Meeting Date: 12-18-07

AGENDA REPORT

City of Santa Clara, California

Agenda Item # 4.A

DATE: December 18, 2007

TO: City Manager/Executive Director for Redevelopment Agency Information

FROM: Assistant City Manager
Director of Finance/Treasurer for Redevelopment Agency

SUBJECT: Non-Substantive Corrections to Joint Council/Redevelopment Agency "Committee of the Whole" San Francisco 49ers Stadium Project Financing and Proposed Alternate Stadium Site

The attached report amends/corrects selected references and information in the Agenda Report for consideration at the December 18, 2007 City Council Meeting "Committee of the Whole." The changes are highlighted and attached. Changes are non-substantive and do not affect the overall conclusions/findings.

Ronald E. Garratt
Assistant City Manager

Mary Ann Parrot
Director of Finance/Treasurer

APPROVED:

Jennifer Sparacino
Executive Director

Documents attached to this report: Stadium Project Financing and Proposed Alternate Stadium Site

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Meeting Date: _____

AGENDA REPORT

City of Santa Clara, California

Agenda Item # _____

DATE: December 12, 2007

TO: City Manager/Executive Director for Council/Redevelopment Agency Action

FROM: Assistant City Manager
Director of Finance/Treasurer for Redevelopment Agency

SUBJECT: Stadium Project Financing and Proposed Alternate Stadium Site

EXECUTIVE SUMMARY: The City Council/Redevelopment Agency Board set a "Committee of the Whole" meeting for December 18, 2007 to include the following items:

1. Review Stadium Project Financing by City Staff and consultants
2. Review the alternate site proposal from the San Francisco 49ers

This agenda report focuses on the City's requested contribution towards stadium project financing and the financing directed to the proposed Stadium Authority, the public agency owning the proposed stadium. The San Francisco 49ers will present their alternate site proposal at the December 18th meeting. A letter was also received from Cedar Fair Entertainment Company regarding the alternate Santa Clara stadium site proposal.

Stadium financing is one aspect of the overall feasibility study. Staff and the City's consultants have reviewed and analyzed the 49ers proposal, giving careful consideration to existing City policies and the Guiding Principles for stadium feasibility as adopted by the City Council. The finance information will be referred to the overview of the entire project, scheduled for the City Council "Committee of the Whole" meeting on January 15.

Summarized below are the conclusions of the project financing from the feasibility study. It should be noted that no commitments have been made to date to a Stadium project, nor has there been a commitment to any level of funding.

- Operating costs are guaranteed by the San Francisco 49ers except for financial losses from non-NFL events, through the mechanism of the expense reimbursement
- Construction costs are covered by the San Francisco 49ers including cost increases due to a one year delay in construction
- The total amount the City/RDA could contribute to construction financing is $136 million. The City cannot contribute more based on the lack of additional capacity and the Guiding Principles as adopted by City Council in January 2007. The construction financing includes the following:
    - Affordable housing set asides would need to be revised downward from 30% to 26% until 2015-2016, then to 20% for the remaining RDA project plan period through 2025-26
    - City land of 15 acres would be designated for the Stadium site. Currently, no land lease payment is to be received by the City; the City should receive a land lease payment
    - The Redevelopment Agency (RDA) would need to adopt an amendment under SB211 in order to issue bonds. This translates into foregone RDA tax increment revenues which are remitted to the taxing entities, including the Santa Clara Unified School District and the Santa Clara County Office of Education

  - Additional tax increment payments that could have been used to pay for RDA projects and/or to make payments to the General Fund are not available
  - The formation of a Mello Roos Community Facilities District, applicable to the eight hotels benefiting most from increased business due to the presence of a stadium, would generate approximately $35 million additional funding for construction financing. This requires a vote of the affected hotels, with a two-thirds majority needed for approval.
- The KMA review of the CS&L Economic Impact Report of April 2007 validated the economic impact of the proposed Stadium in the City of Santa Clara. The figures below reflect the impact of the proposed Stadium only and do not include the impact of the existing training facility:
  - $41 million in economic activity on an annual basis
  - 515 jobs (full time equivalents FTE)
  - $17 million in personal earnings on an annual basis
- The net return on investment to the City's General Fund, over the 30-year Stadium lease period is estimated at $19 million; the net return on investment to the RDA over the 30-year Stadium lease is negative $90 million. The combined total for the City/RDA is negative $71 million.

Some items have been identified as requiring additional discussion should the City proceed with the stadium project:

- Timing of City/Agency Investment & Related Issues
- Land Lease Payment to City's General Fund
- Return on Investment to City/Agency
- Responsibility for un-profitable Non-NFL events
- Responsibility for parking garage cost increases
- Capital Reserve Adequacy
- Protections to City

Additional details are provided in the **Background** section.

ADVANTAGES AND DISADVANTAGES OF ISSUE: Financing of the proposed stadium is one of the most critical elements in determining the feasibility of the proposed stadium project. There are no disadvantages to conducting such a review. Advantages and disadvantage of the Stadium will be reviewed as a part of the January 15, 2008 City Council "Committee of the Whole" meeting.

ECONOMIC/FISCAL IMPACT: The impact of the stadium itself on the City of Santa Clara and the City's RDA from a financial perspective is significant, and is outlined in the **Background** section of this report. In several prior actions, City Council appropriated a total of $500,000 of RDA funds for the economic, fiscal, land use, redevelopment, and legal consultants to assist with the feasibility analysis through the end of calendar year 2007.

RECOMMENDATION: It is recommended that the Council/RDA accept the staff report titled "Stadium Project Financing and Proposed Alternate Stadium Site" and the materials provided by the San Francisco 49ers on the proposed alternate stadium site and direct the City Manager to include these reports in the accumulated body of materials and information being used in the Stadium Feasibility Analysis.

Ronald E. Garratt
Assistant City Manager

Mary Ann Parrot
Director of Finance/Treasurer

APPROVED:

Jennifer Sparacino
City Manager/Executive Director for Agency

Attachments:

1. *City of Santa Clara Stadium Project Feasibility Study - Financing, powerpoint presentation dated December 18, 2007*
2. *Sources of Funds/Capacity for Construction of Stadium, Keyser Marston Associates, dated December 14, 2007*
3. *Affordable Housing, Keyser Marston Associates, dated December 14, 2007*
4. *a-b. Stadium Authority Income Statement (30-year forecast/pro forma), Keyser Marston Associates, dated December 14, 2007*
4. *c. San Francisco 49ers, back up for Stadium Authority Income Statement, dated December 14, 2007*
5. *Return on Investment from Stadium Project, Keyser Marston Associates, dated December 14, 2007*
6. *Guiding Principles for Use in Evaluation of the Feasibility of a Proposed San Francisco 49ers Stadium in the City of Santa Clara, presented at the City Council Meeting of January 9, 2007*
7. *Use of Utility Funds for 49ers Stadium, memo dated March 23, 2007*
8. *Proposal presented by the San Francisco 49ers, dated April 24, 2007*
9. *Evaluation of the Convention Sports & Leisure Economic & Fiscal Benefit Study by Keyser Marston Associates, presented at the City Council Meeting of June 5, 2007*
10. *Redevelopment Agency Tax Increment Update, City of Santa Clara, dated November 20, 2007*

BACKGROUND:

This section will be organized in the following sections:

CONSTRUCTION FINANCING

A. Overview of total financing: $854 million revised to $916 million ..... page 6

B. San Francisco 49ers Request of $160 million revised to $222 million
- Parking Garage ($42 million)..... page 6
- Electric Utility Substation Relocation ($20 million) ..... page 7

C. City/RDA Available Sources: $136 million (City/RDA) and $35 Mello Roos financing, total of $171 million of $222 million..... page 8
- RDA Tax Allocation Bonds ($65 million)..... page 9
- RDA Tax Increment Cash ($15 million)..... page 10
- Funds for RDA Existing Public Facilities ($25 million) ..... page 11
- Team Advance ($19 million) ..... page 11
- Mello Roos Community Facilities District (CFD) ($35 million) ..... page 12
- Housing Set Aside..... page 12
- SB211 Amendment Necessary to Issue RDA Bonds..... page 13
- City/RDA Cooperation Agreement..... page 14
- Tax Increment Cap..... page 15

D. Other Possible Financing Sources Not Recommended
- Land..... page 15
- Use of 10% Entire Discretionary Housing Set Aside ..... page 16
- Use of Enterprise Funds..... page 16

E. Stadium Authority Financing $330 million ..... page 16

ANNUAL STADIUM OPERATIONS AND MAINTENANCE

F. Stadium Operations (30-year forecast/pro forma) ..... page 18
G. Detailed descriptions of Revenues, Expenses, Waterfall and Capital Reserve..... page 19

RETURN ON INVESTMENT

H. Return on Investment to City and to RDA..... page 24
I. CS&L Economic Impact Report: KMA Review and Confirmation ..... page 27

SUMMARY: GUIDING PRINCIPLES, POLICY DECISIONS AND OUTSTANDING ITEMS
..... page 28

The documents attached and referred to in this section include the following:

Attachment 1:	City of Santa Clara Stadium Project Feasibility Study – Financing, PowerPoint presentation dated December 18, 2007
Attachment 2:	Sources of Funds/Capacity for Construction of Stadium, December 14, 2007, by Keyser Marston Associates, Inc.
Attachment 3:	Affordable Housing, Keyser Marston Associates, dated December 14, 2007
Attachment 4a-b:	Stadium Authority Income Statement, dated December 14, 2007 by Keyser Marston Associates, Inc.
Attachment 4c:	San Francisco 49ers, backup for Stadium Authority Income Statement, dated December 14, 2007
Attachment 5:	Return on Investment from Stadium Project, dated December 14, 2007 by Keyser Marston Associates, Inc.
Attachment 6:	Guiding Principles for Use in the Evaluation of the Feasibility of a Proposed San Francisco 49ers Stadium in the City of Santa Clara presented at the City Council Meeting of January 9, 2007
Attachment 7:	Use of Utility Funds for 49ers Stadium, memo dated March 23, 2007.
Attachment 8:	Proposal ("proposal") by the San Francisco 49ers, presented at a City Council Study Session, dated April 24, 2007
Attachment 9:	Evaluation of the Convention Sports & Leisure Economic & Fiscal Benefit Study by Keyser Marston Associates, presented at the City Council Meeting of June 5, 2007
Attachment 10:	RDA Tax Increment Update, City of Santa Clara, dated November 20, 2007

The only proposal under review, as directed by the City Council, is the April 24, 2007 proposal by the San Francisco 49ers. While a number of financing options have been reviewed, the feasibility study remains focused on the April 24, 2007 proposal by the Team. The accompanying tables above are intended to provide additional details on the proposal by the San Francisco 49ers, and are discussed in detail in the sections that follow.

(Text continues on next page.)

CONSTRUCTION FINANCING

A. Overview of Total Financing: $854 million revised to $916 million

The April 2007 proposal by the San Francisco 49ers ("proposal" Attachment 8) included a cost of $853.8 for Stadium construction. The table below summarizes the financing proposed; an explanation is also provided in the sections that follow.

Stadium Construction Financing Estimates		
Date	**Apr-07**	**Sep-07**
Public Equity (City)	$ 160.0	$ 222.0
Stadium Authority	330.5	330.5
Private (Team/NFL)	363.3	363.3
Total	$ 853.8	$ 915.8
Note	(1)	(1)

Note 1: April 2007 49ers Proposal (Construction Financing): The April 2007 figures excluded the costs of constructing a parking garage ($42 million) and for the relocation of the Electric Utility substation ($20 million), both of which are explained below. These are included in the $222 million in the table. The total cost of the Stadium project should be revised from $854 million to $916 million.

The Team has proposed a funding schedule for each entity's contributions. In general, the timing of the deposits by the City and the Stadium Authority needs to be reviewed so that the interest cost on borrowed funds is minimized on behalf of the RDA and the Stadium Authority. This would be an item for subsequent discussions if the City decides to move forward into negotiations.

B. San Francisco 49ers Request of $160 million Revised to $222 million

The Public Equity (City) contribution of $160 million was revised to $222 million, to include the following:

- City contribution, as above — $160.0 million
- Parking Garage — 42.0 million
- Electric Utility Substation (relocation) — 20.0 million
- Total contribution, as revised — $222.0 million

Reasons for the increase–the construction of the Parking Garage and the relocation of the Electric Utility substation–are explained below.

- Parking Garage: The April proposal contemplates that the RDA will build a parking structure containing approximately 1800 spaces on the Great America parking lot south of Tasman. The

alternative proposal the 49ers will present on December 18 contemplates parking structures of similar size.

The City had budgeted and appropriated from the 1999 RDA bond proceeds a total of $42.5 million for a parking garage. This proposed garage was to be built to serve the growing needs of the Convention Center and to meet the requirements for the Convention Center complex parking specified in the Hyatt Regency Hotel ground lease. If the funds are redirected to replacement parking due to Stadium construction, then these budgeted monies are a requirement of the Stadium project in order to allow the Stadium project to move forward.

The issues involved with providing parking include the following:

- First, the RDA has approximately $42 million available to construct a parking structure. That amount was estimated as the cost of a garage of about 1800 spaces; however, the estimates are old. As a result, that $42 million may not be sufficient at current costs to construct a parking garage of the size the 49ers contemplate.
- Second, the parking structure that the RDA planned to build was to serve current and future uses on the Convention Center complex site. Because of provisions of the Great America lease, the structure that the 49ers propose would not serve those Convention Center complex uses unless there is some shared parking.
- Third, in order to satisfy the parking requirements in the Great America lease that the RDA provide a total of 8100 parking spaces, it will be necessary to construct a parking structure substantially larger than the one that the 49ers have proposed or provide other surface parking. Alternatively, Great America would have to agree to a reduction in the 8100 spaces required under the Theme Park lease, or there could be shared use for the new parking. The actual number of additional spaces could be reduced slightly depending on the exact design and location of the parking structure and other parking.

- Electric Utility Substation Relocation: The current large three-bank substation constructed in the Tasman/Great America area serves 10% to 15% of the City's load including customers such as the Convention Center, Marvell Semiconductor, Great America and Nortel. Although this station will eventually need to be renovated, it is not currently scheduled in the Enterprise's Five Year Capital Plan. The proposed stadium would require the relocation or reconfiguration of Tasman substation. Staff considered a number of alternatives for this reconfiguration and reviewed these with City Council at a Council meeting in May 2007. All of the alternatives require the reconstruction of the substation. Staff estimates the cost of constructing a new substation and relocating the distribution feeders serving electric load in the area will be approximately $20 million. This cost does not include economies that may result in refining the project in conjunction with the proposed Palm and Mission Substation Projects, or possible premiums due to the construction industry climate. Such variations in cost are believed to be within plus or minus 15% of the estimate.

  The relocation of the Tasman substation will require in excess of two years for design, procurement of long-lead equipment, construction of new facilities, the transfer of load and the demolition of existing facilities. As described above, the $20 million estimated for the relocation

of the Electric Utility substation was referred to in the April 2007 presentation by the San Francisco 49ers, but the estimate was not known at that time, by either the Team or the City Staff. In their review, Staff has determined the approximate cost of this component to be $20 million, and the funds would be provided by the Electric Utility Fund.

C. City/RDA Available Sources (Attachment 2)

Staff research during the past eight months has included extensive review of current and future bonding capacity, cash from several sources and other sources of funding in conformity to the Guiding Principles adopted by City Council on January 9, 2007. The funding outlined above ensures the preservation of the Guiding Principles, specifically the principles identified as follows:

1. No use or obligation of the General Fund monies of the City of Santa Clara, either direct or indirect. This includes no back-up guarantees of any form by the General Fund.
2. Maintain the integrity of all City funds per the City Charter (Electric or Water/Sewer Utilities)
3. No tax increase put on Santa Clara residents, businesses or ratepayers to fund a stadium project. The Hotel Mello Roos tax does not apply, as it is a tax on tourist trade, not on the businesses themselves, for those guests staying at the hotels in the North of Bayshore area.

Staff factored into their evaluation of the feasibility of the project the overall City values to make decisions with a focus on fiscal responsibility and the budget principle to include long-term implications in decision–making. The Budget Principles as adopted by the City Council during the June 2007 City Council meeting to adopt the 2007-08 budget, relevant to this project include the following:

- Budget decisions will be made with long-term implications taken into account, using data from the Five Year Financial Plan
- Value of fiscal responsibility will be used as a guide for decisions
- Focus on benefit to the community as a whole

The City has determined that, if the decision was made that the project was feasible, it can provide $136 million of the $222 million requested by the San Francisco 49ers from the following sources: (Attachment 2):

• RDA Tax Increment Bonds (New Bonding)	$ 65 million
• RDA Cash Available	15 million
• (Less: Funds for Existing Public Facilities)	(25 million)
• 1999 RDA Bonds for Parking Garage	42 million
• Utility Fund Substation Relocation	20 million
• Team Advance (to be repaid from RDA tax increment after other obligations)	19 million
• Total Financing from City/RDA sources	$136 million

No other funds from the Utilities would be used except for the substation. This had been proposed by a former City official, but is against the Guiding Principles. The Utilities monies are needed for their operations and their capital requirements.

An additional $35 million is proposed from a community facilities district financing from hotels located in proximity to the North of Bayshore Area.

• Total City/RDA Financing from above	$136 million

- Add Mello Roos Bonds (Hotel Mello Roos District) 35 million
- Total Financing (City/RDA/Mello Roos) $171 million

This brings the total possible financing available to $171 million of the $222 million request by the San Francisco 49ers.

The financing components for the $171 million are summarized below.

- RDA Tax Allocation Bonds (New Bonding): The RDA Tax Increment Update presented to City Council on November 20, 2007, included the figure of $65 million in new bonds available to be raised. Several assumptions have been made to develop the projected bond capacity. These were reviewed in detail at the November 2007 City Council meeting and are summarized below.

  The key assumption used in determining the additional bonding capacity is the use of a "Planning Scenario," which assumes certain projects will develop over the next eight years. This results in increases in assessed valuation and property tax increment due to additional projects developing over the period 2009-10 through 2015-16. The Planning Scenario assumes a growth rate of 5% in assessed valuation, resulting in additional property taxes, and thus the additional tax increment available to the RDA for bonding. The growth rate of 5% is slightly below the historical growth rate of 5.1% for the period of time 1997-98 through 2007-08, and includes annual declines of 10% to 11% in assessed valuation during the three years of recession (2003-04 through 2005-06). Staff believes the use of an historical average covering both times of prosperity and times of recession is reasonable and prudent.

  The Planning Scenario was developed by Staff with the assistance of the City's financial advisors, to estimate the numbers of major projects coming on line in the time period of 2008-09 through 2015-16. Not all development is included: six major projects only were included, and the projections allowed for a lag between the time of the construction, through the time the assessed valuation appears on the assessor's roles, and through the period when the tax increment is actually paid over to the RDA for bonding. Staff believes these assumptions are conservative, but there is no guarantee they will materialize.

  Staff has factored in the statutory affordable housing set asides into the calculation of the new bonds. The issue of affordable housing set asides is discussed in greater detail in a later section. In summary, the assumptions for the affordable housing set aside are as follows: Statutory 20% set aside for 2007-08 through 2025-26; additional discretionary set aside of 6% for the period 2007-08 through 2015-16, to attempt to adhere to City Council's policy established in 2002-03 to allocate, on an annual basis, an additional 10% affordable housing set aside, when funds are available.

  In addition, Staff is assuming the City will adopt a minor plan amendment under SB211 to allow the RDA to issue bonds, as required by California Redevelopment Law (CRL), and that pass through payments to the other taxing entities would also be made. This is also discussed in greater detail below.

These assumptions result in additional funding for two bond issues:

- $57.8 million in net proceeds in 2009-10
- $ 7.2 million in net proceeds in 2011-12
- A total of $65.0 million in net proceeds

The bonding assumptions include: 1.25 times coverage (pledged revenues over debt service), 3% costs of issuance including a reserve surety and 5% tax-exempt interest rate on the bonds. It is assumed the RDA bonds will bear an investment grade rating of A, as they are currently rated. Total payments during the bond term would be $67.0 million in principal, $44.2 million in interest, or a total of $111.2 million in principal and interest payments.

It is important to note that the bonding is available based on tax increment that is available at the time of bond issuance. If the additional development projected in the Planning Scenario does not materialize or does proceed at a slower pace, the RDA will either not be able to issue the additional bonds, or will be able to issue additional bonds, but in a lesser amount. In addition, the RDA cannot issue bonds based on future projected tax increment: the market will not permit the sale of a bond issue based on projected tax increment.

The RDA bonds are payable from tax increment (property taxes in the RDA). The tax increment payments are made by the RDA to bond holders. The City's General Fund is not obligated in any way, nor is it a contingent liability of the City's General Fund. If the payments are not made for some reason, the City is not ultimately liable to make the payments. The only foreseeable events that would prevent payment of debt service would be a major catastrophe like an earthquake or flood, or a significant economic event, wherein development on which the taxes and tax increment are based would be partially or wholly destroyed. The bonds are insured and the bondholders are entitled to their payments. In a default scenario, the insurance company makes the bond payments to the bondholders.

- RDA Tax Increment Cash Available: A total of $15 million from three sources is included in the financing for the stadium. It consists of the following: $2 million from a projected refunding of the RDA 1999 Series A bonds; $7 million of currently available RDA funds available from unallocated RDA funds; and $6 million of RDA funds made available if the current 2003 bond reserve, which is currently a cash reserve, is converted to a surety bond reserve. These are discussed below.

The RDA has a bond issue outstanding originally issued in 1999, Series A. Analysis by the City's Financial Advisor, Kelling, Northcross and Nobriga (KNN), shows that the present value savings of refunding these bonds would result in a net savings of approximately $2 million. This would be a current refunding and results in a net present value savings of 3%. (Refunding analysis of the 1999 Series B bonds resulted in minimal savings, and is not included as a result.)

Secondly, current RDA monies held in a designated reserve for capital projects include bond proceeds from past issues, some of which are appropriated but unspent. RDA monies held in this designated reserve also include interest earnings on bond proceeds which are required to be applied to existing projects, as specified in the bond covenants. Total RDA funds held in reserve at June 30, 2007 were approximately $101 million, of which all but $7 million is either

appropriated for a specific project, or earmarked for a future project. Projects include a parking garage for the convention center ($42.5 million), the North of Bayshore Library ($11.7 million), the Convention Center Ballroom ($37.5 million), and appropriations for 12 additional projects. The available funds in the RDA capital projects fund which are not appropriated or earmarked, and which would be available for the stadium project, are $7 million.

Lastly, the 2002 and 2003 RDA bonds currently have a combined $6 million bond reserve, in cash, which was funded at the time the bonds were issued. This cash bond reserve can be replaced by a surety reserve, with the consent of the bondholders. There is no risk to the bondholders, and this practice is accepted in the marketplace as a reasonable and responsible practice in overall debt management. Staff would need to work with the insurance company and bond team to secure necessary approvals and insurance policies.

- (Less: Funds for Existing Public Facilities): It would be necessary to hold approximately $25 million of funds back for RDA commitments as follows: Parking commitment for the additional parking for the Convention Center complex per the lease between the RDA and the Hyatt Regency Hotel ($10 to $15 million), additional funding of the North of Bayshore Library ($3 million to $6 million), currently funded at $11.7 million, making the total available for the library of $14.7 million to $17.7 million, and lastly, capital repairs to either or both David's Restaurant and/or the Banquet Facility in the North of Bayshore Project area on Tasman Drive.

  The total estimate of $25 million would not be available if these funds are used for the stadium project, but they are commitments the RDA and City have made. By making these funds available by the RDA, they would not have to be made available by the City's General Fund. This preserves adherence to one of the Guiding Principles of ensuring no impact to the City's General Fund.

- Team Advance: If and when the stadium is built, the lease between the Stadium Authority and the Team will generate Possessory Interest tax, which is assessed on the "unsecured" property tax roll. The tax, based on the value of the Stadium leasehold interest, is estimated by the Team to be approximately $2.6 million per year. The tax bill would be presented by the San Francisco 49ers to the Stadium Authority. The Stadium Authority would pay the tax bill to the County and record the expense on the books of the Stadium Authority. The County would remit the Possessory Interest taxes, net of statutory pass throughs, to the RDA. The San Francisco 49ers have offered to advance the project approximately $6 million, to be repaid from Agency net tax increment generated by the Stadium

  In addition, after issuance of the $65 million primary lien bonds, the Planning Scenario projects some additional growth in tax increment beyond the dates of 2009-10 and 2011-12 when the RDA bonds are issued. The San Francisco 49ers have offered to advance funds to be repaid from tax increment in excess of debt service and other obligations. Using the Planning Scenario, it is estimated a Team advance of approximately $13 million could be supported.

  The total advance by the Team would be $19 million and is factored into the funds above.

- Mello Roos Community Facilities District (CFD): In addition to the RDA and City Electric Utility financing for the substation, an additional option for consideration is to explore outside financing for assistance. The CS&L report determined there was a significant benefit to the hotels from a stadium. Therefore, Staff has developed the concept that the eight hotels that will benefit most from the increased business from the Stadium participate in a special financing district. Staff is not recommending a citywide vote to increase Transient Occupancy Tax (TOT) taxes, but as an alternative approach, Staff is recommending that the hotels assess the equivalent of 2% in TOT through a mechanism made available in the Mello-Roos Act of 1982. In summary, the City would form a special taxing district known as a Community Facilities District (or CFD). The district would levy a tax to use to issue a 30-year bond, concurrent with the term of the lease for the Stadium.

  The CS&L Economic Impact report included an estimate of increased revenues to the hotels in the vicinity of the Stadium project. Some of those net revenues are adequate to secure Mello Roos bonds and excess cash flow of $35 million over 30 years.

  The hotels would be required to vote approval of this district, with the vote being based on one vote per one acre of land. The vote requires a two-thirds majority for approval. The City has held preliminary discussions of this concept with the Chamber of Commerce, but has not yet had the opportunity to review this concept with the hotels. The City would intend to discuss the concepts and bond issues with the hotels. If the hotels do not approve the financing, the total City/RDA financing available for the project would be $136 million.

- Housing Set Aside: Under California Redevelopment Law (CRL), a portion of the tax increment remitted to the City's RDA must be set aside to assist with the provision of affordable housing. The CRL requires a 20% affordable housing set aside. For the North of Bayshore Redevelopment Project Area, this translates into approximately $5.0 million per year.

  In 2002-03, the City Council implemented a policy whereby in the North of Bayshore Redevelopment Project Area, an additional 10% discretionary affordable housing set aside is allocated on an annual basis, to be reviewed on an annual basis during budget deliberations. For the North of Bayshore Redevelopment Project Area, this translates into approximately $2.5 million per year in additional affordable housing set aside funding.

  A total of 30% Affordable Housing Set Aside in the North of Bayshore Project Area translates into a total of $7.5 million per year. Since the inception of the housing program in 1990, the RDA has appropriated over $109 million in funding assistance for programs and projects that increase, improve or preserve affordable housing for low- and moderate-income households. These units have assisted 2,895 low- and moderate-income households.

  In addition to the 20% statutory requirement, CRL also dictates that beyond a certain date, titled "Plan Effectiveness Date," which is 2015-16 for the North of Bayshore Redevelopment Project Plan, tax increment can only be collected to repay existing obligations. This means the discretionary 10% set aside taken from tax increment would have to be eliminated, and the statutory 20% set aside would continue. This additional constraint is also factored into the feasibility analysis for the Stadium project.

In order to evaluate the feasibility of the Stadium project, Staff analyzed the impact of the Stadium financing on the 10% discretionary affordable housing set aside, as the bonding for the project will require commitment of most of the RDA tax increment. This translates into a reallocation of tax increment away from a portion of the affordable housing set aside and toward debt service on the new bonds.

Without the Stadium project, the tax increment available for affordable housing is projected to be 30% per year until 2015-16, then 20% per year through 2025-26 when the Redevelopment Project Plan terminates. This translates into a total of $203 million (in nominal dollars) in affordable housing set aside funds for this period of time.

With the Stadium project, more tax increment is needed to pay for bonds, and less would be available for the 10% discretionary housing set aside. The statutory 20% set aside is a legal requirement. The net effect is to reduce the discretionary set aside to 6% for the period of time 2008-09 through 2015-16, a reduction from 30% to 26% total housing set aside for this period of time. This results in a total for affordable housing of $198 million (in nominal dollars), a difference of $5 million in nominal dollars.

- <u>SB211 Amendment (Minor Plan Amendment) and Pass-Throughs:</u> In 2002, the State of California adopted SB211, which required Redevelopment agencies to increase the payments to taxing entities under certain conditions. One of those conditions included the provision that if a RDA wanted to incur more debt, it had to adopt a plan amendment labeled "minor plan amendment" under SB211 provisions, whereby it could extend the date for incurring debt and this would trigger "pass through payments" to the other taxing entities.

  The time limit for the North of Bayshore RDA to incur bonds was 2004. In order to issue bonds for the Stadium project, the City/RDA would need to adopt a minor plan amendment under SB211. This eliminates the time limit for a redevelopment agency to incur debt. The amendment is made by ordinance adoption only; no other action is required. In turn, when the amendment is adopted, it triggers the requirement that pass throughs of additional tax increment be paid to the other taxing entities.

  Staff has analyzed the effect of the pass through payments on the RDA as follows:
  - The impact of the pass through payments on the bonding capacity is as follows: pass through payments to the other taxing entities reduce the amount of tax increment available to the RDA, thus reducing the amount of new bonding capacity.
  - In present value dollars (2007 dollars), the total of pass through payments from 2008-09 through 2025-26, the end of the North of Bayshore Redevelopment Project Plan, is $104 million.
  - Santa Clara Unified School District would receive an additional $68.6 million over the remaining life of the RDA.
  - The Santa Clara County Office of Education would receive an additional $7.6 million over the remaining life of the RDA.
  - Other taxing entities would also receive additional funds.

The effect of the pass through payments on the RDA budget is also factored into the above calculations, and the $65 million in new bonds includes this impact.

- City/RDA Cooperation Agreement: In 1999-2000, as a part of the long-term lease executed with a developer, the City and the RDA agreed that the City would convey a parcel of property to the RDA in return for payments to the General Fund over a longer period of time. An agreement titled "Cooperation Agreement" between the City and the RDA was approved by the City/RDA to convey the parcel to the RDA in return for consideration to be received by the City. The consideration was to be paid to the City by the RDA from any source of funds available to the Agency and not reasonably needed for redevelopment purposes, but a total amount was not specified. In 2005, the City and the RDA amended the agreement to place a value on the property of $101 million based on a professional appraisal. Total payments were to be made by the RDA to include principal plus interest at the highest interest rate allowed by law, with payments to be made from any Agency source of funds when and as available from the RDA and not needed for other redevelopment purposes.

  The effect of the Cooperation Agreement is best understood when viewed with and without the Stadium Project, or with any other large RDA project.

  With the Stadium project, or with any other large project:
  - The total revenues of the Agency consist of lease payments, tax increment, bond proceeds and interest income earned on all of the above. This is projected to total approximately $1.2 billion in nominal terms from 2007-08 through 2025-26.
  - Total expenses of the Agency consist of debt service payments for existing obligations, affordable housing set asides, pass through payments made to taxing entities (as a result of adopting the SB211 minor plan amendment), bond proceeds on proposed new obligations for the Stadium, and some additional capital projects needed over the next 18 years in addition to the Stadium. Total expenses are estimated at $1.3 billion in nominal terms from 2007-08 through 2025-26.
  - It is clear there is not enough money to pay for all the required expenses: all RDA obligations will be paid except the Cooperation Agreement. The RDA Cooperation Agreement is the most subordinate component of all the required expenses, and the end result is that it will not be completely paid off by 2025-26. There is a shortfall of approximately $100 million in nominal terms.
  - The long-term lease payments will continue beyond the termination of the North of Bayshore Project Plan, and it is these lease payments that become the source of funds used to repay the City for the conveyance of the $101 million-valued parcel of land
  - It is important to note that the RDA will be committed to the Stadium project and several other existing projects, with no ability to fund any additional project need in the area through 2026.

  Without the Stadium project:
  - RDA statutory pass through payments to other agencies would not be required.
  - Affordable housing payments could include the discretionary 10% set aside at least through 2015-16.

- Projections indicate that RDA debt to the City under the Cooperation Agreement and other RDA debts will be repaid prior to 2026 with a combination of tax increment and RDA land lease revenue.
- Because all RDA debt would be paid prior to 2026, projections show that the RDA would not be able to collect all the potentially available tax increment through 2026, and other agencies will receive all the property taxes from the North of Bayshore area beginning earlier than 2026.
- The RDA could not undertake a new project requiring a contribution of tax increment.

- Tax Increment Cap ($1.2 billion): California Redevelopment Law required each redevelopment plan to estimate and declare the value of the total tax increment for the project plans. In the North of Bayshore Redevelopment Project Plan, the declared cap is $1,218,520,000. When the total tax increment collected reaches this cap, the tax increment ceases to flow to the RDA, and is instead distributed by the County to the other taxing entities.

  The Planning Scenario currently projects that the RDA will reach the cap of allowable receipt of tax increment of $1.2 billion in 2025-26, approximately six months prior to the expiration of the Redevelopment Project Plan. This acts to reduce the amount of tax increment to pay debt service during the last half of 2025-26 (January–June 2026) and must be factored into the bonding capacity. This is factored into the calculations above and the debt service schedule for the bonds is structured to allow for the last year of approximately one half of the year's tax increment amount.

D. Other Possible Financing Sources Not Recommended

Staff has examined three additional items, to achieve the $222 million: (1) Contribution of City property worth approximately $20 million and (2) Reduce the housing set aside to the 20% statutory Affordable Housing Set-Aside policy rather than the 30% set aside in the North of Bayshore Project Plan and (3) Use of Utility funds to finance the Stadium. Details of these items are included below.

- Land: The City has a long-standing policy of not selling City-owned property, but of leasing this property for purposes of securing long-term revenue streams to contribute financial stability for financing City General Fund operations. Within the content of the 49ers proposal is the assumption that the stadium site, which is City-owned property of 15 acres, which is currently committed to Theme Park parking, is included in the project. This represents a significant contribution by the City. The alternative site plan to be presented by the San Francisco 49ers on December 18, 2007, includes 3 acres of unencumbered City property with the potential for future commercial development.

  The additional City-owned land in the North of Bayshore area is a future source of General Fund revenue streams and should not be dedicated to funding the Stadium. The parcels are not currently developed, but are a long-term resource for the General Fund. When they are developed in the future, Staff recommends that the revenues should flow to the City's General Fund, in compliance with the Guiding Principles adopted for this project, and in concert with long-term policy of the City regarding its real estate investments. City land leases are one of the few General Fund revenue streams that are locally controlled and cannot be taken by State action to resolve State or County budgeting problems. These lands serve as an endowment to the General Fund and should

be leased/developed when the market allows the highest return. The return from leased lands makes up approximately 10% of the annual General Fund revenue sources.

The Staff position on this option is to recommend that this be eliminated from consideration as a part of the feasibility of the project because it would represent a contribution by the City's General Fund, as the lease revenues from this development would normally flow to the General Fund.

- Discretionary Affordable Housing Set Asides: Low/Moderate income housing is one of the City's most significant and ongoing challenges in a geographical area that is one of the highest housing cost markets in the country. Staff is recommending a downward modification in the additional 10% set-aside by Council policy, to an amount that would average a 6% housing set-aside through the plan effectiveness date of 2015-16. The means the affordable housing set aside would be at 26% (down from the policy of 30%) for the period through 2015-16. By operation of CRL, it would then have to be reduced to 20% statutory amount from 2016-17 through 2025-26. The net impact of this reduction for the period of time through 2015-16 is $5 million in nominal dollars. See Attachment 3.

  The City looked at further reducing its affordable housing set aside to 20% for the entire period of time 2008-09 through 2025-26. This results in an additional reduction of $23 million beyond that recommended by Staff. The total projected net impact on funding for affordable housing if it reverted to the 20% set-aside would be a reduction of $28 million (nominal dollars).

- Use of Enterprise Funds: In March 2007, a proposal was made from a former City official to use Electric Utility fund to partially finance the Stadium. Use of these funds is not appropriate or consistent with the City Charter. Other legal considerations could also exist. The Utility's reserves (Cost Reduction Fund) are earmarked for on-going capital needs and development of renewable energy. The CRF also mitigates against rate increases and assists with other issues dealing with market volatility. In April 2007 the Guiding Principles also included no use of Electric Utility monies.

E. Stadium Authority Contribution

The Stadium Authority would be a separate legal entity, as described at the City Council meeting of October 23, 2007. As such, the Stadium Authority would be responsible for owning and operating the stadium, including arranging for some of the bond financing needed for the construction of the stadium. The Stadium Authority proposed financing of $330 million includes Naming Rights Bond financing, Admissions Fee Bond financing, and other revenues, which would not be bonded - such as Stadium Builders Licenses (also known as seat licenses), Concessionaire Equity, Corporate Founding Partners, Pouring Rights, etc.

Due to the Confidentiality Agreement between the San Francisco 49ers and the City, some line item detail must be withheld due to the proprietary nature of the information. This will allow the Team to preserve their negotiating prerogatives regarding some of the contracts with the suppliers. However, some of the details of the bond financing are public financing, and are appropriate for discussion.

- Proposed Stadium Authority construction financing $185 million: This financing refers to construction loans negotiated with lenders, tentatively scheduled for February 2009 (Admissions Tax loan) and August 2010 (Naming Rights loan), to be used for construction.

  When the stadium opens, revenues would be available to pay for permanent financing, these construction loans would be replaced by bond financing (July 2012 for both the Admissions Tax financing and the Naming Rights financing). The permanent financing would include refinancing of the construction loans, the accrued interest, and costs of bond issuance. The total of the bonds issued would be $206 million, at a proposed rate of 6.7%. The Admissions Tax bonds are proposed to be a 25-year term, the Naming Rights bonds are proposed to be a 20-year term. When the Admission Tax bonds are retired, the Admissions Tax would cease. If it is assumed that the ticket price remains the same, this means the revenues would flow to the 49ers, rather than through the Stadium Authority, and would not be shared with the City and the Stadium Authority. The Naming Rights bonds are proposed to be a 20-year term. When the bonds are retired, the 49ers have said the revenues should continue at some level to flow through the Stadium Authority.

  Both bond issues are presently intended to be taxable, thus the 6.7% assumed interest rate, which would be higher than tax-exempt bonds. In addition, the model used by the San Francisco 49ers includes increasing revenue to support these bonds at 2% to 4% per year, with increasing debt service at 1% per year. The net revenues flowing from this spread of revenues over debt service are shown to flow to the Stadium Authority annual operations, helping to bolster the revenue streams and to offset additional expenses of operating the stadium.

  The City's financial advisors have reviewed the preliminary structure of the financing and have determined at this time, it seems reasonable, both in terms of the sizing and structure of the issues, as well as the interest rates assumed. However, it is too early to plan more detailed financing, which would include discussions with underwriters, insurers and other credit-related agencies such as the ratings agencies, so it is difficult for the City's advisors to predict the credit rating for the issue. Preliminary discussions with the 49ers advisor and the City's advisors lead the Staff to believe the bond issues could be rated "investment grade" or BBB. It is still too early to make that determination.

  It is important to note that this financing is project-related financing, and there would be no legal or other recourse by the Stadium Authority to the City's General Fund in the case of a bond default. Default risk would be evaluated by the market prior to the bonds being sold and the interest rate on the bonds would be a function of the credit enhancement of the bonds (insured or surety bonds), and the risk of default by the Stadium Authority as assessed by the marketplace. There would be no recourse to the City's General Fund and no back-up guarantee of any form regarding the bonds or the bond payments by the City.

  One of the issues included in this analysis was the possibility of default on the bonds. The bondholders are insured and will receive their bond payments. In addition, if there is a shortfall in the Stadium Authority, and it does not have the revenues to cover expenses, the expense reimbursement proposed by the 49ers, explained in the next section, will ensure that the stadium operations cover expenses, including debt service, but also provide for a net income of $1 million per year, to be deposited in a Capital Reserve.

Total principal and interest payments made by the Stadium Authority over the life of the two bond issues bonds are: principal of $206.1 million, interest of $221.3 million, for total principal and interest payments of $427.4 million.

The 49ers proposal for Stadium financing contemplates that the 49ers will be reimbursed approximately $27.5 million for expenses expected to be incurred from January 2005 through January 2009 working on the Stadium proposal project. This reimbursement would be from the first bonds issued by the Stadium Authority. This aspect of the proposal raises two issues: first, the City would have to verify that this $27.5 million all relates to the Santa Clara Stadium. Second, there is an issue as to whether this reimbursement should come from later Stadium Authority financings or be a cost just borne by the Team.

ANNUAL STADIUM OPERATIONS AND MAINTENANCE

F. Stadium Operations (Attachment 4a-b)

The proposed income statement for the Stadium Authority shows the annual revenues, expenses and treatment of net income and/or net losses. The Team provided a five-year pro forma income statement. The City extended the forecast to include the 30-year lease term, in order to evaluate the projected long-run viability of the project, as well as the possible return to the City of Santa Clara. The 30-year forecast included the following assumptions: 3% inflation of most revenues and expenses, 2% increase in possessory interest taxes (as limited by state law), variable debt service using the 49ers consultant's debt service amortization schedules. Staff believes these projections are conservative. In general, Staff agrees with the San Francisco 49ers assumptions for the revenues, expenses and expense reimbursement. On other items, Staff does not agree with the pro-forma assumptions, and these are summarized in the section below.

The San Francisco 49ers proposed the following:

- Revenues which flow to the Stadium Authority include a fixed payment by the Team of $5 million for use of the stadium for NFL events, concessions revenues, parking operations revenues, other revenues above debt service (admissions tax revenues and naming rights revenues), and income from other non-NFL events.
- Expenses which will be paid by the Stadium Authority include those for operations and maintenance of the stadium, security (non game day), utilities, insurance, possessory interest taxes, capital reserve funding, and other game day expenses (public safety, security, other).
- If expenses exceed revenues, the San Francisco 49ers will provide an expense reimbursement to make the Stadium Authority whole, and the model used shows a proposed net cash flow to the Stadium Authority of slightly above $1 million per year.
- If revenues exceed expenses, the sharing of those net revenues is proposed in a "waterfall" diagram of cash distribution: first $1million to the Capital Reserve, second $1 million to the City of Santa Clara, next $2 million to the Operating Reserve, remainder divided 1/3 each to the City, the Capital Reserve, and the Team.
- The above formula does not apply to non-NFL events. The San Francisco 49ers have suggested the Stadium Authority plan for an additional 17 events (exclusive of a Super Bowl), whose net revenues (if positive) would be shared 50% by the Stadium Authority and 50% by the City of

Santa Clara. If events lose money, this is borne entirely by the City. Staff revised their forecast to include losses for the first five years averaging $540,000 per year, thus preserving a consistently conservative approach to the projections.

The sections below provide details of each of the revenue and expense streams in the pro-forma. Additional details are provided in Attachment 4a-b: Stadium Authority Income Statement (30-year forecast/pro forma).

Revenues

- Rent from 49ers
- Concessions
- Parking Operations and Fees
- Other Revenues (above debt service)
- Income from Other Events (50% of net)

Expenses

- Operations & Maintenance
- Security (non Game Day)
- Utilities
- Insurance
- Possessory Interest Taxes
- Game Day Expenses
- Capital Reserves (Budgeted plus Waterfall)

Expense Reimbursement

Waterfall Allocations of Net Cash Flows (Net Income)

Revenues

Rent from 49ers: The amount of $5 million is the payment by the Team for the use of the stadium for 10 days per year. The amount does not increase or decrease over time, and is the fixed payment for the 30-year lease period. No discussions were held regarding the frequency or timing of the payment. This rent is not designated to the City's General Fund but is earmarked to cover Stadium Authority expenses, including the payment of Possessory Interest Tax, as explained below.

Concessions: The attendance assumption was 65,000 of the 68,000 seats sold, with a no-show factor of 5%. For these reasons, the attendance of 61,750 per game appears reasonable. The concession revenue was determined based on the 49ers current experience. In general, the gross revenues are estimated using an assumed per capita revenue figure, different for the type of seating: general seating, club seats and suites. The revenues are shared by the concessionaire and the Stadium Authority based on a negotiated contract. The estimates of after-tax concession revenues range from $4.6 million to $5.2 million over the period of time 2012-2016. The life of the contract with the concessionaire is shorter than the 30-year lease with the 49ers, and would need to be re-negotiated on a periodic basis.

Parking Operations and Taxes: The assumption used by the Team for parking spaces started with the need for 19,000 spaces, but allowed for revenues from 16,000 spaces, or 84%, in order to allow for lost parking and to be conservative. Both on-site and off-site parking is assumed. Two

types of parking revenue are included in the pro forma income statement: parking fees (included with the ticket price), and game day parking charges assessed by the garage and lot owners themselves. The 49ers have proposed that the Stadium Authority be responsible for assembling and maintaining parking agreements for off-site parking with garage owners in the area. A contract with an owner would be a minimum of 10 years with options for renewal. The owners and the Stadium Authority would share in the revenues using a negotiated formula in the parking contract with each owner.

The annual revenues to the Stadium Authority are estimated at $960,000 per year (to start in 2012) for the parking fee included with the ticket price, and $987,000 per year for the Stadium Authority share of the parking revenues from on-site and off-site parking lots. These revenues are projected to grow at 3% per year.

Other Revenues (above debt service): As discussed in the section on Construction Financing, the Stadium Authority would issue two bond issues for partial financing of the Stadium construction. The first is an Admissions Fee bond of 25-years in duration, to be secured by an admissions fee included in the ticket price of 10% to 15% of the ticket price for games. The second would be a Naming Rights bond of 20-years in duration, to be secured by an annual payment made by an interested corporate sponsor who would purchase the naming rights for the stadium.

The Team has proposed debt service structures somewhat similar in each case, wherein the revenues acting as security for the bonds grow at a faster rate than the debt service, thus creating a stream of excess revenues above debt service, which is used by the Stadium Authority to offset additional expenses. These revenues above debt service are expected to be $8.2 million per year to start in 2012, and to grow each year at the assumed rates in the debt service schedules as provided by the San Francisco 49ers.

In the case of the Admissions Fee bonds, the revenues are projected to grow at 4% per year; the debt service is projected to grow at 1% per year. The 3% difference accounts for part of the revenues above debt service. In the case of the Naming Rights bonds, the revenues are expected to grow at 2% per year, while the debt service grows at 1% per year. This comprises the remainder of the revenues above debt service.

In total, the excess revenues over debt service is projected by the Team to be $8.2 million starting in 2012.

Income from Other Events: The 49ers have proposed that the Stadium Authority showcase a total of 17 additional non-NFL events throughout the year, including from college football games, a major concert, festivals/antique shows, international soccer games, moto cross shows, a 2-day X-game event, car shows and a college bowl game. The attendance at the games is estimated to range from 50,000 to 12,000. The events would be coordinated with Cedar Fair to minimize direct conflict with Cedar Fair operations. The pro forma for the events includes all revenues and expenses needed to conduct the events. Revenues include event fees, concession revenues, on-site and off-site parking. Expenses include the event expenses themselves, police (traffic and security). Strike the sentence: The net revenues projected from these events ranges from $882,000 in 2012 (a partial year) to $1.8 million per year, and increasing on an inflationary basis.

The Team's proposal is designed to provide incentives to the Stadium Authority, the City of Santa Clara, and the Team to hold profitable non-NFL events at the stadium. The proposal includes the provision for 50% of the net revenues from profitable non-NFL events to be paid to the City of Santa Clara. This figure has been included in the calculation of Return on Investment, as discussed later in this document. The remaining 50% of the net revenues would be retained by the Stadium Authority. The Team receives a direct financial benefit from the 50% retained by the Stadium Authority, since it reduces the expense reimbursement paid by the Team, explained below.

Under the Team's proposal, the Team will not provide an expense reimbursement for unprofitable non-NFL events. Currently, the proforma assumes losses for the first five years averaging $540,000 per year for unprofitable events. If any event is unprofitable, the Stadium Authority must find a funding source other than the Team to cover the net incremental expenses. Staff believes there is a difference between "municipal" events such as the Art and Wine Festival or the 4th of July fireworks, and other events, which should earn net income, but may not. In the former case, the City of Santa Clara currently underwrites the cost of municipal events, and would intend to continue to do so. In the latter case, if an event sponsor conducts a for-profit event, and the event loses money, it should not be the responsibility of the Stadium Authority to bear the entire cost of the event. Staff has discussed this issue with the 49ers and it remains unresolved.

Staff is concerned about other risk elements in this proposal: the appeal of the 17 events, year in and year out, is uncertain. It is uncertain whether these events can generate the funds on a consistent basis to benefit the Stadium Authority, the City of Santa Clara, and the Team.

Expenses

Operations and Maintenance: It is estimated that the staff at the Stadium would consist of 40 full-time employees at a cost of approximately $5.6 million per year to start. This includes an estimate of salaries and benefits estimated at 35% of salaries. The staff complement would consist of Administration, Event Management and Sales staff, Operations staff, Maintenance staff, staff to operate and maintain the sound systems, groundskeepers, janitorial staff and would also include the cost for general building maintenance contracts. Included in the above figure is approximately $1.3 million of non-NFL event expenses, which are not recouped from the event sponsors. This issue was discussed and the parties have agreed to revisit this item if discussions continue.

Security (non Game Day): The Stadium will require security be present at all times, 24 hours per day, 7 days per week, 365 days per year. The proposal includes 10 full-time employees in three shifts, each shift with three staff, and one supervisor. The annual cost of this item is estimated to be $657,000, fully burdened, to start in 2012, and increases with inflation. The creation of the Joint Powers Agency/Authority was discussed at the City Council meeting of December 4, 2007.

Utilities: Utilities estimated include electric, gas and water. Because the cost of fuel is accelerating, the cost is assumed to increase by 5% per year. The annual cost is estimated at $2.7 million per year: electricity at $2.2 million, gas at $190,000 and water at $345,000.

Insurance: Insurance costs of $6.2 million per year include property, liability and earthquake coverage. The earthquake coverage would include business interruption coverage and property damage. It is uncertain whether it would include fire damage caused by the earthquake. Event cancellation coverage would have to be provided separately. These items would need to be resolved in future discussions if the City decides to enter into negotiations with the Team.

Possessory Interest Taxes: Because the 49ers will have a leasehold interest in the stadium for 10 days per year, this constitutes a property right and, as such, is subject to property taxes as a Possessory Interest. The Team's estimate of the value of the Possessory Interest tax is approximately $2.6 million per year. By law, the tax can grow at 2% per year maximum, and this is assumed in the pro forma income statement. The Team would receive the tax bill and present it to the Stadium Authority for payment. In this regard, they forsake the tax advantage of reducing their expenses by the taxes. On the other hand, because of the manner in which the expense reimbursement, described below, is determined, the position of the Stadium Authority does not change.

Game Day Expenses: Game Day expenses include those for Police staffing (both for traffic control and safety) and Fire Department staffing. The operation of the joint powers agency was covered in the City Council meeting of December 4, and this agenda memo deals with the expenses and impact on the Stadium Authority operations. The public safety expenditures are expected to be $1.3 million per year and represent the work of 50 officers for traffic control and 90 officers for safety, as well as four fire inspectors. Additionally, Game Day security would be provided by a contract firm at an estimated cost of $650,000 for 330 part-time employees. Lastly, Other Game Day expenses include those for first aid, suite operations, guest services, ushers and ticket takers, entertainment (such as the sound on stage and "Jumbotron" operation), and janitorial services. These are estimated at $1.5 million per year for 16 full time staff and 1,274 part time staff. The total estimate of Game Day expenses is $3.4 million per year.

Capital Reserves (Budgeted and Waterfall): The operations of the Stadium are intended to provide funds to be deposited to a Capital Reserve, in order to keep the Stadium up to date and in good repair. The proposed deposit to the capital reserve is scheduled to start in 2012 with approximately $2.5 to $2.6 million per year, and the deposits are comprised of two pieces. The first $1.6 million is a budgeted expense, approved with an annual budget. The additional $1 million is factored in to the proposal and is the result of the Team including an additional $1 million in the expense reimbursement, as described below. The result is that the $1 million is the net cash flow of the Stadium and is the deposit to the Capital Reserve.

The projected total deposits to the Capital Reserve over the life of the 30-year lease, according to Staff analysis of the 49ers proposal, are approximately $120 million (excluding interest earnings on these deposits). The Team has also proposed periodic withdrawals to make capital improvements and repairs as needed. Some discussion has been had regarding what the improvements could consist of, as well as how the decision would be made on what repairs to approve. The Team wants to be an integral part of this initiative and this is a priority of theirs due to the condition of their current location. This is acknowledged to be an item for further discussion.

Staff is uncertain whether this will be adequate to cover the capital needs over the lease term of 30 years. Staff is also unclear who will guarantee the adequacy of the reserve if the reserve is not sufficient to provide for all that is needed. This is a more serious issue and would need to be resolved for the Stadium project to work without impacting the City's General Fund or other funds.

Expense Reimbursement: The Team has proposed that, under the terms of the lease, the Team would be responsible for reimbursing the Stadium Authority for the net operating expenses of the stadium. The determination is made at least on an annual basis; the Team and the Staff have discussed the question of frequency of review, but this would be a topic for future discussion. Net operating expense is defined as all operating expenses, including contributions to the budgeted capital reserves, incurred in connection with the operation of the stadium consistent with the approved budget, minus the revenues the Authority receives. If there are no net operating expenses – in other words, if revenues exceed expenses – there is no need for an expense reimbursement and cash flow is distributed according to the waterfall, further described below. If the net operating expense, as defined above, cannot be funded with any accumulated operating reserves, the Team is obligated to cover the shortfall through the net operating expense reimbursement. The expense reimbursement cannot go below zero, but if the Stadium operations produce enough net income, the Team reimbursement would reach zero.

Still unresolved is which party would cover the losses of the Stadium Authority in the event of an NFL strike or other "worst case" events, outside of the business interruption insurance mentioned that would be carried as a rider to the earthquake insurance.

Waterfall Allocations of Net Cash Flows (Net Income): The sharing of the net revenues of the Stadium Authority operations is proposed as follows:

- The first $1 million is deposited to the Capital Reserve
- The next $1 million is paid to the City of Santa Clara. This would be a benefit to the City's General Fund and is included in the calculation of Return on Investment.
- The next $2 million is deposited to an Operating Reserve, to be used to offset deficits in other years.
- The final net income, if available, is divided equally among the City, the Capital Reserve and the Team.

One can see the effect of the waterfall sharing of net revenues on Attachment 4a-b: Stadium Authority Net Income Statement (30-year forecast). Because of the growth in revenues and expenses at approximately the same rates, it is not anticipated there would be a return to the City of Santa Clara from the waterfall, which is all stadium operations related to NFL events. There is a sharing of net revenues from the non-NFL events, assuming they are successful. This is covered in more detail in the section on Return on Investment.

With regard to the proposal of the 49ers dealing with the annual Stadium operations, the specific items with which Staff does not agree include those listed below. If the City Council directs the City Manager to enter into negotiations with the Team representatives, Staff strongly recommends these issues be resolved/mitigated in the negotiations process with the San Francisco 49ers.

- The rent paid to the Stadium Authority, at $5 million per year, is fixed and is not inflated with the other revenue streams, as it traditionally would be. In addition, it is not rent to the City's General Fund as is usual in City land lease agreements and in accordance with prudent business practices.
- It is uncertain who would cover the contingencies of an NFL strike or other worst-case events.
- There is no provision for a rent payment made by the 49ers for the stadium property to the General Fund. The 49ers have stated they would not intend to make a ground lease payment, as they would not own the Stadium – the Stadium would be owned by the Stadium Authority. This is past practice by the City, and needs to be revisited.
- The Admissions Fee revenues cease with the termination of the bonds. The 49ers stated at the April 2007 presentation that when the bonds are retired, the fee would go away. This has the effect of making the revenues flow to the Team without benefit of flowing in the Stadium Authority income statement and through the waterfall to be shared with the City. If the admissions fees are going to continue to be charged in Year 26 of the 30-year lease, they should be reflected in the Stadium Authority operations and be shared by the City and the Capital Reserve, as formulated in the waterfall.
- The formula for sharing in potential losses of non-NFL events needs to be revised. The 49ers have stated they are willing to revisit this issue.
- Total deposits to the Capital Reserve: The Team has proposed periodic drawdowns for capital refurbishment/enhancements, to allow the stadium to retain its state-of-the-art condition throughout the lease. Staff questions whether the total capital reserves are adequate to maintain an $854 million stadium. One of the less obvious risks in large projects is the capital maintenance requirement of large facilities, and this highlights the need to revisit this issue.

RETURN ON INVESTMENT FOR CITY OF SANTA CLARA AND THE REDEVELOPMENT AGENCY

G. Return on Investment (Attachment 5)

In summary, according to analysis performed by Keyser Marston Associates (KMA), the return to the City General Fund over the 30-year life of the lease, in present value terms (2007 dollars), includes the following: Tax Increment returns of $2.0 million, revenue sharing from the Stadium Authority operations of $24 million due to net revenues of non-NFL events, Sales Taxes, Transient Occupancy Taxes (TOT) and Vehicle License Fees (VLF) of $12 million, as identified in the KMA analysis in June 2007 of the CS&L Economic Impact Report from April 10, 2007. Deducting the investment made in relocating the substation ($19 million in 2007-08 dollars, discounted from the $20 million in 2008-09 dollars), this produces a net positive return to the General fund of $19 million.

Total return to the RDA is negative $90 million. This is due mostly to the requirement to finance the stadium from the RDA, with only the possessory interest flowing to the RDA for the stadium taxes, when complete.

Total overall return to the City/RDA is a negative of $71 million.

A discussion of each of the components included in the City and RDA returns on investment is included below.

Revenues

- Property Tax: RDA Pass Through to General Fund
- Property Tax: General Fund
- Stadium Authority Distribution from non-NFL Events
- General Fund Sales Tax, TOT, VLF

Investment: Funding Sources

Return on Investment

Return on Investment for the City of Santa Clara

Revenues: Property Taxes: Property Taxes will be remitted to the City's General Fund from two sources:

- RDA Pass Through to General Fund: If the City adopts a minor plan amendment under SB211, this triggers pass through payments to the other taxing entities, one of which is the City of Santa Clara. The present value of the cash flow to the City for the period 2012-2026 is approximately $1 million.
- Property Tax payment to the General Fund: after the termination of the RDA North of Bayshore Project Plan in 2025-26 and the tax increment payments cease, the City's General Fund will collect property tax payments (ad valorem tax payments). In present value terms, these payments are valued at $1.0 million for the period 2027-2041, assumed to be the end of the 30-year lease term with the San Francisco 49ers.

Stadium Authority Distribution from non-NFL Events: As described in an earlier section of this report, the City and the Stadium Authority are scheduled to participate in the sharing of net revenues from the annual operations of the Stadium Authority. This is described in the waterfall formulation. Keyser Marston has projected a 30-year pro forma (Attachment 4a-b), which shows the distribution of revenues, expenses and net income to the entities in this project: the City of Santa Clara, the Stadium Authority (Capital and Operating Reserves) and the San Francisco 49ers. According to the projection, the NFL events will not yield positive income to the City. However, with the current projection of 17 non-NFL events, the projection of the present value of income to the City is $24 million.

General Fund Sales Tax, Transient Occupancy Tax (TOT), Vehicle License Fee (VLF): In April 2007, Convention Sports and Leisure (CS&L) performed an economic analysis of the benefits of the Stadium project to the City of Santa Clara. The study was reviewed by Keyser Marston (KMA) and results were presented to the City Council in May 2007. In summary, CS&L estimated the annual revenues flowing directly to the City's General Fund from increased stadium activity would be approximately $650,000 per year. The total was a combination of sales tax, transient occupancy tax (TOT) and property tax in lieu of the vehicle license fee (VLF) as formulated by the State of California. The net present value of this revenue stream to the City's General Fund, from 2012-2041, the termination of the 30-year lease, is estimated at $12 million. Additional details are provided below

Needed Investment: The required investment by the City is the relocation of the Electric Utility substation. The estimate of $20 million is in terms of 2008-09 dollars. Discounting the $20 million to bring this cost back to 2007-08 dollars, at an implied interest rate of 6% yields $19 million in present value dollars.

Return on Investment for the General Fund: The return on investment to the City's General Fund is $19 million in present dollars over the life of the lease, from 2007-08 through 2041.

Return on Investment for the RDA

Revenues: Property Taxes: The Stadium will generate tax increment values at $10 million for the period of time 2012-2026, when those payments cease with the termination of the RDA North of Bayshore Project Plan. That is the only payment made to the RDA: the Agency will not receive any of the pass-through payments. The Agency is not scheduled to receive any of the Stadium Authority payments through the waterfall, and it is not beneficiary of the economic activity in the City that results in sales taxes, transient occupancy taxes (TOT) and vehicle license fee (VLF) payments by the state.

Needed Investment: Funding Sources: The RDA would be one of the primary investors in the Stadium project, investing $100 million in present value dollars ($116 million in 2009-2010 dollars). These components include the following, all of which have been explained in earlier materials:

• RDA Bond proceeds (new bonds)	$ 65 million
• RDA Cash	15 million
• (Less $25 million for projects)	(25) million
• 1999 RDA Bond proceeds for Parking Garage	42 million
• Team Advance (to be repaid during 30-year lease)	19 million
• Total RDA Investment (Nominal Dollars)	$116 million
• Total RDA Investment (2007 Dollars)	$100 million

Return on Investment for the RDA: With revenues at $10 million, and the investment at $100 million, the return on investment for the RDA is negative $90 million.

When the returns to the City's General Fund and the RDA are combined, the Return on Investment for the City/RDA as a whole is negative $71 million.

(Text continues on next page.)

H. CS&L Economic Impact Report

The April 2007 CS&L Economic Impact Report was reviewed by Keyser Marston Associates (KMA). KMA reported to City Council that the CS&L Report was reasonable in most respects.

The major components of the CS&L Economic Impact Report of April 2007 and the KMA review of the report focused on the impact on Santa Clara County and the impact on the City of Santa Clara. Several elements were considered:

- Economic Activity
- Employment (Full Time and Part Time, converted to Full Time Equivalents (FTE))
- Personal Earnings
- Additional analysis of benefits of the proposed Stadium as separate from those due to the existing Training Center

The table below summarizes the benefits of the Stadium Project, for the City of Santa Clara. The table separates the City of Santa Clara benefits into those due to the existing Training Center and those due to the proposed Stadium. It is not possible to know at this time if the Stadium project does not proceed, whether the Training Center would remain in Santa Clara or be moved to the new Stadium site in another area of the region.

Impact on City of Santa Clara (2007 Dollars)	Total Per CS&L	Training Facility (Existing)	Stadium (New)	Notes
Economic Activity	$85	$44	$41	Million / Year
Employment (FTE)	830	315	515	Employees (Full Time Equivalent)
Personal Earnings	$38	$21	$17	Million / Year

Economic activity is defined as direct spending and total output, defined as follows: direct spending includes Team revenues, spending by fans before and after home games and visiting Team expenditures. Total output is the total direct, indirect and induced spending effects generated by the operations of the 49ers and the new Stadium.

Employment represents the number of full- and part-time jobs generated by the 49ers and the stadium from the direct and indirect spending.

Personal earnings represent the wages and salaries earned by employees of businesses associated with or impacted by the operations of the 49ers and the new Stadium.

The impact in the County, as estimated by the CS&L report, is summarized below. KMA did not review this portion of the report, as they were directed to focus on the City of Santa Clara only.

Impact on Santa Clara County (2012 Dollars)	**Total Per CS&L**	**Notes**
Economic Activity	$249	Million / Year
Employment	2,230	Employees (Full and Part Time)
Personal Earnings	$112	Million / Year

SUMMARY: GUIDING PRINCIPLES, OTHER POLICY DECISIONS AND OUTSTANDING ITEMS

The Guiding Principles adopted by City Council in January 2007 are included as Attachment 6 to this agenda memo.

The principles of a financing nature are as follows:

1. **No use or obligation of General Fund monies of the City of Santa Clara.** This principle includes no reduction or negative modifications to any outstanding, contractual long-term lease agreements that benefit the City's General Fund. Additionally, any vacant City-owned lands should receive market rent under any long-term land use proposal. Per the North Bayshore RDA Cooperation Agreement between the City and the RDA, all benefits (ground lease revenues being the primary benefit) from City-owned property in the North Bayshore RDA area accrue to the City's General Fund.
2. **Maintain the integrity of all City funds per the City Charter (Utilities, etc.)**
4. **No tax increase put on Santa Clara residents, businesses or ratepayers to fund a stadium project.** Excluded from this principle would be the consideration of any tax or surcharge implemented specifically on attendees for the use of the facility for an event, such as a parking tax or event ticket tax.

At this time in the feasibility study, Staff can summarize the feasibility of the proposal as follows:

- With regard to Construction financing, the City has identified $136 million of the $222 million requested by the San Francisco 49ers. Approximately $35 million additional funding may be available if a Community Facilities District is established. Based on the City's overarching value of fiscal responsibility and the Guiding Principles for the Stadium project, it is not feasible to reach the San Francisco 49ers request of $222 million. If the City moves forward to negotiations, it should be a basic, strong condition that no further funds would be provided from the City/RDA for the Stadium project. Any additional contribution of City land, General Fund revenues or Utility revenues would not be considered for future discussions.
- With regard to Stadium Operations, the proposal is generally feasible and consistent with the guiding principles dealing with the finances of the City and its funds since the 49ers have guaranteed to cover most operating deficits. If negotiations proceed, the City must assure it is afforded protections that avoid operating deficits. Examples of topics for discussion include the non-profitable non-NFL events, capital reserve, and the expense reimbursement in worst-case situations (such as an NFL strike, modified season, etc.).

In evaluating the proposal, while Staff attempts to align the project with the Guiding Principles, it is also of concern to the Staff that this project will stretch the City fiscally and constrains the ability of the RDA to build new projects beyond any time in the history of the City. Because owning and operating a stadium is not a core municipal function, it is impossible to know what variables exist in the 30-year time frame, which could cause a failure of the Stadium Authority to keep the Stadium a going concern, and expose the City to risk from unforeseen events.

If additional land beyond the stadium site land were contemplated as a part of the City's contribution, this would be a violation of the first of the guiding principles as established by City Council, namely no General Fund impact. The April 2007 concept plan presented by the 49ers proposed the Stadium site on City property committed by lease to Theme Park parking requirements. The alternate site plan presented by the 49ers uses approximately 13 acres of land committed to Theme Park parking requirements, but also includes an additional 3 acres of unencumbered City-owned land, available for possible future development in support of the General Fund.

With regard to other policy decisions, Staff has included a modification to the affordable housing fund to revise the discretionary 10% Affordable Housing Set Aside to a projected 6% for the period of time 2007-08 through 2015-16. The projected difference in funds available for affordable housing is approximately $5 million (nominal dollars) compared to a no-stadium scenario with full funding of the discretionary 10% set aside. If the decision were made to revert to the 20% statutory set aside, which is not included in the Staff-developed financing structure, this would also be a change in City Council policy. This would be a reduction of $28 million (nominal dollars) versus a no-stadium scenario.

Following the completion of the feasibility study, if the decision is made to commence negotiations with the Team representatives, at least the following items are recommended:

- The return on investment to the City and the RDA.
- Land lease payment directly to the City's General Fund.
- The scheduling of the City/RDA investments.
- Responsibility of underwriting the cost of unprofitable non-NFL events (other than those considered to be municipal events to be paid for by the City's existing General Fund monies).
- Responsibility for cost increases in the parking garage.
- Responsibility for financing risk if the amounts change due to changes in market conditions, interest rates, etc.
- Adequacy of capital reserves.
- Protections for the City.

The relevance to other Guiding Principles that do not reference financing, such as consistency with the ground lease commitments to Cedar Fair, the owner of Great America Theme Park, will be addressed at the City Council "Committee of the Whole" meeting of January 15, 2008.