

3/19/19

item 1

Santa Clara Stadium Authority

STUDY SESSION

Santa Clara Stadium Authority FY 2019/20 Operating,
Debt Service, and Capital Budget



March 19, 2019

Agenda

1. Standard of Care
2. Budget Development Schedule
3. Overview of Budget
4. Non-NFL Event Revenue
5. Stadium Authority Operating Budget
 - Operating Budget Revenues & Expenses
 - Stadium Authority General & Administrative (G&A) Expenses
 - Discretionary Expense
 - Performance Rent Calculation
6. Budget Risks
7. Stadium Authority Debt Budget
8. Stadium Authority Capital Budget

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POST MEETING MATERIAL

Management Agreement – Standard of Care

2.9 Standard of Care. Subject to the limitations set forth in this Agreement, the Budget, and the Stadium Lease, the Stadium Manager shall exercise **prudent, commercially reasonable good faith efforts in managing** and operating the Stadium in accordance with the terms hereof so as to (a) maintain the Stadium in the Required Condition and operate the Stadium as a **quality NFL and multi-purpose public sports, public assembly, exhibit and entertainment facility, to a standard of quality comparable to other similar facilities** (except that the parties recognize that portions of the Stadium may be in need of capital upgrades); (b) **control Manager Operating Expenses, StadCo Operating Expenses and Stadium Authority Operating Expenses**; and (c) **maximize Operating Revenues**.

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Standard of Care

- Prudent, commercially reasonable good faith efforts in managing
- Quality NFL and multi-purpose public sports, public assembly, exhibit and entertainment facility, to a standard of quality comparable to other similar facilities
- Control Manager Operating Expenses
- Maximize Operating Revenues

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FY 2019/20 Budget Development

November 2018	Staff worked with ManCo to develop the annual budget plan which included the dates that all required documents were due to the Stadium Authority
January 2019	<p>ManCo provided the required documents per the Stadium Agreements:</p> <ul style="list-style-type: none"> • Stadium Operations and Management Plan • Annual Shared Expense Budget with Five Year Projection • Annual Stadium Authority Operations Budget • Annual Public Safety Budget • Capital Expenditure Plan with Five Year Projection • Non-NFL Event Marketing Plan • Public Safety Document Updates
Mid-January to March 2019	Staff analyzed ManCo's's budget submission, Stadium Manager received Stadium Authority's proposed budget. On March 14, ManCo submitted over \$2.8 million of additional budget adjustments.
March 15, 2019 March 19, 2019	<ul style="list-style-type: none"> • Release of Proposed FY 2019/20 Operating, Debt Service, and Capital Budget • Study Session to receive Board and public input on the SCSA's proposed budget
March 27, 2019	Public Hearing to approve the SCSA Proposed Fiscal Year 2019/20 Operating, Debt Service, and Capital Budget and Approve the Stadium Operations Management Plan

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Santa Clara Stadium Authority FY 2019/20 Budget

- **Executive Director's Transmittal Letter**
- **Organizational Chart**
- **General Information**
- **Year in Review for both NFL and Non-NFL events**
- **Operating Budget (Accrual Basis)**
 - Stadium Authority General and Administrative Budget
 - Stadium Manager Shared Expenses and 5 Year Forecast
- **Debt Service Budget**
- **Capital Budget**
 - Capital Expenditure Plan – 5 Year Forecast

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Overview

Current Fiscal Year Non-NFL Event Revenue (FY 2018/19)

- **ManCo provided a projected net revenue amount of \$750,000 for FY 2018/19**
 - This would result in Performance Rent of \$215,000 paid to the City
 - A loss of \$2.4 million to the City's General Fund when compared to budget
- **ManCo did not provide supporting documentation for the FY 2018/19 projection, despite requests by Stadium Authority Staff**
- **Required that Stadium Authority staff depart from approach regarding fiscal projections**
- **Stadium Authority staff did not use ManCo's FY 2018/19 projection, but instead projected \$4 million based on the following:**
 - Staff's analysis of the event make-up compared to prior years (use of averages and actual data submitted over the past fiscal year by ManCo)
 - Draft Profit and Loss (P&L) statements that were prepared by ManCo for each event do not confirm the submitted numbers

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Overview (cont.)

FY 2018/19 – Completed or Initiated several key work efforts:

- Community Engagement (baseline data, Work Plan items, areas of interest, etc.)
- Noise Monitoring Program
- College Football Playoff (CFP) Championship Assignment Agreement and Deployment of Public Services
- Implemented 70% of Measure J Compliance Audit Recommendations
- Stadium Auditor established, including the establishment of an Audit Work Plan
- Policy Manual Development
- Stadium Authority Coordination (financial, compliance, auditing, clarifying processes, etc.)
- Rent Arbitration Award
- Non-NFL Event Financial Transparency (dating back to 2014 – current)
- Issued First Executive Director Annual Report

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Overview (cont.)

Historical Value of Non-NFL Events by Fiscal Year and Event Category

EVENT TYPE	2014/15		2015/16		2016/17		2017/18	
	No. of Events	Net Revenue	No. of Events	Net Revenue	No. of Events	Net Revenue	No. of Events	Net Revenue
Ticketed Events								
Concerts	0	\$ -	7	\$ 3,791,985	4	\$ 2,424,572	2	\$ 1,819,099
Sporting events:								
Football (non-NFL)	5	(3,007,907)	4	(2,316,903)	4	(2,946,165)	4	(3,601,827)
Soccer	2	3,948,144	2	891,300	5	2,414,209	3	3,228,754
Miscellaneous events	2	2,504,912	4	(149,392)	5	(159,175)	4	76,379
Subtotal Ticketed Events	9	\$ 3,445,149	17	\$ 2,216,989	18	\$ 1,733,441	13	\$ 1,522,405
Special Events (weddings, corporate events, etc.)	186	\$ 1,762,404	204	\$ 3,862,027	127	\$ 3,583,453	113	\$ 3,640,924
Total Non-NFL Net Revenue	195	\$ 5,207,553	221	\$ 6,079,016	145	\$ 5,316,894	126	\$ 5,163,329
Total Performance Rent paid to the General Fund⁽¹⁾		\$ 2,513,777		\$ 2,932,008		\$ 2,533,447		\$ 2,439,164
Average General Fund Revenue per Ticketed Event		\$ 184,782		\$ 62,899		\$ 45,887		\$ 55,322

⁽¹⁾ Performance Rent is calculated as 50% of the net revenue from Non-NFL events less performance-based credit of 50% of fixed Ground Rent

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Overview (cont.)

FY 2019/20 Proposed Budget

- **Total Proposed Stadium Authority Operating Budget is \$73.6 million**
- **Stadium Authority's General & Administrative expense budget equals \$2.5 million**
 - Addresses oversight, accounting, and audit workplan
 - Budget includes a proposal for a Deputy City Manager position to oversee Multi-Department public service deployment, neighborhood focused response and impact mitigation efforts, related policy development, and overall department coordination on public service support for events
 - Set at a level to implement the FY 2019/20 Work Plan topics
- **Continued to Improve Oversight of Stadium Management**
 - Increased Transparency
 - Ensured compliance with Agreements

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Overview (cont.)

FY 2019/20 Proposed Budget

- **Developed new Board policy to “Ensure Compliance with Measure J and Manage Levi’s Stadium”**
- **Stadium Authority FY 2019/20 Work Plan**
 - Community Room
 - San Thomas Aquino Creek Trail
 - Multi-departmental and agency deployment improvements and policy development
 - Auditor’s Work Plan
- **Outstanding Issues not Included In this Proposed Budget:**
 - Additional Stadium Authority Insurance
 - Stadium Manager Requested Expenses
 - Buffet services for certain SBL holders per applicable agreements
 - Marketing staff for Non-NFL events
 - Standalone financial system for the Stadium Authority that would allow for real time access to event financial data
 - Ticket Operations

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SANTA CLARA STADIUM AUTHORITY

Proposed Fiscal Year 2019/2020 Operating, Debt Service, and Capital Budget



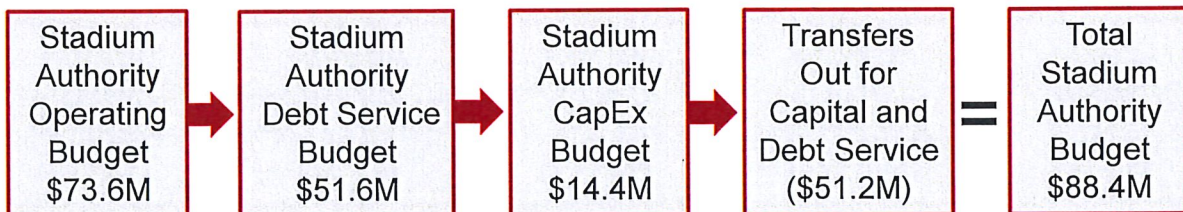
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Stadium Authority Flowchart



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Stadium Authority Budget Flowchart



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FY 2019/20 Operating Budget Revenues

NFL Ticket Surcharge	\$8,142,000
SBL Proceeds	25,416,000
Interest	938,000
Net Non-NFL Event Revenue	5,796,000
Naming Rights	6,754,000
Sponsorship Revenue (STR)	345,000
Rent	24,762,000
Senior & Youth Program Fees	230,000
Non-NFL Event Ticket Surcharge	1,232,000
Total Revenues	\$73,615,000

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FY 2019/20 Operating Budget Expenses

Shared Stadium Manager Expenses	\$11,904,000	
SBL Sales and Service	2,221,000	
Senior and Youth Program Fees	230,000	← Paid to the City's General Fund
Ground Rent	355,000	←
Performance Rent	2,721,000	←
Discretionary Fund Expense	250,000	
Utilities	1,551,000	
Use of StadCo Tenant Improvements	182,000	
Stadium Authority General & Administrative	2,480,000	
Other Expenses	200,000	
Transfers Out	51,183,000	
Contribution to Operating Reserve	338,000	
Total Expenses	\$73,615,000	

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FY 2019/20 Stadium Authority General and Administrative Budget

Expense Type	Amount	Comments
Staff support	\$1,160,000	To support the Stadium Authority with its oversight duties of stadium activities
Board stipends	\$8,000	Monthly Stadium Authority meetings
Audit services	\$267,000	Financial, Ticket Surcharge, and Performance Audits
Legal services	\$500,000	As needed for outside legal services
<u>Consultants</u>		
Community Outreach	\$190,000	Community engagement and board initiatives (e.g., community room, trail, neighborhood impacts, parking permit program, and other initiatives)
Noise Monitoring	\$135,000	Continued noise monitoring of Levi's® Stadium
Public Safety	\$100,000	Implementation of Public Safety expert's recommendations
Other expenses	\$20,000	Routine office expenses such as office supplies, copier lease, IT support, etc..
Executive Director and Board directives	\$100,000	Funding for unanticipated Board directives, Executive Director assignments, etc.
Total	\$2,480,000	3% of total Expense budget of \$73.6 million

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Santa Clara Stadium Authority Discretionary Fund

Projected Beginning Balance	50% of 2019/20 Non-NFL Event Ticket Surcharge	2019/20 Discretionary Fund Expense	Projected Ending Balance
\$1,936,075	\$616,000	\$250,000	\$2,302,075

- The Discretionary Fund has been used to cover NFL public safety costs above the public safety cost threshold, public safety capital expenses, and other items at the Stadium Authority's discretion.

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Santa Clara Stadium Authority Performance Rent Calculation

FY 2019/20 Performance Rent Calculation	Budget
Ground Rent	\$355,000
Net Non-NFL Event Revenue	\$5,796,000
50% of Net Non-NFL Revenue	\$2,898,000
Performance Rent Credit (50% of Ground Rent)	(177,500)
Total Performance Rent paid to the City of Santa Clara	\$2,720,500

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FY 2019/20 Budget Risks

- **ManCo was unable to provide a projection for Non-NFL events for FY 2019/20 during the budget development process**
 - Staff was unable to budget at the gross level due to insufficient information provided by ManCo
 - Staff projected \$5.8 million for Net Non-NFL Event Revenue and \$2.7 million paid to the City in Performance Rent

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FY 2019/20 Budget Risks (cont.)

- Notification from ManCo on March 14, 2019 of \$2.8 million in additional costs to the Stadium Authority

Expense Type	Additional Expenses (in \$ millions)	Description
SBL Sales & Services	\$1.1	Buffet service for applicable Stadium Business License (SBL) holders
SBL Sales & Services	\$0.1	Ticket operations related to SBL items
Non-NFL Events	\$1.2	Ticket operation staff (\$297k), IT staff (\$92k), and Sales & Marketing staff (\$800k)
Other Expenses	\$0.4	HR, Payroll, Accounting and Finance staff to work on Stadium Authority items
Total	\$2.8	

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FY 2019/20 Budget Risks (cont.)

- Information received from ManCo on March 14, 2019 reflects a forecast of \$175,000 for FY 2019/20 Net Non-NFL Revenue which would mean no Performance Rent would be paid to the City

FY 2019/20 Revised Performance Rent Calculation	Budget
Ground Rent	\$355,000
Net Non-NFL Event Revenue	\$175,000
50% of Net Non-NFL Revenue	\$87,500
Performance Rent Credit (50% of Ground Rent)	(177,500)
Total Performance Rent paid to the City of Santa Clara	\$ 0

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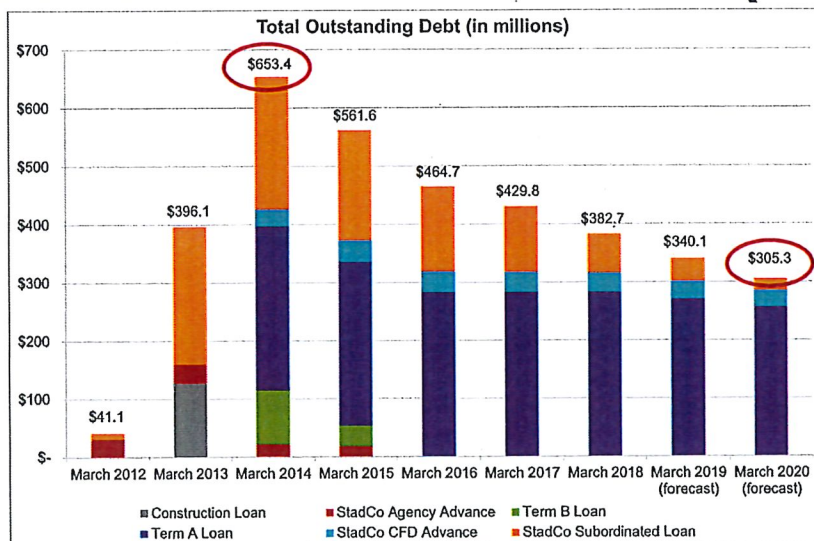
Santa Clara Stadium Authority FY 2019/20 Debt Service

Debt Type	Budget
CFD Advance	\$3,844,000
Term A Loan	26,383,000
StadCo Subloan	21,350,000
Total	\$51,577,000

- Debt Service amount of \$51.5 million includes Principal (\$34.8M) and Interest Payments (\$16.7M)
- Total Outstanding Debt is projected to decrease by \$34.8 million (principal payments) from \$340.1 million to \$305.3 million

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Santa Clara Stadium Authority FY 2019/20 Debt Service (cont.)



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Santa Clara Stadium Authority FY 2019/20 Capital Budget

Total Capital Budget of \$14.4 million

- **Stadium Improvements - \$12.9 million**
 - Carryover for Community room build out of \$630,000
 - Public Safety Equipment of \$1.9 million
 - Includes Fencing on Tasman
- **Stadium Warranty Related Construction - \$1.5 million**
 - Part of the original Stadium Development/Construction Budget

Note: Staff is withdrawing the Parking Gates at Youth Soccer Park Project in the amount of \$97,650 which will be reflected in the adopted budget.

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Conclusion

- Is structurally balanced between revenues and expenditures, but does not integrate new information received on March 14, 2019
- Maintains required reserves for operating, discretionary, and capital funds
- Maintains debt service commitments and identifies anticipated excess revenue that can be used toward debt.
- Invests in strategic capital expenditures
- Provides for greater transparency of expenditures
- Additional budget adjustments may be required after thorough review of ManCo's March 14 budget submittal
- These last minute developments, with new information, raise serious questions about how ManCo is managing the City's asset and cause for concern of Standard of Care

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