

3/19/19

item 2

Santa Clara Stadium Authority

Discussion of the Draft 2019 Non-NFL Events Marketing
Plan for Levi's® Stadium in accordance with Section 4.10
of the Stadium Management Agreement

March 19, 2019 Study Session



Study Session Summary

- | | |
|-------------------|---|
| Goal | <ul style="list-style-type: none">• Present Stadium Authority staff's position that ManCo's draft 2019 Marketing Plan does not include in "reasonable detail" the information required under the Management Agreement and discussed with Stadium Authority• Receive Board input for purposes of developing the draft Plan |
| Next Steps | <ul style="list-style-type: none">• March 27: Adopt the Stadium Authority FY 2019/20 Recommended Budget and Approve the Stadium Operation and Maintenance Plan<ul style="list-style-type: none">• As it stands, the recommendation will include a request to not approve the Marketing Plan as written, and, if needed, to direct staff to pursue correction action (per Management Agreement, section 3.3.1) |



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POST MEETING MATERIAL

History of Marketing Plan

Milestone	Comments
Presented in previous years at time Stadium Authority budget considered for approval.	Provided Board little opportunity to discuss and deliberate strategically on its components.
2017 Audit of Stadium Operations* found Management Agreement's "reasonably detailed" requirement not met.	Board agreed, expressed concern for the absence of strategic detail and the need for an improved Marketing Plan.



*Harvey M. Rose Associates, LLC audit of Stadium operations to ensure compliance with Measure J. 3

Harvey M. Rose Audit Recommendation 1.L:

Board should direct 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.
- Future marketing plans must include such details and be reviewed for sufficient detail by Executive Director before being presented to Board.



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History of Marketing Plan

Milestone	Comments
Dec 2017 – Mar 2018 Stadium Authority staff and ManCo discuss audit recommendation, approaches to mutually approve Marketing Plan.	ManCo agreed to draft KPIs in FY 2018/19 Q1 to evaluate Marketing Plan effectiveness, as well as inform decision making process for next Marketing Plan (Stadium Authority staff to support).

History of Marketing Plan

Milestone	Comments
Draft 2018 Marketing Plan collaboratively presented to Board by Stadium Authority staff/ ManCo in advance of budget adoption public hearing.	<p>Stadium Authority staff:</p> <ul style="list-style-type: none"> • Noted improvements from previous Marketing Plans • Provided some data to show responsiveness to Audit recommendation • Stated intent to provide informational report to Board on ManCo's proposed Key Performance Indicators in FY 2018/19 Q2 (Jul-Sept)

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**.

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

Management Agreement – Marketing Plan

4.10 Marketing Plan. ...the Stadium Operation and Maintenance Plan shall include a **marketing plan setting forth in reasonable detail the Stadium Manager's plans to develop, implement and monitor marketing, booking, advertising and promotion of Non-NFL Events** for the Stadium, which marketing plan shall be **mutually agreed upon by the Stadium Manager and the Stadium Authority** (the "Marketing Plan")...

Marketing Plan to include “Reasonable Detail”

- Marketing Plan must include in “reasonable detail” various information regarding Non-NFL Events.
- Marketing Plan must be mutually agreed upon by ManCo and Stadium Authority.

Marketing Plan to include “Reasonable Detail”

- A request to include further information in the Marketing Plan, and ManCo's response to, or rejection of, that request, must be based on Management Agreement terms and be commercially reasonable.
- We are not seeking inclusion of economics or financial forecast information on an event by event basis.
- Currently, Stadium Authority seeks information and data about the marketing strategies employed and its relationship to the financial “bottom line”.

Marketing Plan to include “Reasonable Detail”

- ManCo has full authority and discretion to determine Non-NFL Events, but must use commercially reasonable efforts to do so.
- ManCo must also exercise prudent, commercially reasonable good faith efforts for operating the Stadium, and maximizing revenues.
- ManCo must have a reasonable explanation why it rejects a request from the Stadium Authority for further detail in the draft Marketing Plan.

Primary Issues with draft 2019 Marketing Plan

- Absence of Data and Key Performance Indicators
- Naming Rights Agreement – Strategy and Compliance
- Non-NFL Revenues and Expenses Strategies
- Free Tickets or other Promotions/Giveaways

Data and Key Performance Indicators

- KPIs are the method of tracking and measuring financial and operational goals, successes and issues
- Strategic initiatives in 2018 Marketing Plan provided a solid foundation to improve the use of data analytics/metrics for monitoring desired performance and outcomes and a good starting point for ManCo to develop KPIs as planned/agreed.

Data and Key Performance Indicators

- In October 2018, Stadium Authority Executive Director sent a letter to Stadium Manager summarizing efforts and lack of progress since March, and expectation for ManCo to produce a comprehensive set of KPIs.
- ManCo met several times with Stadium Authority and, up until January 2019, confirmed inclusion of KPIs in the Marketing Plan.

Data and Key Performance Indicators

- Draft 2019 Marketing Plan does not include data that shows the outcome of strategic efforts, how success is measured, or informs the draft 2019 Marketing Plan activities.
- The KPI work that was completed is a good start for producing qualitative and quantitative data regarding the marketing and booking activity and the success of it.

Examples from 2019 Marketing Plan

Section	Stadium Authority Staff Assessment
Increased attendance at industry events and participation in strategic partnerships (p.4)	No data provided to quantify the effort or demonstrate how implementation of strategies are measured, and the failure or success of them. This information is useful for determining financial investment, changes to strategy, and where to focus limited resources for booking non-NFL events at the Stadium.



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Examples from 2019 Marketing Plan

Section	Stadium Authority Staff Assessment
Dynamic Ticket Pricing (p.14)	No data provided to demonstrate how “applying dynamic ticket pricing” is successful, or what additional revenue has been realized as a result of the practice. ManCo negotiates and executes promoter contracts for Non-NFL Events and has allowed for the inclusion of a provision that allows for the promoter to price tickets without limitation at \$0 (and \$0 ticket surcharge); it is reasonable for Stadium Authority to track ManCo's practices and be informed with how this feature results in financial gain or loss to the Stadium Authority.



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Dynamic Ticket Pricing

Levi's Stadium FY 2018/19 Non-NFL Event Statistics as of September 30, 2018

	Monster Jam 04/29/18	Taylor Swift Concert I 05/11/18	Taylor Swift Concert II 05/12/18	Earthquakes Soccer Match 07/22/18	Champions Cup Soccer Match 08/04/18	High School Football 09/21/18	OTR II Concert (Beyonce & Jay-Z) 09/28/18	2018/19 Q1-Q2 Special Events	2018/19 YTD Total
No. of Tickets Sold	35,302	29,333	50,503	22,281	43,393	3,802	47,235	-	231,849
Non-NFL Ticket Surcharge	\$ 141,268	\$ 117,332	\$ 202,012	\$ 89,124	\$ 173,572	\$ 15,208	\$ 108,940	\$ -	\$ 927,396
No. of Non-NFL Special Events	-	-	-	-	-	-	-	41	41
Non-NFL Special Event Attendees	-	-	-	-	-	-	-	15,943	15,943
Cars Parked at Offsite Lots	3,719	2,196	4,580	2,698	4,641	-	4,504	-	22,338
City Offsite Parking Fee	\$ 20,157	\$ 11,902	\$ 24,824	\$ 15,190	\$ 26,129	\$ -	\$ 25,358	\$ -	\$ 123,559
Stadium Public Safety Costs	\$ 209,965	\$ 239,039	\$ 234,710	\$ 184,611	\$ 201,868	\$ 8,007	\$ 231,496	\$ 31,602	\$ 1,341,286
Less: Offsite Parking Fee Credit	\$ (20,157)	\$ (11,902)	\$ (24,824)	\$ (15,190)	\$ (26,129)	\$ -	\$ (25,358)	\$ -	\$ (123,559)
Reimbursable Public Safety Costs	\$ 189,808	\$ 227,126	\$ 209,886	\$ 169,421	\$ 175,740	\$ 8,007	\$ 206,139	\$ 31,602	\$ 1,217,727
Amount Reimbursed	\$ 189,179	\$ 226,327	\$ 208,378	\$ 171,494	\$ 178,659	\$ 8,007	\$ 199,520	\$ 31,602	\$ 1,173,466



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Examples from 2019 Marketing Plan

Section	Stadium Authority Staff Assessment
Incentivize multi-year agreements (p.15)	There should be clear data that support these efforts. The record already has demonstrated that ManCo entered into at least one multi-year agreement that did not produce revenue, and in fact came at a multi-million annual loss to the Stadium Authority. This presents an example of where additional information about strategic efforts, and financial outcomes, are worthy of tracking data and measurable outcomes by the Stadium Authority.



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Multi-Year Agreements

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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Naming Rights Agreement

- Naming Rights Agreement between Santa Clara Stadium Authority and Levi Strauss & Co (Levi's®) entered on May 9, 2013
- Initial Term is 20 years (March 1, 2014 – February 28, 2034)
- \$154.2 million total naming right fees are paid over Initial Term by Levi's® to Stadium Authority
 - \$5.7M first contract year
 - 3% annual increase

Naming Right Fees by Contract Year*

Mar 2014 – Feb 2015	\$5.70M
Mar 2015 – Feb 2016	\$5.87M
Mar 2016 – Feb 2017	\$6.05M
Mar 2017 – Feb 2018	\$6.23M
Mar 2018 – Feb 2019	\$6.42M

*Naming Rights Revenues in budget are FY based, which is different than Naming Rights Contract Year



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Naming Rights Agreement

- Naming Rights Agreement threshold metrics:
 - Stadium Authority is required to have at least 36 Major Events every three contract years (Three-Year Period)
 - Major event is any Non-NFL Event with 25,000+ attendees
- If less than 36 Major Events held during any Three-Year Period
 - Levi's® receives \$15,000 credit x the difference between 36 and the actual number of Major Events held
 - ManCo would pay to the Stadium Authority as liquidated damages the amount owed by the Stadium Authority to Levi's® (Second Amendment to the Management Agreement, section 3.1)



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Addressing Required Events under the Naming Rights Agreement

- Current metrics:

Three-Year Period	Major Events	Notes
Mar 2014 – Feb 2017	39	1 Super Bowl = 8 Major Events
Mar 2014 – Feb 2020	14	Through February 2019

Prepared by Stadium Authority staff –not found in Marketing Plan

- 22 Major Events to hold by Feb 2020 – 4 on Stadium Events Calendar
 - \$270,000 potential credit to Levi's® (18 x \$15,000)
- This should be a major driver/theme of the draft 2019 Marketing Plan; however, ManCo's draft is completely silent on this topic.



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Non-NFL Revenues and Expenses

Draft 2019 Marketing Plan Executive Summary

"Levi's® Stadium's non-NFL events business continues to generate revenue for the Stadium Authority while successfully bringing new shows and events to Santa Clara."



ManCo submittal of FY 2018/19 non-NFL revenues and expenses

Net revenues estimate lower than prior projections and historical production (>\$5M annual average)

- \$750,000 for FY 18/19
- \$175,000 for FY 19/20

Draft 2019 Marketing Plan does not acknowledge the significant net revenue reduction or address strategies of how such a reduction can be mitigated.

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Free Tickets or other Promotions/Giveaways

- No metrics in draft 2019 Marketing Plan demonstrate how practice of distributing Free Tickets or other Promotions/Giveaways will achieve favorable strategic results, such as:
 - attract other events
 - increase Stadium Authority revenue
 - how Stadium Authority is compensated for lost revenue and/or increased public safety costs
- The Stadium Authority reasonably requests metrics about how these practices relate to how ManCo books events and otherwise meets its duties under the Standard of Care (2.9)

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Fiscal Impact of Marketing Plan

The effectiveness of the Marketing Plan to market and book Non-NFL Events at Levi's® Stadium has a direct impact on the "bottom line" amount of Stadium Authority revenue, and the amount paid to the City's General Fund.

ManCo's Response

- There appears to be some confusion over the appropriate information to be included in the Marketing Plan ("MP"). Pursuant to the Management Agreement, the MP presents our plan to "...develop, implement and monitor marketing, booking, advertising and promotion of Non-NFL Events...".
- It is not intended to be a reference manual on the basic economics of hosting ticketed events.

ManCo's Response

- [How comp tickets are used for major ticketed events] was already explained to you.
- If you would like further explanation of how comp tickets work, scanned versus sold, per capita spending at different event types, the mechanics of dynamic ticket pricing, the role of ticket brokers, etc. we would be happy to set up a meeting to discuss that with you. But that is not the purpose of the MP.



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ManCo's Response

- We are not refusing to make any changes, nor are we planning to submit a revised draft at this time.
- My suggestion is to collect any Board input you deem appropriate on this matter and then please send us your detailed comments on the Marketing Plan, incorporating comments from your Board. Upon receipt, ManCo will consider those comments, and potentially send you a revised draft.
- We disagree with much of what you have written. I don't plan to attend this meeting, but we look forward to receiving your detailed comments, including any input from your Board.



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Conclusion

- Following the Management Agreement terms and the parties' discussions, the Stadium Authority reasonably requested and expects the Marketing Plan to include:
 - Meaningful KPIs that provide enough statistical information to evaluate and measure the effectiveness of the 2018 Marketing Plan and/or inform the decision making process over time and, specifically, for the 2019 marketing activities, as ManCo has already agreed.
 - Basic information related to the Naming Rights Agreement metrics.



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Conclusion

- Following the Management Agreement terms and the parties' discussions, the Stadium Authority reasonably requested and expects the Marketing Plan to include:
 - Data about Dynamic Pricing/Free Tickets or other Promotions/Giveaways as it has direct financial consequences and, at the core, it is directly related to how ManCo books events and executes the contracts.
 - Strategies being employed to advance favorable revenue conditions and overall success for the Stadium Authority.



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Conclusion

- It is more important and effective for the draft 2019 Marketing Plan to acknowledge the actual context of Non-NFL Revenues and Expenses and remedy the projected net non-NFL revenue reduction, and provide the data to substantiate this trend, rather than include a general statement regarding successes.

Recommendation

Review and provide input on the draft 2019 Non-NFL Events Marketing Plan as prepared by the Forty Niners Stadium Management Company, LLC

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Santa Clara Stadium Authority

Table 3

Levi's® Stadium

2018/19 Non-NFL Event Statistics
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