,266,412	12,718,000
StadCo CFD Advance	4/1/2013	12/31/2054	5.73	32,834,885		(1,908,907)	30,925,978	—
StadCo Subordinated Loan	3/28/2012	3/31/2043	5.50	67,032,627		(28,007,794)	39,024,833	4,182,550
Total				\$ 382,661,620	—	(42,444,397)	340,217,223	16,900,550

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Changes in long-term debt for the year ended March 31, 2018 consisted of the following:

Type of indebtedness	Issue date	Due date	Interest rates	Outstanding as of March 31, 2017	Additions	Reductions	Outstanding as of March 31, 2018	Amounts due within one year
Business type activity debt:								
Stadium Funding Trust								
Loan:								
Term A Loan	6/19/2013	4/1/2039	5.00 %	\$ 282,794,108	—	—	282,794,108	12,110,000
StadCo CFD Advance	4/1/2013	12/31/2054	5.73	34,414,900	225,247 ⁽¹⁾	(1,805,262)	32,834,885	—
StadCo Subordinated Loan	3/28/2012	3/31/2043	5.50	112,564,310	—	(45,531,683)	67,032,627	3,964,502
Total				\$ 429,773,318	225,247	(47,336,945)	382,661,620	16,074,502

⁽¹⁾ The addition to the StadCo CFD Advance is interest being added to principal due to the timing of the quarterly payments (see note 5(c)).

(b) Stadium Funding Trust Loan

The Restated Credit Agreement by and among FinanceCo, the Stadium Authority and Goldman Sachs Bank was entered into on June 19, 2013. FinanceCo agreed to loan the Stadium Authority up to \$450 million. Under the Restated Credit Agreement, the loan from FinanceCo consists of the Term A Loan and the Term B Loan. On March 31, 2016, the Stadium Authority paid the remaining amount due on the Term B Loan.

(i) Term A Loan

The Term A Loan was made in the amount of \$282.79 million. This loan bears interest at a fixed rate of 5%, payable semi-annually, with annual principal payments due beginning in April 2018. It has a maturity date in 2039 and is subject to certain prepayment premiums. The loan was fully drawn at closing.

As of March 31, 2019, \$270,266,412 million was outstanding.

(c) StadCo CFD Advance

In May of 2010, the City completed the proceedings to establish CFD for the purpose of financing certain publicly owned facilities and public services associated with the Stadium.

On June 11, 2013, the CFD, the Stadium Authority, and StadCo entered into a Reimbursement Agreement under which the CFD would agree to reimburse the Stadium Authority for costs of the publicly owned facilities and public services constructed for the Stadium. The reimbursement can only be made from the special tax generated by the CFD, as and when received by the CFD.

StadCo has agreed to advance to the Stadium Authority funds to pay for the CFD Infrastructure (StadCo CFD Advance). To evidence the Stadium Authority's obligation to repay the StadCo CFD Advance, the Stadium Authority and StadCo also executed a note on June 11, 2013. The StadCo CFD Advance has a maximum principal of \$38 million and an interest rate of 5.73%.

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During the year ended March 31, 2019, as the special CFD tax was submitted to the Stadium Authority, a number of payments were made on the StadCo CFD Advance. StadCo CFD Advance payments were made mid-way through each quarter. The interest that accrued between the last StadCo CFD Advance payment and the end of the year is added to principal. These payments totaled \$3.7 million, which included \$1.82 million in interest and \$1.91 million in principal. As of March 31, 2019 and 2018, \$30.93 million and \$32.83 million was outstanding respectively, which includes \$0.23 million of interest added to principal as of March 31, 2018.

(d) StadCo Subordinated Loan

The Restated StadCo Obligations Agreement dated as of June 19, 2013 was entered into by and between StadCo and the Stadium Authority as part of the take-out financing process. Under the Restated StadCo Obligations Agreement, StadCo will loan the Stadium Authority an amount not to exceed \$500 million with a fixed 5.50% interest rate. Required principal repayments started in March 2016 and the Stadium Authority may prepay the loan at any time.

Payments totaling \$31.48 million were made on the loan. This included the required principal payment of \$3.97 million, a \$24.04 million principal prepayment, and \$3.47 million in interest. As of March 31, 2019 and 2018, \$39,024,833 million and \$67.03 million, respectively, was outstanding.

(e) Management Company Revolving Loan

The Management Company Revolving Loan dated as of March 28, 2012 was entered into by and between the Stadium Authority and ManagementCo. The Management Company Revolving Loan provides borrowing to the Stadium Authority in an amount not to exceed \$25 million through the earlier of the end of the term of the Stadium Lease or the expiration of the Stadium Management Agreement, with interest at the prime rate payable quarterly. The Management Company Revolving Loan may be used solely for the purpose of enabling the Stadium Authority to pay Covered Stadium Authority Operating Expenses (as defined in the agreement) to the extent, and only to the extent, that funds are not otherwise available.

As of March 31, 2019, there was no balance outstanding.

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(f) Long-Term Debt Maturities

Future principal and interest amounts due on long-term debt are as follows as of March 31, 2019:

	<u>Principal</u>	<u>Interest</u>
Year ending March 31:		
2020	\$ 16,900,550	15,023,787
2021	17,766,590	14,126,047
2022	18,677,282	13,182,254
2023	19,634,322	12,190,064
2024	20,640,446	11,146,991
Thereafter	<u>246,598,033</u>	<u>153,632,735</u>
Total	<u>\$ 340,217,223</u>	<u>219,301,878</u>

(6) Leases

(a) Ground Lease

On February 28, 2012, the Stadium Authority entered into a lease (the Ground Lease) with the City whereby the City leases the Stadium site to the Stadium Authority. The Ground Lease was amended on June 19, 2013.

The Ground Lease has an initial term of 40 years. The first lease year commenced on the first day following the substantial completion of construction (August 1, 2014) and ended on the next following March 31. The subsequent lease years will start on April 1 and end on the following March 31. The Stadium Authority will have five successive extension options, each four years in duration, which would commence following the initial term expiration date.

The Ground Lease provides that the City will receive a fixed ground rent (Fixed Ground Rent) of \$180 thousand for the first year of Stadium operations payable by the Stadium Authority. Beginning in the second year of Stadium operations and annually thereafter through the tenth year of Stadium operations, the Fixed Ground Rent will increase annually by \$35 thousand. Beginning in the 11th year of Stadium operations, Fixed Ground Rent will be increased to equal \$1 million, and thereafter will be increased by \$100 thousand every five years through the end of the initial term of the Ground Lease. If the term of the Ground Lease is extended, then, during the first extension term, the Fixed Ground Rent will equal \$1.58 million; and if and to the extent the Ground Lease is further extended, the Fixed Ground Rent will be increased by \$80 thousand every four years thereafter through the expiration of the term of the Ground Lease. While the Fixed Ground Rent payments vary over the course of the Ground Lease, Ground Lease expense is recorded on a straight-line basis. Therefore \$979 thousand of ground lease expense was reported in each of the fiscal years ended March 31, 2019 and 2018.

The Ground Lease also provides that the City will receive a performance-based rent equal to 50% of the net income from non-NFL events, less certain credits including 50% of the Fixed Ground Rent,

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payable by the Stadium Authority. If certain of the credits are not used within the year incurred or the next five succeeding years, the credits will expire.

Future minimum payments due under the lease are as follows:

Year ending March 31:		
2020	\$	355,000
2021		390,000
2022		425,000
2023		460,000
2024		495,000
Thereafter		<u>37,500,000</u>
	\$	<u><u>39,625,000</u></u>

(b) Stadium Lease

On March 28, 2012, the Stadium Authority entered into a lease with StadCo whereby the Stadium Authority leases the Stadium to StadCo. On June 19, 2013, the same parties entered into an Amended and Restated Stadium Lease Agreement (the Stadium Lease).

The Stadium Lease has an initial term of 40 years commencing on the first day following the substantial completion of construction (August 1, 2014) and includes five successive options to extend the term by four years each. The Stadium Lease is divided into two seasons:

- The Tenant Season, which includes the NFL season (including preseason, regular season, and postseason NFL games) and runs from August 1 through January 31; and
- The Stadium Authority Season, which runs from February 1 through July 31.

Pursuant to the Stadium Lease, the Stadium Authority and StadCo will be entitled to receive and collect separate revenues. Initially, rent payable by StadCo to the Stadium Authority was \$24.5 million per year. This amount was established pursuant to the Stadium Lease in connection with the take-out financing, which occurred on June 19, 2013. The Stadium Lease allowed for one opportunity to adjust the rent if operating or debt service expenses are either more or less than projected in determining the initial rent. Based on the changes to the projected operating and debt service expenses, the provisions for a one-time rent adjustment were triggered. At the Stadium Authority Board (Board) meeting held on March 22, 2016, the Board decided not to adjust the rent, and instead passed a motion to pursue the informal dispute resolution procedures and to proceed to the arbitration process if necessary. Thereafter, on May 3, 2016, StadCo filed for arbitration with the Stadium Authority.

On June 18, 2018, the arbitrator entered an Arbitration Award in favor of the Stadium Authority and against StadCo. This award adjusted the facility rent from \$24.5 million to \$24.76 million, an increase of \$262,000. This increase is retroactive to the first lease year resulting in a total amount owed to the Stadium Authority of \$1.31 million for the first five lease years, through March 31, 2019. In addition to the adjustment to the

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facility rent, the Stadium Authority was entitled to reimbursement of its legal fees, determined by the arbitrator to be \$2.28 million. The lease also provides for a fair market rent adjustment in year 33.

The Stadium Authority received \$25.8 million and \$24.5 million in stadium rent from StadCo in each of the fiscal years ended March 31, 2019 and 2018, respectively.

The Stadium Authority may elect to expand the Tenant Season to consist of the entire lease year, from April 1 through the next succeeding March 31 (Stadium Authority Put Right), by delivering written notice to StadCo. The Stadium Authority Put Right may be exercised at any time during lease year 13, or at any time that the Management Company Revolving Loan balance exceeds \$20 million. The expansion of the Tenant Season will be effective as of the applicable Tenant Season Expansion Date as set forth in the Stadium Lease. Effective from and after the Tenant Season Expansion Date, and continuing through the remainder of the Stadium Lease term, the Tenant Season will consist of the entire lease year.

(7) Contingencies

(a) Asset Retirement Obligation

Pursuant to the Ground Lease, the Stadium Authority may be required to demolish the Stadium and other improvements at the end of the lease term, upon written notice from the City. Pursuant to the Stadium Lease, the Stadium Authority will establish reserves to fund the cost of demolishing the stadium at the end of the lease term. While such reserves are projected to cover the entire demolition cost, StadCo will be responsible for funding any shortfall.

(8) Subsequent Events (This is a draft note; auditors are evaluating whether this needs to be included or not)

On July 3, 2019, ManCo issued a certificate of loan to the Stadium Authority under the Revolving Credit Agreement in accordance with Sections 5.2 and 5.3 of the Stadium Management Agreement (see footnote 5e). The Management Company Revolving Loan may be used solely for the purpose of enabling the Stadium Authority to pay covered Stadium Authority operating expenses, as defined in the agreement, to the extent, and only to the extent, that funds are not otherwise available. During June 2019, certain operating expenses have come into question by the Stadium Authority and as such, were withheld from payment to ManCo. Per the Revolving Credit Agreement, ManCo triggered the loan provision in order to provide financing for the payment of operating expenses not paid as of September 10, 2019 by the Stadium Authority. As of the date of this report, the total amount loaned to the Stadium Authority is \$3,246,800.



Agenda Report

19-1033

Agenda Date: 9/10/2019

REPORT TO AUDIT COMMITTEE

SUBJECT

Information Report on the Status of Harvey M. Rose Associates Audit Recommendations

BACKGROUND

On July 25, 2016, the Santa Clara Stadium Authority Board (Board) retained the services of Harvey M. Rose Associates, LLC (Auditor) to perform an audit of Stadium operations to ensure compliance with the 2010 voter approved Measure J. The Board approved, on July 19, 2016, appointing a three-member Ad-Hoc Stadium Audit Committee (Committee) to oversee the work and progress of the audit.

On November 27, 2017, staff presented the following to the Committee: (1) standard audit recommendation tracking matrix listing the thirty-seven audit recommendations, (2) designation for the status of the recommendation (e.g., Complete, Partially Complete, or Not Implemented), and (3) action taken to date. This matrix continues to be used as a tool to track staff's progress and to be presented to the Committee at future meetings.

On March 19 and October 29, 2018, staff provided an update to the Committee on the progress towards implementing the thirty-seven audit recommendations.

On November 27, 2018, staff provided an update to the Board on the progress towards implementing the thirty-seven audit recommendations. Twenty-five, or 68%, of audit recommendations are complete, and the remaining twelve are "Partially Complete".

DISCUSSION

Since the release of the November 2018 status report to the Board, Stadium Authority staff continues to progress on the remaining Partially Complete audit recommendations included in the attached Harvey M Rose Audit Recommendations matrix. Since that time, several key staff have left the City, or are taking extended leaves, and there has been no capacity to complete an update of the report; however, staff anticipates bringing forward a full report regarding the status and progress of the audit recommendations in January 2020.

For your reference, the attached Harvey M. Rose Audit Recommendations matrix provides the auditor's recommendation and a detailed description of the action taken as of October 2018. The matrix is color coded by status with items that were previously deemed as completed shown in grey, new proposed completed items shown in green, and partially complete (items that are in process) shown in orange.

It should also be noted that this report was previously provided to the Stadium Ad Hoc Audit Committee. Since the retirement of Councilmember Kolstad, a replacement member for the Stadium

Ad Hoc Audit Committee has not yet been determined. Until that determination is made, the status of the Harvey M. Rose Audit Recommendations will continue to be brought forward to the Audit Committee.

COORDINATION

This report was coordinated with the City Attorney's Office.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environment Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(a)(4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

FISCAL IMPACT

There is no fiscal impact to the Audit Committee with this status update; however, there are decisions that the Stadium Ad Hoc Committee/Audit Committee will recommend to the SCSA Board that may have a fiscal impact. Further, staff is currently analyzing the audit data to determine if any additional reimbursement is due from the Stadium Authority to the City's General Fund.

PUBLIC CONTACT

Public contact was made by posting the Audit Committee agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov or at the public information desk at any City of Santa Clara public library.

RECOMMENDATION

Note and file an update on the status of the Harvey M. Rose Associates Audit Recommendations.

Reviewed by: Kenn Lee, Director of Finance/Treasurer for Stadium Authority

Approved by: Deanna J. Santana, City Manager/Executive Director for Stadium Authority

ATTACHMENTS

1. October 2018 Status of Harvey M. Rose Associates Audit Recommendations

STATUS OF HARVEY ROSE ASSOCIATES AUDIT RECOMMENDATIONS

1. COMPLIANCE WITH STADIUM AUTHORITY AGREEMENTS

Audit Recommendation	Current Status	Action Taken
1.A The Stadium Authority Board should direct the Executive Director to request the public safety costs threshold be adjusted through negotiations with StadCo to reflect actual costs to the City for providing public safety services for NFL events.	Partially Complete	Meetings were held on September 20, 2018 and October 4, 2018 for the purpose of engaging in good faith negotiations with respect to an increase in the Public Safety Cost Threshold. At this time, the Stadium Authority is awaiting a response from StadCo.
1.B The Stadium Authority Board should direct the Executive Director and Stadium Authority counsel to notify ManCo that the absence of five year capital expenditure plans for FYs 2014-15 and 2015-16 was a breach of Section 10.3 of the Stadium Lease and that ManCo is required to provide such plans under the lease for the current and all future Stadium Authority fiscal years.	Complete	ManCo provided a five-year capital expenditure plan in February 2017 for the Fiscal Years 2017-18 thru 2021-22. This plan was incorporated into the Stadium Authority's Adopted Fiscal Year 2017-18 SCSA Budget. ManCo was notified that they were to provide a five year capital expenditure plan going forward. ManCo provided a five-year capital expenditure plan in February 2018 and this plan was incorporated into the Stadium Authority's Proposed Fiscal Year 2018-19 Budget.
1.C The Stadium Authority Board should direct the Executive Director to provide a copy of the Operation and Maintenance Plan to the Stadium Authority Board for review, in closed session if deemed necessary for public safety reasons by the Stadium Authority counsel.	Complete	In accordance with Section 3.1 of the Stadium Operations Agreement, Section 4.5 of the Stadium Management Agreement, and Section 7.2 of the Stadium Lease Agreement, the 49ers Management Company (ManCo) is responsible for preparing the Stadium Operation and Maintenance Plan (SOMP). The SOMP consists of the Annual Shared Stadium Expense Budget, Annual Public Safety Budget and Capital Expenditure Plan, as well as the Annual Public Safety Budget and the Amortization of Public Safety Capital Expenditures. For Fiscal Year 2018-19 all documents were presented to the Stadium Authority Board at its March 13 meeting. The SCSA Board approved the SCSA Budgets, comprising the SOMP, at the March 27, 2018 meeting.
1.D The Stadium Authority Board should require that Stadium Authority staff and ManCo prepare an annual public safety budget in conjunction with the City's public safety departments detailing both NFL and non-NFL event public safety costs for submission to and adoption by the Board.	Complete	ManCo provided a Public Safety Budget to staff in February 2017 during the 2017-18 budget process. This was also provided to staff on February 7, 2018 as part of the 2018-19 budget process. The Public Safety Budget was included as part of the 2018-19 Adopted SCSA Budget that was presented to the Board on March 13, 2018. The SCSA Board approved the SCSA budget, comprising the SOMP, at the March 27, 2018 meeting.
1.E The Stadium Authority Board should direct the Executive Director to renegotiate provisions of the Stadium Lease so that the Stadium Authority receives a share of any concessionaire revenue that exceeds the minimum guaranteed amount from non-NFL events.	Complete	The Stadium Authority does receive revenue in excess of minimum per Stadium Lease: 7.3.2 Concession Revenue. In February 2018, the SCSA Board approved a new concessionaire contracts and included in that presentation was detail of how the SCSA receives revenue. Underway is also the effort to clarify by fiscal year the exact amount generated for Food & Beverage (F&B) revenue.
1.F The Stadium Authority Board should direct the Executive Director to notify StadCo that a formal consolidated draft parking plan must be produced and delivered to the Community Development Department and to the Board for review and approval as required under the Stadium Lease.	Partially Complete	Stadium Authority staff agrees with the audit that the information provided in the one page summary of parking lots in the TMOP is not adequate to determine the available and utilized parking facilities. Staff has also determined that Stadium Manager requires information from the City permit applications in order to provide a complete consolidated parking plan. City staff will determine what can be provided from the existing permit applications, and what modifications to the City permit application are required, to provide the necessary information to the Stadium Manager to prepare a complete consolidated parking plan.

STATUS OF HARVEY ROSE ASSOCIATES AUDIT RECOMMENDATIONS

Audit Recommendation	Current Status	Action Taken
<p>1.G The Stadium Authority Board should direct the Chief of Police to present the public safety plan to the Stadium Authority Board for review and formal approval (in closed session if deemed necessary by Stadium Authority counsel) and to present any updates to the public safety plan to the Stadium Authority Board for review and documented adoption.</p>	Complete	In light of recent national incidents and heightened focus on large crowds, it should be noted that the Plan is dynamic and will require adjustments to respond to various public safety conditions. The public safety plan has been approved and the Executive Director is in possession of a copy under lock and key. The Council can review this plan on an individual basis. In addition, Public Safety experts have been contracted to review the current public safety model and work is underway.
<p>1.H The Stadium Authority Board should direct the Executive Director to formally notify StadCo that the total cost for stadium insurance must be disclosed in the shared stadium expenses budget pursuant to Section 4.6 of the Management Agreement and, based on the disclosure, consider proposing to StadCo an amendment to the Stadium Lease to remove the provision that the Stadium Authority pay a fixed amount of insurance costs, with StadCo paying an unknown amount.</p>	Complete	Section 8.3.1 of the Stadium Lease states that the Stadium Authority Insurance Share shall be calculated as follows: (i) for the first lease year the Stadium Authority Insurance Share shall equal two million five hundred fifty thousand dollars (\$2,550,000) and (ii) on the commencement of the second and each succeeding lease year, the insurance shall be increased by three percent (3%). This fixed rate for insurance was included in the Facility Rent calculation as part of exhibit J and confirmed as part of the Rent Arbitration award. An amendment to the Management Agreement is not recommended at this time.
<p>1.I The Stadium Authority Board should direct the Executive Director to formally notify StadCo and ManCo that ManCo is in breach of the Management Agreement because it did not furnish Annual Statements of Stadium Operations for FYs 2014-15 and 2015-16, and to require that such statements be provided for those years, for FY 2016-17 and each year thereafter.</p>	Partially Complete	<p>The Management Agreement and Amended and Restated Stadium Lease provides conflicting language concerning the selection of the third-party certified public accountant (underlined below) that would be contracted to prepare the Annual Statement of Stadium Operations. The Section 4.2 of the Management Agreement states that the Stadium Manager shall furnish to the Stadium Authority and StadCo a statement for such Fiscal Year, prepared by a qualified, third-party certified public accountant <u>selected by StadCo and approved by the Stadium Authority</u>, setting forth such information as specified in the Stadium Lease. Section 8.3.3 of the Amended and Restated Stadium Lease states that the Landlord (Stadium Authority) shall furnish (or cause the Stadium Manager to furnish) to Tenant (StadCo) a statement for such Lease Year an Annual Statement of Stadium Operations prepared by a qualified, third-party independent certified public accountant <u>selected by Landlord (Stadium Authority) and approved by Tenant (StadCo)</u>. Based on the conflicting language, staff is currently reviewing the next steps to address this recommendation. However, staff agrees that it is in the best interest of the Stadium Authority to enter into an agreement with an outside auditor to prepare an Annual Statement of Stadium Operations.</p>
<p>1.J The Stadium Authority Board should direct the Executive Director to send formal notification to ManCo and StadCo that ManCo was in apparent breach of the Stadium Lease requirement that a one year budget and five year projection of shared Stadium expenses be provided on an annual basis to the Stadium Authority and demanding that ManCo provide such budgets and projections for the current and all future years. The Executive Director should be directed to provide a written response to ManCo each year on the draft budget submitted by ManCo.</p>	Complete	ManCo provided a one year budget and five year projection of shared stadium expenses to staff in February 2017 during the 2017-18 budget process. ManCo was notified that they were to provide this plan annually. These documents were provided to SCSA staff in February 2018 during the 2018-19 budget process and incorporated into the 2018-19 Adopted SCSA Budget.

STATUS OF HARVEY ROSE ASSOCIATES AUDIT RECOMMENDATIONS

Audit Recommendation	Current Status	Action Taken
<p>1.K The Stadium Authority Board should direct the Executive Director and Treasurer to work with ManCo to require that the annual operating budget and quarterly financial status reports disclose sufficient information to ensure that staff and the Board can determine whether the Stadium Authority is adhering to Stadium Lease requirements contained in Article 14 regarding the allocation of excess Stadium Authority revenue.</p>	Complete	Article 14 of the Amended and Restated Stadium Authority Lease Agreement describes the steps if Stadium Authority Revenue exceeds Stadium Authority Expenses for any Lease Year prior to the Tenant Season Expansion Date. This information was included on page 16 of the Adopted 2018-19 SCSA Budget. In addition, staff has already begun to change the format of financial reporting for the purpose of transparency and to facilitate understanding of the fiscal report. We have made verbal presentations to the board summarizing the changes each time they are implemented.
<p>1.L The Stadium Authority Board should direct the Executive Director to notify ManCo that previous annual marketing plans were inadequate as they did not set forth reasonably detailed plans to develop, implement, and monitor marketing, booking, advertising, and promotion of non-NFL activities. The Board should further direct the Executive Director to notify ManCo that future marketing plans must include such details and be reviewed for sufficient detail by the Executive Director before being presented to the Board.</p>	Complete	ManCo provided a Sales and Marketing Plan to staff in February 2017 during the 2017-18 budget process. This information was also provided in February 2018. Staff has worked with ManCo to provide a more robust marketing plan that was presented to the Board on March 13, 2018. As noted during the March 13th presentation, the agreement sets a "reasonable detail" standard which we believe the fiscal year 2018-19 plan reflects. The SCSA Board approved the Marketing Plan on March 27, 2018.
<p>1.M The Stadium Authority Board should direct the Executive Director to confer with the Finance Director/Treasurer to determine what financial information would be necessary to assess non-NFL event financial performance, including incentive payments to ManCo, and then notify ManCo regarding what additional information will be required on an ongoing basis.</p>	Complete	On October 2, 2018, staff presented the Financial Status Report for the Quarter and Fiscal Year Ending March 31, 2018 which included detailed information by type of event (i.e. concert, sporting events, and miscellaneous events) and by revenue and expense categories. Staff has notified ManCo/StadCo that this information will be required going forward in order to present to the SCSA Board as part of the fourth quarter status report.
<p>1.N The Stadium Authority Board should direct the Executive Director to notify ManCo that it is in breach of Management Agreement Section 3.3, which requires that written revenue or other reports relating to non-NFL events be provided to the Stadium Authority within 45 days of each non-NFL event with attendance projected to exceed 25,000. The Stadium Authority Board should further direct the Executive Director to demand that ManCo provide such written revenue reports according to specifications to be detailed by the Treasurer for all future non-NFL events with attendance projected to exceed 25,000.</p>	Partially Complete	Section 3.3 of the Management Agreements states that the Stadium Manager shall furnish the Executive Director, within 45 days of each non-NFL event with attendance projected to exceed 25,000 and on a quarterly basis for all other events, such written revenue or other reports relating to non-NFL events as the parties may agree from time to time. On October 1, 2018, SCSA staff requested in writing that this information be provided to the Executive Director for past non-NFL events and on an ongoing basis. In addition, the letter directed the Stadium Manager to provide a written report on the 2018 International Champions Cup that was held on August 4th within one week of receipt of the letter. To date the Stadium Manager has not complied with this request.

STATUS OF HARVEY ROSE ASSOCIATES AUDIT RECOMMENDATIONS

Audit Recommendation	Current Status	Action Taken
<p>1.O The Stadium Authority Board should direct the Executive Director and Stadium Authority counsel to request an amendment to the Management Agreement that would require formal and/or informal bidding procedures for any transactions with ManCo affiliates or for transactions above a designated threshold to ensure that goods and services received from an affiliate of ManCo are competitively priced.</p>	Partially Complete	<p>It must be a mutual agreement between both parties to amend the Management Agreement. A letter will be sent to ManCo/StadCo requesting their interest in an amendment and reporting compliance with Section 2.1. Section 2.1 of Amendment No. 1 to the Management Agreement states that the Stadium Manager shall have full authority and discretion to select the providers, and to negotiate, approve, enter into and administer contracts with such providers on behalf of the Stadium Authority, for the purchase of supplies, materials and equipment, and for services, relating to the Stadium and its operations...it further states that the Stadium Manager shall provide the Stadium Authority with information, including the contracting party and the contract amount, regarding all Stadium Procurement Contracts entered into with contract amounts greater than \$100,000 within thirty (30) days of entering into any such contract. The forgoing constitutes the Executive Director's delegation to the Stadium Manager. The Executive Director will send a letter to the Stadium Manager ensuring compliance with this provision for the past year and going forward.</p> <p>SCSA staff requested an opinion from the Fair Political Practices Commission (FPPC) on whether these procurement duties require the Stadium Manager to complete a Statement of Economic Interests - Form 700. The FPPC requires public employees who make or influence governmental decisions to submit a Form 700. The FPPC opinion is that these procurement duties do require the Stadium Manager to submit a Form 700. The Stadium Manager complied with this requirement and submitted a Form 700 to the FPPC.</p>
<p>1.P The Stadium Authority Board should direct the Executive Director to direct ManCo to provide quarterly written reports to the Stadium Authority, to be maintained as permanent Stadium Authority records, detailing parking lot information as required in the first amendment to the management agreement.</p>	Partially Complete	<p>Section 4.1 Off-Site Parking (First amendment to the Management Agreement) In accordance with Section 2.6.22 of the existing Management Agreement, the Stadium Manager shall have full authority and discretion to select the off-site private parking locations for Stadium Events, and to negotiate, approve, enter into and administer contracts with the private parking lot owners for the use of their parking spaces for all or certain of such Stadium Events which agreements may also make provision, to the extent available, for additional parking for surrounding properties that would be paid for by such properties (Private Parking Agreements). At the quarterly meetings (with the Executive Director) as described in Paragraph 3.3, the Stadium Manager shall report on the status of such Private Parking Agreements, the status of any ongoing negotiations with private parking lot owners, and the financial performance and other matters relating to the off-site private parking locations for Stadium Authority Events, and such other similar or other topics as the Stadium Authority may request. On October 18, 2018, the Executive Director requested in writing that the Stadium Manager begin providing written quarterly reports detailing parking lot information as required by the Management Agreement.</p>
<p>1.Q The Stadium Authority Board should direct the Executive Director to require that all meetings, including the date and purpose of the meetings, between Stadium Authority staff and ManCo be documented and reported quarterly or annually to the Stadium Authority Board.</p>	Complete	<p>The Executive Director issued a quarterly report for the period April 1 - June 30, 2018 on July 17, 2018 and will continue providing such a report at the completion of each quarter</p>

STATUS OF HARVEY ROSE ASSOCIATES AUDIT RECOMMENDATIONS

Audit Recommendation	Current Status	Action Taken
<p>1.R The Stadium Authority Board should direct the Executive Director to establish procedures to ensure that all existing plans, reports, and budget documents required to be provided by ManCo are provided to the Stadium Authority in the manner required by existing agreements. The Stadium Authority Board should further direct the Executive Director to report annually on the status (receipt, review, and approval status) of each required plan, report, and budget document.</p>	Complete	Staff has prepared a schedule to track the deliverables. The required documents were provided to staff in February 2018 during the 2018-19 budget process as reported at the March 13, 2018 Stadium Authority Budget Study Session.
<p>2. STADIUM AUTHORITY REVENUES AND EXPENSES</p>		
<p>2.A The Stadium Authority Board should request that ManCo provide the relevant reports and documentation that back up the NFL ticket surcharge summary report in order to retain permanent verification of the accuracy of the surcharge calculated by ManCo.</p>	Partially Complete	ManCo was notified in writing on October 9, 2018, to provide all relevant reports and documentation that back up the NFL ticket surcharge to the SCSA. StadCo responded on October 18, 2018 to affirm receipt of the letter and to notify staff that they are in the process of providing the requested documentation.
<p>2.B The Stadium Authority Board should negotiate with ManCo to establish a level of detail regarding non-NFL event revenue and expenses that can be provided in City reports, public documents, and permanent records to be kept by the Stadium Authority without compromising ManCo's ability to book and negotiate deals with non-NFL event acts and performances. The Board should direct staff to include this level of detail for both budgeted and actual revenues and expenses in the annual proposed budget and the quarterly financial status reports to allow the Board and public to monitor the performance of non-NFL events and ManCo's performance in managing and executing the events.</p>	Complete	On October 2, 2018, staff presented the Financial Status Report for the Quarter and Fiscal Year Ending March 31, 2018 which included detailed information by type of event (i.e. concert, sporting events, and miscellaneous events) and by revenue and expense categories. Staff has notified ManCo/StadCo that this information will be required going forward in order to present to the SCSA Board as part of the fourth quarter status report.
<p>2.C The Stadium Authority Board should require that a detailed breakdown of performance rent calculations and payments to the City of Santa Clara be included in the budget and quarterly financial status reports using additional information provided by ManCo.</p>	Complete	Performance Rent calculation was included in the Stadium Authority's Quarterly Financial Report that was presented to the Board on November 21, 2017 and was included in the Adopted 2018-19 SCSA Budget.
<p>2.D The Stadium Authority Board should require that ManCo provide reports and documentation that can be kept in Stadium Authority records, consistent with confidentiality provisions in the agreements that back up the non-NFL ticket surcharge summary report in order to verify that the surcharge calculated by ManCo is accurate.</p>	Partially Complete	SCSA staff reviewed the non-NFL ticket surcharge process with ManCo. This is currently under review for completeness.

STATUS OF HARVEY ROSE ASSOCIATES AUDIT RECOMMENDATIONS

Audit Recommendation	Current Status	Action Taken
2.E The Stadium Authority Board should require that a comprehensive accounting of Debt Service Fund transactions, including beginning and year-end balances, budget vs. actual revenues and expenditures by specific line item, and details on all transfers in and out of the fund, be presented in Stadium Authority budgets and financial status reports.	Complete	This information has been incorporated in the Stadium Authority's 2017-18 Budget, 2018-19 Budget, and current Quarterly Financial Status Reports.
2.F The Stadium Authority Board should require that Discretionary Fund revenues, expenses, budget-to-actual comparisons, and account balances be reported in Stadium Authority budgetary documents separately from the Operating Fund.	Complete	The discretionary fund expenses and budget-to-actual comparisons have been reported to the SCSA Board beginning with the YE 3/31/15 Stadium Authority Financial Status Report that was presented on 8/18/15. The revenues that fund the discretionary fund and the account balance have been reported to the SCSA Board since the QE 6/30/16 Stadium Authority Financial Status Report that was presented on 8/23/16. The Discretionary Fund is shown separately on page 16 of the 2018-19 Adopted SCSA Budget.
2.G The Stadium Authority Board should require that ManCo prepare the five year Shared Expense Budget, per the requirements in the Stadium Management Agreement, and the Board should direct the Executive Director to document receipt of the Shared Expense Budget, and provide written comments to ManCo in response to the proposed expenses.	Complete	ManCo provided a one year budget and five year projection of shared stadium expenses to staff in February 2017 during the 2017-18 budget process. ManCo was notified that they were to provide this plan annually. These documents were provided to SCSA staff in February 2018 during the 2018-19 budget process and incorporated into the 2018-19 Adopted SCSA Budget. (This recommendation seems to be a repeat of recommendation 1.J)
2.H The Stadium Authority Board, StadCo, and ManCo should amend the Management Agreement or separately establish binding policies that do not allow retroactive increases in authorized expenditures such as Stadium Manager expenses, and should require that detailed explanations be provided to the Board when additional funding is requested midyear in advance of such expenses being incurred.	Complete	SCSA staff has been proactive in bringing the budget adjustments to the Board before the expense is incurred. In addition, The SCSA Board adopted a Budget Policy on March 13, 2018 that requires that budget amendments are approved by the Board before the expense is incurred.
2.I The Stadium Authority should require that ManCo provide independently prepared reports and documentation to back up the number of NFL tickets sold for each fiscal year in order to verify that the senior/youth fee calculated by ManCo is accurate and to have a set of permanent records documenting the validity of this revenue.	Partially Complete	ManCo was notified in writing on October 9, 2018, to provide all relevant reports and documentation that back up the NFL ticket surcharge to the SCSA. StadCo responded on October 18, 2018 to affirm receipt of the letter and to notify staff that they are in the process of providing the requested documentation.
2.J The Stadium Authority Board and the City of Santa Clara should clarify when the City Purchasing Authority procurement thresholds (Santa Clara Municipal Code Chapter 2.105.070 et seq.) apply and when the Stadium Authority Procurement Policy thresholds (Santa Clara Municipal Code Chapter 17.30) apply.	Complete	The current practice is to use the City's more restrictive Purchasing Authority threshold if the City is purchasing items on behalf of the Stadium Authority. The City has hired a Purchasing Manager and one of his goals is to update the City and Stadium Authority's procurement policies. With the SCSA Board's approval of establishing a Policy Manual, staff will introduce additional fiscal and procurement policies for its consideration.

STATUS OF HARVEY ROSE ASSOCIATES AUDIT RECOMMENDATIONS

Audit Recommendation	Current Status	Action Taken
2.K The Stadium Authority Board should direct staff to prepare policies and procedures pertaining to all purchases made on behalf of the Stadium Authority to require a level of specificity in costs and services in all vendor contracts, that all invoices bill using the rates or unit costs specified in their contracts, and that the invoices and contracts be periodically reviewed by Stadium Authority staff.	Complete	Chapter 17.30 of the City of Santa Clara Code titled "Stadium Authority Procurement Policy", provides the policies and procedures with respect to procurement for the SCSA. The City has recently hired a Contracts Manager and as part of his duties he will be actively monitoring to ensure that billing rates and unit costs are consistent with vendor contracts. In addition, further review of billing rates and unit costs are included as part of the Accounts Payable job duties and further reviewed by the Stadium Authority's external auditor's during their year-end audit procedures. Staff will continue to update the Stadium Authority's Administration Manual as time permits.
2.L The Stadium Authority Board should require that budgets and actual expenditures for the Stadium construction budget be presented alongside the Stadium Authority Operating Budget to provide an accurate overall picture of purchases for all materials, services, and supplies for the Stadium.	Complete	The construction budget is shown in the Quarterly Financial Reports and Annual Budgets as part of the Capital Expense Budget. The remaining construction budget is designated for warranty related work. For the FY 2018-19 Adopted Stadium Authority Budget, the information is provided on pages 28 - 31.
2.M The Stadium Authority Board should direct staff to report actual revenues and expenditures on an accrual basis in budgetary documents so that all amounts presented reflect actual results for the year, regardless of the timing of revenue receipt or expenses incurred.	Complete	The Stadium Authority's Third Quarter Financial Report presented to the Board on February 13, 2018 included adjustments to bring the budget to full accrual. The Adopted 2018-19 SCSA Budget was prepared using the accrual method of budgeting. In addition, accrual budgeting was included in the SCSA Budget Policy approved by the Board on March 13, 2018 as a requirement.
3. UNCLAIMED, UNREIMBURSED CITY STAFF COSTS		
3.A The Stadium Authority Board should request that staff prepare plans for reimbursement to the City's General Fund for unreimbursed staff costs from the appropriate source: Discretionary Fund, ManCo, or, to the extent funds are available and appropriate, the Construction Fund.	Partially Complete	Staff has self-corrected where it was clear that the General Fund was incorrectly charged for Stadium Authority staff time and the General Fund has been repaid in the amount of \$11,641. Now that the Stadium Authority Auditor position has been filled, one of her duties will be to review this recommendation and if warranted, work with staff and/or an outside consultant on any additional corrective action.
3.B The Stadium Authority Board should request that staff have ManCo prepare an annual comprehensive Public Safety budget, as required by the Stadium Lease, to include all components of Stadium public safety costs and reimbursement, including NFL public safety costs paid for directly by ManCo on behalf of StadCo, by the Stadium Authority from the Discretionary Fund, and any costs paid using other funds such as the Construction Fund.	Complete	ManCo provided a Public Safety Budget to staff in February 2017 during the 2017-18 budget process. This was also provided to staff on February 7, 2018 as part of the 2018-19 budget process. The Public Safety Budget was included as part of the 2018-19 Adopted SCSA Budget that was presented to the Board on March 13, 2018.
3.C The Stadium Authority Board should direct staff to develop specific definitions of which costs should be charged as overhead and which should be direct billed. Alternatively, staff should adjust the rate applied to direct billed staff costs from the current 10 percent to a more appropriate rate, and communicate to all staff which positions or activities will be charged as overhead.	Partially Complete	Staff is in the process of selecting a consultant to prepare an updated Cost Allocation Plan ("CAP"). The completion date for the CAP is targeted for the March/April 2019 timeframe. Once the updated CAP is complete, staff will have a more appropriate overhead rate to be used for Stadium costs.

STATUS OF HARVEY ROSE ASSOCIATES AUDIT RECOMMENDATIONS

Audit Recommendation	Current Status	Action Taken
4. STADIUM PARKING REVENUE CONTROLS		
4.A The Stadium Authority should exercise its right stipulated in the agreement between master parking lot operator Citypark and ManCo to periodically audit the detailed records of individual parking lots for NFL and non-NFL events.	Complete	ManCo engaged the audit firm BDO USA, LLP to perform an audit of Parking and Concessions. City staff observed and assisted with the audit process at a Non-NFL event (Gold Cup on 7/26/17). Staff has received a copy of the final audit report that included several findings. ManCo is working with the Parking vendor (ImPark), Concessionaire vendor (Levy), and Merchandise vendor (Fanatics) on responses to the various audit findings and recommendations. SCSA will receive a copy of the responses to the audit findings once they are complete.
4.B The Stadium Authority Board should direct staff to report back on the advantages and disadvantages of adding City audit rights as a condition of granting parking permits.	Complete	Staff has included audit rights language as a condition of granting parking permits
4.C The Stadium Authority Board should direct staff to require that ManCo provide a written report on matters related to off-site parking operations at their quarterly meetings, requiring that baseline information be provided in a specific format.	Partially Complete	A letter was mailed on October 18, 2018 from the Executive Director to the Stadium Manager requesting that he provide written reports on parking location, capacity, and availability dates for large non-NFL events beginning with the next Quarterly Status Meeting scheduled for November 29, 2018.