



## Agenda Report

18-182

Agenda Date: 3/13/2018

### REPORT TO STADIUM AUTHORITY BOARD

#### **SUBJECT**

Discussion of the Draft Santa Clara Stadium Authority Fiscal Year 2018-19 Proposed Budget

#### **BACKGROUND**

Annually, Stadium Authority staff prepares, in coordination with the Forty Niners Stadium Management Company (ManCo), 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). Section 4.6 of the Management Agreement requires that the Stadium Manager prepare an annual operating budget (Budget) for the Stadium for each fiscal year to meet the scope of services and objectives outlined in the Management Agreement; such Stadium Operations Budget may include other information as requested by the Forty Niners SC Stadium Company LLC (StadCo) and the Stadium Authority. Prior to each fiscal year, the Stadium Manager shall submit the annual Stadium Authority Budget to the Stadium Authority for review and approval. Within forty-five days after receipt of a draft Budget from the Stadium Manager, the Stadium Authority shall notify the Stadium Manager of any proposed changes, and with such changes made, the Budget shall become an approved Budget.

This report incorporates fourteen recommendations made by Harvey M. Rose Associates as part of the Measure J Audit. Those recommendations are: 1B, 1C, 1D, 1J, 1K, 1L, 1R, 2C, 2E, 2F, 2G, 2L, 2M, and 3B (see Attachment 1). Implementation of the audit recommendations are regularly reported out through the Stadium Authority's Ad Hoc Committee and its next meeting is March 19, where an update of each audit recommendation will be provided.

#### **DISCUSSION**

This report to the Stadium Authority transmits the Fiscal Year 2018-19 Stadium Authority Proposed Operating, Debt Service, and Capital Budget. 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, ManCo submitted the operating, capital, and debt budget for the Fiscal Year 2018-19 Stadium Authority Budget. Staff followed the budget development process outlined in the proposed Stadium Authority Budget Policy in preparing the draft Fiscal Year 2018-19 Proposed 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 January, Stadium Authority staff met with the ManCo representatives and determined the date that ManCo would provide all necessary documents as required by the Stadium Lease and Stadium Management Agreement.
- On February 7<sup>th</sup>, ManCo 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 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*)
- In February and early March, Stadium Authority staff fully analyzed ManCo'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 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.

As part of strengthening the SCSA's policies to improve governance, transparency, and responsiveness to the Santa Clara community and Levi's Stadium obligations, this proposed budget is accompanied with a recommended Governance Policy and a Budget Policy for the Board to consider as separate actions. These policies, if approved, will be incorporated in a new Stadium Authority Board Policy Manual and published on the Stadium Authority's website. In addition, as part of the City's 2018-19 General Fund Budget development, staff will be breaking out the Public Safety costs related to the support of Stadium Operations as a stand-alone program in order to provide more transparency to the Board and the public.

As discussed in the FY 2017-18 third quarter financial status report, this budget is presented on an accrual basis. The accrual method will allow staff to budget more accurately because it will account for when expenses are incurred and revenue is earned and not when cash is actually paid or received. In addition, the proposed budget reflects total expenses of \$130.8 million which is an increase of \$50 million when compared to the prior year budget. This increase results from inclusion of Non-NFL event gross expenses of \$56.5 million for the first time. In the past, these expenses were only shown as a net number in the revenue section. Additionally, staff has included a budget for the gross Non-NFL event revenue in order to provide more transparency for Non-NFL events. Another change to the proposed budget is the clear identification of transfers as transfers-in (a revenue source) and transfers-out (an expense) versus showing Net Transfers in the revenue section.

Key highlights for the Stadium Authority's 2018-19 budget are as follows:

Revenues -

- 2018-19 total projected revenues of \$130.8 million includes \$26.2 million in Stadium Builder License (SBL) revenue, \$62.1 million in gross receipts from Non-NFL events, \$8 million in NFL ticket surcharge, \$6.6 million in naming rights revenue, \$1.8 million in Non-NFL ticket surcharge, \$24.5 million in facility rent, and \$1.6 million in miscellaneous other revenues.
- This is the first year that the budget has shown the gross receipts from Non-NFL events of \$62.1 million. In the past only the net Non-NFL revenue number was reflected in the Stadium Authority's budget.
- The revenue amount of \$24.5 million in facility rent from the StadCo is contingent on the outcome of the rent adjustment process as outlined in the Amended and Restated Stadium Lease.
- The proposed budget reflects the clear identification of transfers as transfers-in (a revenue source) and transfers-out (an expense) versus showing Net Transfers in the revenue section.

Expenses -

- The proposed Operating budget equals \$130.8 million which is an increase of \$50 million when compared to the prior year. This increase is due to a change in budgeting by presenting gross Non-NFL event expenses of \$56.5 million for the first time. In the past, these expenses were only shown as a net number in the revenue section. In addition, the proposed budget includes the Stadium Authority's share of expenses covered under the Management Agreement along with monies sufficient to fulfill the Stadium Authority's administrative oversight of the Stadium in the amount of \$1.7 million (of which \$695,000 is for staff support and Board stipends), ground rent, Senior/Youth fees, and performance rent. It also includes transfers out of \$53 million.
- Total transfers out equals \$53 million, as mentioned in the above bullet. Of this amount, \$3.4 million will be transferred to the capital reserve for future Stadium capital improvements. The remaining \$49.6 million will be transferred out to the Debt Service Fund.

Reserves -

- Total reserves are expected to be \$31.8 million at the end of the 2018-19 fiscal year. This is composed of an operating reserve of \$11.3 million, a discretionary fund balance of \$1.1 million, a capital expenditure reserve of \$7.9 million, and a debt service reserve of \$11.5 million.

Debt Service -

- The proposed 2018-19 Debt Service Budget of \$56.1 million (principal and interest) 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 \$37.4 million from \$382.8 million to \$345.4 million.

Capital Budget -

- The fiscal year 2018-19 Capital Budget totals \$7.9 million. Of this total, \$3.1 million of prior year appropriations are carried forward into 2018-19. New capital improvement appropriations equal \$4.8 million.

**FISCAL IMPACT**

The proposed 2018-19 budget includes \$130.8 million for operating costs, \$31.8 million in total reserves, \$56.1 million for debt service, and \$7.9 million for capital (includes a \$3.1 million carryforward from the prior year).

**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.

**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) <<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 2018-19 Operating, Debt Service, and Capital Budget.

Prepared by: Angela Kraetsch, Treasurer

Reviewed by: Brian Doyle, Counsel

Reviewed by: Catlin Ivanetich, Assistant to the Executive Director

Reviewed by: Walter C. Rossmann, Chief Operating Officer

Approved by: Deanna J. Santana, Executive Director

**ATTACHMENTS**

1. Harvey Rose Audit Recommendation Update - 2018-19 Budget
2. Santa Clara Stadium Authority Proposed Fiscal Year 2018-19 Operating, Debt Service, and Capital Budget