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Title:	Action on the Proposed Santa Clara Stadium Authority Fiscal Year 2020/21 Budget, Stadium Operation and Maintenance Plan, and 2020 Marketing Plan [Board Pillar: Ensure Compliance with Measure J and Manage Levi's Stadium] (Not to be heard prior to 6:00 PM)				
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Date	Ver.	Action By	Action	Result
3/24/2020	1	Santa Clara Stadium Authority	Approved	Pass

REPORT TO STADIUM AUTHORITY BOARD

SUBJECT

Action on the Proposed Santa Clara Stadium Authority Fiscal Year 2020/21 Budget, Stadium Operation and Maintenance Plan, and 2020 Marketing Plan [Board Pillar: Ensure Compliance with Measure J and Manage Levi's Stadium] (Not to be heard prior to 6:00 PM)

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 annually and presenting it to the Stadium Authority, with the following items included:

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 Management Agreement. The 2020/21 Proposed Budget is included as Attachment 1 to this memorandum and reflects adjustments from the Proposed Budget presented to the Santa Clara Stadium Authority Board (Board) on March 5, 2020.

At its March 5, 2020 meeting, the Board held a Study Session to discuss the proposed Santa Clara Stadium Authority Operating, Debt Service, and Capital Budget, and the Proposed Budget document and staff presentation are included as Attachment 2. As a separate item on the March 5 Study Session agenda, the draft 2020 Non-NFL Events Marketing Plan as prepared by ManagementCo (Attachment 3 - report and presentation) was also discussed. In addition, the Annual Public Safety Budget (Attachment 4), a revised Stadium Authority Budget Policy (Attachment 5), the Stadium Authority Compliance and Management Policy (Attachment 6), and Stadium Authority budget submittal questions were presented (Attachment 7).

During the Study Session, the Board and the public provided valuable feedback and asked pertinent questions. At the direction of the Board, Stadium Authority staff has included responses to those questions as part of this report (Attachment 8). The Board also directed staff and the City Attorney to return with a legal opinion outlining the options available to the Board regarding the Stadium budget. The legal opinion is included in this memorandum.

DISCUSSION

The Stadium Authority FY 2020/21 Budget 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 (G&A) costs; Shared Stadium Manager expenses; Debt Service budget; and the Capital Budget. In addition, staff included a glossary of financial terms used to facilitate understanding of 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 approved budget development process outlined in the Stadium Authority Budget Policy in preparing the Proposed FY 2020/21 Stadium Authority Budget. As presented at the March 5 Study Session, there are a couple of proposed changes to the Policy, including 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 (see Attachment 5). The Santa Clara City Council 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 Compliance and Management Policy remains unchanged (see Attachment 6).

FY 2020/21 Budget Process

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:

- November 2019: 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. At that meeting, it was expressed that ManagementCo would follow the due dates outlined in the Stadium Agreements.

- February 2020: 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 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 Stadium Authority submitted a series of questions to ManagementCo, that they had committed to responding to by March 6, 2020, and received responses on March 11, 2020 as detailed in Attachment 7. The Stadium Authority also received comments regarding the Marketing Plan on March 13, 2020 as detailed in Attachment 9.
- March 2020: Stadium Authority held a Study Session on March 5, 2020 and received questions and feedback from the public and Board. To complete the annual budget process, staff recommends that the Board take the recommended actions on March 24, 2020 to 1) Adopt the Santa Clara Stadium Authority Fiscal Year 2020/21 Operating, Debt Service, and Capital Budget as presented in this report; 2) Approve the Santa Clara Stadium Authority Fiscal Year 2020/21 Stadium Operations and Maintenance Plan excluding the Marketing Plan; and 3) Approve the revised Stadium Authority Budget Policy.

Options Available to Stadium Authority

At the March 5 Study Session, the Board also directed staff and the City Attorney to return with options available to the Board regarding the Stadium budget. The Stadium Authority Board is a legislative body with the legal authority to approve its budget. The Stadium Lease creates certain debt repayment obligations which includes the marketing of SBL's and use of other revenue to make scheduled debt repayment obligations. The Board should approve those elements of the Budget that will continue these payment obligations.

The Non-NFL elements of the budget are within the Board's ultimate discretion about what to

approve or not to approve. The Board has the discretion not to approve expenses that will not generate revenue. The Board may consider specific elements of expenses to disapprove based upon the facts before it. In addition, the Board may consider the effects of the current pandemic on whether it should be making public expenditures for events that most likely will not occur.

Key highlights for the Stadium Authority's FY 2020/21 Budget

The Proposed Fiscal Year 2020/21 Operating, Debt Service, and Capital Budget is being presented under unusual circumstances. During FY 2019/20, the Stadium Authority Board issued several Notices of Breaches and Default of the Management Agreement which prompted issuing a Notice of Termination and Default of the Management Agreement to the Forty Niners. Regardless of how the termination issues are resolved, the Stadium Authority budget must include repayment of the debt, funding an operating budget and capital investment in the stadium. Work on the budget is not intended as a waiver or release of the termination notice or any Stadium Authority rights and claims.

- Operating Budget

Santa Clara Stadium Authority Operating Budget Summary

			ManCo Revised	SCSA Recommended
	2019/20 Final Budget	Study Session 2020/21 Proposed Budget	Submission 2020/21 Proposed Budget	2020/21 Proposed Budget
Revenues				
NFL Ticket Surcharge	\$ 8,142,000	\$ 8,665,000	\$ 8,665,000	\$ 8,665,000
Stadium Builder License (SBL) Proceeds	25,416,000	24,213,000	24,213,000	24,213,000
Net Revenues from Non-NFL Events	5,796,000	-	1,500,000	1,500,000
Naming Rights	6,754,000	6,957,000	6,957,000	6,957,000
Rent	24,762,000	24,762,000	24,762,000	24,762,000
Other Revenues	2,745,000	2,130,000	2,090,000	2,090,000
Total Revenues	\$ 73,615,000	\$ 66,727,000	\$ 68,187,000	\$ 68,187,000
Expenses				
Shared Stadium Manager Expenses⁽²⁾				
Shared Stadium Manager Expenses ⁽¹⁾	\$ 11,904,000	\$ 12,132,000	\$ 12,276,000	\$ 3,045,000
SBL Sales and Service	2,221,000	3,610,000	3,610,000	3,610,000
Performance Rent (paid to City)	2,721,000	-	555,000	555,000
Utilities	1,551,000	1,597,000	1,597,000	1,597,000
Stadium Authority Staff and Contracts	2,480,000	4,851,000	4,581,000	4,581,000
Legal Contingency	-	-	-	9,231,000
Transfers Out - Capital Improvement Program	3,478,000	3,582,000	3,582,000	3,582,000
Transfers Out - Debt Service	47,795,000	38,234,000	39,265,000	39,265,000
Other Expenses	1,465,000	2,721,000	2,721,000	2,721,000
Total Expenses	\$ 73,615,000	\$ 66,727,000	\$ 68,187,000	\$ 68,187,000

⁽¹⁾ Stadium operations, engineering, guest services, groundskeeping, security, insurance, Stadium Management. The 2020/21 SCSA Recommended Budget of \$3,045,000 is for insurance costs only.

Revenues

As shown in the table above, the FY 2020/21 projected revenues of \$68.2 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, and \$2.0 million in Other Revenues. In addition, in its latest submittal, ManagementCo revised the estimate for net revenues from non-NFL events from TBD to \$1.5 million. It should be noted that while this amount is included in the Budget, the Stadium Authority did not receive back-up gross revenues and expenditures or projected events that would support this amount.

Expenditures

The proposed Operating Budget totals \$68.2 million and includes the Stadium Authority's share of expenses covered under the Management Agreement in the amount of \$3.05 million. This amount is well below the revised submission from ManagementCo of \$12.3 million and the March 5 Proposed Budget figure of \$12.1 million. Given the uncertainty regarding events in the upcoming year due to safety precautions associated with the Coronavirus and the lack of supporting documents for the ManagementCo expenses, the recommended budget of \$3.05 million covers insurance costs only. It is anticipated that additional funding will be added as budget amendments during the year based on identified needs and actual activity, if proper backup documentation is received. There is \$9.23 million set aside in a Legal Contingency to cover these potential costs during the year.

The budget also includes \$4.6 million for the Stadium Authority's administrative oversight of the Stadium (of which \$2.1 million is for staff support and board stipends). This amount is \$270,000 below the amount presented in the March 5 Proposed Budget due to the shift of the Financial Management System cost from the Operating Budget to the Capital Budget. In addition, the proposed budget includes transfers out of \$42.9 million described below, \$3.6 million for SBL sales and services, \$1.6 million for utilities, \$555,000 for performance rent to be paid to the City, and \$2.7 million in other costs.

The total transfer out of \$42.9 million includes a \$3.6 million transfer to the Capital Fund for future Stadium capital improvements and a \$39.3 million transfer to the Debt Service Fund.

- **Reserves**

The table below lists the reserves expected at end of FY 2020/21:

Reserve Fund	Proposed Budget (\$ millions)
Operating Reserve	\$11.9
Debt Service Reserve	\$11.5
Capital Expense Reserve	\$8.1
Discretionary Fund Balance	\$2.4
Total Reserves	\$33.9

- **Debt Service Budget**

The proposed FY 2020/21 Debt Service Budget of \$43.3 million (principal of \$28.2 million and interest of \$15.1 million) is based on the required debt service payments and anticipated excess cash that can be used towards debt. Total outstanding debt is projected to decrease by \$28.2 million from \$309.2 million to \$281.0 million.

- Capital Budget

The table below summarizes the FY 2020/21 Capital Budget.

Expense Type	Proposed Budget (\$ millions)
New Capital Improvement Appropriations	\$5.3
Stadium Warranty Related Construction Carry Forward	\$1.5
Prior Year Appropriations Carryover to FY 2019/20	\$6.5
Total Capital Budget	\$13.3

FY 2020/21 SOMP

In addition to adoption of the annual budget, this report is the culmination of information provided to fulfill the Lease and Management Agreement requirements to annually present the SOMP to the Board for review and approval. The March 5, 2020 Study Session included discussion of the Annual Shared Stadium Expense Budget, the Annual Public Safety Budget, the Capital Expense Plan, and the Marketing Plan.

Revisions to the SOMP for FY 2020/21 is currently under review with the Police and Fire Departments. As such, staff recommends deferring Board action on the SOMP until March 31, 2020.

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

The proposed SCSA FY 2020/21 Budget includes \$68.2 million for Operating (includes \$42.8 million in transfers-out to Debt Service and Capital); \$43.3 for Debt Service (includes \$4.0 million funded by the Community Facilities District); and \$13.3 million for Capital (includes a \$9.7 million carryover from the prior year).

COORDINATION

This report has been coordinated with the Stadium Authority Counsel’s Office.

PUBLIC CONTACT

On March 11, 2020 a notice of the public hearing was published in the Santa Clara Weekly.

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 <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

ALTERNATIVES

1. Adopt the Santa Clara Stadium Authority Fiscal Year 2020/21 Operating, Debt Service, and Capital Budget, including funding Shared Stadium Manager Expenses at \$3,045,000 and a Legal Contingency at \$9,231,000
2. Adopt the Santa Clara Stadium Authority Fiscal Year 2020/21 Operating, Debt Service, and Capital Budget as submitted by ManagementCo, including funding Shared Stadium Manager Expenses at \$12,276,000
3. Direction to staff to return on March 31, 2020 with the Stadium Operations Management Plan (SOMP)
4. Approve the revised Stadium Authority Budget Policy
5. Take No Action on the 2020 Marketing Plan
6. Take any other Action the Board deems appropriate

RECOMMENDATION

Staff recommends Alternatives 1, 3, 4, and 5:

1. Adopt the Santa Clara Stadium Authority Fiscal Year 2020/21 Operating, Debt Service, and Capital Budget, including funding Shared Stadium Manager Expenses at \$3,045,000 and a Legal Contingency at \$9,231,000;
3. Direction to staff to return on March 31, 2020 with the Stadium Operations Management Plan (SOMP);
4. Approve the revised Stadium Authority Budget Policy; and,
5. Take No Action on the 2020 Marketing Plan

Reviewed by: Kenn Lee, Treasurer

Approved by: Deanna J. Santana, Executive Director

ATTACHMENTS

1. Proposed Santa Clara Stadium Authority Fiscal Year 2020-21 Operating, Debt Service, and Capital Budget
2. March 5, 2020 Agenda Report 20-45 Proposed Santa Clara Stadium Authority Fiscal Year 2020-21 Operating, Debt Service, and Capital Budget and Staff Presentation
3. March 5, 2020 Agenda Report 20-272 Draft 2020 Non-NFL Events Marketing Plan for Levi Stadium and Staff Presentation
4. Annual Public Safety Budget
5. Revised Stadium Authority Budget Policy
6. Stadium Authority Compliance and Management Policy
7. February 25, 2020 Stadium Authority Budget Submittal Questions and March 11, 2020 and March 18, 2020 ManagementCo Responses to Questions
8. Stadium Authority Responses to March 5, 2020 Budget Study Session Questions
9. 2020 Marketing Plan Questions and Responses