



SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)

Financial Statements

March 31, 2022 and 2021

(With Independent Auditors' Report Thereon)

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Santa Clara Stadium Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Santa Clara Stadium Authority (the Stadium Authority), a component unit of the City of Santa Clara, California, as of and for the years ended March 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Stadium Authority's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Stadium Authority as of March 31, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Stadium Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Stadium Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Stadium Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Stadium Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2022 on our consideration of the Stadium Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Stadium Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Stadium Authority's internal control over financial reporting and compliance

KPMG LLP

San Francisco, California
October 13, 2022

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
March 31, 2022 and 2021

The management's discussion and analysis of the Santa Clara Stadium Authority (Stadium Authority) provides an overall review of the Stadium Authority's financial activities for the fiscal years ended March 31, 2022 and 2021. The intent of this discussion and analysis is to look at the Stadium Authority's financial performance as a whole. Readers should review the discussion and analysis in conjunction with the basic financial statements, including the notes to the basic financial statements to enhance their understanding of the Stadium Authority's financial performance.

The Stadium Authority has elected to provide comparative financial statements to better assist the reader. The Stadium Authority's fiscal year runs from April 1 through March 31 to conform to the fiscal year of the Stadium Funding Trust (FinanceCo). The Stadium Authority is a component unit of the City of Santa Clara, California (City) whose fiscal year is July 1 through June 30.

The Stadium Authority exists as a public body, separate and distinct from the City. It was established to provide for development and operation of Levi's Stadium.

Financial Highlights

Key financial highlights for the fiscal year ended March 31, 2022 are as follows:

- The carrying value of Levi's Stadium at March 31, 2022, net of depreciation, is \$699,633,308.
- During the fiscal year, there were ten National Football League (NFL) games, zero ticketed Non-NFL events and twelve smaller special events held at Levi's Stadium.
- The Stadium Authority recognized \$58,444,137 in operating revenue and \$50,412,330 in operating expenses.
- The revenues from the Non-NFL events were \$1,232,956 and the related expenses were \$1,521,697 resulting in net Non-NFL event loss of \$288,741.
- Debt service payments during the fiscal year totaled \$31,728,139. Overall remaining outstanding debt was reduced by \$16,481,867. The Stadium Authority paid \$17,353,477 for both the Term A and Subordinate Loan and incurred an additional \$871,610 in principal balance for the CFD Advanced Loan.
- The assets of the Stadium Authority exceeded its liabilities by \$76,019,326 due to income from the operation of Levi's Stadium.
- The City received \$425,000 for stadium ground rent. Additionally, the City is required to be fully reimbursed for all of its administration and public safety costs by either the Stadium Authority for Non-NFL events or Forty Niners SC Stadium Company LLC (StadCo) for NFL events.

Overview of the Financial Statements

This annual report consists of a series of financial statements and the notes to those statements. These statements are organized so the reader can understand the Stadium Authority as a financial whole. The basic financial statements provide both a short-term and long-term view of the Stadium Authority's financial activities and financial position.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)
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March 31, 2022 and 2021

The basic financial statements are comprised of the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, the Statements of Cash Flows, and the notes to the financial statements. The Statements of Net Position provide information about the financial position of the Stadium Authority as a whole, including all of its long-term liabilities on the full accrual basis. The Statements of Revenues, Expenses, and Changes in Net Position provide information about all revenue and expenses. The Statements of Cash Flows provides information about cash activities for the period.

Financial Analysis of the Stadium Authority as a Whole

The Stadium Authority's net position at March 31, 2022, March 31, 2021, and March 31, 2020 is as follows:

	<u>FY 2022</u>	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2022 increase (decrease)</u>	<u>FY 2021 increase (decrease)</u>
Assets:					
Capital assets	\$ 702,507,201	718,014,273	734,131,303	(15,507,072)	(16,117,030)
Other assets	<u>108,413,669</u>	<u>104,012,504</u>	<u>107,604,034</u>	<u>4,401,165</u>	<u>(3,591,530)</u>
Total assets	<u>\$ 810,920,870</u>	<u>822,026,777</u>	<u>841,735,337</u>	<u>(11,105,907)</u>	<u>(19,708,560)</u>
Liabilities:					
Current unearned revenue	\$ 15,076,480	14,871,452	14,220,515	205,028	650,937
Other current liabilities	27,208,273	29,128,592	34,338,194	(1,920,319)	(5,209,602)
Long-term unearned revenue	425,271,742	416,092,910	408,765,985	9,178,832	7,326,925
Other long-term liabilities	<u>267,345,049</u>	<u>284,264,912</u>	<u>308,908,054</u>	<u>(16,919,863)</u>	<u>(24,643,142)</u>
Total liabilities	<u>\$ 734,901,544</u>	<u>744,357,866</u>	<u>766,232,748</u>	<u>(9,456,322)</u>	<u>(21,874,882)</u>
Net position:					
Net investment in capital assets	\$ 427,976,288	426,650,943	412,092,180	1,325,345	14,558,763
Restricted for:					
Debt service	21,453,314	20,126,006	19,791,856	1,327,308	334,150
Capital projects and other agreements	41,272,892	38,565,485	31,599,800	2,707,407	6,965,685
Unrestricted deficit	<u>(414,683,168)</u>	<u>(407,673,523)</u>	<u>(387,981,247)</u>	<u>(7,009,645)</u>	<u>(19,692,276)</u>
Total net position	<u>\$ 76,019,326</u>	<u>77,668,911</u>	<u>75,502,589</u>	<u>(1,649,585)</u>	<u>2,166,322</u>

Fiscal Year 2021-22 Analysis

Capital assets decreased when compared to the prior year by \$15,507,072 due to annual depreciation, partially offset by equipment and buildings additions. Other assets increased when compared to the prior year by \$4,401,165. This was due mainly to the net effect of increase in cash and restricted cash offset by a decrease in accounts receivable as result of the August 31, 2022 Settlement Agreement between Stadium Authority, StadCo and Management Co. (See Note 8). Liabilities decreased by \$9,456,322 mainly due to principal prepayment of long-term debt, partly offset by an increase in unearned Stadium Builder License (SBL) revenue due to collection of SBL principal that is amortized over the life of the SBL. Total net position for the Stadium Authority, as a whole, decreased between March 31, 2021 and March 31, 2022 to \$76,019,326. This decrease of \$1,649,585 is primarily due to a decrease in capital assets.

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March 31, 2022 and 2021

Fiscal Year 2020-21 Analysis

Capital assets decreased when compared to the prior year by \$16,117,030 due to annual depreciation, partially offset by equipment and buildings additions. Other assets also decreased when compared to the prior year by \$3,591,530. This was due mainly to the net effect of increases in cash and accounts receivable offset by a decrease in cash with restricted agents associated with the annual funding distributions. Liabilities decreased by \$21,874,882 mainly due to principal prepayment of long-term debt, partly offset by an increase in unearned Stadium Builder License (SBL) revenue due to collection of SBL principal that is amortized over the life of the SBL. Other current liabilities also decreased by \$5,209,602 primarily due to a decrease in interest payable and accrued liabilities related to timing of a debt payment. Total net position for the Stadium Authority, as a whole, increased between March 31, 2020 and March 31, 2021 to \$77,668,911. This increase of \$2,166,322 is primarily due to a decrease in total liabilities.

The Stadium Authority's revenues, expenses, and changes in net position for the fiscal years ended March 31, 2022, March 31, 2021, and March 31, 2020 are as follows:

	<u>FY 2022</u>	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2022 increase (decrease)</u>	<u>FY 2021 increase (decrease)</u>
Operating revenues	\$ 58,444,137	38,373,955	83,937,765	20,070,182	(45,563,810)
Operating expenses	(50,412,330)	(25,937,991)	(62,794,043)	(24,474,339)	36,856,052
Operating income	8,031,807	12,435,964	21,143,722	(4,404,157)	(8,707,758)
Nonoperating revenues	4,128,756	4,691,577	7,347,984	(562,821)	(2,656,407)
Nonoperating expenses	(14,895,722)	(15,243,240)	(16,744,903)	347,518	1,501,663
Income before contributions and other revenues	(2,735,159)	1,884,301	11,746,803	(4,619,460)	(9,862,502)
Contributions and other revenues	1,085,574	282,021	3,613,498	803,553	(3,331,477)
Increase in net position	(1,649,585)	2,166,322	15,360,301	(3,815,907)	(13,193,979)
Total net position – beginning of fiscal period	77,668,911	75,502,589	60,142,288	2,166,322	15,360,301
Total net position – end of fiscal period	\$ <u>76,019,326</u>	<u>77,668,911</u>	<u>75,502,589</u>	<u>(1,649,585)</u>	<u>2,166,322</u>

Fiscal Year 2021-22 Analysis

Stadium Authority operating revenues increased when compared with the prior year by \$20,070,182. This was mainly due to increase in charges for services from NFL Games and smaller special events being held and increase in rents and licenses. The Operating expenses increased by \$24,474,339 compared to the prior year. This increase is primarily because, pursuant to the August 31, 2022 Settlement Agreement between StadCo, ManagementCo, and Stadium Authority, Stadium Authority paid Shared Stadium Expenses and Other Expenses from prior fiscal years' that were previously withheld from payment (see note 8).

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Nonoperating revenues decreased by \$562,821 mainly due to a decrease in interest income from SBL. Nonoperating expenses decreased by \$347,518 mainly due to a decrease in interest expense. Significant prepayments were made on the StadCo Subordinated Loan in the prior year decreasing principal and resulting in lower interest expense.

Contributions and other revenues were \$1,085,574, an increase of \$803,553 over the prior fiscal year. These represent special hotel tax revenues collected to pay the CFD Advance Loan. While the overall hotel tax revenues increased significantly in the current year as we continue to recover from COVID-19, revenues were insufficient to cover the accrued interest on the loan.

Fiscal Year 2020-21 Analysis

Stadium Authority operating revenues decreased when compared with the prior year by \$45,563,810. This was mainly due to NFL Games being held with zero attendance and zero Non-NFL events that resulted in zero ticket surcharge revenues and a net loss in Non-NFL events, minimally offset by an amortization of SBL revenue. Operating expenses decreased by \$36,856,052 primarily due to a decrease in Non-NFL events expenses and Stadium Manager Expenses the Stadium Authority agreed to pay (see note 7). These decreases in operating expenses were partially offset by increases in SCSA General and Administrative costs and SBL Sales and Service expenses.

Nonoperating revenues decreased by \$2,656,407 due to an overall decrease in interest rates over the past year resulting in a decrease in bank interest revenue. Nonoperating expenses decreased by \$1,501,663. Significant prepayments were made on the StadCo Subordinated Loan in the prior year decreasing principal and resulting in lower interest expense.

Contributions and other revenues were \$282,021, a decrease of \$3,331,477 over the prior fiscal year. These represent special hotel tax revenues collected to pay the CFD Advance Loan. The overall hotel tax revenue collections continued at a significantly depressed level in fiscal year 2020-21 due to limited travel as a result of COVID-19.

Capital Assets

The capital assets of the Stadium Authority are those which are used in the performance of the Stadium Authority's functions, including but not limited to infrastructure-related assets. These assets do not include StadCo's tenant improvements. At March 31, 2022, capital assets totaled \$702,507,201.

Further detail may be found in note 4 to the financial statements.

Debt Administration

At March 31, 2022, the Stadium Authority had total debt outstanding of \$280,313,692, as shown in detail in note 5 to the financial statements. Stadium Authority's debt was comprised of Stadium Funding Trust Term A loan of \$230,138,239, the CFD Advance Loan of \$30,374,503, and the StadCo Subordinated Loan of \$19,800,950.

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Economic and Financial Overview

Over the last few years, Silicon Valley has seen job growth that has outpaced the rest of the state. This growth has led to rising home prices and a significant increase in commercial and residential development, including several projects in the vicinity of Levi's Stadium. Major financial factors impacting the Stadium Authority are:

- In May 2013, a Naming Rights Agreement with Levi Strauss & Co. (Levi's) was approved. The name of the Stadium is "Levi's Stadium". The naming rights agreement calls for Levi's to pay a total of \$154.2 million to the Stadium Authority over a 20-year period. The agreement requires the Stadium Authority to hold at least 36 "Major Events" (with 25,000+ attendees) every three contract years. The Second Amendment to the Stadium Management Agreement states that ManagementCo would pay the Stadium Authority as liquidated damages the amount owed by the Stadium Authority to Levi's® in the event the required number of events is not met. As of March 31, 2022, the Stadium Authority has received \$54.7 million in naming rights revenue.
- Stadium Builders Licenses (SBLs) entitle the license holder to priority rights to buy tickets for events at Levi's Stadium. The total value of the currently active SBL holders' licenses is \$539.3 million. Through March 31, 2022, \$501.4 million in SBL principal payments have been collected since inception. This is due in part to a number of SBL holders paying off or prepaying a large portion of their SBL, and defaulted SBLs being resold at full price. In addition to SBL collections, the Stadium Authority has collected \$63.0 million in interest from license holders who financed their SBLs since inception.
- The Stadium Authority generated \$25.3 million in lease revenue during the NFL season and a \$289 thousand net loss associated with hosting Non-NFL events for the fiscal year ended March 31, 2022.
- The Stadium Authority collects a 10% surcharge on the price of admission to all NFL games and a \$4 per ticket surcharge for all ticketed Non-NFL events. There were ten regular season NFL games held at Levi's Stadium during fiscal year March 31, 2022. Additionally, there was no ticketed Non-NFL events in fiscal year 2022.

Contacting the Stadium Authority's Financial Management

This financial report is designed to provide our residents, taxpayers, investors, and creditors with a general overview of the Stadium Authority's finances and to demonstrate the Stadium Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City of Santa Clara Finance Department at 1500 Warburton Avenue, Santa Clara, CA 95050-3796.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)

Statements of Net Position

March 31, 2022 and 2021

Assets	2022	2021
Current assets:		
Cash	\$ 20,039,971	15,236,364
Restricted cash	35,722,544	32,986,213
Restricted cash with fiscal agent	27,003,662	25,705,278
Accounts receivable	13,095,258	18,548,414
Materials, supplies and prepaids	1,015,999	—
Total current assets	<u>96,877,434</u>	<u>92,476,269</u>
Capital assets:		
Buildings, net	699,633,308	716,181,316
Machinery and equipment, net	2,405,127	1,426,780
Construction in progress	468,766	406,177
Total capital assets	<u>702,507,201</u>	<u>718,014,273</u>
Long-term restricted cash with fiscal agent	<u>11,536,235</u>	<u>11,536,235</u>
Total noncurrent assets	<u>714,043,436</u>	<u>729,550,508</u>
Total assets	<u>\$ 810,920,870</u>	<u>822,026,777</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,229,217	3,798,998
Interest payable	5,753,456	6,104,006
Due to other City of Santa Clara funds	131,278	123,306
Deferred rent, current portion	460,000	425,000
Term A loan payable, current portion	14,723,000	14,022,000
Subordinated loan payable, current portion	4,911,322	4,655,282
Unearned revenue, current portion	15,076,480	14,871,452
Total current liabilities	<u>42,284,753</u>	<u>44,000,044</u>
Deferred rent	6,665,679	6,146,635
Term A loan payable	215,415,239	230,138,240
CFD advance loan payable	30,374,503	29,502,893
Subordinated loan payable	14,889,628	18,477,144
Unearned revenue	425,271,742	416,092,910
Total noncurrent liabilities	<u>692,616,791</u>	<u>700,357,822</u>
Total liabilities	<u>\$ 734,901,544</u>	<u>744,357,866</u>
Net Position		
Net investment in capital assets	\$ 427,976,288	426,650,943
Restricted for:		
Debt service	21,453,314	20,126,006
Capital projects and other agreements	41,272,892	38,565,485
Unrestricted deficit	<u>(414,683,168)</u>	<u>(407,673,523)</u>
Total net position	<u>\$ 76,019,326</u>	<u>77,668,911</u>

See accompanying notes to financial statements.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended March 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Charges for services	\$ 11,720,968	390,696
Rents and licensing	<u>46,723,169</u>	<u>37,983,259</u>
	<u>58,444,137</u>	<u>38,373,955</u>
Operating expenses:		
Leases	1,215,019	979,044
Materials, services and supplies (note 3a)	30,651,977	7,024,214
Selling, general, and administrative expenses	1,565,865	1,189,341
Depreciation	<u>16,979,469</u>	<u>16,745,392</u>
	<u>50,412,330</u>	<u>25,937,991</u>
Operating income	8,031,807	12,435,964
Nonoperating revenues (expenses):		
Interest revenue	4,128,756	4,665,147
Other revenue	—	26,430
Interest expense	<u>(14,895,722)</u>	<u>(15,243,240)</u>
Income (loss) before contributions and other revenues	(2,735,159)	1,884,301
Contributions and other revenues:		
Contribution from Community Facilities District	<u>1,085,574</u>	<u>282,021</u>
Change in net position	(1,649,585)	2,166,322
Net position – beginning of period	<u>77,668,911</u>	<u>75,502,589</u>
Net position – end of period	<u>\$ 76,019,326</u>	<u>77,668,911</u>

See accompanying notes to financial statements.

SANTA CLARA STADIUM AUTHORITY
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Statements of Cash Flows

Years ended March 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Receipts from customers	\$ 24,286,339	(2,429,940)
Payments to suppliers	(29,446,734)	(8,204,081)
Rents and licensing received	41,840,919	37,045,208
Net cash provided by operating activities	<u>36,680,524</u>	<u>26,411,187</u>
Cash flows from noncapital financing activities:		
(Decrease) increase in due to other City of Santa Clara funds	<u>7,972</u>	<u>(139,039)</u>
Net cash (used in) provided by noncapital financing activities	<u>7,972</u>	<u>(139,039)</u>
Cash flows from capital and related financing activities:		
Contribution from Community Facilities District	818,906	965,177
Acquisition and construction of capital assets	(1,064,907)	(628,362)
Principal payments on capital debt	(17,353,477)	(29,519,797)
Interest paid on capital debt	(14,374,662)	(16,399,236)
Net cash used in capital and related financing activities	<u>(31,974,140)</u>	<u>(45,582,218)</u>
Cash flows from investing activities:		
Interest and dividends	<u>4,123,966</u>	<u>4,715,533</u>
Net cash provided by investing activities	<u>4,123,966</u>	<u>4,715,533</u>
Net increase (decrease) in cash and restricted cash	8,838,322	(14,594,537)
Cash and restricted cash, beginning of period	<u>85,464,090</u>	<u>100,058,627</u>
Cash and restricted cash, end of period	<u>\$ 94,302,412</u>	<u>85,464,090</u>
Reconciliation of operating income to cash provided by operating activities:		
Operating income	\$ 8,031,807	12,435,964
Depreciation	16,979,469	16,745,392
Shared stadium expenses	5,823,817	—
Change in operating assets and liabilities:		
Accounts receivable	(1,700,739)	(11,736,549)
Accounts payable and accrued liabilities	(1,375,735)	399,474
Prepaid expenses	(1,015,999)	—
Unearned revenue	9,383,860	7,977,862
Deferred rent	554,044	589,044
Net cash provided by operating activities	<u>\$ 36,680,524</u>	<u>26,411,187</u>

See accompanying notes to financial statements.

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)

Notes to Financial Statements

March 31, 2022 and 2021

(1) Organization and Reporting Entity

(a) Organization

On June 8, 2010, residents of Santa Clara voted to adopt Measure J, the Santa Clara Stadium Taxpayer Protection and Economic Progress Act, resulting in the approval to construct a new 68,500-seat football stadium (the Stadium) to be leased to the San Francisco 49ers (49ers). In addition, Measure J called for the creation of the Santa Clara Stadium Authority to own, develop, construct, operate, and maintain the Stadium project. The City of Santa Clara, California (City) and the City of Santa Clara Redevelopment Agency (Agency) entered into a Joint Exercise of Powers Agreement (JPA Agreement) establishing the Santa Clara Stadium Authority (Stadium Authority). The JPA Agreement was later amended to add the Bayshore North Project Enhancement Authority as a member of the Stadium Authority. On June 28, 2011, the Governor signed into law Assembly Bill No. X1 26 (ABX1 26), which called for the dissolution of Redevelopment Agencies throughout the State. The California State Supreme Court upheld ABX1 26, and as a result, on February 1, 2012, all California Redevelopment Agencies were dissolved. The Successor Agency of the City of Santa Clara (Successor Agency) then assumed the obligations of the Agency under the JPA Agreement.

(b) Financial Reporting Entity

As defined by U.S. generally accepted accounting principles (GAAP), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the application of these criteria, the Stadium Authority has no component units. However, the Stadium Authority is a component unit of the City because the Mayor and City Council serve as the Board of the Stadium Authority. The City Manager serves as the Executive Director. The debt which was incurred for the construction of the Stadium is the responsibility of the Stadium Authority. The City is not a party to the debt nor has the City guaranteed such debt.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Stadium Authority have been prepared in conformity with GAAP, as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing government accounting and financial reporting principles. The Stadium Authority is included as an enterprise fund in the City's Annual Financial Report, and therefore, these financial statements do not purport to represent the financial position and changes in financial position of the City.

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(b) Basis of Accounting and Measurement Focus

The Stadium Authority reports its activities as a business-type activity. The financial statements include statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows, and are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statements of net position. Reported net position is segregated into three categories – net investment in capital assets, restricted and unrestricted. The statements of revenues, expenses, and changes in net position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which a liability is incurred.

Operating revenues are those revenues that are generated from the primary operations of the Stadium Authority. All other revenues are reported as nonoperating. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

(c) Year-End

An amendment was made to the JPA Agreement on November 13, 2012 in part to change the fiscal year of the Stadium Authority from a July 1 through June 30 fiscal year to an April 1 through March 31 fiscal year to conform with the fiscal year of Stadium Funding Trust.

(d) Cash, Restricted Cash, and Restricted Cash with Fiscal Agent

The Stadium Authority's cash is not pooled with the City but is held in separate bank and trust accounts.

(i) Composition of Cash, Restricted Cash, and Restricted Cash with Fiscal Agent

Cash, restricted cash, and restricted cash with fiscal agent at March 31, 2022 and 2021 consist of cash deposits in banks.

Restricted cash includes revenue that has not yet been transferred to Stadium Funding Trust accounts. On the 15th of the following month all revenue is swept into the Stadium Funding Trust accounts as required by the Deposit and Disbursement Agreement and becomes restricted cash with fiscal agent. It also includes cash dedicated to construction and the capital expenditure and operating reserve accounts.

Restricted cash with fiscal agent consists of stadium deposits pledged to a syndicate of lenders and deposits for stadium construction. The application of these deposits is restricted to fund stadium construction and Stadium Authority operations and debt service.

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(ii) Investments Authorized by Debt Agreements

Stadium Authority maintains required amount of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if Stadium Authority fails to meet its obligations under these debt issues. The California Government Code 53601 (L) allows these funds to be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, other arrangements, or certificates of participation in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(iii) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its agent having a fair value of 105% to 150% of the Stadium Authority's cash on deposit. All of the deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions.

(e) Accounts Receivable

Accounts receivable are recorded in the Stadium Authority's accounts at the amounts that are contractually due. Accounts receivable include payments due from the Forty Niners Stadium Management Company, LLC (ManagementCo) as a result of the operations of non-National Football League (NFL) events held at the Stadium and the overpayment of stadium manager expenses. Naming Rights revenue due from Levi's Strauss & Co., special tax proceeds collected by the Community Facilities District (CFD) and not yet paid to Stadium Authority pursuant to the CFD Reimbursement Agreement, and other miscellaneous receivables are also included as accounts receivable in the statements of net position.

(f) Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets with a value over \$5,000 and is charged as an expense against operations.

	<u>Useful lives (years)</u>
Buildings	20-50
Machinery and equipment	2-25

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The cost of maintenance, repairs, minor replacements, and renewals are charged to operations as incurred. Major replacements, renewals, and betterments are capitalized. Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in the statements of revenues, expenses, and changes in net position.

Interest is capitalized on construction in progress in accordance with applicable guidance.

(g) *Unearned Revenue and Revenue Recognition*

Stadium Builder License (SBL) proceeds and payments received for other license agreements are initially recorded as unearned revenue and are recognized as revenue over the term of the contracts. Rental income is recognized as revenue on a straight-line basis over the term of the Stadium Lease (note 6(b)).

Non-NFL event revenue, NFL ticket surcharge, Non-NFL ticket surcharge, and other operating revenues are recognized as they are earned.

(h) *Risk Management*

Per the terms of the Stadium Lease, during operations, the Forty Niners SC Stadium Company LLC procures insurance and the Stadium Authority pays a proportionate share to StadCo. The Fairly Group is the insurance broker for Stadium operations.

(i) *Income Taxes*

The Stadium Authority falls under the purview of Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, the Stadium Authority is not subject to federal or state income taxes.

(j) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(3) Stadium Development

(a) *Transaction Overview*

During fiscal year 2011-12, the Stadium Authority and StadCo entered into a series of agreements in connection with the construction of the Stadium. The Stadium was constructed and is owned by the Stadium Authority; certain tenant improvement components are owned by StadCo. Construction on the Stadium began in April 2012 and it was substantially completed in July 2014, in time for the 2014 NFL season.

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The City owns the land on which the Stadium was constructed. The City has leased the land to the Stadium Authority under a ground lease, and the Stadium Authority has leased the Stadium to StadCo for the six-month period from August through January (the NFL season) of each year, for an initial lease term of 40 years. The stadium lease commenced in August 2014 upon substantial completion of construction.

The Stadium Authority retained a design-build firm to complete the design and construction of the Stadium pursuant to a guaranteed maximum price contract. The Stadium Authority was generally responsible for amounts due to the design-builder, except that StadCo was responsible for payment of costs of tenant improvements. StadCo acted as construction agent for the Stadium Authority, with primary responsibility for administering the design-build contract.

The Stadium Authority and StadCo have engaged ManagementCo, an affiliate of StadCo, to manage the Stadium on a year-round basis. The Stadium Management Agreement has an initial term of 25 years, plus a 15-year renewal option. The Stadium Authority pays ManagementCo for services related to its operations on behalf of the Stadium Authority. For the year ending March 31, 2022 and 2021, ManagementCo charged the Stadium Authority \$6.8 million and \$6.6 million in Shared Expenses and \$7.8 million and \$7.5 million in Other Operating and Management Expenses, respectively. Due to concerns over violations of State laws, including but not limited to, California's Prevailing Wage statutes and regulations of the California Department of Industrial Relations, and concerns regarding ManagementCo's procurement process, the Stadium Authority partially suspended payments to ManagementCo starting in June 2019, until ManagementCo provided records showing legal and contractual compliance. As certain expenses billed by ManagementCo could not be validated based on records provided, the Stadium Authority only paid \$6.1 million in Other Operating Expenses as of March 31, 2021. These partially suspended payments were the subject of an arbitration filed by StadCo and ManagementCo against Stadium Authority. That arbitration and dispute also included the remaining unpaid balance of \$6.7 million, which includes interest expenses under the Revolving Loan of \$159,112, and a prior year true-up offset of \$1.0 million. The Stadium Authority paid \$3.9 million in Shared Expenses and \$6.4 million in Other Operating Expenses as of March 31, 2022. The remaining unpaid balance of \$3.4 million which includes interest expense of \$193,522 and a prior year true-up offset of \$1.3 million was part of the parties' arbitration and dispute (see footnote 7b).

On August 31, 2022, Stadium Authority, StadCo and ManagementCo settled the arbitration and disputes regarding the partially suspended Shared Expenses and Operating and Management Expenses. As part of the settlement, under section 11(b)(iii), Stadium Authority agreed to recognize the \$15.8 million unpaid expenses along with the \$426 thousand interest expenses under the Revolving Loan incurred from fiscal year 2019-20 through fiscal year 2021-22, ManagementCo's prior unauthorized payments of the unpaid expenses through the Revolving Loan are now treated as timely Stadium Authority payments, but without Stadium Authority agreeing to ManagementCo's actions or draws under the Revolving Loan (see footnote 8). The \$16.3 million in ManagementCo expenses were recorded in fiscal year ending March 31, 2022. These are the Shared Expenses and Operating and Management Expenses that were previously withheld in 2020 and 2021.

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(b) Construction Funding

Funding for construction of the Stadium, excluding tenant improvements funded by StadCo, falls into three major categories: an initial construction loan from a bank syndicate, which was refinanced during 2013 as described below; funding from the StadCo Subordinated Loan; and construction period and other revenues.

(i) Stadium Construction Loan Facility

The initial financing included a delayed draw term loan facility (the Construction Facility) provided by a syndicate of banks (the Lenders) to Stadium Funding Trust (FinanceCo). FinanceCo, a Delaware statutory trust, entered into the Construction Facility with the Lenders and then issued a loan facility to the Stadium Authority in the amount of \$450 million (the Authority Loan). The Construction Facility had a maturity date of September 1, 2015. In June 2013, FinanceCo and the Stadium Authority refinanced the Construction Facility, resulting in FinanceCo paying off the Construction Facility and entering into a new debt structure that includes 26-year fixed rate notes and a delayed draw 5-year loan facility. FinanceCo then issued a new loan facility to the Stadium Authority in the amount of \$450 million. The Stadium Authority's loan facilities are discussed in note 5.

(ii) StadCo Subordinated Loan

In March 2012, StadCo agreed to loan the Stadium Authority up to \$500 million (the Subloan) to be used for the construction of Levi's Stadium. During the refinance process in June 2013, the interest rate on the Subloan was fixed and part of the then outstanding Subloan was paid down. The Subloan is discussed in note 5.

(iii) Construction Period and Other Revenues

Certain revenues were collected by the Stadium Authority while the Stadium was under construction. These construction period and other revenues primarily consist of SBL and Naming Rights revenues collected by the Stadium Authority.

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(4) Capital Assets

Capital asset activity for the year ended March 31, 2022 was as follows:

	Balance March 31, 2021	Additions	Reductions	Balance March 31, 2022
Nondepreciable assets:				
Construction in progress	\$ 406,177	247,001	(184,412)	468,766
Total nondepreciable assets	<u>406,177</u>	<u>247,001</u>	<u>(184,412)</u>	<u>468,766</u>
Capital assets being depreciated:				
Buildings	826,249,132	—	(21,248)	826,227,884
Machinery and equipment	2,560,605	1,431,056	—	3,991,661
Less accumulated depreciation for:				
Buildings	(110,067,816)	(16,526,760)	—	(126,594,576)
Machinery and equipment	(1,133,825)	(452,709)	—	(1,586,534)
Net depreciable assets	<u>717,608,096</u>	<u>(15,548,413)</u>	<u>(21,248)</u>	<u>702,038,435</u>
Net capital assets	\$ <u>718,014,273</u>	<u>(15,301,412)</u>	<u>(205,660)</u>	<u>702,507,201</u>

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Capital asset activity for the year ended March 31, 2021 was as follows:

	Balance March 31, 2020	Additions	Reductions	Balance March 31, 2021
Nondepreciable assets:				
Construction in progress	\$ 416,730	4,447	(15,000)	406,177
Total nondepreciable assets	416,730	4,447	(15,000)	406,177
Capital assets being depreciated:				
Buildings	826,227,888	21,244	—	826,249,132
Machinery and equipment	1,942,934	617,671	—	2,560,605
Less accumulated depreciation for:				
Buildings	(93,541,056)	(16,526,760)	—	(110,067,816)
Machinery and equipment	(915,193)	(218,632)	—	(1,133,825)
Net depreciable assets	733,714,573	(16,106,477)	—	717,608,096
Net capital assets	\$ 734,131,303	(16,102,030)	(15,000)	718,014,273

Interest expense incurred during the years ended March 31, 2022 and 2021 totaled \$14,895,722 and \$15,243,240, respectively. No interest was capitalized.

(5) Long-Term Debt

(a) Long-Term Debt Summary

Changes in long-term debt for the year ended March 31, 2022 consisted of the following:

Type of indebtedness	Issue date	Due date	Interest rates	Outstanding as of March 31, 2021	Additions	Reductions	Outstanding as of March 31, 2022	Amounts due within one year
Business type activity debt:								
Stadium Funding Trust								
Loan:								
Term A Loan	6/19/2013	4/1/2039	5.00 %	\$ 244,160,240	—	(14,022,001)	230,138,239	14,723,000
StadCo CFD Advance	4/1/2013	12/31/2054	5.73	29,502,893	871,610 ⁽¹⁾	—	30,374,503	—
StadCo Subordinated Loan	3/28/2012	3/31/2043	5.50	23,132,426	—	(3,331,476)	19,800,950	4,911,322
Total				\$ 296,795,559	871,610	(17,353,477)	280,313,692	19,634,322

⁽¹⁾ The addition to the StadCo CFD Advance is interest being added to principal due to the timing of the quarterly payments. (see note 5(c)).

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Changes in long-term debt for the year ended March 31, 2021 consisted of the following:

Type of indebtedness	Issue date	Due date	Interest rates	Outstanding as of March 31, 2020	Additions	Reductions	Outstanding as of March 31, 2021	Amounts due within one year
Business type activity debt:								
Stadium Funding Trust								
Loan:								
Term A Loan	6/19/2013	4/1/2039	5.00 %	\$ 257,514,240	—	(13,354,000)	244,160,240	14,022,000
StadCo CFD Advance	4/1/2013	12/31/2054	5.73	28,832,979	1,050,753 ⁽¹⁾	(380,839)	29,502,893	—
StadCo Subordinated Loan	3/28/2012	3/31/2043	5.50	38,917,384	—	(15,784,958)	23,132,426	4,655,282
Total				\$ 325,264,603	1,050,753	(29,519,797)	296,795,559	18,677,282

⁽¹⁾ The addition to the StadCo CFD Advance is interest being added to principal due to the timing of the quarterly payments. (see note 5(c)).

(b) Stadium Funding Trust Loan

The Restated Credit Agreement by and among FinanceCo, the Stadium Authority and Goldman Sachs Bank was entered into on June 19, 2013. FinanceCo agreed to loan the Stadium Authority up to \$450 million. Under the Restated Credit Agreement, the loan from FinanceCo consists of the Term A Loan and the Term B Loan. On March 31, 2016, the Stadium Authority paid the remaining amount due on the Term B Loan.

(i) Term A Loan

The Term A Loan was made in the amount of \$282.79 million. This loan bears interest at a fixed rate of 5%, payable semi-annually, with annual principal payments due beginning in April 2018. It has a maturity date in 2039 and is subject to certain prepayment premiums. The loan was fully drawn at closing. As of March 31, 2022, \$230.1 million was outstanding. Debt service on this loan is secured by a pledge of available SBL Revenues of Stadium Authority.

In the event of default under the loan agreement, FinanceCo has the right, upon written notice to the Stadium Authority, to accelerate and declare the Stadium Authority's obligation to repay the related loan to FinanceCo to be immediately due and payable.

(c) StadCo CFD Advance

In May of 2010, the City completed the proceedings to establish CFD for the purpose of financing certain publicly owned facilities and public services associated with the Stadium.

On June 11, 2013, the CFD, the Stadium Authority, and StadCo entered into a Reimbursement Agreement under which the CFD would agree to reimburse the Stadium Authority for costs of the publicly owned facilities and public services constructed for the Stadium. The reimbursement can only be made from the special tax generated by the CFD, as and when received by the CFD.

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StadCo has agreed to advance to the Stadium Authority funds to pay for the CFD Infrastructure (StadCo CFD Advance). To evidence the Stadium Authority's obligation to repay the StadCo CFD Advance, the Stadium Authority and StadCo also executed a note on June 11, 2013. The StadCo CFD Advance has a maximum principal of \$38 million and an interest rate of 5.73%.

During the year ended March 31, 2022, as the special CFD tax was submitted to the Stadium Authority, a number of payments were made on the StadCo CFD Advance. StadCo CFD Advance payments were made mid-way through each quarter. The interest that accrued between the last StadCo CFD Advance payment and the end of the year is added to principal. The amount of payment due for the year was \$1.7 million, which included \$1.7 million in interest and \$0 in principal. The Stadium Authority made \$819 thousand in payments and added the remaining unpaid balance to the principal during the year. As of March 31, 2022, and 2021, \$30.4 million and \$29.5 million was outstanding respectively, which includes \$872 thousand of interest added to principal as of March 31, 2022.

(d) StadCo Subordinated Loan

The Restated StadCo Obligations Agreement dated as of June 19, 2013 was entered into by and between StadCo and the Stadium Authority as part of the take-out financing process. Under the Restated StadCo Obligations Agreement, StadCo will loan the Stadium Authority an amount not to exceed \$500 million with a fixed 5.50% interest rate. Required principal repayments started in March 2016 and the Stadium Authority may prepay the loan at any time.

Payments totaling \$4.6 million were made on the loan during the year. This included a \$3.3 million in principal prepayment and \$1.3 million in interest. As of March 31, 2022 and 2021, \$19.8 million and \$23.1 million, respectively, was outstanding. Debt service on this loan is secured by a pledge of available Stadium Authority revenues on a basis subordinate to outstanding senior loans, if any.

In the event of default under the loan agreement, StadCo has the right, upon written notice to the Stadium Authority, to accelerate and declare the Stadium Authority's obligation to repay the related loan to StadCo to be immediately due and payable.

(e) Management Company Revolving Loan

The Management Company Revolving Loan dated as of March 28, 2012 was entered into by and between the Stadium Authority and ManagementCo. The Management Company Revolving Loan provides borrowing to the Stadium Authority in an amount not to exceed \$25 million through the earlier of the end of the term of the Stadium Lease or the expiration of the Stadium Management Agreement, with interest at the prime rate payable quarterly. The Management Company Revolving Loan may be used solely for the purpose of enabling the Stadium Authority to pay Covered Stadium Authority Operating Expenses (as defined in the agreement) to the extent, and only to the extent, that funds are not otherwise available.

On July 3, 2019, ManagementCo began issuing certificates of loan to the Stadium Authority under the Management Company Revolving Loan and with Sections 5.2 and 5.3 of the Stadium Management Agreement. The Management Agreement engages ManagementCo for services rendered related to its operations on behalf of the Stadium Authority. The Management Company Revolving Loan may be used solely for the purpose of enabling the Stadium Authority to pay covered Stadium Authority

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operating expenses, as defined in the agreement, to the extent, and only to the extent, that funds are not otherwise available. During fiscal year 2019-20, certain operating expenses came into question by the Stadium Authority and as such, were partially withheld from payment to ManagementCo until ManagementCo provided documentation to show the services were legally procured and complied with applicable laws (see footnote 3a). Subsequently, ManagementCo triggered the Revolving Loan provisions to draw monies for the payment of operating expenses not paid to date by the Stadium Authority. As of March 31, 2021 and 2022, the amount outstanding reported in the Management Company Revolving Loan by ManagementCo was \$6.7 million and \$0, respectively. ManagementCo was able to pay off the Revolving Loan balance with the year-end excess cash from operations. Stadium Authority disputed these draws and the application of Stadium Authority's excess cash to pay off the balance, and these disputes were part of the parties' arbitration regarding Shared Stadium Expenses.

On August 31, 2022, Stadium Authority, StadCo and ManagementCo entered into a settlement agreement, which included terms addressing these disputes. Specifically, under section 11(b)(iii) of the Settlement Agreement, Stadium Authority agreed to recognize the prior unpaid expenses incurred from fiscal year 2019-20 through fiscal year 2021-22, and ManagementCo's prior unauthorized payments of the unpaid expenses through the Revolving Loan are treated as timely Stadium Authority payments, but without Stadium Authority agreeing to ManagementCo's actions or draws under the Revolving Loan.

(f) Pledge of Future Revenues

The pledge of future revenues ends upon repayment of the \$249.9 million in outstanding principal on the Term A and Subordinate Loan which is scheduled to occur in fiscal year 2039-40 and 2042-43, respectively. For fiscal year 2021-22, revenues including operating revenues and non-operating interest earnings amounted to \$62.6 million and operating costs including operating expenses, but not interest, depreciation or amortization amounted to \$33.4 million. Net revenues available for debt service amounted to \$29.2 million which represented a coverage ratio of 1.5 on the \$19.6 million of debt service.

(g) Long-Term Debt Maturities

Future principal and interest amounts due on long-term debt are as follows as of March 31, 2022:

	<u>Principal</u>	<u>Interest</u>
Year ending March 31:		
2023	\$ 19,634,322	13,600,273
2024	20,640,446	12,557,201
2025	12,766,322	11,907,226
2026	12,079,850	11,214,668
2027	8,404,934	10,561,125
Thereafter	<u>206,787,818</u>	<u>108,747,350</u>
Total	<u>\$ 280,313,692</u>	<u>168,587,843</u>

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(6) Leases

(a) Ground Lease

On February 28, 2012, the Stadium Authority entered into a lease (the Ground Lease) with the City whereby the City leases the Stadium site to the Stadium Authority. The Ground Lease was amended on June 19, 2013.

The Ground Lease has an initial term of 40 years. The first lease year commenced on the first day following the substantial completion of construction (August 1, 2014) and ended on the next following March 31. The subsequent lease years will start on April 1 and end on the following March 31. The Stadium Authority will have five successive extension options, each four years in duration, which would commence following the initial term expiration date.

The Ground Lease provides that the City will receive a fixed ground rent (Fixed Ground Rent) of \$180 thousand for the first year of Stadium operations payable by the Stadium Authority. Beginning in the second year of Stadium operations and annually thereafter through the tenth year of Stadium operations, the Fixed Ground Rent will increase annually by \$35 thousand. Beginning in the 11th year of Stadium operations, Fixed Ground Rent will be increased to equal \$1 million, and thereafter will be increased by \$100 thousand every five years through the end of the initial term of the Ground Lease. If the term of the Ground Lease is extended, then, during the first extension term, the Fixed Ground Rent will equal \$1.58 million; and if and to the extent the Ground Lease is further extended, the Fixed Ground Rent will be increased by \$80 thousand every four years thereafter through the expiration of the term of the Ground Lease. While the Fixed Ground Rent payments vary over the course of the Ground Lease, Ground Lease expense is recorded on a straight-line basis. Therefore \$979 thousand of ground lease expense was reported in each of the fiscal years ended March 31, 2022 and 2021.

The Ground Lease also provides that the City will receive a performance-based rent equal to 50% of the net income from Non-NFL events, less certain credits including 50% of the Fixed Ground Rent, payable by the Stadium Authority. If certain of the credits are not used within the year incurred or the next five succeeding years, the credits will expire.

Future minimum payments due under the lease are as follows:

Year ending March 31:	
2023	\$ 460,000
2024	495,000
2025	1,000,000
2026	1,000,000
2027	1,000,000
Thereafter	<u>34,500,000</u>
	<u>\$ 38,455,000</u>

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(b) Stadium Lease

On March 28, 2012, the Stadium Authority entered into a lease with StadCo whereby the Stadium Authority leases the Stadium to StadCo. On June 19, 2013, the same parties entered into an Amended and Restated Stadium Lease Agreement (the Stadium Lease).

The Stadium Lease has an initial term of 40 years commencing on the first day following the substantial completion of construction (August 1, 2014) and includes five successive options to extend the term by four years each. The Stadium Lease is divided into two seasons:

- The Tenant Season, which includes the NFL season (including preseason, regular season, and postseason NFL games) and runs from August 1 through January 31; and
- The Stadium Authority Season, which runs from February 1 through July 31.

Pursuant to the Stadium Lease, the Stadium Authority and StadCo will be entitled to receive and collect separate revenues. Initially, rent payable by StadCo to the Stadium Authority was \$24.5 million per year. This amount was established pursuant to the Stadium Lease in connection with the take-out financing, which occurred on June 19, 2013. The Stadium Lease allowed for one opportunity to adjust the rent if operating or debt service expenses are either more or less than projected in determining the initial rent. Based on the changes to the projected operating and debt service expenses, the provisions for a one-time rent adjustment were triggered. At the Stadium Authority Board (Board) meeting held on March 22, 2016, the Board decided not to adjust the rent, and instead passed a motion to pursue the informal dispute resolution procedures and to proceed to the arbitration process if necessary. Thereafter, on May 3, 2016, StadCo filed for arbitration with the Stadium Authority.

On June 18, 2018, the arbitrator entered an Arbitration Award in favor of the Stadium Authority and against StadCo. This award adjusted the facility rent from \$24.5 million to \$24.76 million, an increase of \$262,000. This increase is retroactive to the first lease year resulting in a total amount owed to the Stadium Authority of \$1.31 million for the first five lease years, through March 31, 2020. In addition to the adjustment to the facility rent, the Stadium Authority was entitled to reimbursement of its legal fees, determined by the arbitrator to be \$2.28 million. The lease also provides for a fair market rent adjustment in year 33.

The Stadium Authority received \$25.3 million and \$17.3 million in stadium rent from StadCo in each of the fiscal years ended March 31, 2022 and 2021, respectively. There were seven additional NFL events in fiscal year 2021-22, therefore; lease revenues in fiscal year 2021-22 were higher than the prior year.

The Stadium Authority may elect to expand the Tenant Season to consist of the entire lease year, from April 1 through the next succeeding March 31 (Stadium Authority Put Right), by delivering written notice to StadCo. The Stadium Authority Put Right may be exercised at any time during lease year 13, or at any time that the Management Company Revolving Loan balance exceeds \$20 million. The expansion of the Tenant Season will be effective as of the applicable Tenant Season Expansion Date as set forth in the Stadium Lease. Effective from and after the Tenant Season Expansion Date, and continuing through the remainder of the Stadium Lease term, the Tenant Season will consist of the entire lease year.

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(7) Contingencies

(a) Asset Retirement Obligation

Pursuant to the Ground Lease, the Stadium Authority may be required to demolish the Stadium and other improvements at the end of the lease term, upon written notice from the City. Pursuant to the Stadium Lease, the Stadium Authority will establish reserves to fund the cost of demolishing the stadium at the end of the lease term. While such reserves are projected to cover the entire demolition cost, StadCo will be responsible for funding any shortfall.

(b) ManagementCo Expense Litigation

On June 13, 2019, the Stadium Authority partially suspended payments to ManagementCo for Operating and Management Expenses and Shared Expenses incurred by ManagementCo, based on Stadium Authority's obligations to protect public funds and due to concerns over ManagementCo's compliance with contractual obligations and violations of State laws, including but not limited to, California's Prevailing Wage statutes, California Department of Industrial Relations regulation, and procurement requirements. The partially suspended payments would be released when ManagementCo provided records showing legal and contractual compliance.

StadCo and ManagementCo initiated arbitration proceedings to dispute the Stadium Authority's position. Based on Stadium Authority's reasonable justification for the partial suspension of payments and because the dispute was subject to litigation, the Stadium Authority did not recognize the suspended payments as an expense in fiscal years 2020 and 2021.

On July 3, 2019, ManagementCo, acting independently, began issuing certificates of loan to the Stadium Authority under the Management Company Revolving Loan and with Sections 5.2 and 5.3 of the Stadium Management Agreement, to pay for the suspended Shared Expenses of approximately \$6,634,000, which covers expenses from June 2019 thru February 2020. The draw incurred \$109,436 in interest expense and increased the Management Company Revolving Loan balance amount to \$6,300,653 in principal and interest for fiscal year 2019-20 (see footnote 5e). Stadium Authority objected to and disputed the use and draws of the Revolving Loan, and did not recognize at that time the principal or interest claims under the Revolving Loan as an expense.

On April 1, 2020, the Stadium Authority completed the Trust Excess Cash Flow funding instructions and provided it to the FinanceCo and StadCo to complete fiscal year 2019-20's year-end Trust Excess Cash Flow funding distribution per the Deposit and Disbursement Agreement. The Trust Excess Cash Flow instruction specifically excluded payments to the Revolving Loan of \$6,300,653 because the Stadium Authority did not recognize this as an expense, as explained above. StadCo deviated from the funding instructions and took the Excess Revenues from the distribution to pay off the Management Company Revolving Loan. The Stadium Authority was informed of this deviation in a letter dated April 27, 2020. On May 18, 2020, the Stadium Authority notified StadCo and the Trust that the deviation is in direct contravention of the Stadium Authority's instructions to the Trustee with regards to the use of Excess Revenue. Subsequently, the Stadium Authority has recorded a receivable from StadCo for \$6,300,653.

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In fiscal year 2020-21, ManagementCo continued to issue certificates of loan under the Revolving Loan to the Stadium Authority for the suspended Shared Expenses of approximately \$7,249,747, which covers expenses from March 2020 through March 2021. ManagementCo also issued a certificate of loan for \$1,601,538 to pay for a portion of the \$2,741,014 invoice from fiscal year 2019-20's Non-NFL events' net loss reported by ManagementCo. The remaining balance of \$1,139,476 in the Non-NFL events' net loss invoice was from the City's Public Safety costs, which ManagementCo had requested that the City recoup the costs directly with the Stadium Authority. The Stadium Authority included the Non-NFL events' net loss of \$1,601,538 in the overall dispute with ManagementCo.

On March 31, 2021, the Stadium Authority completed the Trust Excess Cash Flow funding instructions and provided it to the FinanceCo and StadCo to complete fiscal year 2020-21's year-end Trust Excess Cash Flow funding distribution per the Deposit and Disbursement Agreement. The Trust Excess Cash Flow instruction requested that the Trust pay the StadCo Subordinated Loan in the amount of \$5,796,711. However, StadCo deviated from the funding instructions and used \$2,167,689 from the distribution to pay off the Management Company Revolving Loan instead. The Stadium Authority was informed of this deviation in a letter dated May 18, 2021. Subsequently, the Stadium Authority recorded a receivable from StadCo for \$2,167,689.

In fiscal year 2021-22, ManagementCo issued a certificate of loan to the Stadium Authority for \$4,874,745, which includes unpaid Shared Expenses of \$4,291,056 from April 2021 through March 2022, fiscal year 2020-21 Non-NFL events' depreciation expense of \$32,689, and fiscal year 2021-22 Non-NFL events' net loss of \$551,000. ManagementCo also invoiced the Stadium Authority \$193,522 for Revolving Loan interests and applied \$1,319,976 in credits to the Revolving Loan for prior years expense true-ups. As a result, the amount outstanding in the Management Company Revolving Loan increased by \$3,748,291, from \$6,683,597 to \$10,431,888 before StadCo deviated from the fiscal year 2021-22 Trust Excess Cash Flow funding instruction and fully paid off the Revolving Loan.

On March 31, 2022, the Stadium Authority completed the Trust Excess Cash Flow funding instructions and provided it to the FinanceCo and StadCo to complete fiscal year 2021-22's year-end Trust Excess Cash Flow funding distribution per the Deposit and Disbursement Agreement. The Trust Excess Cash Flow instruction requested that the Trust pay the StadCo Subordinated Loan in the amount of \$15,035,648. However, StadCo deviated from the funding instructions and used \$10,431,888 from the distribution to pay off the Management Company Revolving Loan instead. The Stadium Authority was informed of this deviation in a letter dated April 13, 2022. Subsequently, the Stadium Authority recorded a receivable from StadCo for \$10,431,888.

Stadium Authority objected to and disputes ManagementCo's draws and use of the Revolving Loan, as explained above, as well as the use of Stadium Authority's excess cash each year to pay Revolving Loan principal and interest. These disputes were part of the parties' arbitration matter. On August 31, 2022, Stadium Authority, StadCo and ManagementCo entered into a settlement agreement, which included terms addressing these disputes. Specifically, under section 11(b)(iii) of the Settlement Agreement, Stadium Authority agreed to recognize the prior unpaid expenses incurred from fiscal year 2019-20 through fiscal year 2021-22, and ManagementCo's prior unauthorized payments of the unpaid expenses through the Revolving Loan are treated as timely Stadium Authority payments, but without Stadium Authority agreeing to ManagementCo's actions or draws under the Revolving Loan.

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(c) Historical SBL Buffet Costs

On April 30, 2020, the Stadium Authority received an invoice in the amount of \$4,388,709 for previously un-billed "complimentary" buffet costs associated with certain SBL holders for the NFL seasons from 2014 thru 2018. On May 13, 2020, the Stadium Authority issued a response letter disputing the newly billed costs citing that the costs were not presented in a reasonable manner relative to the financial planning and reporting requirements of the Lease Agreement and Stadium Management Agreement and there is no justification for delaying presentment and demand for payment. The invoices presented also lack sufficient supporting documentations in order to confirm the validity of the costs and charges under the Lease Agreement terms. StadCo and ManagementCo have initiated arbitration proceedings to dispute the Stadium Authority's position and the dispute is still outstanding.

As of March 31, 2022, ManagementCo invoiced an additional \$902,081 in new buffet costs to the Stadium Authority through the fiscal year 2021-22 Non-NFL events' net loss. ManagementCo also issued a certificate of loan to the Stadium Authority under the Management Company Revolving Loan for the buffet amount and subsequently paid off the loan through the year-end excess cash distribution. Stadium Authority objected to and disputes ManagementCo's unauthorized payment of these buffet costs through the Revolving Loan, and also the payment of that loan through year-end excess cash. Pursuant to the parties' August 31, 2022 settlement agreement and stipulation, ManagementCo's draw under the Revolving Loan will be treated as a timely Stadium Authority payment, under protest, and with a full reservation of Stadium Authority's rights and claims. The Stadium Authority recorded a \$902,081 receivable from ManagementCo for the loan draw on the buffet costs as of March 31, 2022.

(8) Subsequent Events

On August 31, 2022, the Stadium Authority entered into a settlement agreement with StadCo and ManagementCo over disputes regarding the Operating and Management Expenses and Shared Expenses that were previously withheld. As part of the settlement, the Stadium Authority agreed to recognize the \$15.8 million of unpaid ManagementCo expenses along with the \$426 thousand interest expenses from the Revolving Loan. The Stadium Authority will not have to pay for the unpaid expenses since ManagementCo already paid for the expenses through the Revolving Loan draws and year-end excess cash. Additionally, the Stadium Authority will reverse the receivable balances previously recorded for the year-end excess cash diversions that ManagementCo took to pay off the Revolving Loan balance. As part of the settlement, Stadium Authority did not confirm or agree to ManagementCo's prior actions or draws under the Revolving Loan. The unpaid expenses were properly recognized in fiscal year ending March 31, 2022.