



Agenda Report

20-495

Agenda Date: 5/12/2020

REPORT TO STADIUM AUTHORITY BOARD

SUBJECT

Board Consideration and Possible Action on the Stadium Manager's Proposal to Add Stadium Builder's Licenses (SBLs) to Field Seating in the North and South Endzones of Levi's Stadium [Board Pillar: Ensure Compliance with Measure J and Manage Levi's Stadium]

BACKGROUND

The Forty Niners Stadium Management Company LLC (Stadium Manager) has presented a proposal to add SBLs to field seating in the North and South Endzones of Levi's Stadium which provides for possible additional debt repayment by the Santa Clara Stadium Authority (Stadium Authority). This proposal has been previously presented to the Stadium Authority and staff's concerns remain unaddressed. Stadium Authority staff has requested an alternate proposal from the Stadium Manager so that the concerns can be addressed.

Relevant Provisions in the Lease, Management and/or SBL Agreements

When considering the Stadium Manager's proposal, it is important to take all of the following provisions into consideration, as well as options available to the Stadium Authority to maximize revenue for the purpose of debt repayment, e.g., Lease, Credit, Management, Operations, Non-Relocation, and SBL Agreements.

Lease Agreement -- The Stadium Lease Agreement between the Stadium Authority and Forty Niners SC Stadium Company LLC (StadCo) provides that the Stadium Authority has the sole and exclusive right to sell, license, or transfer SBLs and similar instruments for the seats located in Levi's Stadium, with the exception of those seats located in, or accessible through, the Suites. Specifically, the relevant Agreement section reads:

STADIUM LEASE AGREEMENT 4.6.1 STADIUM BUILDER'S LICENSES.

As owner of the Stadium, ***the Stadium Authority possesses the sole and exclusive right to sell, license, or otherwise transfer SBLs and similar instruments and rights with respect to any and all of the manifested seats located in the Stadium*** (i.e., seats available and intended for sale to the general public), but excluding seats located in, or accessible through, the Suites. Prior to the Effective Date of this Lease, the Stadium Authority commenced marketing of SBLs and has entered into various SBL Agreements. The Stadium Authority specifically reserves the right to enter into SBL Agreements over the Term of this Lease with respect to any and all seats located in the Stadium, including the right to resell any SBLs that are terminated in accordance with the provisions of the SBL Agreement. Tenant agrees that, in the marketing and sale of Tickets to NFL Games and, following the Tenant Season Expansion Date, Non-NFL Events, ***Tenant will offer such Tickets to the SBL Holders, as and to the extent provided in the SBL Agreement.*** Subject to the terms and conditions of the Stadium Lease Documents, including without limitation, the provisions of Paragraph 7.3.1 of this Lease, Tenant shall also be responsible to make available to SBL Holders the amenities described in Exhibit D to each such SBL Agreement to the extent applicable to NFL Events, including providing a complimentary buffet to certain SBL Holders during NFL Games; provided, however, that the Stadium Authority shall, within thirty (30) days following receipt of an invoice therefor, reimburse Tenant for all costs and expenses incurred by Tenant in providing any such complimentary buffets. ***In no event shall Tenant have any obligations under any seat licenses sold,***

transferred or licensed by the Stadium Authority other than licenses issued to Persons pursuant to the SBL Agreement ("Other Seat Licenses"), nor shall any Other Seat Licenses affect Tenant's rights or increase Tenant's obligations under this Lease, nor shall Tenant be bound by the agreements made by the Stadium Authority in any such Other Seat Licenses, without Tenant's prior written approval, which approval may be granted or withheld in Tenant's sole and absolute discretion.

Credit Agreement - As the Borrower under the Credit Agreement, the Stadium Authority is required to use SBL proceeds to pay down debt, currently the Term A Loan. Specifically, the relevant Agreement section reads:

CREDIT AGREEMENT. 2.14 MANDATORY PREPAYMENTS (D) SBL PROCEEDS.

On or after the date of receipt by Borrower of any net Cash proceeds relating to the sale of SBLs, Borrower shall prepay the Term Loans, and the remaining Term Loan Commitment shall be permanently reduced, as set forth in Section 2.15(b) in an aggregate amount equal to 100% of such proceeds.

Operations Agreement -The Stadium Operations Agreement between the Stadium Authority and StadCo provides that StadCo, as the Tenant, can sell tickets for seats that don't have SBLs by May 31 of each calendar year for the immediately following NFL Season. The Operations Agreement section reads as follows:

STADIUM OPERATIONS AGREEMENT. 13. Annual SBL Cutoff Date.

As provided in Paragraph 4.6.1 of the Stadium Lease, Tenant Agreements that, in the marketing and sale of Tickets to NFL Games, Tenant will offer such Tickets to the SBL Holders, as and to the extent provided in their respective SBL Agreement. However, *the Stadium Authority and Tenant agree that, with respect to any seats in the Stadium not subject to a binding SBL Agreement as of May 31 of any calendar year, Tenant shall have the unencumbered right to sell Tickets for such seats for the immediately following NFL Season, and any SBL Agreement applicable to such seats entered into after May 31 of any calendar year shall be effective only for Non-NFL Events and, unless the Parties otherwise agree, subsequent NFL Seasons.*

Management Agreement -- The marketing and sales of SBLs are managed by the Stadium Manager as required by the Management Agreement. Specifically, the relevant Agreement section reads:

STADIUM MANAGEMENT AGREEMENT 2.6.18

On behalf of the Stadium Authority and not on behalf of StadCo, make recommendations to the Stadium Authority with respect to facilitation of a secondary market for SBLs, monitor and manage any agreements entered into by the Stadium Authority with respect thereto, and coordinate with Legends to transition responsibility from Legends to the Stadium Manager for managing both sold and unsold SBLs upon termination of the SBL Sales Agreement.

Non-Relocation Agreement -- The Non-Relocation Agreement defines "NFL Ticket Surcharge" as a surcharge on the price of admission to all NFL Surcharge Games in an amount equal to ten percent (10%) of the Ticket Receipts from such NFL Surcharge Games. It also states that the NFL Ticket Surcharge payable to Stadium Authority is 10% of the price of admission, net of any of Stadco's revenues described in Article IV of the Team Sublease, including "Premium Seating Premiums. The Non-Relocation Agreement section reads as follows:

5.1 NFL TICKET SURCHARGE

During the Surcharge Term, Team shall collect, on the Stadium Authority's behalf, the NFL Ticket Surcharge for all NFL Surcharge Games and shall deliver to Stadium Authority all collected NFL Ticket Surcharges for each such NFL Surcharge Game within ten (10) days after the game is played.

Team shall have the right to provide complimentary Tickets to NFL Surcharge Games and any such complimentary Tickets shall not be subject to the NFL Ticket

Surcharge. For the avoidance of doubt, Ticket Receipts shall not include, and no NFL Ticket Surcharge shall be required to be collected with respect to, any of StadCo's Revenues as described in ARTICLE IV of the Team Sublease.

SBL Agreement -- By entering into an SBL Agreement, an SBL holder has exclusive right to purchase 49ers season tickets and priority access to other events at the Levi's Stadium. Additionally, the SBL Agreement between the Stadium Authority, Stadium Manager, and SBL Holder provides guarantees in the event that the seats are not available due to various circumstances. In short, the SBL Agreement requires the Stadium Authority to either assign the SBL Holder a comparable seat or make them whole if there was no comparable seat in the case that their original seat was made unavailable. The SBL Agreement section reads as follows:

5. RIGHTS RESERVED BY LICENSOR.

The Stadium Authority expressly reserves the following rights:

(c). The right to improve, alter, restore, expand or enlarge the Stadium, any amenity area, any seating area or any other portion of the Stadium, as determined by the Stadium Authority in its sole discretion. If, in connection with any such action, the Stadium Authority relocates or reconfigures the Stadium seating or any amenity area(s), the Stadium Authority reserves the right to re-designate the specific locations of seats and to modify the assignment of specific seats to SBLs. If the Stadium Authority determines that any such modification is necessary, ***the Stadium Authority will endeavor to assign to an affected SBL a seat that is comparable to, in terms of field vantage point and access to amenities, the seat that was assigned to the SBL prior to the relocation or reconfiguration, all as determined by the Stadium Authority in its sole discretion and without regard to the original License Fee amount (each such Seat, a "Comparable Seat")***. In the event the Stadium Authority notifies Licensee that there is no Comparable Seat(s), then Licensee shall have the right to terminate this License Agreement upon notice to the Stadium Authority, in which event the Stadium Authority shall, within sixty (60) days following such notice of termination return to the Licensee the Unamortized Portion of the License Fee. For purposes of this License Agreement, an SBL will be assumed to have a life of thirty (30) years and the applicable amortization will be straight-line (e.g., if an SBL with an initial cost of \$20,000 (paid in full) is terminated after three (3) years, the Licensee would receive a refund in the amount of \$18,000; such amount, the "Unamortized Portion of the License Fee").

NFL Approval

When the Stadium Authority first initiated discussion about the application of a revenue generating instrument on the field seating, the Stadium Manager represented that the NFL held full authority to annually approve the installation of the field seats. To confirm their position, the Stadium Manager previously shared a February 25, 2019 letter from the NFL, which stated that temporary seating structures are subject to annual review and approval from the NFL prior to each season (Attachment 1).

NOTE: At the time of considering this proposal, there is uncertainty about whether these seats will be permitted based on COVID-19, such as:

- First, because based upon current reports on the reopening of sporting events, it does not appear that attendees at sporting events at either a stadium or arena facility will be permitted until a later time. Current public official comments have stated at earliest public participation would be at the end of November 2020, however even that timeframe is unknown.
- Second, given the social distancing requirements that have been required, the seats appear closer than six feet to each other and, therefore, to meet social distancing regulations with the space available would not allow for the installation of all 64 seats. The proposal does not recognize COVID-19 social distancing requirements and account for a lesser amount of seats.

- Last, on April 29, in an attempt to validate the Stadium Manager's proposal, Stadium Authority staff requested documentation of the NFL's annual decision/approval for the field seats for the 2020 NFL season. Through the subsequent actions described below, the Stadium Manager demonstrates an unwillingness to share complete information with the Stadium Authority and, therefore, our concerns remain unaddressed.

On April 29, 2020, the Stadium Authority inquired about the Stadium Manager's receipt of annual approval from the NFL. On May 4, the Stadium Manager responded that the NFL approved the seats but did not provide any supporting documentation of the decision. Stadium Authority staff requested a copy of the written documentation from the NFL for approved use of the seats for the 2020 season, including the name of the person making the decision, evidence of their authority to make the decision, and contact information for that person in case the Stadium Authority has follow up questions. On May 5, the Stadium Manager provided a copy of an email from the NFL's Director of Game Operations, which stated the Stadium Manager's field seating request was conditionally approved (Attachment 2). The Director's contact information in the email was redacted by the Stadium Manager and the email did not contain a copy of the conditionally approved field seat application. Stadium Authority staff requested a copy of the reference application and the NFL Director of Game Operations' contact information again. The Stadium Manager provided a copy of a letter and the field seats application that was submitted to the NFL on May 1 but refused to provide the NFL Director of Game Operations' contact information. Based on the May 1 letter and application, it appears that the Stadium Manager did not seek approval for the field seats until prompted by the Stadium Authority. Thus, when the Stadium Manager submitted a field seat SBL proposal to the Stadium Authority on April 16, asked for quick Board approval by May 12, it had not even received approval from the NFL for the 2020 season.

Stadium Manager Field Seat SBL Proposal

On April 16, 2020, the Stadium Manager sent Stadium Authority staff a proposal to add SBLs to 64 seats in the North and South Endzones of Levi's Stadium as well as a chart outlining the Stadium Manager's SBL revenue projections over the span of 30 years (Attachment 3). Table 1 summarizes the Stadium Manager's April 16 proposal and SBL revenue projections.

Table 1: Summary of Stadium Manager's Field Seating SBL Revenue Options

	Option 1	Option 2	SCSA Comments
Price/SBL	\$6,000	\$20,000	
Assumptions	<ul style="list-style-type: none"> -- Sale of all 64 SBLs in 18 months -- Financed SBLs have 10% down, 8.5% Annual Interest Rate, Paid over 10 years -- 3% annual increase in ticket revenue beginning in Year 5 	<ul style="list-style-type: none"> -- Sale of 44 SBLs over 12 years -- Financed SBLs have 10% down, 8.5% Annual Interest Rate, Paid over 10 years -- 3% annual increase in ticket revenue beginning in Year 5 	<p>Staff checked the Stadium Manager's SBL revenue projection calculations and noted the following:</p> <ul style="list-style-type: none"> -- Reserve Ticket Price is calculated at \$175/ticket/game under Year 1. This is not to be confused with the total price of the ticket, including the Ticket Premium. In a recent meeting, the Stadium Manager verbally priced these tickets at \$1,000 - \$1,250/ticket/game. The surcharge is derived from a \$175/ticket/game based on the Stadium Manager's methodology of pricing tickets. -- It is unclear how the number of sold SBLs is determined at each price point. -- It is unclear what assumptions are behind the 11% increase in ticket revenue in Year 4. -- Based on information received during the budget process, it's understood that new SBL's are assumed to be financed 90% of the time. However, in the projection received, that's only true for Year 1. As an example, using the \$20k SBL pricing model, Year 2 is 83% finance and Years 3 – 12 are 100% financed.
Interest Rate	8.5%	8.5%	
(A) Interest Earnings over 30 Yrs	\$164,141	\$399,976	Average Annual Interest Earnings/SBL: Option 1: \$2,565 Avg/SBL Option 2: \$9,090 Avg/SBL
(B) Ticket Revenue over 30 Yrs	\$539,559	\$539,559	Reflects 10% surcharge on a Reserve Ticket Price of \$175/ticket.
(C) SBL Revenue over 30 Yrs	\$384,000	\$880,000	
(D) SCSA Cost Obligations for Field Seats over 30 Yrs	(\$4,110,516)	(\$4,110,516)	<p>Assumes Proposal includes Complimentary Buffet (at \$135 cost per person):</p> <p>\$135/pp*64 seats = \$8,640/game</p> <p>\$8,640*10 games/season = \$86,400</p> <p>\$86,400*30 years = \$2,592,000</p> <p>Assume a 3% increase/year for buffet costs, total = \$4,110,516</p> <p><i>Note: Assumes Stadium Manager's position with the buffet cost allocation, which the Stadium Authority is in process of researching.</i></p>
TOTAL REVENUE/LOSS OVER 30 YEARS			
(A+B+C) No Buffet (A+B+C+D)	\$1,087,700 (\$3,022,816)	\$1,819,535 (\$2,290,981)	Avg/Yr – \$36,257 or \$60,651 Ave/Yr – (\$100,761) or (\$76,366)

It is the Stadium Manager's position that the Stadium Authority is responsible for reimbursement of the annual buffets and has recently begun invoicing the Stadium Authority for these costs; however, at the time of writing this report, it is uncertain whether the costs are baked into the ticket price and/or SBL price.

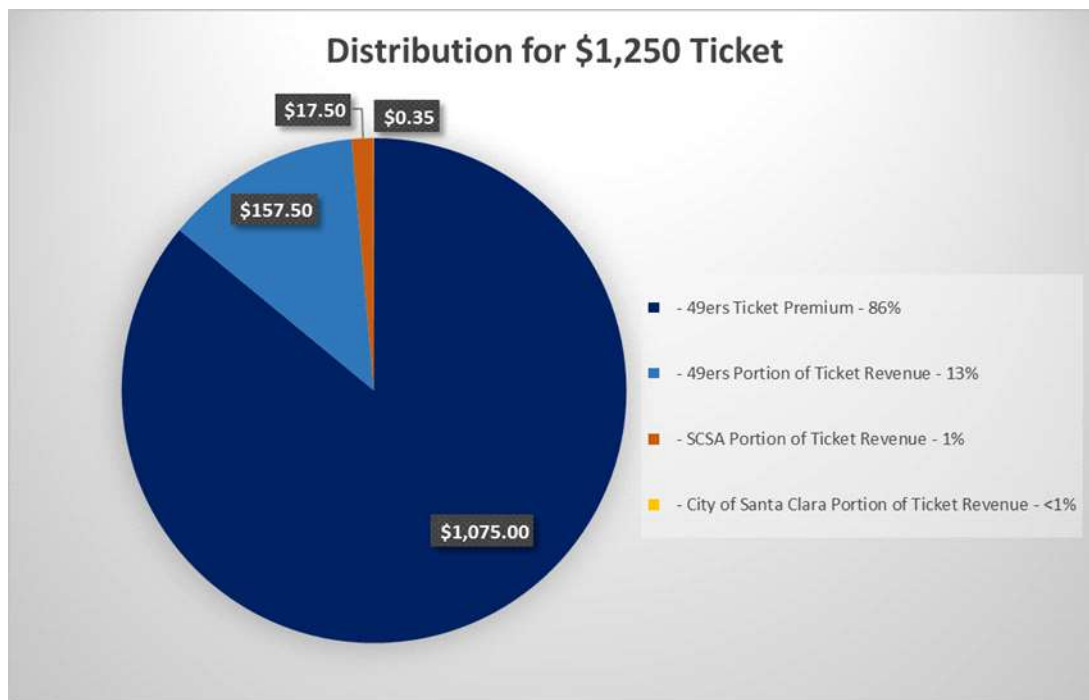
At the April 23 meeting, the Stadium Manager represented that these seats are eligible for receipt of the buffet, so the costs calculations based on their position is reflected in the above proposal. Clearly, the matter of the buffet cost allocation requires more research and changes the profitability of the Stadium Manager's proposal. The Stadium Authority will lose significant revenue if these field seats are subject the Complimentary Buffet, not including the additional risk of making SBL Holders whole if the field seats become unavailable under the current proposal (should the NFL not approve them each year).

Additionally, there are some inconsistencies between the Stadium Manager's April 16 proposal, SBL revenue projections, and what was shared verbally with Stadium Authority staff at the April 23 meeting. The inconsistencies are listed below:

- In the April 16 proposal, the Stadium Manager stated that they expect \$1,093,700 in total revenue to the SCSA at the \$6,000 price level. This number is inconsistent with the total revenue amount that was included in the Stadium Manager's SBL Revenue Projection Chart, \$1,087,700, for the \$6,000 price level.
- In the April 16 proposal, the Stadium Manager stated that they expect \$1,825,535 in total revenue to the SCSA (including ticket surcharges) at the \$20,000 price level. This number is inconsistent with the total revenue amount that was included in the Stadium Manager's SBL Revenue Projection Chart, \$1,819,535, for the \$20,000 price level.

Section 5.1 of the Non-Relocation Agreement states that the NFL Ticket Surcharge payable to Stadium Authority is 10% of the price of admission, net of any of Stadco's revenues described in Article IV of the Team Sublease, including "Premium Seating Premiums." In the April 16 proposal, the Stadium Manager stated that the season ticket prices for field seats for 2020 will be \$10,000-\$12,500 (\$1,000 - \$1,250 per ticket per game). The revenue projection the Stadium Manager provided shows the NFL Ticket Surcharge is applied to a ticket revenue of \$175 per ticket per game. This means that the Ticket Premium the 49ers are charging is between \$825 and \$1,075 per ticket per game (over 30 years up to \$15,840,000 - \$20,640,000).

The chart below shows the portion of revenue allocated to the Stadium Manager and Stadium Authority based on the full ticket price of the ticket, assuming \$1,250 ticket price.



DISCUSSION

The Stadium Authority first initiated the discussion of assigning SBLs to the field seats in the North and South Endzones during the 2018 NFL season, when the Stadium Manager installed the field seats without Authority approval or opportunities to discuss how to maximize revenue for the Stadium Authority. Since then, there have been several discussions about assigning SBLs to field seats. For example, during the 2018 NFL season, when the Stadium Authority first inquired why the field seats did not have assigned SBLs, the Stadium Manager responded that the temporary nature of the seats did not make for optimal conditions to assign SBLs. The Stadium Manager stated that this was due to the NFL's requirement to approve annually the installation of the field seats, not the Stadium Manager or Stadium Authority.

The potential assignment of SBLs to temporary field seats was also discussed during summer 2019 when the Stadium Manager submitted permit applications for temporary field seats on the playing field for NFL games during the 2019 NFL season and, separately, proposed developing an SBL pricing plan for the seats. In the end, the seats installed by the Stadium Manager without SBLs.

In April 2020, the Stadium Manager submitted the same proposal as last year and requested that the proposal be submitted to the Stadium Authority Board for consideration on May 12, 2020. While SBL revenue allows the Stadium Authority to repay its debt, this proposal significantly differs from other SBLs in that the Stadium Authority controls the permanency of the seats, while in in this proposal that is not the case. As such, Stadium Authority staff has concerns about the proposal because:

1. The Stadium Manager proposes the sale of a product, of a temporary nature, that is amortized over 30 years, but cannot guarantee its availability each year
2. Annual renewal of the temporary field seats entirely depends on the NFL's annual approval
3. Stadium Authority must guarantee the replacement of an equally valued SBL option to make the SBL holder whole if the seats are not approved in any given year.

At the April 23 meeting with the Stadium Manager, Stadium Authority staff shared concern that the proposal poses the same risks to the Stadium Authority as last year's proposal to approve SBLs for the temporary field seats. The Stadium Authority, like last year, expressed that the Stadium Manager can develop a revenue opportunity that uses the "special instrument" authority of the Stadium Authority Board and develop an option that truly maximizes revenue. This goal was, once again, reiterated to the Stadium Manager on April 23 and the Executive Director requested alternative options that departed from the SBL framework and utilized more creativity under the "special instrument" authority.

Specifically, the Executive Director requested that the "special instrument" approach address the goal of: maximizing revenue, addressing the required annual NFL approvals, removing the burden to make the SBL holder whole if the NFL did not approve the seats, and removed the sale of a product, that by nature is temporary, and amortized over 30 years. Stadium Authority staff expressed there was interest in a year-to-year sale of the seats through a "special instrument" that coincides with the NFL annual approval process. This approach allows for the Stadium Authority to generate more revenue for debt repayment, removes the risk, and adds transparency for the customer that the seats are temporary in nature and, therefore, the season sale of rights to the seats matches the product.

Additionally, Stadium Authority staff requested that the Stadium Manager provide NFL's approval of the field seats for the 2020 NFL Season and a report of the total revenue generated from the ticket sales related to these seats in recent years. As of May 6, the Stadium Manager has provided informal written documentation from the NFL that the field seats are conditionally approved but has not provided the Stadium Authority with an alternative proposal or a report of total revenue generated from ticket sales for the field seats in recent years.

Based on the Stadium Operations Agreement, StadCo, as the Tenant, can sell tickets for seats that don't have SBLs by May 31 of each calendar year for the immediately following NFL Season. Given that the Stadium Manager did not have the proposal fully developed, nor the NFL's complete approval when Stadium Authority asked in late-April, it appears as if this proposal was developed to take advantage of the provision in the Operations Agreement of what happens after May 31. Obviously, there is very little time to meet the provision deadlines and address a favorable revenue opportunity for the Stadium Authority.

Given the impact of the Complimentary Buffet, and assuming it is included as verbally stated at the April 23 meeting, it appears more favorable to only collect the ticket price surcharge and remove the obligations that the Stadium Manager is proposing, as well as the risk. In all, this approach would yield \$539,559 from the ticket surcharge and remove the obligation to pay for the Complimentary Buffet and/or the risk if the NFL does not approve the installation of the field seats during any given year over the next 30 years. This requires that the Stadium Authority "take no action" on the proposal, as presented by the Stadium Manager.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(5) in that it is a governmental organizational or administrative activity that will not result in direct or indirect changes in the environment.

FISCAL IMPACT

See Table 1 for a full analysis of the fiscal impact based on the scenarios presented by the Stadium Manager.

Given the potential negative impact of the cost of providing Complimentary Buffet that might result from assigning SBLs to these seats, not assigning SBL's at this time would allow the Authority to still collect the ticket price surcharge and without the risks related to potential future NFL disapprovals of the seats. In all, this approach would yield up to \$539,559 from the ticket surcharge for the coming season, depending on how many tickets might be sold under the prevailing health orders. The only potential loss in revenue for repayment of debt would be one year's worth of SBL payments, which, without knowing the impact of buffet charges, might not be a loss at all.

COORDINATION

This report has been coordinated with the Treasurer and Stadium Authority Counsel.

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 <<mailto:clerk@santaclaraca.gov>>.

ALTERNATIVES

1. "Take no action" and receive further information from the State of California and County of Santa Clara about how large sports gatherings will be conducted to respond to the global COVID-19 pandemic for the 2020 NFL season;
2. Direct the Stadium Manager, that after such information about the 2020 season is received, continue to develop a "similar instrument" proposal that resolves the Stadium Authority's concerns;
3. Approve the Executive Director's sale of SBLs at \$6,000 price point for the 64 field seats in the north and south endzones of Levi's Stadium;
4. Approve the Executive Director's sale of SBLs at \$20,000 price point for the 64 field seats in the north and south endzones of Levi's Stadium;
5. Approve the Executive Director's sale of SBLs at a different price point for the 64 field seats in the north and south endzones of Levi's Stadium; or
6. Do not approve the Executive Director's sale of SBLs for the 64 field seats in the north and south endzones of Levi's Stadium.

RECOMMENDATION

Alternatives 1 and 2:

1. "Take no action" and receive further information from the State of California and County of Santa Clara about how large sports gatherings will be conducted to respond to the global COVID-19 pandemic for the 2020 NFL season; and
2. Direct the Stadium Manager, after such information about the 2020 season is received, continue to develop a "similar instrument" proposal that addresses the resolves the Stadium Authority's concerns.

Reviewed by: Christine Jung, Acting Assistant to the City Manager (Executive Director)
Approved by: Deanna J. Santana, Executive Director

ATTACHMENTS

1. February 25, 2019 Letter from NFL Regarding Annual Approval of Temporary Seats
2. May 4, 2020 Conditional Approval from NFL for 2020 Field Seats
3. 2020 Field Seats SBL Revenue Projection Chart Submitted by Stadium Manager