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Title: Discussion of the Proposed Santa Clara Stadium Authority Fiscal Year 2020/21 Budget and Stadium Authority Budget, Compliance and Management Policies [Board Pillar: Ensure Compliance with Measure J and Manage Levi’s Stadium]

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Attachments: 1. Santa Clara Stadium Authority Proposed Fiscal Year 2020/21 Budget, 2. Annual Public Safety Budget, 3. Revised Stadium Authority Budget Policy, 4. Stadium Authority Compliance and Management Policy, 5. Stadium Authority Budget Submittal Questions, 6. POST MEETING MATERIAL

Date	Ver.	Action By	Action	Result
3/5/2020	1	Santa Clara Stadium Authority		

REPORT TO STADIUM AUTHORITY BOARD

SUBJECT

Discussion of the Proposed Santa Clara Stadium Authority Fiscal Year 2020/21 Budget and Stadium Authority Budget, Compliance and Management Policies [Board Pillar: Ensure Compliance with Measure J and Manage Levi’s Stadium]

BACKGROUND

The Stadium Management Agreement (Management Agreement) defines the Stadium Operation and Maintenance Plan (SOMP) as the plan designed to achieve a safe and well maintained Stadium, and shall include the standards for management and operation of the Stadium, including the required security, staffing, and other required elements of hosting Stadium Events. The Stadium Manager is responsible for preparing the SOMP, each of which shall be presented annually to the Santa Clara Stadium Authority (Stadium Authority), which has to include the:

1. Annual Shared Stadium Expense Budget,
2. Annual Public Safety Budget,
3. Capital Expenditure Plan, and
4. Marketing Plan.

Each year, the Stadium Authority staff prepares, in coordination with the Forty Niners Stadium Management Company (ManagementCo), the proposed Santa Clara Stadium Authority Operating, Debt Service, and Capital Budget for the Stadium Authority’s twelve month fiscal year (April 1 through March 31) in accordance with Article 4 “Records, Accounts, Budgets, and Reports” of the Stadium Management Agreement (Management Agreement).

As part of a separate item on the March 5 Study Session, the Stadium Authority Board (Board) will also review and provide input on the draft 2020 Marketing Plan as prepared by ManagementCo.

Section 8 of the Stadium Operations Agreement between the Stadium Authority and Forty Niners SC Stadium Company LLC (StadCo) states that with the draft budget, the Stadium Manager shall deliver to the Stadium Authority and StadCo, for review and comment, any proposed updates or revisions to documents applicable to the traffic management, security and public safety at Stadium Events for such Lease Year (Public Safety Document Updates).

Note: The Proposed Budget represents information available to the Stadium Authority as of February 28, 2020. Per Section 4.6 of the Management Agreement, ManagementCo is required to submit a budget 45 days prior to the start of the fiscal year. While budget submittals were conducted earlier in years past, this year, following a timeline in accordance with the Management Agreement, ManagementCo has limited the amount of additional information the Stadium Authority is able to provide for this budget. ManagementCo has not yet responded to staff questions as detailed in Attachment 5. Any additional detail or information provided will be identified and incorporated into the budget for the scheduled adoption and public hearing on March 24, 2020 or verbally updated at the March 5, 2020 Study Session (if the responses are provided).

DISCUSSION

This report to the Stadium Authority transmits the Fiscal Year 2020/21 Stadium Authority Proposed Operating, Debt Service, and Capital Budget (Attachment 1) together with the Public Safety Budget as required per the SOMP and is prepared by ManagementCo (Attachment 2). The budget document contains several key sections including: the Executive Director's Transmittal Letter; Stadium Operating Budget which includes a breakdown of the Stadium Authority's General and Administrative costs, Shared Stadium Manager expenses including the total expenses and the Stadium Authority's share of those expenses; Debt Service budget; and the Capital Budget. In addition, staff has included glossaries of commonly used financial terms in this proposed budget to facilitate understanding the types of revenues, expenses, debt, and capital expenses.

In accordance with Sections 4.5 through 4.8 of the Management Agreement, ManagementCo submitted the operating, capital, and debt budget for the FY 2020/21 Stadium Authority Budget. Staff followed the budget development process outlined in the approved Stadium Authority Budget Policy (Attachment 3) in preparing the Proposed FY 2020/21 Stadium Authority Budget. The policy includes several proposed changes 1) dates to reflect that the submittal by ManagementCo is required at least 45 days prior to the start of the fiscal year and 2) clarification to establish the budgetary appropriation control for expenditures set at the fund level, consistent with City funds where expenditures are not allocated to a specific department. The Santa Clara City Council has established a policy priority that applies to the City's public services support of the Stadium Authority, which is to "Ensure Compliance with Measure J and Manage Levi's[®] Stadium". The Stadium Authority-approved a Compliance and Management Policy is reflected in Attachment 4 and remains unchanged.

The goal of the budget development process is to allow the Budget to be presented to the Board and the public at one Special Meeting/Study Session and one Public Hearing before its final consideration for approval. The following summarizes the timeline of the budget process:

- In November 2019, Stadium Authority staff met with ManagementCo to discuss the annual budget plan which included the dates that ManagementCo would provide all necessary documents as required by the Stadium Lease and Stadium Management Agreement. At that

meeting, it was expressed that ManagementCo would follow the due dates outlined in the Stadium Agreements.

- At least 45 days prior to the start of the fiscal year (February 15), ManagementCo provided annual documents as outlined in the Stadium Agreements, which were used in the Budget Development Process:
 - Stadium Operations and Management Plan (*Source: Stadium Management Agreement*)
 - Annual Shared Expense Budget with Five Year Projection (*Source: Stadium Management Agreement*)
 - Annual Stadium Authority Operations Budget (*Source: Stadium Management Agreement*)
 - Annual Public Safety Budget (*Source: Stadium Management Agreement*)
 - Capital Expenditure Plan with Five Year Projection (*Source: Stadium Management Agreement*)
 - Non-NFL Event Marketing Plan (*Source: Stadium Management Agreement*)
 - Public Safety Document Updates (*Source: Stadium Operations Agreement*)

- February through early March 2020, Stadium Authority staff fully analyzed ManagementCo's budget submission including but not limited to the number of full-time equivalents (FTEs) recommended and related personnel costs as well as non-personnel costs and calculated the budget for Stadium Authority General and Administrative (G&A) costs (such as staff costs, consulting, audit, legal, and any reasonable and necessary expenses to uphold its support of the Board) as well as any necessary funding to be used for the Stadium Authority's Discretionary Fund. A summary of questions and additional details regarding the analysis of the submittal is included as Attachment 5.

The Proposed Fiscal Year 2020/21 Operating, Debt Service, and Capital Budget is presented to the Stadium Authority Board under unusual circumstances. During FY 2019/20, the Stadium Authority issued several Notices of Breaches and Default to the Management Agreement that ultimately resulted in issuing a Notice of Termination of the Management Agreement. Until these matters are resolved, the Stadium Authority Budget must continue include repayment of debt, funding of some type of operating budget, and ongoing capital investment in the stadium asset. Submission of this year's Budget to the Stadium Authority Board for consideration, should not be viewed as an indication of a change in the Board's policy direction that the Management Agreement with ManagementCo be terminated.

The Proposed Budget is presented on an accrual basis which provides increased transparency for projected revenues and expenses, with added detail about financial transfers. The total Stadium Authority Operating Budget for FY 2020/21 is \$66.7 million and represents a decrease of \$6.9 million, or 9%, compared to the prior fiscal year. It should be noted that these figures assume net Non-NFL Event Revenue which does not consider gross revenues and expenditures from these activities.

A summary of key changes and assumptions for the Proposed Operating Budget include:

- Proposed Capital Expenditures totaling \$13 million including general building, security, furnishings and equipment, and public safety investments.
- Adjustments to the General and Administrative Budget funding 6.8 full-time equivalent positions totaling \$2.1 million. We believe this to be a baseline level of support necessary for Stadium Authority operations.

- Two new positions in the Finance Department (1.0 Management Analyst and the conversion of a part-time Accounting Technician to full-time) totaling \$280,000.
- Funding for a new Financial Management/Accounting System (\$270,000 and subject to subsequent court rulings on cost allocation) in an effort to provide greater transparency on Non-NFL Event and Shared Expense costs.
- Net Non-NFL Events revenue of \$0 for the current and proposed fiscal years. No additional information has been provided regarding the types and number of events assumed that would change the fiscal trajectory of last fiscal year and the current fiscal year. The Stadium Authority will continue to produce no performance rent revenue to the City.
- Total estimated Debt Service payments of \$42.3 million including debt related to the CFD (\$4 million) and Subordinate Loan (\$12.7 million) and Term A Loan (\$25.6 million).

Key highlights for the Stadium Authority's 2020/21 budget are as follows:

Operating Budget

Revenues

- FY 2020/21 total projected revenues of \$66.7 million includes \$24.8 million in facility rent, \$24.2 million in Stadium Builder License (SBL) revenue, \$8.7 million in NFL ticket surcharge, \$7.0 million in Naming Rights revenue, \$0.6 million in Non-NFL ticket surcharge, and \$1.4 million in miscellaneous other revenues.
- Projections for Net Non-NFL Event Revenue in FY 2019/20 that were submitted by ManagementCo assumed the same level of Net Non-NFL Event Revenue as that was received in FY 2018/19. The Stadium Authority received "TBD" from ManagementCo instead of actual projections for Net Non-NFL Event Revenue in FY 2020/21.

Expenses

- The proposed Operating Budget equals \$66.7 million and includes the Stadium Authority's share of expenses covered under the Management Agreement in the amount of \$12.1 million along with monies sufficient to fulfill the Stadium Authority's administrative oversight of the Stadium in the amount of \$4.8 million (of which \$2.1 million is for staff support and Board stipends), SBL sales and services of \$3.6 million, utilities of \$1.6 million, other expenses recommended by the ManagementCo of \$1.4 million, ground rent of \$390,000, and Senior/Youth fees of \$230,000. It also includes transfers out of \$41.8 million as detailed below.
- Total transfers out of \$41.8 million include a \$3.6 million transfer to the Capital Fund for future Stadium capital improvements and \$38.2 million to the Debt Service Fund.

Debt Service Budget

- The proposed 2020/21 Debt Service Budget of \$42.3 million (principal of \$27.3 million and interest of \$15.0 million) is based on the required debt service payments and anticipated excess revenue that will be used to prepay debt. Total outstanding debt is projected to decrease by \$27.3 million from \$308.3 million to \$281.0 million.

Capital Expense Budget

- The FY 2020/21 Capital Expense Budget totals \$13.0 million. Of this total, \$8.0 million of prior year appropriations are carried over into FY 2020/21. New capital improvement appropriations equal \$5.0 million.

Reserves

- Total reserves are expected to be \$34.2 million at the end of FY 2020/21. This is composed of an operating reserve of \$11.9 million, a discretionary fund balance of \$2.4 million, a debt service reserve of \$11.5 million and a capital expenditure reserve of \$8.4 million.

FISCAL IMPACT

The proposed 2020/21 Budget includes \$66.7 million for operating costs (includes transfers out to Debt Service and Capital Funds), \$42.3 million for debt service, \$13.0 million for capital (includes a \$8.0 million carryforward from the prior year) and \$34.2 million in total reserves.

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.

COORDINATION

This report has been coordinated with the City Attorney’s Office.

PUBLIC CONTACT

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

RECOMMENDATION

Review and provide input, or possible Board action, on the Santa Clara Stadium Authority Fiscal Year 2020/21 Operating, Debt Service, and Capital Budget and Stadium Authority Budget, Compliance and Management Policies.

Reviewed by: Kenn Lee, Treasurer

Approved by: Deanna J. Santana, Executive Director

ATTACHMENTS

1. Santa Clara Stadium Authority Proposed Fiscal Year 2020/21 Operating, Debt Service, and Capital Budget
2. Annual Public Safety Budget
3. Revised Stadium Authority Budget Policy
4. Stadium Authority Compliance and Management Policy
5. Stadium Authority Budget Submittal Questions