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REPORT TO STADIUM AUTHORITY BOARD

SUBJECT

Study Session: Discussion of the Proposed Santa Clara Stadium Authority Fiscal Year 2019/20 Budget and Stadium Authority Compliance and Management Policy

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 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 (Stadium Authority) Operating, Debt Service, and Capital Budget for the Stadium Authority's twelve month fiscal year (April 1 through March 31 of the following year) in accordance with Article 4 "*Records, Accounts, Budgets, and Reports*" of the Stadium Management Agreement (Management Agreement).

Following the process implemented last year, the Stadium Authority Board (Board) will review and provide input on the draft 2019 Marketing Plan as prepared by ManagementCo during a Study Session following the discussion of the Proposed Budget.

The Stadium Operations Agreement between the Stadium Authority and Forty Niners SC Stadium Company LLC (StadCo) states (section 8) 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). Stadium Authority staff will provide an informational report to the Board regarding these updates following completion of the review process anticipated for Spring 2019.

On January 31 and February 1, 2019, the Santa Clara City Council held two full-day sessions to review the state of the organization, advancements of policy priorities, and key data that provided direction on managing the City going forward. Following the [Overview of City Council Operational and Strategic Priority Setting Sessions <http://santaclaraca.gov/government/council/council-goals>](http://santaclaraca.gov/government/council/council-goals), Board Members provided feedback to staff on their priorities for the organization. The priorities of individual Board Members are discussed below.

DISCUSSION

This report to the Stadium Authority transmits the Fiscal Year 2019/20 Stadium Authority Proposed Operating, Debt Service, and Capital Budget (Attachment 1) the Public Safety Budget that is required per the SOMP and is prepared by ManagementCo (Attachment 2). The budget document includes key components such as 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 2019/20 Stadium Authority Budget. Staff followed the budget development process outlined in the [Stadium Authority Budget Policy <http://santaclaraca.gov/home/showdocument?id=57074>](http://santaclaraca.gov/home/showdocument?id=57074) in preparing the Proposed FY 2019/20 Stadium Authority Budget. The goal of the budget development process is that the Budget is presented to the Board and the public at one Study Session and one Public Hearing before its final approval.

Steps that were followed during the budget process are listed below:

- In November, Stadium Authority staff met with ManagementCo to develop 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.
- In January, 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*)
- January through early March, 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.

The Proposed Budget represents information available to the Stadium Authority as of March 13, 2019. ManagementCo submitted additional budget information on March 14 that has not been included in this report as staff has not had sufficient time to properly analyze or research the new requests. Staff will update the Board at the March 27 meeting on the status of the additional submittals.

It is important to note that during the budget review process, the Stadium Authority had several rounds of questions and clarifications for ManagementCo in reference to their budget submittals. ManagementCo provided the Stadium Authority with an estimated Net Non-NFL Event Revenue amount of \$750,000 for events held in the current FY 2018/19. Staff requested that ManagementCo provide supporting documentation, given that the fiscal trend information and documentation provided to date did not support this revised net revenue, and ManagementCo was unable to provide staff with the supporting documentation to determine how such a low value was calculated when compared to prior years. As such, once the event information is received and validated, a budget adjustment may be required if gross Non-NFL expenses are determined to be higher than budget. This due diligence will need to be completed in FY 2019/20 and does not assume a budget adjustment in this proposed budget. Accordingly, the Stadium Authority has elected to maintain projected revenue of \$4.0 million for Net Non-NFL Event Revenue in 2018/19 based on staff's analysis of the event make-up compared to prior years and draft profit and loss ("P&L") statements that were prepared by ManagementCo that support this projection.

ManagementCo also did not provide a budget amount for FY 2019/20 for Non-NFL revenues and expenses at the gross level nor an estimate for the FY 2019/20 Net Non-NFL Event Revenue. Therefore, staff continued the past practice of budgeting at the Net Non-NFL Event Revenue level at \$5.8 million, which is based on the Stadium Marketing and Booking Fee Benchmark for FY 2019/20 as outlined in Section 3.4 of Amendment No. 1 to the Management Agreement.

In addition, ManagementCo requested \$507,000 for "Other Expenses". This was an increase of approximately \$400,000 when compared to the prior year. ManagementCo stated that this increase was an estimate of additional ManagementCo costs required to perform additional services requested by the Stadium Authority. The Stadium Authority believes that it has been reasonable with its requests to perform oversight based on the requirements of the various agreements. With that in mind, Stadium Authority staff is recommending a budget of \$200,000 in the "Other Expense" line item and, upon supporting documentation; staff is amendable to bringing forward a budget adjustment with the appropriate detail of what the expense will fund. However, if there have been additional

services requested of ManagementCo, they have been either consistent with the agreements while not implemented in prior years, have been denied by ManagementCo, or, in some cases, we feel may have resulted in the Stadium Authority not fully understanding the full financial transactions of ManagementCo.

In an effort to continue to strengthen the SCSA's policies to improve governance, transparency, and responsiveness to the Santa Clara community and Levi's® Stadium obligations, the proposed budget includes an update on the Stadium Authority FY 2019/20 Work Plan, first presented to the Board on November 27, 2018. The Work Plan includes efforts such as ensuring compliance with agreements, City Code and applicable laws and regulations; developing policy options; and evaluating and implementing changes to the City's deployment of public services to support events at Levi's Stadium. Additionally, the feedback received from individual Board Members (Attachment 3) following the [Overview of City Council Operational and Strategic Priority Setting Sessions](http://santaclaraca.gov/government/council/council-goals) held on January 31 and February 1, 2019 is consistent with the proposed FY 2019/20 Work Plan. The recommended G&A budget includes funding to implement this Work Plan.

Additionally, this proposed budget is accompanied with a recommended Stadium Authority Compliance and Management Policy for the Board to consider (Attachment 4). 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". As part of planned separate action in this budget process, this policy priority is presented to the Board to adopt and to establish the foundation for how the Board governs the Stadium Authority and how staff implements the Board's directives. This policy, if approved, will be incorporated in the Stadium Authority Board Policy Manual and published on the Stadium Authority's website.

The proposed operating budget reflects total revenues and expenses of \$73.6 million, which is a decrease of \$58.5 million from the prior year. This is due to the ManagementCo not providing projected gross revenues and expenses for Non-NFL events for 2019/20. As mentioned previously, ManagementCo did not provide supporting documentation related to 2018/19 Non-NFL events which the Stadium Authority staff could have used to estimate the 2019/20 budget amount versus assuming \$5.8 million per the Stadium Marketing and Booking Fee Benchmark for FY 2019/20 as outlined in Section 3.4 of Amendment No. 1 to the Management Agreement.

Key highlights for the Stadium Authority's 2019/20 budget are as follows:

Operating Budget -

Revenues

- 2019/20 total projected revenues of \$73.6 million includes \$25.4 million in Stadium Builder License (SBL) revenue, \$24.8 million in facility rent, \$8.1 million in NFL ticket surcharge, \$6.8 million in Naming Rights revenue, \$5.8 million in Net Non-NFL events, \$1.2 million in Non-NFL ticket surcharge, and \$1.5 million in miscellaneous other revenues.

Expenses

- The proposed Operating budget equals \$73.6 million and includes the Stadium Authority's share of expenses covered under the Management Agreement in the amount of \$11.9 million along with monies sufficient to fulfill the Stadium Authority's administrative oversight of the Stadium in the amount of \$2.5 million (of which \$1.2 million is for staff support and Board stipends), ground rent of \$355,000, Senior/Youth fees of \$230,000, and performance

rent of \$2.7 million. It also includes transfers out of \$51.2 million as detailed below.

- Total transfers out of \$51.2 million include a \$3.5 million transfer to the Capital Fund for future Stadium capital improvements and \$47.7 million to the Debt Service Fund.

Debt Service Budget -

- The proposed 2019/20 Debt Service Budget of \$51.5 million (principal of \$34.8 million and interest of \$16.7 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 \$34.8 million from \$340.1 million to \$305.3 million.

Capital Expense Budget -

- The FY 2019/20 Capital Expense Budget totals \$14.4 million. Of this total, \$6.4 million of prior year appropriations are carried over into FY 2019/20. New capital improvement appropriations equal \$8.0 million.

Reserves -

- Total reserves are expected to be \$29.1 million at the end of FY 2019/20. This is composed of an operating reserve of \$11.6 million, a discretionary fund balance of \$2.3 million, a debt service reserve of \$11.5 million and a capital expenditure reserve of \$3.7 million.

FISCAL IMPACT

The proposed 2019/20 budget includes \$73.6 million for operating costs (includes transfers out to Debt Service and Capital Funds), \$51.3 million for debt service, \$14.4 million for capital (includes a \$6.4 million carryforward from the prior year) and \$29.1 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 beginning the Thursday evening before the Tuesday 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>> or at the public information desk at any City of Santa Clara public library.

RECOMMENDATION

Review and provide input on the Santa Clara Stadium Authority Fiscal Year 2019/20 Operating, Debt Service, and Capital Budget and Stadium Authority Compliance and Management Policy.

Reviewed by: Angela Kraetsch, Treasurer

Approved by: Deanna J. Santana, Executive Director

ATTACHMENTS

1. Santa Clara Stadium Authority Proposed Fiscal Year 2019/20 Operating, Debt Service, and Capital Budget
2. Annual Public Safety Budget
3. Stadium Authority Individual Board Member Priorities
4. Stadium Authority Compliance and Management Policy