



City of Santa Clara

Meeting Agenda

Audit Committee

Thursday, September 24, 2020

3:30 PM

Virtual Meeting

Pursuant to the provisions of California Governor's Executive Order N-29-20, issued on March 17, 2020, to prevent the spread of COVID-19, the City of Santa Clara has implemented methods for the public to participate remotely:

- Via Zoom:

- o <https://santaclaraca.zoom.us/j/99199624617>

Meeting ID: 991 9962 4617 or

- o Phone: 1(669) 900-6833

CALL TO ORDER AND ROLL CALL

CONSENT CALENDAR

1. 20-857 [Audit Committee Minutes](#)

Recommendation:

Approve the Audit Committee minutes of March 4, 2020.

PUBLIC PRESENTATIONS

GENERAL BUSINESS

2. 20-858

[Overview of Santa Clara Stadium Authority Fiscal Year 2019/20 Annual Financial Statements and Audit Results Presentation by KPMG, LLP](#)

Recommendation:

Accept the Santa Clara Stadium Authority Fiscal Year 2019/20 Annual Financial Statements and recommend that the Stadium Authority note and file the report at the October 13, 2020 Joint Council and Authorities Concurrent and Stadium Authority meeting.

STAFF REPORT

COMMITTEE REPORT

ADJOURNMENT

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



City of Santa Clara

1500 Warburton Avenue
Santa Clara, CA 95050
santaclaraca.gov
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Agenda Report

20-857

Agenda Date: 9/24/2020

SUBJECT

Audit Committee Minutes

RECOMMENDATION

Approve the Audit Committee minutes of March 4, 2020.



City of Santa Clara

Meeting Minutes

Audit Committee

03/04/2020

3:30 PM

CMO Staff Conference Room

CALL TO ORDER AND ROLL CALL

Chair Gillmor called the meeting to order at 3:32 P.M.

Present 3 - Chair Lisa M. Gillmor, Member Kathy Watanabe, and Member Karen Hardy

CONSENT CALENDAR

1. [20-266](#) Audit Committee Minutes

Recommendation: Approve the Audit Committee minutes of December 9, 2019.

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

Aye: 3 - Chair Gillmor, Member Watanabe, and Member Hardy

PUBLIC PRESENTATIONS

GENERAL BUSINESS

2. [20-230](#) Overview of the Draft Single Audit Report for Fiscal Year Ended June 30, 2019

Recommendation: Accept the Single Audit Report for Fiscal Year Ended June 30, 2019 and recommend that the reports are forwarded for note and file to the full Council at the March 17, 2020 Council and Authorities Concurrent meeting.

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

Aye: 3 - Chair Gillmor, Member Watanabe, and Member Hardy

3. [20-306](#) Overview of the City Auditor's Office Semi-Annual Status Report as of December 31, 2019 and the Contract Audit of the Public Affairs and Media Relation Services

Recommendation: Accept the City Auditor's Office Semi-Annual Status Report as of December 31, 2019 and the Contract Audit of the Public Affairs and Media Relation Services and recommend that the reports are forwarded for note and file to the full Council at the March 17, 2020 Council and Authorities Concurrent meeting.

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

STAFF REPORT

COMMITTEE REPORT

ADJOURNMENT

Chair Gillmor adjourned the meeting at 3:59 P.M.

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



Agenda Report

20-858

Agenda Date: 9/24/2020

REPORT TO AUDIT COMMITTEE

SUBJECT

Overview of Santa Clara Stadium Authority Fiscal Year 2019/20 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 2019/20 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 2019/20 fiscal year, which runs from April 1, 2019 to March 31, 2020.

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 2019/20 Annual Financial Statements including year-over-year comparison of the Stadium Authority financial position.

Lisa Avis, Managing Director, and Jave Balajadia, Manager, from KPMG 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 [<mailto:clerk@santaclaraca.gov>](mailto:clerk@santaclaraca.gov).

RECOMMENDATION

Accept the Santa Clara Stadium Authority Fiscal Year 2019/20 Annual Financial Statements and recommend that the Stadium Authority note and file the report at the October 13, 2020 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 2019/20 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, 2020 and 2019
(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Basic Financial Statements:	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11

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 of unit of the City of Santa Clara, California (the Stadium Authority), as of and for the years ended March 31, 2020 and 2019, 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 respective financial position of the Stadium Authority as of March 31, 2020 and 2019, and the respective changes in financial position and 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, 2020 and 2019, 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, 2020 and 2019

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, 2020 and 2019. 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, California (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, 2020 are as follows:

- The carrying value of Levi's Stadium at March 31, 2020, net of depreciation, is \$732,686,832.
- During the fiscal year, there were 12 National Football League (NFL) games, 8 ticketed non-NFL events, and 79 smaller special events held at Levi's Stadium.
- The Stadium Authority recognized \$83,937,765 in operating revenue and \$62,794,043 in operating expenses.
- Revenue from the non-NFL events totaled \$29,313,294 and the related expenses were \$32,054,308 resulting in net non-NFL event loss of \$2,741,014.
- Debt service payments during the fiscal year totaled \$30,256,114. Overall remaining outstanding debt was reduced by \$15,065,337.
- The assets of the Stadium Authority exceeded its liabilities by \$75,502,589 due to income from the operation of Levi's Stadium.
- The City received \$355,000 for stadium ground rent, \$250,000 for senior and youth fees, and \$34,410 for parking fees at the Tasman lots, most of which came from the Stadium Authority. Additionally, the City is required to be 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.

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

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

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, 2020, March 31, 2019, and March 31, 2018 is as follows:

	<u>FY 2020</u>	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2020 increase (decrease)</u>	<u>FY 2019 increase (decrease)</u>
Assets:					
Capital assets	\$ 734,131,304	750,710,634	766,171,940	(16,579,330)	(15,461,306)
Other assets	107,604,033	77,378,199	80,793,577	30,225,834	(3,415,378)
Total assets	<u>\$ 841,735,337</u>	<u>828,088,833</u>	<u>846,965,517</u>	<u>13,646,504</u>	<u>(18,876,684)</u>
Liabilities:					
Current unearned revenue	\$ 14,220,515	13,583,615	12,757,656	636,900	825,959
Other current liabilities	34,338,194	25,222,836	26,689,430	9,115,358	(1,466,594)
Long-term unearned revenue	408,765,985	400,819,874	393,727,571	7,946,111	7,092,303
Other long-term liabilities	308,908,054	328,320,220	370,966,621	(19,412,166)	(42,646,401)
Total liabilities	<u>\$ 766,232,748</u>	<u>767,946,545</u>	<u>804,141,278</u>	<u>(1,713,797)</u>	<u>(36,194,733)</u>
Net position:					
Net investment in capital assets	\$ 412,092,181	415,272,986	387,976,702	(3,180,805)	27,296,284
Restricted for:					
Debt service	19,791,856	19,884,752	24,565,822	(92,896)	(4,681,070)
Capital projects and other agreements	31,599,799	32,525,642	29,167,798	(925,843)	3,357,844
Unrestricted deficit	(387,981,247)	(407,541,092)	(398,886,083)	19,559,845	(8,655,009)
Total net position	<u>\$ 75,502,589</u>	<u>60,142,288</u>	<u>42,824,239</u>	<u>15,360,301</u>	<u>17,318,049</u>

Fiscal Year 2019-20 Analysis

Capital assets decreased when compared to the prior year by \$16,579,330 due to annual depreciation, offset by a small amount of current period equipment additions. Other assets also increased when compared to the prior year by \$30,225,834. This was due mainly to the net effect of increases in cash offset by a decrease in accounts receivable associated with the Bay Area Host Committee. Liabilities decreased by \$1,713,797 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 \$9,115,358 primarily due to an increase in accounts payable related to the Non-NFL events loss and an increase in accrued liabilities related to timing of a debt payment. Total net position for the Stadium Authority, as a whole, increased between March 31, 2019 and March 31, 2020 to \$75,502,589. This increase of \$15,360,301 is primarily due to an increase in total assets.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

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.

The Stadium Authority's revenues, expenses, and changes in net position for the fiscal years ended March 31, 2020, March 31, 2019, and March 31, 2018 are as follows:

	FY 2020	FY 2019	FY 2018	FY 2020 increase (decrease)	FY 2019 increase (decrease)
Operating revenues	\$ 83,937,765	106,489,643	108,494,543	(22,551,878)	(2,004,900)
Operating expenses	(62,794,043)	(85,090,624)	(90,111,222)	22,296,581	5,020,598
Operating income	21,143,722	21,399,019	18,383,321	(255,297)	3,015,698
Nonoperating revenues	7,347,894	10,947,234	10,053,014	(3,599,340)	894,220
Nonoperating expenses	(16,744,903)	(18,808,084)	(21,098,455)	2,063,181	2,290,371
Income before contributions and other revenues	11,746,713	13,538,169	7,337,880	(1,791,456)	6,200,289
Contributions and other revenues	3,613,498	3,779,880	3,544,564	(166,382)	235,316
Increase in net position	15,360,211	17,318,049	10,882,444	(1,957,838)	6,435,605
Total net position – beginning of fiscal period	60,142,288	42,824,239	31,941,795	17,318,049	10,882,444
Total net position – end of fiscal period	\$ 75,502,499	60,142,288	42,824,239	15,360,211	17,318,049

Fiscal Year 2019-20 Analysis

Stadium Authority operating revenues decreased when compared with the prior year by \$22,551,878. This was mainly due to a decrease in Non-NFL events revenue, minimally offset by an increase in NFL Ticket Surcharge and amortization of SBL revenue. Operating expenses decreased by \$22,296,581 primarily due to a decrease Non-NFL events expenses and Stadium Manager Expenses. These decreases in operating expenses were offset by increases in SCSA General and Administrative costs, SBL Sales and Service expenses related to complimentary buffet for certain SBL holders and credit card fees on SBL collections.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

Nonoperating revenues decreased by \$3,599,250 due to an overall decrease in interest rates over the past year resulting in a decrease in bank interest revenue, lower SBL interest revenue and the one-time reimbursement of attorney fees in the prior year. Nonoperating expenses decreased by \$2,063,181. Significant prepayments were made on the Community Facilities District (CFD) Advance Loan and the StadCo Subordinated Loan in the prior year decreasing principal and resulting in lower interest expense.

Contributions and other revenues were \$3,613,498, a decrease of \$166,382 over the prior fiscal year. These represent special hotel tax revenues collected to pay the CFD Advance Loan.

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.

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, 2020, capital assets totaled \$734,131,304.

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

Debt Administration

At March 31, 2020, the Stadium Authority had total debt outstanding of \$325,264,603, 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 \$257,514,240, the CFD Advance Loan of \$28,832,979, and the StadCo Subordinated Loan of \$38,917,384.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

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. The agreement requires the Stadium Authority to hold at least 36 "Major Events" (with 25,000+ attendees) every three contract years. The Second Amendment to the Stadium Management Agreement states that ManagementCo would pay the Stadium Authority as liquidated damages the amount owed by the Stadium Authority to Levi's® in the event the required number of events is not met. As of March 31, 2020, the Stadium Authority has received \$40.6 million in naming rights revenue.
- Stadium Builders Licenses (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 \$531.7 million. Through March 31, 2020, \$458.9 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 \$55 million in interest from license holders who financed their SBLs.
- The Stadium Authority generated \$24.8 million in lease revenue during the NFL season and a \$2.7 million net loss associated with hosting non-NFL events for the fiscal year ended March 31, 2020.
- The Stadium Authority collected a 10% surcharge on the price of admission to all NFL games during the year ending March 31, 2020, which totaled \$8.4 million. Also recognized during the fiscal year was \$735,000 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, 2020 and 2019

Assets	2020	2019
Current assets:		
Cash	\$ 12,042,185	4,608,637
Restricted cash	28,336,800	25,796,929
Restricted cash with fiscal agent	48,143,407	26,613,465
Accounts receivable	7,545,407	8,822,933
Total current assets	96,067,799	65,841,964
Capital assets:		
Buildings, net	732,686,832	749,213,592
Machinery and Equipment, net	1,027,741	1,095,312
Construction in progress	416,730	401,730
Total capital assets	734,131,303	750,710,634
Long-term restricted cash with fiscal agent	11,536,235	11,536,235
Total noncurrent assets	745,667,538	762,246,869
Total assets	\$ 841,735,337	828,088,833
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,399,524	1,135,136
Interest payable	8,310,755	6,756,660
Due to other City of Santa Clara funds	288,775	75,490
Deferred rent, current portion	390,000	355,000
Term A loan payable, current portion	13,354,000	12,718,000
Subordinated loan payable, current portion	8,595,140	4,182,550
Unearned revenue, current portion	14,220,515	13,583,615
Total current liabilities	48,558,709	38,806,451
Deferred rent	5,592,591	5,003,547
Term A loan payable	244,160,240	257,548,412
CFD advance loan payable	28,832,979	30,925,978
Subordinated loan payable	30,322,244	34,842,283
Unearned revenue	408,765,985	400,819,874
Total noncurrent liabilities	717,674,039	729,140,094
Total liabilities	\$ 766,232,748	767,946,545
Net Position		
Net investment in capital assets	\$ 412,092,180	415,272,986
Restricted for:		
Debt service	19,791,856	19,884,752
Capital projects and other agreements	31,599,800	32,525,642
Unrestricted deficit	(387,981,247)	(407,541,092)
Total net position	\$ 75,502,589	60,142,288

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position - DRAFT

Years ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Charges for services	\$ 39,139,645	61,227,249
Rents and licensing	44,798,120	45,262,394
	<u>83,937,765</u>	<u>106,489,643</u>
Operating expenses:		
Leases	1,229,044	1,206,977
Materials, services and supplies	43,859,159	66,512,210
Selling, general, and administrative expenses	984,272	667,903
Depreciation	16,721,568	16,703,534
	<u>62,794,043</u>	<u>85,090,624</u>
Operating income	21,143,722	21,399,019
Nonoperating revenues (expenses):		
Interest revenue	6,923,643	8,667,016
Other revenue	424,341	2,280,218
Interest expense	(16,744,903)	(18,808,084)
Income before contributions and other revenues	11,746,803	13,538,169
Contributions and other revenues:		
Contribution from Community Facilities District	3,613,498	3,779,880
Increase in net position	15,360,301	17,318,049
Net position – beginning of period	60,142,288	42,824,239
Net position – end of period	<u>\$ 75,502,589</u>	<u>60,142,288</u>

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Receipts from customers	\$ 49,843,568	72,635,581
Payments to suppliers	(43,167,398)	(69,586,355)
Rents and licensing received	43,657,115	44,175,336
Net cash provided by operating activities	<u>50,333,285</u>	<u>47,224,562</u>
Cash flows from noncapital financing activities:		
Increase in due to other City of Santa Clara funds	637,626	2,303,373
Net cash provided by noncapital financing activities	<u>637,626</u>	<u>2,303,373</u>
Cash flows from capital and related financing activities:		
Contribution from Community Facilities District	3,820,818	3,731,546
Acquisition and construction of capital assets	(158,882)	(1,421,523)
Principal payments on capital debt	(14,952,620)	(42,444,397)
Interest paid on capital debt	(15,190,808)	(19,121,277)
Net cash used in capital and related financing activities	<u>(26,481,492)</u>	<u>(59,255,651)</u>
Cash flows from investing activities:		
Interest and dividends	7,013,942	8,610,925
Net cash provided by investing activities	<u>7,013,942</u>	<u>8,610,925</u>
Net decrease in cash and restricted cash	31,503,361	(1,116,791)
Cash and restricted cash, beginning of period	68,555,266	69,672,057
Cash and restricted cash, end of period	<u>\$ 100,058,627</u>	<u>68,555,266</u>
Reconciliation of operating income to cash provided by operating activities:		
Operating income	\$ 21,143,722	21,399,019
Depreciation	16,721,568	16,703,534
Change in operating assets and liabilities:		
Accounts receivable	979,907	2,403,012
Accounts payable and accrued liabilities	2,281,033	(1,858,309)
Unearned revenue	8,583,011	7,918,262
Deferred rent	624,044	659,044
Net cash provided by operating activities	<u>\$ 50,333,285</u>	<u>47,224,562</u>

See accompanying notes to financial statements.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

(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, California (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.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

(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 Restricted 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, 2020 and 2019 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.

(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

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

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.

(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.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

(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 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. The amount of Shared Expenses incurred for the year ending March 31, 2019 was \$7.06 million. For the year ending March 31, 2020, ManagementCo charged the Stadium Authority \$8.18 million in Shared Expenses, \$ 9.47 million in Other Operating and Management Expenses, which includes \$109,436 in financing costs, and

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

\$271,398 in Capital Expenses. Due to concerns over continued violations of State laws regarding ManagementCo's procurement process, the Stadium Authority partially suspended payments to ManagementCo starting in June 2019. As such, the Stadium Authority only recognized \$1.42 million in Shared Expenses and \$8.20 million in Other Operating and Management Expenses as of March 31, 2020. The remaining balance, offset by a prior year true-up of \$442,783, of \$7,866,051 is currently being disputed and recorded in Contingency Liability for fiscal year 2019-20 (see footnote 7b).

(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.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

(4) Capital Assets

Capital asset activity for the year ended March 31, 2020 was as follows:

	Balance March 31, 2019	Additions	Reductions	Balance March 31, 2020
Nondepreciable assets:				
Construction in progress	\$ 401,730	15,000	—	416,730
Total nondepreciable assets	401,730	15,000	—	416,730
Capital assets being depreciated:				
Buildings	826,227,888	—	—	826,227,888
Machinery and equipment	1,815,697	127,237	—	1,942,934
Less accumulated depreciation for:				
Buildings	(77,014,296)	(16,526,760)	—	(93,541,056)
Machinery and equipment	(720,385)	(194,808)	—	(915,193)
Net depreciable assets	750,308,904	(16,594,331)	—	733,714,573
Net capital assets	\$ 750,710,634	(16,579,331)	—	734,131,303

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	251,799	401,730	(251,799)	401,730
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	765,920,141	(15,611,237)	—	750,308,904
Net capital assets	\$ 766,171,940	(15,209,507)	(251,799)	750,710,634

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

Interest cost incurred during the years ended March 31, 2020 and 2019 totaled \$16,744,903 and \$18,808,084, 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, 2020 consisted of the following:

Type of indebtedness	Issue date	Due date	Interest rates	Outstanding as of March 31, 2019	Additions	Reductions	Outstanding as of March 31, 2020	Amounts due within one year
Business type activity debt:								
Stadium Funding Trust								
Loan:								
Term A Loan	6/19/2013	4/1/2039	5.00 %	\$ 270,266,412	—	(12,752,172)	257,514,240	13,354,000
StadCo CFD Advance	4/1/2013	12/31/2054	5.73	30,925,978	112,717 ⁽¹⁾	(2,205,716)	28,832,979	—
StadCo Subordinated Loan	3/28/2012	3/31/2043	5.50	39,024,833	—	(107,449)	38,917,384	8,595,140
Total				<u>\$ 340,217,223</u>	<u>112,717</u>	<u>(15,065,337)</u>	<u>325,264,603</u>	<u>21,949,140</u>

⁽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)).

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				<u>\$ 382,661,620</u>	<u>—</u>	<u>(42,444,397)</u>	<u>340,217,223</u>	<u>16,900,550</u>

(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.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

As of March 31, 2020, \$257.5 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%.

During the year ended March 31, 2020, 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 \$3.9 million, which included \$1.7 million in interest and \$2.2 million in principal. As of March 31, 2020, and 2019, \$28.83 million and \$30.93 million was outstanding respectively, which includes \$0.34 million of interest added to principal as of March 31, 2020.

(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 \$2,248,643 million were made on the loan. This included a \$107 thousand principal prepayment and \$2.14 million in interest. An additional As of March 31, 2020 and 2019, \$38.9 million and \$39.02 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.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

On July 3, 2019, ManagementCo began issuing certificates of loan to the Stadium Authority under the Management Company Revolving Loan in accordance with Sections 5.2 and 5.3 of the Stadium Management Agreement. The Management Agreement engages ManagementCo for services rendered related to its operations on behalf of the Stadium Authority. 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 fiscal year 2019-20, certain operating expenses have come into question by the Stadium Authority and as such, were withheld from payment to ManagementCo. ManagementCo acted independently and triggered the loan provision in order to provide monies for the payment of operating expenses not paid to date by the Stadium Authority. As of March 31, 2020, the total amount drawn by ManagementCo is \$6,300,653, which is currently under litigation (see footnote 7b).

(f) Long-Term Debt Maturities

Future principal and interest amounts due on long-term debt are as follows as of March 31, 2020:

	<u>Principal</u>	<u>Interest</u>
Year ending March 31:		
2021	\$ 21,949,140	16,000,598
2022	18,677,282	14,826,765
2023	19,634,322	13,834,575
2024	20,640,446	12,791,502
2025	12,766,322	12,141,528
Thereafter	<u>231,597,091</u>	<u>131,760,983</u>
Total	<u>\$ 325,264,603</u>	<u>201,355,951</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

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

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, 2020 and 2019.

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, 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:	
2021	\$ 390,000
2022	425,000
2023	460,000
2024	495,000
2025	1,000,000
Thereafter	<u>36,500,000</u>
	<u>\$ 39,270,000</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

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

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, 2020. In addition to the adjustment to the 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 \$24.8 million and \$25.8 million in stadium rent from StadCo in each of the fiscal years ended March 31, 2020 and 2019, 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.

(b) ManagementCo Expense Litigation

On June 13, 2019, the Stadium Authority partially suspended payments to ManagementCo for Operating and Management Expenses and Shared Expenses incurred by ManagementCo due to its continued procurement violations of State laws. The Stadium Authority was concerned with releasing public funds to ManagementCo while it continued to violate State laws. StadCo and ManagementCo have initiated arbitration proceedings to dispute the Stadium Authority's position. Since the Stadium Authority has reasonable justification for the suspension and the case is still under litigation, the Stadium Authority does not recognize the suspended payments as an expense as of March 31, 2020.

On July 3, 2019, ManagementCo, acting independently, began issuing certificates of loan to the Stadium Authority under the Management Company Revolving Loan in accordance with Sections 5.2

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2020 and 2019

and 5.3 of the Stadium Management Agreement to pay for the suspended Shared Expenses of approximately \$6,634,000, which covers expenses from June 2019 thru February 2020. The draw incurred \$109,436 in interest expense and increased the Management Company Revolving Loan balance amount to \$6,300,653 in principal and interest for fiscal year 2019-20 (see footnote 5e).

In addition to drawing from the Management Company Revolving Loan, ManagementCo charged the Stadium Authority \$544,000 for March 2020's Shared Expenses, \$750,000 in Lender and Administrative Fees, and \$ 271,398 in Capital Expenditures.

(c) Historical SBL Buffet Costs

On April 30, 2020, the Stadium Authority received an invoice in the amount of \$4,388,709 for previously un-billed "complimentary" buffet costs associated with certain SBL holders for the NFL seasons from 2014 thru 2018. On May 13, 2020, the Stadium Authority issued a response letter disputing the newly-billed costs citing that the costs were not presented in a reasonable manner relative to the financial planning and reporting requirements of the Lease Agreement and Stadium Management Agreement and there is no justification for delaying presentment and demand for payment. The invoices presented also lack sufficient supporting documentations in order to confirm the validity of the costs and charges under the Lease Agreement terms. StadCo and ManagementCo have initiated arbitration proceedings to dispute the Stadium Authority's position.

(8) Subsequent Events

On April 1, 2020, the Stadium Authority completed the Trust Excess Cash Flow funding instructions and provided it to the Stadium Funding Trust and StadCo to complete the year end Trust Excess Cash Flow funding distribution per the Deposit and Disbursement Agreement. The Trust Excess Cash Flow instruction specifically excluded payments to the Revolving Loan of \$6,300,653 because the Stadium Authority did not recognize this as an expense due to the fact that it is currently under litigation. StadCo deviated from the funding instructions and took the Excess Revenues from the distribution to pay off the Management Company Revolving Loan instead of paying down the StadCo Subordinated Loan that the Stadium Authority instructed. The Stadium Authority was informed of this deviation in a letter dated April 27, 2020. On May 18, 2020, the Stadium Authority notified StadCo and the Trust that the deviation is in direct contravention of the Stadium Authority's instructions to the Trustee with regards to the use of Excess Revenue. Subsequently, the Stadium Authority has recorded a receivable from StadCo for \$6,300,653.